

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

FORM 10-Q

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

For the quarterly period ended March 31, 1999

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 0-28018

YAHOO! INC.

(Exact name of registrant as specified in its charter)

California

77-0398689

(State or other jurisdiction of
incorporation or organization)

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

3420 Central Expressway
Santa Clara, California 95051

(Address of principal executive offices)

Registrant's telephone number, including area code: (408) 731-3300

Indicate by check mark whether the Registrant (1) has filed all reports required
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 the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date.

Class

Outstanding at April 30, 1999

Common Stock, \$0.00017 par value

204,372,850

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

YAHOO! INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	March 31, 1999 ----- (unaudited)	December 31, 1998 ----- (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 184,463	\$ 125,474
Short-term investments in marketable securities	251,858	308,025
Accounts receivable, net	26,876	24,831
Prepaid expenses	9,124	8,909
Total current assets	472,321	467,239
Long-term investments in marketable debt securities	88,030	48,927
Long-term investments in marketable equity securities	130,493	41,339
Property and equipment, net	19,925	15,189
Other assets	80,910	49,190
Total assets	\$ 791,679	\$ 621,884
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,335	\$ 6,302
Note payable	9,000	-
Accrued expenses and other current liabilities	38,077	34,419
Deferred revenue	45,498	38,301
Due to related parties	2,184	961
Total current liabilities	102,094	79,983
Deferred tax liability	4,443	4,443
Minority interests in consolidated subsidiaries	1,573	1,248
Shareholders' equity:		
Common Stock	24	23
Additional paid-in capital	598,233	522,997
Retained earnings (accumulated deficit)	7,993	(8,442)
Accumulated other comprehensive income	77,319	21,632
Total shareholders' equity	683,569	536,210
Total liabilities and shareholders' equity	\$ 791,679	\$ 621,884

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

YAHOO! INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended	
	March 31, 1999	March 31, 1998
Net revenues	\$ 86,064	\$ 30,596
Cost of revenues	9,697	4,294
Gross profit	76,367	26,302
Operating expenses:		
Sales and marketing	32,299	16,653
Product development	8,964	4,764
General and administrative	3,456	2,227
Amortization of intangibles	1,220	-
Other - nonrecurring costs	9,775	-
Total operating expenses	55,714	23,644
Income from operations	20,653	2,658
Investment income, net	6,615	1,440
Minority interests in operations of consolidated subsidiaries	(325)	243
Income before income taxes	26,943	4,341
Provision for income taxes	10,508	1,071
Net income	\$ 16,435	\$ 3,270
Net income per share - basic	\$0.08	\$0.02
Net income per share - diluted	\$0.07	\$0.02
Shares used in per share calculation - basic	201,531	172,578
Shares used in per share calculation - diluted	237,111	213,866

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

YAHOO! INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED, IN THOUSANDS)

	Three Months Ended	
	March 31, 1999	March 31, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 16,435	\$ 3,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,782	922
Tax benefits from stock options	10,467	-
Non-cash charges related to stock option grants and warrant issuances	190	157
Minority interests in operations of consolidated subsidiaries	325	(243)
Purchased in-process research and development	9,775	-
Changes in assets and liabilities:		
Accounts receivable, net	(2,045)	(1,995)
Prepaid expenses and other assets	(491)	1,839
Accounts payable	(479)	(435)
Accrued expenses and other current liabilities	3,458	5,370
Deferred revenue	7,197	5,358
Due to related parties	1,223	(383)
Net cash provided by operating activities	50,837	13,860
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(6,762)	(1,740)
Purchases of marketable securities	(165,015)	(42,226)
Proceeds from sales and maturities of marketable securities	181,382	7,133
Other investments	(15,867)	-
Acquisition of Yahoo! Canada	(9,200)	-
Net cash used in investing activities	(15,462)	(36,833)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of Common Stock, net	23,655	4,467
Net cash provided by financing activities	23,655	4,467
Effect of exchange rate changes on cash and cash equivalents	(41)	65
Net change in cash and cash equivalents	58,989	(18,441)
Cash and cash equivalents at beginning of period	125,474	63,571
Cash and cash equivalents at end of period	\$184,463	\$45,130

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - THE COMPANY AND BASIS OF PRESENTATION

Yahoo! Inc. ("Yahoo!" or the "Company") is a global Internet media company that offers a branded network of comprehensive information, communication, and shopping services to millions of users daily. The Company was incorporated in California on March 5, 1995 and commenced operations on that date. The Company conducts its business within one industry segment.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of operations for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period.

These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K, as amended on April 29, 1999, for the year ended December 31, 1998. Certain prior period balances have been reclassified to conform to current period presentation. The condensed consolidated financial statements for the period ended March 31, 1998 have been restated to reflect the October 1998 acquisition of Yoyodyne Entertainment, Inc. ("Yoyodyne"), which was accounted for as a pooling of interests.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities, and is effective for fiscal years beginning after June 15, 1999. The Company is currently determining the additional disclosures, if any, that may be required under this pronouncement.

NOTE 3 - STOCK SPLIT

During January 1999, the Company's Board of Directors approved a two-for-one Common Stock split. Shareholders of record on January 22, 1999 (the record date) received one additional share for every share held on that date. The shares were distributed on February 5, 1999 and the stock split was effective on February 8, 1999. All share numbers in these condensed consolidated financial statements and notes thereto for all periods presented have been adjusted to reflect the two-for-one common stock split.

NOTE 4 - OTHER ASSETS (IN THOUSANDS)

	Mar. 31, 1999	Dec. 31, 1998
	-----	-----
Intangible assets	\$56,344	\$40,731
Investments in privately-held companies	15,445	5,445
Investment in Yahoo! Japan and other	9,121	3,014
	-----	-----
	\$80,910	\$49,190
	-----	-----

NOTE 5 - BASIC AND DILUTED NET INCOME PER SHARE

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares consist of the incremental common shares issuable upon conversion of the convertible preferred stock (using the if-converted method) and shares issuable upon the exercise of stock options and warrants (using the treasury stock method). For the three month periods ended March 31, 1999 and 1998, common share equivalents approximated 35.6 and 41.3 million shares, respectively, and were primarily related to shares issuable upon the exercise of stock options.

NOTE 6 - COMPREHENSIVE INCOME

The components of comprehensive income, net of tax, are as follows (in thousands):

	Three Months Ended	
	March 31,	
	1999	1998
	-----	-----
Net income	\$16,435	\$3,270
Unrealized gains on available-for-sale securities	55,728	-
Foreign currency translation gains (losses)	(41)	65
	-----	-----
Comprehensive income	\$72,122	\$3,335
	-----	-----

Unrealized gains on available-for-sale securities for the three months ended March 31, 1999 consist primarily of a net gain of \$32.2 million from an investment in GeoCities common stock and a net gain of \$24.1 million from an investment in broadcast.com common stock.

Accumulated other comprehensive income consists of the unrealized gains on available-for-sale securities, net of tax and the cumulative translation adjustment, as presented on the accompanying condensed consolidated balance sheets.

NOTE 7 - ACQUISITIONS

On January 15, 1999, the Company completed the acquisition of Log-Me-On.Com LLC ("Log-Me-On"), a development stage entity, through the issuance of 50,000 shares of Yahoo!

Common Stock and \$1.5 million in cash for a total purchase price of approximately \$9.9 million, including acquisition costs. Additional consideration of \$1 million is payable contingent on the continued employment of certain employees for one year from the acquisition date. Such amount is being amortized as compensation expense over the one-year period. The acquisition was accounted for as a purchase in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 16. Under the purchase method of accounting, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Results of operations for Log-Me-On for periods prior to the acquisition were not material to the Company. Results of operations for Log-Me-On have been included with those of the Company for periods subsequent to the acquisition date.

Log-Me-On, founded in 1998, was a development stage entity with limited operations, no revenues, and four developers. As of the acquisition date, the Company's efforts were focused solely on developing a browser technology that was approximately 30% complete and there was no other technology developed or in process at such date. Approximately \$9.8 million was allocated to in-process research and development. This in-process research and development had not reached technological feasibility and had no alternative future use. Additional development subsequent to the acquisition date principally relates to development of browser and toolbar technology that would allow users into Yahoo! sites without typing URLs or retrieving bookmarks, creation of the user interface, development of customization screens and procedures, and establishment of data links. The Company expects the development of this technology to be completed in the third quarter of 2000. Future research and development costs are not expected to be material to Yahoo!'s financial position or results of operations. In addition, if this technology is not successfully developed, Yahoo!'s revenues and profitability would not be materially adversely affected. The remaining purchase price of approximately \$100,000 was allocated to the work force in place and is being amortized over the employment contract period. Tangible assets acquired and liabilities assumed were not material to the Company's financial statements.

In February 1996, the Company and Rogers Media Inc. ("Rogers") signed the Yahoo! Canada Affiliation Agreement whereby Yahoo! licensed certain intellectual property and development rights to Rogers, which Rogers utilized to operate Yahoo! Canada. On March 1, 1999, this agreement was terminated, as were all licenses and other rights and obligations granted under the agreement. As part of this agreement, Yahoo! acquired the Yahoo! Canada business including the URL, www.yahoo.ca.com, and existing advertising relationships from Rogers. Total consideration was \$9 million in cash and the issuance of a note payable for \$9 million due in April 1999. The acquisition was recorded using the purchase method of accounting. The Company recorded an intangible asset of approximately \$18 million which is being amortized over 10 years. The results of operations of Yahoo! Canada are included in the statement of operations of Yahoo! beginning March 1, 1999. Results of operations for the current period and the year ago period would not have been materially different had the companies combined at the beginning of the respective periods.

On January 28, 1999, the Company announced the signing of a definitive agreement to acquire GeoCities, a publicly traded Internet company. Under the terms of the acquisition, which will be accounted for as a pooling of interests, the Company will

exchange approximately 21,545,000 shares of Yahoo! Common Stock for approximately 31,834,000 shares of GeoCities common stock. Additionally, the Company will convert approximately 8,603,000 GeoCities stock options into approximately 5,822,000 Yahoo! stock options. The acquisition is expected to be completed in the second quarter of 1999 and is subject to certain conditions and approval by GeoCities shareholders. The Company expects to record a one-time charge of approximately \$66 million in the second quarter of 1999 relating to expenses incurred in connection with this transaction. At March 31, 1999, the fair value of Yahoo!'s investment in GeoCities was \$73.8 million which is included in the condensed consolidated balance sheet under long-term investments in marketable equity securities.

GeoCities' operating results for the quarters ended March 31, 1999 and 1998 included revenues of approximately \$7.8 million and \$2.2 million, respectively, and net losses of approximately \$10.0 million and \$2.9 million, respectively.

NOTE 8 - INVESTMENT IN YAHOO! JAPAN

During March 1999, Yahoo! Japan Corporation ("Yahoo! Japan") completed a secondary public offering. The Company invested an additional \$5.9 million in Yahoo! Japan common stock in order to maintain its 34% ownership. At March 31, 1999, the carrying value of the investment was \$9.0 million and is recorded in other assets. The fair value of the Company's investment, based on the quoted trading price, was approximately \$491 million at March 31, 1999.

NOTE 9 - SUBSEQUENT EVENT

On April 1, 1999, the Company announced the signing of a definitive agreement to acquire broadcast.com inc. ("broadcast.com"), a publicly traded Internet company and a leading aggregator and broadcaster of streaming media programming on the Web. Under the terms of the acquisition, which will be accounted for as a pooling of interests, the Company will exchange approximately 28,334,000 shares of Yahoo! Common Stock for approximately 36,692,000 shares of broadcast.com common stock. Additionally, the Company will convert approximately 7,131,000 broadcast.com stock options into approximately 5,507,000 Yahoo! stock options. The acquisition is expected to be completed in the third quarter of 1999 and is subject to certain conditions, regulatory approval, and approval by broadcast.com shareholders. The Company expects to record a one-time charge in the third quarter of 1999 relating to expenses incurred with this transaction. At March 31, 1999, the fair value of Yahoo!'s investment in broadcast.com was \$55.0 million which is included in the condensed consolidated balance sheet under long-term investments in marketable equity securities.

Broadcast.com's operating results for the quarters ended March 31, 1999 and 1998 included revenues of approximately \$10.3 million and \$4.5 million, respectively, and net losses of approximately \$3.8 million and \$2.6 million, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, INCLUDING, WITHOUT LIMITATION, STATEMENTS REGARDING THE COMPANY'S EXPECTATIONS, BELIEFS, INTENTIONS OR FUTURE STRATEGIES THAT ARE SIGNIFIED BY THE WORDS "EXPECTS", "ANTICIPATES", "INTENDS", "BELIEVES", OR SIMILAR LANGUAGE. ALL FORWARD-LOOKING STATEMENTS INCLUDED IN THIS DOCUMENT ARE BASED ON INFORMATION AVAILABLE TO THE COMPANY ON THE DATE HEREOF, AND THE COMPANY ASSUMES NO OBLIGATION TO UPDATE ANY SUCH FORWARD-LOOKING STATEMENTS. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS. IN EVALUATING THE COMPANY'S BUSINESS, PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE INFORMATION SET FORTH BELOW UNDER THE CAPTION "RISK FACTORS" AND SPECIFICALLY "RISKS RELATED TO THE PENDING GEOCITIES AND BROADCAST.COM MERGERS" IN ADDITION TO THE OTHER INFORMATION SET FORTH HEREIN. THE COMPANY CAUTIONS INVESTORS THAT ITS BUSINESS AND FINANCIAL PERFORMANCE ARE SUBJECT TO SUBSTANTIAL RISKS AND UNCERTAINTIES.

OVERVIEW

Yahoo! Inc. is a global Internet media company that offers a branded network of comprehensive information, communication, and shopping services to millions of users daily. As the first online navigational guide to the World Wide Web (the "Web"), www.yahoo.com is a leading guide in terms of traffic, advertising, household and business user reach, and is one of the most recognized brands associated with the Internet. The Company was incorporated in California on March 5, 1995 and commenced operations on that date. In August 1995, the Company commenced selling advertisements on its Web pages and recognized its initial revenues. In April 1996, the Company completed its initial public offering.

On January 15, 1999, the Company completed the acquisition of Log-Me-On, a development stage entity, through the issuance of 50,000 shares of Yahoo! Common Stock and \$1.5 million in cash for a total purchase price of approximately \$9.9 million, including acquisition costs. Additional consideration of \$1 million is payable contingent on the continued employment of certain employees for one year from the acquisition date. Such amount is being amortized as compensation expense over the one-year period. The acquisition was accounted for as a purchase in accordance with the provisions of APB No. 16. Under the purchase method of accounting, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Results of operations for Log-Me-On for periods prior to the acquisition were not material to the Company. Results of operations for Log-Me-On have been included with those of the Company for periods subsequent to the acquisition date.

Log-Me-On, founded in 1998, was a development stage entity with limited operations, no revenues, and four developers. As of the acquisition date, the Company's efforts were focused solely on developing a browser technology that was approximately 30% complete and there was no other technology developed or in process at such date. Approximately \$9.8 million was allocated to in-process research and development. This in-process research and development had not reached technological feasibility and had no alternative future use. Additional development subsequent to the acquisition date principally relates to development of browser and toolbar technology that would allow

users into Yahoo! sites without typing URLs or retrieving bookmarks, creation of the user interface, development of customization screens and procedures, and establishment of data links. The Company expects the development of this technology to be completed in the third quarter of 2000. Future research and development costs are not expected to be material to Yahoo!'s financial position or results of operations. In addition, if this technology is not successfully developed, Yahoo!'s revenues and profitability would not be materially adversely affected. The remaining purchase price of approximately \$100,000 was allocated to the work force in place and is being amortized over the employment contract period. Tangible assets acquired and liabilities assumed were not material to the Company's financial statements.

On January 28, 1999, the Company announced the signing of a definitive agreement to acquire GeoCities, a publicly traded Internet company. Under the terms of the acquisition, which will be accounted for as a pooling of interests, the Company will exchange approximately 21,545,000 shares of Yahoo! Common Stock for approximately 31,834,000 shares of GeoCities common stock. Additionally, the Company will convert approximately 8,603,000 GeoCities stock options into approximately 5,822,000 Yahoo! stock options. The acquisition is expected to be completed in the second quarter of 1999 and is subject to certain conditions and approval by GeoCities shareholders. The Company expects to record a one-time charge of approximately \$66 million in the second quarter of 1999 relating to expenses incurred in connection with this transaction. At March 31, 1999, the fair value of Yahoo!'s investment in GeoCities was \$73.8 million which is included in the condensed consolidated balance sheet under long-term investments in marketable equity securities.

In February 1996, the Company and Rogers signed the Yahoo! Canada Affiliation Agreement whereby Yahoo! licensed certain intellectual property and development rights to Rogers, which Rogers utilized to operate Yahoo! Canada. On March 1, 1999, this agreement was terminated, as were all licenses and other rights and obligations granted under the agreement. As part of this agreement, Yahoo! acquired the Yahoo! Canada business including the URL, www.yahoo.ca.com, and existing advertising relationships from Rogers. Total consideration was \$9 million in cash and the issuance of a note payable for \$9 million due in April 1999. The acquisition was recorded using the purchase method of accounting. The Company recorded an intangible asset of approximately \$18 million which is being amortized over 10 years. The results of operations of Yahoo! Canada are included in the statement of operations of Yahoo! beginning March 1, 1999. Results of operations for the current period and the year ago period would not have been materially different had the companies combined at the beginning of the respective periods.

On April 1, 1999, the Company announced the signing of a definitive agreement to acquire broadcast.com, a publicly traded Internet company and a leading aggregator and broadcaster of streaming media programming on the Web. Under the terms of the acquisition, which will be accounted for as a pooling of interests, the Company will exchange approximately 28,334,000 shares of Yahoo! Common Stock for approximately 36,692,000 shares of broadcast.com common stock. Additionally, the Company will convert approximately 7,131,000 broadcast.com stock options into approximately 5,507,000 Yahoo! stock options. The acquisition is expected to be completed in the third

quarter of 1999 and is subject to certain conditions, regulatory approval, and approval by broadcast.com shareholders. The Company expects to record a one-time charge in the third quarter of 1999 relating to expenses incurred with this transaction. At March 31, 1999, the fair value of Yahoo!'s investment in broadcast.com was \$55.0 million which is included in the condensed consolidated balance sheet under long-term investments in marketable equity securities.

The results of operations for GeoCities and broadcast.com are not included in the Yahoo! results of operations as the acquisitions have not yet been consummated.

RESULTS OF OPERATIONS

NET REVENUES

Net revenues were \$86.1 million for the quarter ended March 31, 1999, a 181% increase from \$30.6 million during the first quarter in 1998. The increase was due primarily to the increasing number of advertisers purchasing space on the Company's online media properties as well as larger and longer-term purchases by certain advertisers. Approximately 2,125 customers advertised on the Company's online media properties during the quarter ended March 31, 1999 as compared to approximately 1,600 during the first quarter of 1998. No one customer accounted for 10% or more of net revenues during the quarters ended March 31, 1999 and 1998. Advertising purchases by SOFTBANK and its related companies, a 28% shareholder of the Company at March 31, 1999, accounted for approximately 8% and 1% of net revenues during the quarters ended March 31, 1999 and 1998, respectively. Contracted prices on these orders are comparable to those given to other similarly situated customers of the Company. International revenues have accounted for less than 10% of net revenues during the quarters ended March 31, 1999 and 1998. Barter revenues also represented less than 10% of net revenues during those periods. There can be no assurance that customers will continue to purchase advertising on the Company's Web pages, that advertisers will not make smaller and shorter-term purchases, or that market prices for Web-based advertising will not decrease due to competitive or other factors. Additionally, while the Company has experienced strong revenue growth during the last three years, management does not believe that this level of revenue growth will be sustained in future periods.

COST OF REVENUES

Cost of revenues consists of the expenses associated with the production and usage of Yahoo! and the Company's other online media properties. These costs primarily consist of fees paid to third parties for content included on the Company's online media properties, Internet connection charges, amortization of purchased technology, equipment depreciation, and compensation. Cost of revenues were \$9.7 million for the quarter ended March 31, 1999, or 11% of net revenues, as compared to \$4.3 million, or 14% of net revenues for the quarter ended March 31, 1998. The absolute dollar increase in cost of revenues from quarter to quarter is primarily attributable to an increase in the quantity of content available on the Company's online media properties, the increased usage of these properties, and the amortization of purchased technology. The Company anticipates that its content and Internet connection expenses will increase with the quantity and quality of

content available on Yahoo! online media properties, and increased usage of these properties. As measured in page views (defined as electronic page displays), the Company delivered an average of approximately 235 million page views per day in March 1999 compared with an average of approximately 95 million page views per day in March 1998. Yahoo! Japan, an unconsolidated joint venture of the Company which began operations in April 1996, is included in these page views figures and accounted for an average of more than 17 million per day in March 1999 and an average of approximately 6 million per day in March 1998. The Company anticipates that its content and Internet connection expenses will continue to increase in absolute dollars for the foreseeable future.

SALES AND MARKETING

Sales and marketing expenses were \$32.3 million, or 38% of net revenues for the quarter ended March 31, 1999 as compared to \$16.7 million, or 54% of net revenues for the quarter ended March 31, 1998. Sales and marketing expenses consist primarily of advertising and other marketing related expenses (which include distribution costs), compensation and employee-related expenses, sales commissions, and travel costs. The increase in absolute dollars is primarily attributable to an increase in advertising and distribution costs associated with the Company's aggressive brand-building strategy, increases in compensation expense associated with growth in its direct sales force and marketing personnel, expansion in the international subsidiaries with the addition of subsidiaries in Italy, Hong Kong, Singapore, Spain, and Taiwan as well as Yahoo! guides in Spanish and Mandarin Chinese languages subsequent to March 1998, and an increase in sales commissions associated with the increase in revenues. The Company anticipates that sales and marketing expenses in absolute dollars will increase in future periods as it continues to pursue an aggressive brand-building strategy through advertising and distribution, continues to expand its international operations, and continues to build its global direct sales organization.

PRODUCT DEVELOPMENT

Product development expenses were \$9.0 million, or 10% of net revenues for the quarter ended March 31, 1999 as compared to \$4.8, or 16% of net revenues for the quarter ended March 31, 1998. Product development expenses consist primarily of employee compensation relating to developing and enhancing the features and functionality of Yahoo! online media properties. The increase in absolute dollars is primarily attributable to increases in the number of engineers that develop and enhance Yahoo! online media properties. The Company believes that significant investments in product development are required to remain competitive. Consequently, the Company expects to incur increased product development expenditures in absolute dollars in future periods.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were \$3.5 million, or 4% of net revenues for the quarter ended March 31, 1999 as compared to \$2.2 million, or 7% of net revenues for the quarter ended March 31, 1998. General and administrative expenses consist primarily of compensation and fees for professional services, and the increase in absolute dollars is primarily attributable to increases in these areas. The Company believes that the absolute

dollar level of general and administrative expenses will increase in future periods, as a result of an increase in personnel and increased fees for professional services.

AMORTIZATION OF INTANGIBLES

As part of the June 1998 Viaweb Inc. ("Viaweb") acquisition and December 1998 HyperParallel, Inc. ("HyperParallel") acquisition, the Company has recorded intangible assets related to goodwill of \$24.3 million and \$4.6 million, respectively, which are being amortized over seven years. Additionally, as part of the January 1999 Yahoo! Canada acquisition, the Company has recorded \$18.2 million in intangible assets, principally related to goodwill, which are being amortized over ten years.

OTHER - NON-RECURRING COSTS

During January 1999, the Company completed the acquisition of Log-Me-On through the issuance of 50,000 shares of Yahoo! Common Stock and \$1.5 million in cash. During the quarter ended March 31, 1999, the Company recorded a non-recurring charge of \$9.8 million for in-process research and development that had not yet reached technological feasibility and had no alternative future use.

INVESTMENT INCOME, NET

Investment income, net of expense, was \$6.6 million for the quarter ended March 31, 1999. For the quarter ended March 31, 1998, investment income was \$1.4 million. The increase is primarily attributable to a higher average investment balance, principally due to proceeds of \$250 million received by the Company on July 14, 1998 from a private placement of shares to SOFTBANK and cash provided by operations. Investment income in future periods may fluctuate as a result of fluctuations in average cash balances maintained by the Company and changes in the market rates of its investments.

MINORITY INTERESTS IN OPERATIONS OF CONSOLIDATED SUBSIDIARIES

Minority interests in operations of consolidated subsidiaries were (\$325,000) for the quarter ended March 31, 1999 compared to \$243,000 for the year ago quarter. The decrease is attributable to the profitable results recorded in the European and Korean joint ventures in the aggregate during the quarter ended March 31, 1999 as compared to losses in the year ago quarter. The Company expects that minority interests in operations of consolidated subsidiaries in the aggregate will continue to fluctuate in future periods as a function of the results from consolidated subsidiaries. If the consolidated subsidiaries remain profitable, the minority interests adjustment on the statement of operations will continue to reduce the Company's net income by the minority partners' share of the subsidiaries' net income.

INCOME TAXES

The Company's effective income tax rate increased to 39% for the first quarter of 1999 as compared to 25% in the year ago period due principally to the release of a portion of the valuation allowance in 1998. This rate may change during the remainder of 1999 if

operating results or acquisition-related costs differ significantly from the current projections.

NET INCOME

The Company recorded net income of \$16.4 million or \$0.07 per share diluted for the quarter ended March 31, 1999 compared to net income of \$3.3 million or \$0.02 per share diluted for the quarter ended March 31, 1998. The results for the quarter ended March 31, 1999 include a non-recurring charge of \$9.8 million incurred in connection with a January 1999 acquisition and the amortization of \$2.6 million from the purchased technology and intangible assets acquired in various purchase transactions.

LIQUIDITY AND CAPITAL RESOURCES

Yahoo! invests excess cash predominantly in debt instruments that are highly liquid, of high-quality investment grade, and predominantly have maturities of less than one year with the intent to make such funds readily available for operating purposes. At March 31, 1999, the Company had cash and cash equivalents and investments in marketable debt securities totaling \$524.4 million compared to \$482.4 million at December 31, 1998.

For the three months ended March 31, 1999, cash provided by operating activities of \$50.8 million was primarily due to earnings before a non-recurring charge of \$9.8 million and depreciation and amortization of \$4.8 million, tax benefits from stock option plans of \$10.5 million, and increases in deferred revenue of \$7.2 million and accrued liabilities of \$3.5 million. The increase in deferred revenue relates principally to overall significant growth in revenue and increases in advanced payments on several new and relatively longer sponsorship agreements. For the three months ended March 31, 1998, cash provided by operating activities of \$13.9 million was primarily due to increases in accrued liabilities, deferred revenue, and net income.

Cash used in investing activities was \$15.5 million for the quarter ended March 31, 1999. Sales and maturities (net of purchases) of investments in marketable securities and other assets during the period were offsetting while cash of \$9.2 million was paid as part of the acquisition of Yahoo! Canada and capital expenditures totaled \$6.8 million. Capital expenditures have generally been comprised of purchases of computer hardware and software as well as leasehold improvements related to leased facilities, and are expected to increase in future periods. Cash used by investing activities was \$36.8 million for the quarter ended March 31, 1998. Purchases (net of sales and maturities) of investments in marketable securities during the period were \$35.1 million and capital expenditures totaled \$1.7 million.

For the three months ended March 31, 1999 and 1998, cash provided by financing activities from the issuance of Common Stock pursuant to the exercise of stock options was \$23.7 million and \$4.5 million, respectively.

The Company currently has no material commitments other than those under operating lease agreements and fees associated with the proposed acquisitions of GeoCities

and broadcast.com. The Company has experienced a substantial increase in its capital expenditures and operating lease arrangements since its inception, which is consistent with increased staffing, and anticipates that this will continue in the future. Additionally, the Company will continue to evaluate possible acquisitions of, or investments in businesses, products, and technologies that are complementary to those of the Company, which may require the use of cash. Management believes existing cash and investments will be sufficient to meet the Company's operating requirements for at least the next twelve months; however, the Company may sell additional equity or debt securities or obtain credit facilities to further enhance its liquidity position. The sale of additional securities could result in additional dilution to the Company's shareholders.

YEAR 2000 IMPLICATIONS

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field and cannot distinguish twenty-first century dates from twentieth century dates. To function properly, these date-code fields must distinguish twenty-first century dates from twentieth century dates and, as a result, many companies' software and computer systems may need to be upgraded or replaced in order to comply with such "Year 2000" requirements.

Yahoo! is dependent on the operation of numerous systems that may be adversely affected by the Year 2000 problem, including Yahoo!'s internal systems, and equipment, software and content supplied to Yahoo! by third-party vendors that may not be Year 2000 compliant, including outside providers of Web-hosting services on which Yahoo! is currently dependent. In addition, Yahoo!'s future business depends on the successful operation of the Internet following the commencement of the Year 2000. If the Internet is inaccessible for an appreciable period of time, or if Yahoo!'s customers and users are unable to access Yahoo!'s site, Yahoo!'s business and revenues could be materially adversely affected. Yahoo! is also subject to external forces that might generally affect industry and commerce, such as telecommunications, utility or transportation company Year 2000 compliance failures, related service interruptions and the economic impact that such failures have on Yahoo!'s customers and advertisers.

YEAR 2000 COMPLIANCE ASSESSMENT PLANS. Yahoo! has undertaken a two-phase process of analyzing the impact of the Year 2000 problem. First, Yahoo! has completed an informal assessment of its primary internal systems and, based on such assessment and its knowledge of the specific software and systems, Yahoo! currently believes that its systems are Year 2000 compliant in all material respects or can readily be brought into compliance with the application of corrective software modifications. In many cases, Yahoo! expects these modifications to be provided by the vendors of the computer and software products Yahoo! has installed. Yahoo! has not incurred material costs to date in this informal phase of the assessment process, and currently does not believe that the cost of additional actions will have a material effect on its results of operations or financial condition.

Second, Yahoo! is in the process of performing a formal assessment of both its internal systems and the vendor-supplied items and services it employs to determine how the Year 2000 problem will affect all aspects of Yahoo!'s operations. Yahoo! expects to complete this

second phase of its assessment by mid-spring of 1999. The formal process involves assessment of the following Yahoo! systems:

- hardware systems, including servers and systems used for data storage;
- software systems, including applications, development tools and proprietary code;
- infrastructure systems, including routers, hubs and networks;
- facility systems, including general building functions, security, HVAC and related operations; and
- the systems of our business partners, including content providers and ISPs.

Yahoo! is conducting its formal assessment of Year 2000 readiness by gathering information on each aspect of Yahoo!'s systems, reviewing each component or application for date usage, and examining date representations. With respect to vendor-supplied items and services, Yahoo! is conducting an extensive review of product compliance information on such items and services available online, in vendor literature and through trade group information resources, contacting its vendors for compliance information, and maintaining documentation of assessments that have been performed by such vendors or outside sources.

Each department of Yahoo! is involved in this formal assessment process. Once complete, the formal assessment will lead to the creation of a formal remediation and contingency plan for achieving Year 2000 readiness. Yahoo! does not anticipate, however, undertaking a formal assessment of the Year 2000 readiness of the Internet or its underlying telecommunications infrastructure, and will therefore be unable to predict the impact of Year 2000 issues that might affect the broader Internet business community, including Yahoo!.

RESULTS OF COMPLIANCE EFFORTS TO DATE. Based on the completed informal assessment and the Company's progress on the formal assessment, Yahoo! currently believes that its internal systems are, or can readily be made, Year 2000 compliant in all material respects. However, it is possible that these current internal systems contain undetected errors or defects with Year 2000 date functions. In addition, although Yahoo! does not anticipate problems, vendor-supplied items and services could contain undetected errors or defects which, if not corrected, could result in serious unanticipated negative consequences, including significant downtime for one or more Yahoo! media properties.

COSTS OF YEAR 2000 COMPLIANCE COULD BE SIGNIFICANT. Although Yahoo! is not aware of any material operational issues or costs associated with preparing its internal systems for the Year 2000, and although Yahoo! has not incurred material costs to date with respect to the Year 2000 readiness of these internal systems, the occurrence of any of the following events could materially and adversely affect Yahoo!'s business, results of operations and financial condition:

- errors and defects are detected after the formal assessment process is complete;
- third-party equipment, software or content fails to operate properly with regard to the year 2000;
- Web advertisers expend significant resources to correct their current systems for Year 2000 compliance, resulting in reduced funds available for Web advertising or sponsorship of Web services; or
- material costs arise in connection with preparing GeoCities' or broadcast.com's internal systems for the Year 2000 problem.

RISK FACTORS

WE HAVE A LIMITED OPERATING HISTORY AND MAY NOT BE ABLE TO IMPLEMENT OUR GROWTH STRATEGY.

Yahoo! was incorporated in March 1995 and did not begin generating advertising revenues until August 1995. Therefore, we have a limited operating history, and our prospects are subject to the risks, expenses and uncertainties frequently encountered by young companies that operate exclusively in the new and rapidly evolving markets for Internet products and services. Successfully achieving our growth plan depends on, among other things, our ability to:

- continue to develop and extend the Yahoo! brand;
- develop new media properties;
- maintain and increase the levels of traffic on Yahoo! properties;
- develop or acquire competitive services or products;
- effectively generate revenues through sponsored services and placements;
- effectively integrate businesses or technologies;
- successfully develop personalized Web-based services, such as e-mail services; and
- continue to identify, attract, retain and motivate qualified personnel.

Furthermore, Yahoo!'s growth depends on factors outside of our control, including:

- adoption by the market of the Web, and more specifically, Yahoo! as an effective advertising medium; and
- relative price stability for Web-based advertising, despite competition and other factors that could reduce market prices for advertising.

We may not be successful in implementing our growth plan.

WE ANTICIPATE INCREASED OPERATING EXPENSES AND MAY EXPERIENCE LOSSES.

Because of our limited operating history and the uncertain nature of the rapidly changing market we serve, the prediction of future results of operations is difficult or impossible. In addition, period-to-period comparisons of operating results are not likely to be meaningful. You should not rely on the results for any period as an indication of future performance. In particular, although we experienced strong revenue growth during 1998 and the first quarter of 1999, we do not believe that this level of revenue growth will be sustained in future periods. We currently expect that our operating expenses will continue to increase significantly as we expand our sales and marketing operations, continue to develop and extend the Yahoo! brand, fund greater levels of product development, develop and commercialize additional media properties, and acquire complementary businesses and technologies. As a result, we may experience significant losses on a quarterly and annual basis.

OUR QUARTERLY OPERATING RESULTS WILL FLUCTUATE BECAUSE OF A NUMBER OF FACTORS, INCLUDING THE RELIANCE ON SHORT-TERM ADVERTISING CONTRACTS.

Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control. These factors include:

- the level of usage of the Internet;
- demand for Internet advertising;
- the addition or loss of advertisers;
- the level of user traffic on Yahoo! online properties;
- the mix of types of advertising we sell (targeted advertising generally has higher rates);
- the amount and timing of capital expenditures and other costs relating to the expansion of our operations;
- the introduction of new products or services by us or our competitors;
- pricing changes for Internet-based advertising;
- the timing of initial set-up, engineering or development fees that may be paid in connection with larger advertising and distribution arrangements;
- technical difficulties with respect to the use of Yahoo! online properties;
- costs incurred with respect to acquisitions; and
- negative general economic conditions and their resulting effects on media spending.

We may from time to time make certain pricing, service or marketing decisions that may adversely affect our profitability in a given quarterly or annual period.

We derive the majority of our revenues from the sale of advertisements under short-term contracts, which are difficult to forecast accurately. Our expense levels are based in part on expectations of future revenue and, to a large extent, are fixed. We may be unable to adjust spending quickly enough to compensate for any unexpected revenue shortfall. Accordingly, the cancellation or deferral of advertising or sponsorship contracts could have a material adverse effect on our financial results. Our operating expenses are likely to increase significantly over the near term and, to the extent that our expenses increase but our revenues do not, our business, operating results, and financial condition may be materially and adversely affected.

Our advertising revenue is also subject to seasonal fluctuations. Historically, advertisers spend less in the first and third calendar quarters and user traffic on our online media properties has historically been lower during the summer and during year-end vacation and holiday periods.

THE RATE STRUCTURE OF SOME OF OUR ADVERTISING CONTRACTS CREATES EXPOSURE TO POTENTIALLY SIGNIFICANT FINANCIAL RISKS.

A key element of our strategy is to generate advertising revenues through sponsored services and placements by third parties in our online media properties in addition to banner advertising. We typically receive sponsorship fees as well as a portion of transaction revenues received by the sponsor from users originated through the Yahoo! placement in return for minimum levels of user impressions to be provided by us. These arrangements expose us to potentially significant financial risks, including the following:

- if we fail to deliver required minimum levels of user impressions or "click throughs," our fee may be adjusted downwards;
- the sponsors may not renew the agreements or renew at lower rates; and

- the arrangements may not generate anticipated levels of shared transaction revenue, or sponsors may default on the payment commitments in such agreements as has occurred in the past.

As a result of these financial risks, we may not achieve significant revenue from these sponsorship arrangements. In addition, because of the limited experience with these arrangements, we are unable to determine what effect these arrangements will have on gross margins and results of operations. Transaction-based fees have not to date represented a material portion of our net revenues. If and to the extent such revenues become a significant portion of our results, there could be greater variations in our quarterly operating results.

WE ARE IN A HIGHLY COMPETITIVE INDUSTRY AND SOME OF OUR COMPETITORS MAY BE MORE SUCCESSFUL IN ATTRACTING AND RETAINING CUSTOMERS.

The market for Internet products and services is highly competitive. There are no substantial barriers to entry in these markets, and we expect that competition will continue to intensify. Negative competitive developments could have a material adverse effect on our business and the trading price of our stock.

We will compete with many other providers of online navigation, information, entertainment, business and community services. As we expand the scope of our Internet offerings, we will compete directly with a greater number of Internet sites, media companies, and companies providing business services across a wide range of different online services, including:

- vertical markets where competitors may have advantages in expertise, brand recognition, and other factors;
- metasearch services and software applications that allow a user to search the databases of several directories and catalogs simultaneously;
- database vendors that offer information search and retrieval capabilities with their core database products;
- Web-based email and instant messaging services either on a stand alone basis or integrated into other products and media properties;
- online merchant hosting services; and
- online broadcasting of business events following consummation of the proposed broadcast.com merger.

Companies that offer competitive products or services addressing Web navigation, information and community services include:

- America Online, Inc. (NetFind) including Netscape (Netcenter);
- CNET, Inc. (Snap);
- Compaq/Digital Equipment Corporation (AltaVista);
- Excite, Inc. (including WebCrawler);
- Infoseek Corporation (including GO Network);
- Inktomi Corporation;
- Lycos, Inc. (including HotBot and Tripod); and
- Microsoft Corporation (msn.com).

A large number of these websites and online services as well as high-traffic e-commerce merchants such as Amazon.com, Inc. also offer or are expected to offer informational and community features that may be competitive with the services that Yahoo! offers. In order to effectively compete, we may need to expend significant internal engineering resources or acquire other technologies and companies to provide such capabilities. Any of these efforts could be dilutive to our shareholders.

MARKET CONSOLIDATION IS CREATING MORE FORMIDABLE COMPETITORS.

In the recent past, there have been a number of significant acquisitions and strategic plans announced among and between certain of our competitors, including:

- The Walt Disney Company acquiring a significant interest in Infoseek;
- AOL acquiring Netscape;
- @Home Networks, a provider of high speed internet access serving the cable television infrastructure and the largest shareholder of which is AT&T, acquiring Excite;
- NBC acquiring an interest in Snap, a subsidiary of CNET, and announcing plans to merge its Internet assets with XOOM.com and Snap to create a new Internet media network;
- Compaq taking control of AltaVista through its acquisition of Digital Equipment Corporation; and
- Microsoft investing \$5 billion in AT&T, and AT&T acquiring MediaOne.

The effect of these completed and pending acquisitions and strategic plans on Yahoo! cannot be predicted with certainty, but all of these competitors are aligned with companies that are significantly larger or more well established than Yahoo!. In particular, many of them are television broadcasters having substantial marketing resources and capabilities to assist our competitors. As a result, each of them will have access to significantly greater financial, marketing and, in certain cases, technical resources than Yahoo!.

RECENT ALLIANCES MAY MAKE IT MORE DIFFICULT TO ACCESS YAHOO!'S PRODUCTS AND MEDIA PROPERTIES.

The recent acquisitions and alliances discussed above will result in greater competition as more users of the Internet consolidate on fewer services that incorporate search and retrieval features. In addition, providers of software and other Internet products and services are incorporating search and retrieval features into their offerings. For example, Web browsers offered by Netscape and Microsoft increasingly incorporate prominent search buttons that direct search traffic to competing services. These features could make it more difficult for Internet users to find and use our products and services. Netscape has an agreement with Excite under which Excite is the most prominent navigational service within the Netcenter website. In the future, Netscape, Microsoft and other browser suppliers may also more tightly integrate products and services similar to ours into their browsers or their browsers' pre-set home pages. Another example is the recently announced arrangement that will result in Compaq including prominent links to Alta Vista with many of the computers which it sells. Any of these companies could take actions that would make it more difficult for consumers to

find and use Yahoo! services. Microsoft recently announced that it will feature and promote Internet search services provided by Alta Vista and signed a long term partnership with LookSmart to provide directory services in the Microsoft Network and other Microsoft online properties. Such search services may be tightly integrated into future versions of the Microsoft operating system, the Internet Explorer browser, and other software applications, and Microsoft may promote such services within the Microsoft Network or through other Microsoft affiliated end-user services such as MSNBC or WebTV Networks. Each of these situations creates a potential competitive advantage over ours because their Internet navigational offerings may be more conveniently accessed by users.

INCREASED COMPETITION MAY EXERT DOWNWARD PRICING PRESSURE ON ADVERTISING CONTRACTS.

We compete with online services, other website operators and advertising networks, as well as traditional offline media such as television, radio and print for a share of advertisers' total advertising budgets. We believe that the number of companies selling Web-based advertising and the available inventory of advertising space has recently increased substantially. Accordingly, we may face increased pricing pressure for the sale of advertisements, which could reduce our advertising revenues. In addition, our sales may be adversely affected to the extent that our competitors offer superior advertising services that better target users or provide better reporting of advertising results.

WE DEPEND ON CONTINUED GROWTH IN THE USE OF WEB ADVERTISING TO SUPPORT OUR REVENUE MODEL.

Web-based advertising is relatively new, and it is difficult to predict the extent of further growth, if any, in Web advertising expenditures. The Internet may not prove to be a viable commercial marketplace for a number of reasons, including the lack of acceptable security technologies, potentially inadequate development of the necessary infrastructure, or the lack of timely development and commercialization of performance improvements.

THE MARKET FOR OUR PRODUCTS IS NEW, AND THE GROWTH IN MARKET ACCEPTANCE FOR THESE PRODUCTS IS UNCERTAIN.

The markets for our products and media properties have only recently begun to develop, are rapidly evolving, and are increasingly competitive. Demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty and risk. If the market develops more slowly than expected or becomes saturated with competitors, or if our products and media properties do not sustain market acceptance, our business, operating results, and financial condition will be materially and adversely affected.

THE INTERNET IS CHARACTERIZED BY RAPID TECHNOLOGICAL CHANGES, AND WE MUST ADAPT QUICKLY TO THESE CHANGES TO COMPETE EFFECTIVELY.

The market for Internet products and services is characterized by rapid technological developments, evolving industry standards and customer demands, and frequent new product introductions and enhancements. For example, to the extent that higher bandwidth Internet access becomes more widely available, we may be required to make significant changes to the design and content of our products and media properties. Failure to effectively adapt to these

or any other technological developments could adversely affect our business, operating results, and financial condition.

WE MUST DEVELOP AND MAINTAIN A "BRAND IDENTITY" FOR OUR PRODUCTS IN ORDER TO ATTRACT AND EXPAND OUR USER AND ADVERTISER BASE.

We believe that establishing and maintaining the Yahoo! brand is an important aspect of our efforts to attract and expand our user and advertiser base. We also believe that the importance of brand recognition will increase due to the growing number of Internet sites and the relatively low barriers to entry. Promotion and enhancement of the Yahoo! brand will depend largely on our success in providing high-quality products and services. In order to attract and retain Internet users and to promote and maintain the Yahoo! brand, we may find it necessary to increase expenditures devoted to creating and maintaining brand loyalty. In the event of any breach or alleged breach of security or privacy involving our services, or if any third party undertakes illegal or harmful actions utilizing our community, communications or commerce services, we could suffer substantial adverse publicity and impairment of our brand and reputation. If any of these events occur, our business, operating results, and financial condition will be materially and adversely affected.

OUR ABILITY TO UTILIZE THE WEB AS AN ADVERTISING MEDIUM DEPENDS ON EFFECTIVELY REACHING AN AUDIENCE THAT IS ATTRACTIVE TO ADVERTISERS AND CONTINUING TO ENHANCE DELIVERY AND MEASUREMENT SYSTEMS.

Most of our advertising customers have limited experience with the Web as an advertising medium. Our ability to generate significant advertising revenues will depend upon:

- the development of a large base of users of our services possessing demographic characteristics attractive to advertisers; and
- our ability to continue to develop and update effective advertising delivery and measurement systems.

No standards have yet been widely accepted for the measurement of the effectiveness of Web-based advertising. Advertisers may determine that banner advertising, which comprises the majority of our revenues, is not an effective advertising medium. We may not be able to effectively transition to any other forms of Web-based advertising, should such other forms prove more popular. Certain advertising filter software programs are available that limit or remove banner advertising from Web pages viewed by an Internet user. Such software, if generally adopted by users, may have a materially adverse effect upon the viability of advertising on the Internet. Our advertising customers may not accept the internal and third-party measurements of impressions received by advertisements on Yahoo! online media properties and such measurements may contain errors. We rely primarily on our internal advertising sales force for domestic advertising sales, which involves additional risks and uncertainties, including risks associated with the recruitment, retention, management, training, and motivation of sales personnel. As a result of these factors, we may not be able to sustain or increase current advertising sales levels. Failure to do so will have a material adverse effect on our business, operating results, and financial position.

THE SUCCESSFUL OPERATION OF OUR BUSINESS DEPENDS UPON THE SUPPLY OF CRITICAL ELEMENTS FROM OTHER COMPANIES.

We will depend substantially upon third parties for several critical elements of our business including technology and infrastructure, content development, and distribution activities.

TECHNOLOGY AND INFRASTRUCTURE. Inktomi provides text-based Web search results to complement our directory and navigational guide. We depend substantially upon ongoing maintenance and technical support from Inktomi to ensure accurate and rapid presentation of such search results to customers. If Inktomi were to prematurely terminate its agreement with us or fail to renew it, we would have to make substantial expenditures to develop or license replacement technology. This also could result in lower levels of use of our navigational services. We rely on a private third-party provider, Frontier GlobalCenter, Inc., for our principal Internet connections. Email and other service Internet connections are provided to us by GTE. Any disruption in the Internet access provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could have a material adverse effect on our business, operating results, and financial condition. We license technology and related databases from third parties for certain elements of our properties, including, among others, technology underlying the delivery of news, stock quotes and current financial information, chat services, street mapping and telephone listings, streaming capabilities and similar services. We have experienced and expect to continue to experience interruptions and delays in service and availability for such elements, including recent interruptions in our stock quote services. Furthermore, we are dependent on hardware suppliers for prompt delivery, installation, and service of servers and other equipment to deliver our products and services. Any errors, failures, interruptions, or delays experienced in connection with these third-party technologies and information services could negatively impact our relationship with users and adversely affect our brand and our business, and could expose us to liabilities to third parties.

CONTENT DEVELOPMENT. A key element of our strategy involves the implementation of Yahoo!-branded media properties targeted for interest areas, demographic groups, and geographic areas. In these efforts, we rely on content development and localization efforts of third parties, such as SOFTBANK in Japan and Korea. We cannot guarantee that our current or future third-party affiliates will effectively implement these properties, or that their efforts will result in significant revenue to us. Any failure of these parties to develop and maintain high-quality and successful media properties also could hurt the Yahoo! brand. Certain of these arrangements also require us to integrate third parties' content with our services, which can require significant programming and design efforts. In addition, we have granted exclusivity provisions to certain third parties, and may in the future grant additional exclusivity rights. These exclusive rights may have the effect of preventing us from accepting particular advertising, sponsorship, or content arrangements during the term of exclusivity.

DISTRIBUTION RELATIONSHIPS. In order to create traffic for our online properties and make them more attractive to advertisers and consumers, we have certain distribution agreements and informal relationships with leading Web browser providers such as Microsoft and Netscape, operators of online networks and leading websites, and computer manufacturers, such as Toshiba, Hewlett-Packard and Gateway. These distribution arrangements typically are not

exclusive, and may be terminated upon little or no notice. In addition, we may be required to establish relationships with providers of broadband services. Even if sufficient distribution opportunities are available to us in the U.S. or abroad, third parties that provide distribution assess fees or otherwise impose additional conditions on the listing of Yahoo! or our other online properties. Any failure to cost-effectively obtain distribution could have a material adverse effect on our business, results of operations, and financial condition.

We recently announced a co-branding and distribution arrangement with AT&T under which we will provide a Web-based online service in conjunction with dial-up Internet access provided by AT&T WorldNet Service. The acquisition of Excite by @Home Networks, whose largest stockholder is AT&T, could adversely affect our relationship with AT&T.

TO BE SUCCESSFUL IN THE CONTINUALLY EVOLVING MARKET FOR ONLINE SERVICES, WE MUST CONTINUE TO ENHANCE OUR PROPERTIES AND DEVELOP NEW ONES.

To remain competitive, we must continue to enhance and improve the functionality, features, and content of the Yahoo! main site, as well as our other media properties. We may not be able to successfully maintain competitive user response times or implement new features and functions, which will involve the development of increasingly complex technologies. Personalized information services, such as our Web-based email services, message boards, stock portfolios and Yahoo! Clubs community features, require significantly greater expenses than our general services. We cannot guarantee that these additional expenses will be offset by additional revenues from personalized services.

Our future success also depends in part upon the timely processing of website listings submitted by users and Web content providers, which have increased substantially in recent periods. We have, from time to time, experienced significant delays in the processing of submissions. Further delays could have a material adverse effect on our goodwill among users and Web content providers, and on our business.

A key element of our business strategy is the development and introduction of new Yahoo!-branded online properties targeted for specific interest areas, user groups with particular demographic characteristics, and geographic areas. We may not be successful in developing, introducing, and marketing such products or media properties and such properties may not achieve market acceptance, enhance our brand name recognition, or increase user traffic. Furthermore, enhancements of or improvements to Yahoo! or new media properties may contain undetected errors that require significant design modifications, resulting in a loss of customer confidence and user support and a decrease in the value of our brand name. If we fail to effectively develop and introduce new properties, or those properties fail to achieve market acceptance, our business, results of operations, and financial condition could be adversely affected.

OUR EQUITY INVESTMENTS IN OTHER COMPANIES MAY NOT YIELD ANY RETURNS.

We have made equity investments in affiliated companies that are involved in the commercialization of Yahoo!-branded online properties, such as Yahoo! Japan and Yahoo! Korea. These affiliated companies typically are in an early stage of development and may be expected to incur substantial losses. Our investments in such companies may not result in any

return. As a result, we have recorded and expect to continue to record a share of the losses in such affiliates attributable to our ownership. We have also made equity investments in non-affiliated companies involved in the development of technologies or services that are complementary or related to our business. We intend to continue to make significant additional investments in the future. Losses resulting from such investments could have a material adverse effect on our operating results.

WE MUST MANAGE OUR RECENT GROWTH AND THE INTEGRATION OF RECENTLY ACQUIRED COMPANIES SUCCESSFULLY IN ORDER TO ACHIEVE DESIRED RESULTS.

Our recent growth has placed a significant strain on our managerial, operational, and financial resources. To manage our growth, we must continue to implement and improve our operational and financial systems and to expand, train, and manage our employee base. Any inability to manage growth effectively could have a material adverse effect on our business, operating results, and financial condition.

The process of managing advertising within large, high traffic websites such as ours is an increasingly important and complex task. We rely on both internal and licensed third-party advertising inventory management and analysis systems. To the extent that any extended failure of our advertising management system results in incorrect advertising insertions, we may be exposed to "make good" obligations, which, by displacing advertising inventory, could defer advertising revenues. Failure of our advertising management systems to effectively scale to higher levels of use or to effectively track and provide accurate and timely reports on advertising results also could negatively affect our relationships with advertisers.

As part of our business strategy, we have completed several acquisitions and expect to enter into additional business combinations and acquisitions including our proposed acquisitions of GeoCities and broadcast.com. Acquisition transactions are accompanied by a number of risks, including:

- the difficulty of assimilating the operations and personnel of the acquired companies;
- the potential disruption of our ongoing business and distraction of management;
- the difficulty of incorporating acquired technology or content and rights into our products and media properties;
- the negative impact on reported earnings if any of these transactions which are expected to qualify for pooling of interest accounting treatment for financial reporting purposes fail to so qualify;
- the correct assessment of the relative percentages of in-process research and development expense which can be immediately written off as compared to the amount which must be amortized over the appropriate life of the asset;
- the failure to successfully develop an acquired in-process technology resulting in the impairment of amounts currently capitalized as intangible assets;
- unanticipated expenses related to technology integration;
- the maintenance of uniform standards, controls, procedures and policies;
- the impairment of relationships with employees and customers as a result of any integration of new management personnel; and
- the potential unknown liabilities associated with acquired businesses.

We may not be successful in addressing these risks or any other problems encountered in connection with such acquisitions. See "Risks Related to the Pending GeoCities and Broadcast.com Mergers."

WE WILL CONTINUE TO EXPAND INTO INTERNATIONAL MARKETS IN WHICH WE HAVE LIMITED EXPERIENCE.

A key part of our strategy is to develop Yahoo!-branded online properties in international markets. We have developed and operate, through joint ventures with SOFTBANK and related entities, versions of Yahoo! localized for Japan, Germany, France, the United Kingdom, and Korea. We also operate localized or mirror versions of Yahoo! through wholly-owned subsidiaries in Australia, Denmark, Italy, Norway, Sweden, and Singapore and offer Yahoo! guides in Spanish and Mandarin Chinese. We or our partners may not be able to successfully market and operate our products and services in foreign markets.

To date, we have only limited experience in developing localized versions of our products and marketing and operating our products and services internationally. We rely on the efforts and abilities of our foreign business partners in such activities. We also believe that in light of substantial anticipated competition, we will need to move quickly into international markets in order to effectively obtain market share. For example, in a number of international markets, we face substantial competition from ISPs, some of which have a dominant market share in their territories, that offer or may offer their own navigational services. We expect to continue to experience higher costs as a percentage of revenues in connection with international online properties. International markets we have selected may not develop at a rate that supports our level of investment. In particular, international markets may be slower in adoption of the Internet as an advertising and commerce medium.

In addition to uncertainty about our ability to continue to generate revenues from our foreign operations and expand our international presence, there are certain risks inherent in doing business on an international level, including:

- unexpected changes in regulatory requirements;
- trade barriers;
- difficulties in staffing and managing foreign operations including, as a result of distance, language and cultural differences;
- longer payment cycles;
- currency exchange rate fluctuations;
- problems in collecting accounts receivable;
- political instability;
- export restrictions;
- seasonal reductions in business activity; and
- potentially adverse tax consequences.

One or more of these factors could have a material adverse effect on our future international operations and, consequently, on our business, operating results, and financial condition.

OUR OPERATIONS COULD BE SIGNIFICANTLY HINDERED BY THE OCCURRENCE OF A NATURAL DISASTER OR OTHER CATASTROPHIC EVENT.

Our operations are susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins and similar events. In addition, substantially all of our network infrastructure is located in Northern California, an area susceptible to earthquakes. We do not have multiple site capacity in the event of any such occurrence. Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. We do not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any of these events. Such events could have a material adverse effect on our business, operating results, and financial condition.

OUR INTELLECTUAL PROPERTY RIGHTS ARE COSTLY AND DIFFICULT TO PROTECT.

We regard our copyrights, trademarks, trade dress, trade secrets, and similar intellectual property as critical to our success. We rely upon trademark and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. For example, we have obtained the registration for certain of our trademarks, including "Yahoo!" and "Yahooligans!". Effective trademark, copyright, and trade secret protection may not be available in every country in which our products and media properties are distributed or made available through the Internet, and while we attempt to ensure that the quality of our brand is maintained by our licensees, our licensees may take actions that could materially and adversely affect the value of our proprietary rights or the reputation of our products and media properties. We are aware that third parties have, from time to time, copied significant portions of Yahoo! directory listings for use in competitive Internet navigational tools and services. Protection of the distinctive elements of Yahoo! may not be available under copyright law. We cannot guarantee that the steps we have taken to protect our proprietary rights will be adequate.

WE MAY BE SUBJECT TO INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS, WHICH ARE COSTLY TO DEFEND AND COULD LIMIT OUR ABILITY TO USE CERTAIN TECHNOLOGIES IN THE FUTURE.

Many parties are actively developing search, indexing, e-commerce and other Web-related technologies. We believe that these parties will continue to take steps to protect these technologies, including seeking patent protection. As a result, we believe that disputes regarding the ownership of these technologies are likely to arise in the future. For example, we are aware that a number of patents have been issued in the areas of:

- electronic commerce;
- online auctions;
- Web-based information indexing and retrieval, including patents recently issued to one of our direct competitors;
- online direct marketing;
- fantasy sports;
- common Web graphics formats; and
- mapping technologies.

We anticipate that additional third-party patents will be issued in the future. From time to time, parties assert patent infringement claims against us in the form of letters, lawsuits and other forms of communications.

In addition to patent claims, third parties may assert claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights or alleging unfair competition. In the event that we determine that licensing patents or other proprietary rights is appropriate, we cannot guarantee that we will be able to license such proprietary rights on reasonable terms or at all. We may incur substantial expenses in defending against third-party infringement claims regardless of the merit of such claims. In the event that there is a determination that we have infringed third-party proprietary rights, we could incur substantial monetary liability and be prevented from using the rights in the future.

We are aware of lawsuits filed against two of our competitors regarding the presentment of advertisements in response to search requests on "keywords" that may be trademarks of third parties. It is not clear what, if any, impact an adverse ruling in these recently filed lawsuits would have on us. In addition, lawsuits have been filed against broadcast.com, a company we propose to acquire, alleging patent infringement relating to broadcast.com's use of streaming media products.

WE DEPEND ON KEY PERSONNEL WHO MAY NOT CONTINUE TO WORK FOR US.

We are substantially dependent on the continued services of our key personnel, including our two founders, our chief executive officer, chief financial officer, chief operating officer, chief technical officer, our vice presidents in charge of business development, sales and production and our senior engineers. Each of these individuals has acquired specialized knowledge and skills with respect to Yahoo! and its operations. As a result, if any of these individuals were to leave Yahoo!, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience. We expect that we will need to hire additional personnel in all areas. The competition for qualified personnel is intense, particularly in the San Francisco Bay Area, where our corporate headquarters are located. At times, we have experienced difficulties in hiring personnel with the right training or experience, particularly in technical areas. We do not maintain key person life insurance for any of our personnel. If we do not succeed in attracting new personnel, or retaining and motivating existing personnel, our business will be adversely affected.

GEOCITIES, A COMPANY WE PROPOSE TO ACQUIRE, HAS AN UNPROVEN BUSINESS MODEL THAT IS HIGHLY DEPENDENT ON THE CONTINUED SUPPORT OF ITS MEMBERS AND ADVERTISERS.

GeoCities' business model, which will be incorporated into and become a meaningful part of the Yahoo! business model following the consummation of the GeoCities merger (assuming the merger is consummated), depends upon its ability to leverage its community platform and to generate multiple revenue streams. The potential profitability of this business model is unproven, and, to be successful, we must, among other things, develop and market solutions that achieve broad market acceptance by our members, Internet advertisers, commerce vendors and Internet users. GeoCities is substantially dependent upon its member-generated content, the grass-roots promotional efforts of its members, the acceptance

by its members of advertising and other promotional programs of third parties and GeoCities and the voluntary involvement of its community leaders and liaisons to attract Web users to its site and to reduce the demands on company personnel. This model has existed for only a limited period of time, and, as a result, is relatively unproven. There can be no assurance that member-generated content or the promotional efforts of members will continue to attract users to GeoCities' website or that we will attract advertising revenue from third parties in sufficient amounts to make the business commercially viable. There can also be no assurance that GeoCities' community leaders and liaisons will continue to devote their time voluntarily to improving the community. If, following the consummation of the merger, a substantial number of homesteaders become dissatisfied with our services or our focus on the commercialization of those services, our business, results of operations and financial condition would be adversely affected.

The GeoCities business model relies on volunteers such as its community leaders and liaisons to provide assistance to homesteaders and other users of the GeoCities website. We are aware of a published report that several volunteers at AOL have asked the U.S. Department of Labor to investigate whether AOL's use of voluntary labor violates the Federal Fair Labor Standards Act. The same report states that the Labor Department has not begun an investigation into the matter, but acknowledges that it has received information from several of AOL's volunteers. Although we are not aware of any similar requests by any of GeoCities' volunteers, no assurances can be given that such requests will not be made in the future. We do not believe that any of GeoCities' practices in connection with the use of volunteers in its business is in violation of any labor laws; however, to the extent that the Department of Labor makes an adverse determination in the AOL matter, it could materially and adversely affect our business and financial results following the consummation of the GeoCities merger.

WE ARE SUBJECT TO U.S. AND FOREIGN GOVERNMENT REGULATION OF THE INTERNET, THE IMPACT OF WHICH IS DIFFICULT TO PREDICT.

There are currently few laws or regulations directly applicable to the Internet. The application of existing laws and regulations to Yahoo! relating to issues such as user privacy, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, content regulation, quality of products and services, and intellectual property ownership and infringement can be unclear. In addition, we will also be subject to new laws and regulations directly applicable to our activities. Any existing or new legislation applicable to us could expose us to substantial liability, including significant expenses necessary to comply with such laws and regulations, and dampen the growth in use of the Web.

Other nations, including Germany, have taken actions to restrict the free flow of material deemed to be objectionable on the Web. The European Union has recently adopted privacy and copyright directives that may impose additional burdens and costs on our international operations. In addition, several telecommunications carriers, including America's Carriers' Telecommunications Association, are seeking to have telecommunications over the Web regulated by the FCC in the same manner as other telecommunications services. Many areas with high Web use have begun to experience interruptions in phone service, and local telephone carriers, such as Pacific Bell, have petitioned the FCC to regulate ISPs and OSPs and to impose access fees. A number of proposals have been made at the federal, state and local level that would impose additional taxes on the sale of goods and services through the Internet.

If any such proposals are adopted, it could substantially impair the growth of the Internet and adversely affect us.

Several recently passed federal laws could have an impact on our business. The Digital Millenium Copyright Act is intended to reduce the liability of online service providers for listing or linking to third-party websites that include materials that infringe copyrights or other rights of others. The Children's Online Protection Act and the Children's Online Privacy Protection Act are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. We are currently reviewing this legislation, and cannot currently predict the effect, if any, that it will have on our business. Such legislation may impose significant additional costs on our business or subject us to additional liabilities.

We post policies concerning the use and disclosure of user data. In addition, following the consummation of the GeoCities merger, we will be required to comply, to a certain extent, with a consent order issued by the FTC to GeoCities, which imposes certain obligations and restrictions with respect to information collected from users. Any failure by us to comply with our posted privacy policies or, following the consummation of the GeoCities merger, the consent order could adversely affect our business, results of operations, and financial condition.

Due to the global nature of the Web, it is possible that the governments of other states and foreign countries might attempt to regulate its transmissions or prosecute us for violations of their laws. We might unintentionally violate such laws. Such laws may be modified, or new laws enacted, in the future. Any such developments could have a material adverse effect on our business, results of operations, and financial condition.

WE MAY BE SUBJECT TO LEGAL LIABILITY FOR OUR ONLINE SERVICES.

We host a wide variety of services that enable individuals to exchange information, generate content, conduct business and engage in various online activities, including services relating to online auctions and, following the consummation of the GeoCities merger, the homesteading and other services offered by GeoCities. The law relating to the liability of providers of these online services for activities of their users is currently unsettled. Claims could be made against us for defamation, negligence, copyright or trademark infringement, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information that we provide links to or that may be posted online or generated by our users or with respect to auctioned materials. These types of claims have been brought, and sometimes successfully pressed, against online service providers in the past. In addition, we are aware that governmental agencies are currently investigating the conduct of online auctions.

We also periodically enter into arrangements to offer third-party products, services, or content under the Yahoo! brand or via distribution on Yahoo! properties, including stock quotes and trading information. Likewise, GeoCities and broadcast.com license third-party content for distribution over the Internet. 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 these parties often provide that we will be indemnified against such liabilities, such indemnification may not be adequate.

It is also possible that, if any information provided directly by us contains errors or is otherwise negligently provided to users, third parties could make claims against us. For example, we offer Web-based email services, which expose us to potential risks, such as liabilities or claims resulting from unsolicited email, lost or misdirected messages, illegal or fraudulent use of email, or interruptions or delays in email service. Investigating and defending any of these types of claims is expensive, even to the extent that the claims do not result in liability.

OUR E-COMMERCE ACTIVITIES MAY EXPOSE US TO UNCERTAIN LEGAL RISKS AND POTENTIAL LIABILITIES.

As part of our business, we enter into agreements with sponsors, content providers, service providers, and merchants under which we are entitled to receive a share of revenue from the purchase of goods and services by users of our online properties. In addition, we provide hosting and other services to online merchants. These types of arrangements may expose us to additional legal risks and uncertainties, including potential liabilities relating to the products and services offered by such third parties.

We recently began offering a Yahoo!-branded VISA credit card, which includes a "rewards" program entitling card users to receive points that may be redeemed for merchandise, such as books or music. This arrangement exposes us to risks and expenses relating to compliance with consumer protection laws, loss of customer data, disputes over redemption procedures and rules, products liability, sales taxation and liabilities associated with any failure in performance by participating merchants.

Although we maintain liability insurance, insurance may not cover these claims or may not be adequate. Even to the extent these types of claims do not result in material liability, investigating and defending the claims is expensive.

RISKS RELATED TO THE PENDING GEOCITIES AND BROADCAST.COM MERGERS

EXPECTED BENEFITS OF EITHER MERGER MAY NOT BE REALIZED.

If we are not able to effectively integrate technology, operations and personnel from the acquired companies in a timely and efficient manner, then the benefits of such mergers will not be realized. In particular, if the integration is not successful:

- our operating results may be adversely affected;
- we may lose key personnel; and
- we may not be able to retain the acquired companies' user bases or content providers (including, in the case of the GeoCities merger, GeoCities' community membership base of homesteaders).

In addition, whether or not such integrations are successful, the attention and effort devoted to the integration of the acquired companies will significantly divert management's attention from other important issues, and could result in the delay of strategic initiatives, the

disruption of sales and marketing efforts, and the loss of customers, vendors, and employees, any of which could have a material adverse impact on us.

EITHER MERGER COULD ADVERSELY AFFECT OUR FINANCIAL RESULTS.

If the benefits of either merger do not exceed the costs associated with such merger, including the dilution to Yahoo! shareholders resulting from the issuance of shares in connection with such merger, our financial results, including earnings per share, could be adversely affected. Specifically, we expect to incur a one-time charge of approximately \$66 million related to the GeoCities merger during the second quarter of 1999 and a yet to be determined amount related to the broadcast.com merger during the third quarter of 1999.

THE MARKET PRICE OF OUR COMMON STOCK MAY DECLINE AS A RESULT OF EITHER MERGER.

The market price of our common stock may decline as a result of the mergers with GeoCities or broadcast.com if:

- the integration of Yahoo! with either company is unsuccessful;
- we do not achieve the perceived benefits of either merger as rapidly or to the extent anticipated by financial analysts; or
- the effect of either merger on our financial results is not consistent with the expectations of financial analysts.

FAILURE OF EITHER MERGER TO QUALIFY AS A POOLING OF INTERESTS WOULD NEGATIVELY AFFECT OUR FINANCIAL RESULTS.

The failure of either merger to qualify for pooling of interests accounting treatment for financial reporting purposes for any reason would materially and adversely affect our reported earnings and, likely, the price of our common stock.

The availability of pooling of interests accounting treatment for each merger depends upon circumstances and events occurring after the effective time of such merger. For example, there must be no significant changes in the business of the combined company, including significant dispositions of assets, for a period of two years following the effective time of each such merger. Further, affiliates of Yahoo! and the acquired company must not sell any shares of either Yahoo! or the acquired company's capital stock until the day that Yahoo! publicly announces financial results covering at least 30 days of combined operations of Yahoo! and the acquired company after each such merger. If affiliates of Yahoo! or the acquired company sell their shares of Yahoo! common stock prior to that time despite a contractual obligation not to do so, such merger may not qualify for accounting as a pooling of interests for financial reporting purposes.

FAILURE TO SUCCESSFULLY COMPLETE THE ACQUISITION OF EITHER GEOCITIES OR BROADCAST.COM COULD ADVERSELY AFFECT OUR STOCK PRICE.

The consummation of the GeoCities and broadcast.com mergers is subject to a number of conditions including approval by the GeoCities and broadcast.com stockholders, respectively. In addition, the broadcast.com merger is still awaiting regulatory approval. If we

are unable to effectively complete either merger for any reason, our business and operations could be seriously harmed. In particular, whether or not the mergers are successful over the long term, the acquisition of GeoCities and broadcast.com may:

- significantly divert the attention of management from other important issues;
- delay strategic initiatives;
- cause the loss of customers or key employees; and
- disrupt sales and marketing efforts.

In addition, our stock price may decline if it does not achieve the perceived benefits of either merger in a manner consistent with the expectations of the financial markets.

RISKS RELATED TO BROADCAST.COM'S BUSINESS

Assuming the proposed broadcast.com merger is consummated, broadcast.com will constitute a meaningful part of Yahoo!'s business and, as a result, we will become subject to the following additional risks with respect to the broadcast.com portion of our business.

BROADCAST.COM IS DEPENDENT ON THIRD-PARTY CONTENT PROVIDERS.

Broadcast.com's future success depends upon its ability to aggregate compelling content and deliver that content on the Web. Broadcast.com typically does not create content. Rather, it relies on third parties including major sports organizations, radio and television stations, record labels, cable networks, businesses, colleges and universities, film producers and distributors, and other organizations for the compelling and entertaining content available on the broadcast.com site. Broadcast.com's ability to maintain and build relationships with third-party content providers will be critical to the combined company's success and also exposes it to the following risks.

MANY OF BROADCAST.COM'S CONTENT AGREEMENTS EXTEND FOR A PERIOD OF LESS THAN TWO YEARS AND THERE CAN BE NO GUARANTEE THAT THEY WILL BE RENEWED UPON THEIR EXPIRATION ON FAVORABLE TERMS OR AT ALL. Broadcast.com's inability to secure licenses from content providers or performances rights societies or the termination of a significant number of content provider agreements would decrease the availability of content and likely result in decreased traffic on broadcast.com's websites. As a result, broadcast.com would receive decreased advertising revenue, which would adversely affect its business. Also, as competition for compelling content increases, broadcast.com's content providers may increase the prices at which it offers its content to broadcast.com upon the expiration of these contracts. Either of these events would negatively affect broadcast.com's business.

THE ROYALTY RATES FOR CERTAIN MUSIC LICENSES HAVE NOT BEEN SET AND MAY BE SET AT RATES THAT ARE HIGHER THAN ANTICIPATED. In order to have the right to broadcast music on the Web, broadcast.com is currently required to license and pay royalties on the copyright in the musical compositions and also to license and pay royalties on the separate copyright in the actual recordings of the music to be broadcast. Broadcast.com has license agreements in place with ASCAP and BMI, the two largest music societies that license the copyrights to the compositions, to license the musical composition copyrights on reasonable terms.

However, there is currently a large amount of uncertainty related to licensing issues and there can be no assurance that those music societies will renew those contracts on similar terms. The Recording Industry Association of America represents the five major record labels in setting the royalties to be paid by webcasters, like broadcast.com, for the license to most music recordings. The RIAA has not yet determined what the royalty and other terms for the actual sound recordings will be and it is therefore unclear how it will effect broadcast.com's business. If ASCAP, BMI or the RIAA set high royalty rates, offer to renew existing agreements at higher rates or provide other terms which make it difficult to operate broadcast.com's current business model, our overall business could be adversely affected.

CONTENT AGREEMENTS ARE OFTEN NOT EXCLUSIVE AND OTHER COMPANIES ARE OFTEN ABLE TO OFFER SIMILAR CONTENT. In many cases, broadcast.com has not been able to enter into exclusive licenses to the content it licenses from third parties. Accordingly, other Web broadcasters may often be able to offer similar content and in most cases, the content is available for broadcast on other media like radio or television. These media are currently, and for the foreseeable future will be, much more widely adopted for listening or viewing such content than the Web. To the extent other companies are able to broadcast content that is similar to or the same as broadcast.com, the broadcast.com website may not grow at all or at a slower rate than anticipated and therefore broadcast.com will generate less advertising revenue than expected.

BROADCAST.COM'S BUSINESS IS DEPENDENT ON BUSINESS SERVICES REVENUES.

Broadcast.com expects to derive a substantial amount of its revenues by providing services to businesses to enable them to broadcast streaming content over the Internet and corporate intranets. The demand and market acceptance for these business services solutions is uncertain. Its ability to establish and maintain a leadership position in Internet and intranet broadcasting for businesses and in the distribution of other live and on-demand events will depend on, among other things:

- market acceptance of its current and future business service offerings;
- the reliability of its networks and services; and
- the extent to which end users are able to receive broadcasts at adequate bit rates to provide for high quality services, none of which can be assured.

Broadcast.com operates in a market that is at a very early stage of development, is rapidly evolving and is characterized by an increasing number of competitors. Today, the most significant of these competitors are companies offering teleconferencing or videoconferencing services. Broadcast.com also expects other competitors to become more formidable in the future including software companies, internet service providers or networking companies. Demand and market acceptance for recently introduced services by broadcast.com are subject to a high level of uncertainty and risk. Sales of business services may require an extended sales effort in certain cases. In addition, potential customers must accept audio and video broadcast services over the Internet as a viable alternative to face-to-face meetings, television or audio, audio teleconferences and video conferencing. Because the market for business services is new and evolving, it is difficult to predict the size of this market and its growth rate, if any. In addition, it is uncertain

whether businesses and other organizations will utilize the Internet to any significant degree as a means of broadcasting business conferences and other events. There can be no assurance that the market for broadcast.com's business services will continue to develop or be sustainable. If the market fails to develop, develops more slowly than expected or becomes more competitive than is currently expected, or if broadcast.com's sites do not achieve or sustain market acceptance, the portion of our business related to such activities could be adversely affected.

BROADCAST.COM IS DEPENDENT ON THE DEVELOPMENT, ACCEPTANCE AND AVAILABILITY OF STREAMING MEDIA TECHNOLOGY.

Broadcast.com relies on the two leading providers of streaming media products, RealNetworks and Microsoft, to license encoders to it in order to broadcast its content and to distribute player software in order to create a broad base of users. There can be no assurance that these providers will continue to license these products on reasonable terms, or at all, to broadcast.com. In addition, users are currently able to electronically download copies of the RealNetwork's RealPlayer and Microsoft's Windows Media Player software free of charge from a wide variety of sources, including broadcast.com. These providers of streaming media products may begin charging users for copies of their player software or otherwise change their business model in a manner which slows the widespread acceptance of these products. In order for broadcast.com to be successful, there must be a large and growing base of users of these streaming media products. In addition, competitors of RealNetworks and Microsoft may introduce and promote products that obtain a substantial share of the market for streaming media software. In such event, broadcast.com may need to acquire licenses from such companies, as to which there can be no assurance that they may be available on reasonable terms or at all. Broadcast.com has limited or no control over the availability or acceptance of streaming media software, and to the extent that any of these circumstances occur, broadcast.com's business will be materially adversely effected.

Broadcast.com also depends on the availability of high quality streaming media technology to users. Early streaming media technology suffered from poor audio quality, and video streaming at 28.8 kbps (thousands of bits per second) currently is of lower quality than television or radio broadcasts. In addition, congestion over the Internet and packet loss may interrupt audio and video streams, resulting in unsatisfying user experiences. In order to receive streamed media adequately, users generally must have multimedia PCs with certain microprocessor requirements and at least 28.8 kbps Internet access and streaming media software. Users typically electronically download such software and install it on their PCs. Such installation may require technical expertise that some users do not possess. Furthermore, in order for users to receive streaming media over corporate intranets, information systems managers may need to reconfigure such intranets. Because of bandwidth constraints on corporate intranets, some information systems managers may block reception of streamed media. Widespread adoption of streaming media technology depends on overcoming these obstacles, improving audio and video quality and educating customers and users in the use of streaming media technology. If streaming media technology fails to overcome these obstacles, broadcast.com's business could be adversely affected.

BROADCAST.COM MAY NOT BE ABLE TO SUCCESSFULLY SCALE ITS OPERATIONS.

Broadcast.com's success depends on its ability to attract large numbers of additional users and broadcast audio and video programming to a large number of users simultaneously. In addition, streaming media content requires more bandwidth than most data transmissions. As a result, to the extent that demand for broadcast.com's content increases, there will be a need to expand its infrastructure, including the capacity of its hardware servers and the sophistication of its software. It may also result in the demand by a greater number of users to transition to the use of high bandwidth Internet access devices such as cable modems and xDSL devices. This expansion will be expensive and complex, and require additional technical expertise. If broadcast.com is unable to accommodate this growth, it will be adversely affected.

From the commencement of operations, broadcast.com has deployed unicasting (one user per company originated stream) technology to broadcast audio and video programming to users over the Internet. Recently, it began to deploy another broadcast technology, multicasting (multiple users per company originated stream). Broadcast.com believes that unicasting will continue to be used to distribute archived and on-demand programming and that multicasting or a similar broadcasting technology will be used for live and other events where a larger audience for the content is expected.

To increase its unicast capacity, the successful expansion of its network infrastructure through the acquisition and deployment of additional network equipment and bandwidth will be necessary. There can be no assurance that broadcast.com will be successful in such expansion.

Broadcast.com also must successfully deploy multicasting or a similar broadcasting technology that can deliver streaming media content to many users simultaneously through one-to-many Internet connections. Broadcast.com will be required to test, deploy and successfully scale its multicast network infrastructure to serve mass audiences. There can be no assurance that it will be successful in doing so, that multicasting will be able to support a substantial audience or that an alternative technology will not emerge that offers superior broadcasting technology as compared to multicasting. In the event that multicasting technology is not successfully deployed in a timely manner or such an alternative technology emerges, broadcast.com would likely be required to expend significant resources to deploy a technology other than multicasting, which could adversely affect its results of operations. If it fails to scale its broadcasts to large audiences of simultaneous users, such failure could adversely affect its business.

INVESTMENT RISKS

OUR STOCK PRICE HAS HISTORICALLY BEEN VOLATILE, WHICH MAY MAKE IT MORE DIFFICULT FOR YOU TO RESELL SHARES WHEN YOU WANT AT PRICES YOU FIND ATTRACTIVE.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During 1998 and the first quarter of 1999, the closing sale prices of our common stock on the Nasdaq Stock Market ranged from \$14.52 to \$207.69. The stock price may fluctuate in response to a number of events and factors, such as quarterly variations in

operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable, and news reports relating to trends in our markets. In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance.

MANAGEMENT AND ONE LARGE SHAREHOLDER BENEFICIALLY OWN MORE THAN 50% OF OUR STOCK; THEIR INTERESTS COULD CONFLICT WITH YOURS.

Yahoo!'s directors and executive officers, and SOFTBANK beneficially own more than 50% of our outstanding common stock. As a result of their ownership, our directors and executive officers and SOFTBANK collectively are able to control all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of Yahoo!.

ANTI-TAKEOVER PROVISIONS COULD MAKE IT MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE US.

Our board of directors has the authority to issue up to 10,000,000 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 shareholders. The rights of the holders of 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, deferring or preventing a change of control of Yahoo! without further action by the shareholders and may adversely affect the voting and other rights of the holders of common stock. We have no present plans to issue shares of preferred stock. Further, certain provisions of our charter documents, including provisions eliminating the ability of shareholders to take action by written consent and limiting the ability of shareholders to raise matters at a meeting of shareholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of Yahoo!, which could have an adverse effect on the market price of our stock. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third party to gain control of the Yahoo! Board of Directors.

PRIVATELY-SOLD SHARES ELIGIBLE FOR PUBLIC RESALE COULD HAVE A NEGATIVE EFFECT ON OUR STOCK PRICE.

As of March 31, 1999, we had 202,927,000 shares of common stock outstanding, and there were outstanding options to purchase approximately 50,833,000 shares of our common stock under stock option plans. Of the outstanding shares of common stock, approximately 2,570,000 shares issued by us in connection with acquisitions and investments have been available for resale pursuant to currently effective registration statements previously filed by us with the SEC. Sales of substantial amounts of these shares in the public market or the prospect of these sales could adversely affect the market price of our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of interest rate changes, foreign currency fluctuations, and change in the market values of its investments.

INTEREST RATE RISK. The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's investment portfolio. The Company has not used derivative financial instruments in its investment portfolio. The Company invests its excess cash in debt instruments of the U.S. Government and its agencies, and in high-quality corporate issuers and, by policy, limits the amount of credit exposure to any one issuer. The Company protects and preserves its invested funds by limiting default, market and reinvestment risk.

Investments in both fixed rate and floating rate interest earning instruments carries 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, the Company's future investment income may fall short of expectations due to changes in interest rates or the Company may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates.

FOREIGN CURRENCY RISK. International revenues from the Company's foreign subsidiaries were less than 10% of total revenues. International sales are made mostly from the Company's foreign sales subsidiaries in their respective countries and are typically denominated in the local currency of each country. These subsidiaries also incur most of their expenses in the local currency. Accordingly, all foreign subsidiaries use the local currency as their functional currency.

The Company's international business is subject to risks typical of an international business, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, the Company's future results could be materially adversely impacted by changes in these or other factors.

The Company's exposure to foreign exchange rate fluctuations arises in part from intercompany accounts in which costs incurred in the United States are charged to the Company's foreign sales subsidiaries. These intercompany accounts are typically denominated in the functional currency of the foreign subsidiary in order to centralize foreign exchange risk with the parent company in the United States. The Company is also exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, these results, when translated, may vary from expectations and adversely impact overall expected profitability. The effect of foreign exchange rate fluctuations on the Company in the quarter ended March 31, 1999 was not material.

INVESTMENT RISK. The Company invests in equity instruments of privately-held, information technology companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method when

ownership is less than 20%. For these non-quoted investments, the Company's policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. The Company identifies and records impairment losses on long-lived assets when events and circumstances indicate that such assets might be impaired. To date, no such impairment has been recorded. During 1998, certain of these investments in privately-held companies became marketable equity securities when the investees completed initial public offerings. Such investments, which are in the Internet industry, are subject to significant fluctuations in fair market value due to the volatility of the stock market, and are recorded as long-term investments.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company is subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights, and a variety of claims arising in connection with the Company's email, message boards, and other communications and community features, such as claims alleging defamation and invasion of privacy. The Company is not currently aware of any legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's financial position or results of operations.

ITEM 2. CHANGES IN SECURITIES

Yahoo! Inc. made the following unregistered sales of the Company's Common Stock in the quarter ended March 31, 1999:

TRANSACTION DATE	AMOUNT OF SECURITIES SOLD	NAME OF UNDERWRITER OR PLACEMENT AGENT	CONSIDERATION RECEIVED	PERSONS OR CLASS OF PERSONS TO WHOM THE SECURITIES WERE SOLD	EXEMPTION FROM REGISTRATION CLAIMED
1/15/99	50,000 Shares (1) None		(1)	Members of Log-Me-On.Com LLC	Section 4(2) of the Securities Act of 1933, as amended

(1) Pursuant to the acquisition of Log-Me-On on January 15, 1999, the Company issued 50,000 shares of Yahoo! Common Stock and paid \$1.5 million in cash to the members of Log-Me-On. The resale of these shares has been registered on a Registration Statement on Form S-3 filed with the Securities and Exchange Commission on February 2, 1999 and amended on March 12, 1999 and March 23, 1999.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a. The exhibits listed in the accompanying Index to Exhibits are filed as part of this Report on Form 10-Q.
- b. Reports on Form 8-K:
 - 1) On January 13, 1999, the Company filed a report on Form 8-K announcing (i) Yahoo!'s financial results for the quarter and year ended December 31, 1998, (ii) a 2-for-1 stock split, and (iii) the expansion of executive roles.
 - 2) On January 21, 1999, the Company filed a report on Form 8-K/A which amends the Form 8-K previously filed on June 12, 1998. The original Form 8-K announced the acquisition of Viaweb and included unaudited pro forma condensed financial statements which were adjusted after discussions with the Staff at the Securities and Exchange Commission regarding the allocation of the Viaweb purchase price.
 - 3) On January 21, 1999, the Company filed a report on Form 8-K/A which amends the Form 8-K/A previously filed on November 19, 1998. The original Form 8-K/A included supplementary consolidated financial statements of Yahoo!, restated for the acquisition of Yoyodyne, which were adjusted after discussions with the Staff at the Securities and Exchange Commission regarding the allocation of the Viaweb purchase price.
 - 4) On January 29, 1999, the Company filed a report on Form 8-K announcing that they and GeoCities had entered into an Agreement and Plan of Merger, dated as of January 27, 1999, which sets forth the terms and conditions of the proposed merger of a subsidiary of Yahoo! with and into GeoCities pursuant to which GeoCities will become a wholly-owned subsidiary of Yahoo!.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

YAHOO! INC.

Dated: May 17, 1999

By: /s/ Gary Valenzuela

Senior Vice President, Finance
and Administration, and Chief
Financial Officer
(Principal Financial Officer)

Dated: May 17, 1999

By: /s/ James J. Nelson

Vice President, Finance
(Principal Accounting Officer)

YAHOO! INC.
INDEX TO EXHIBITS

Title	Exhibit No.
- - - - -	- - -
* Termination Agreement between Yahoo! Inc. and Rogers Media Inc. dated January 6, 1999.10.1
Financial Data Schedule27
- - - - -	- - -
* confidential treatment requested	

CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

TERMINATION AGREEMENT

This Termination Agreement ("Agreement") is entered into between Yahoo! Inc., a California corporation ("Yahoo"), and Rogers Media Inc. (formerly known as Rogers Multi-Media Inc.), a corporation organized under the laws of British Columbia ("Rogers"), effective as of the 6th day of January 1999.

RECITALS:

A. Yahoo and Rogers entered into that certain Yahoo Canada Affiliation Agreement, dated February 29, 1996 (the "Affiliation Agreement"), pursuant to which, among other things, Yahoo licensed certain intellectual property and development rights to Rogers with respect to the Yahoo Internet Directory and associated Internet services that have been customized and localized specifically for the Canadian market and which are currently offered through the Yahoo! Canada website ("Yahoo Canada").

B. In December 1998, pursuant to the terms of the Affiliation Agreement, each of Yahoo and Rogers formally initiated a dispute resolution process in order to resolve differences arising under the Affiliation Agreement.

C. On January 6, 1999, Yahoo and Rogers each executed and delivered a letter agreement (the "Letter Agreement") pursuant to which the parties agreed to terminate the Affiliation Agreement and to release each other from all claims arising out of or relating to the Affiliation Agreement.

D. Pursuant to the terms of the Letter Agreement, Yahoo and Rogers agreed to enter into this Agreement, which is intended to supersede the Letter Agreement in its entirety.

AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants contained herein, the parties agree to the following terms and conditions.

1. TERMINATION OF AFFILIATION AGREEMENT. Subject to Section 13 below, Yahoo and Rogers agree that the Affiliation Agreement shall terminate in its entirety on the Termination Date (as defined below). In connection therewith, all licenses and other rights and obligations granted under the Affiliation Agreement shall terminate effective as of the Termination Date. Notwithstanding anything to the contrary in the Affiliation Agreement, no provisions thereof shall survive its termination. After the Termination Date, any and all rights and obligations of Yahoo and Rogers shall be governed exclusively by this Agreement and the exhibits attached hereto and such other documents contemplated hereby. Notwithstanding the foregoing, Sections 2.7, 2.9 and 2.11 only of the Affiliation Agreement shall terminate as of February 15, 1999 and neither Yahoo nor Rogers shall be bound by or have any obligations thereunder as of such date.

2. CONSIDERATION.

2.1 PAYMENT BY YAHOO. As consideration for entering into this Agreement, and such other covenants and agreements set forth herein, on the Termination Date, Yahoo, or its affiliates, shall deliver to Rogers payments in the aggregate amount of Eighteen Million United States Dollars (US\$18,000,000) (the "Termination Fee") inclusive of any and all sales, use, consumption, value-added, goods and services or other taxes incurred as a result of this Agreement and the transactions contemplated hereby. The Termination Fee shall be paid without interest in two installments, each of which shall be equal to 50% of the Termination Fee as follows:

(a) the first installment shall be paid on the Termination Date by wire transfer to an account designated by Rogers in the amount of Nine Million United States Dollars (US \$9,000,000); and

(b) the second installment shall be paid in the form of an unsecured promissory note, bearing interest in accordance with its terms, substantially in the form attached hereto as EXHIBIT A (the "Promissory Note"), payable in full on April 1, 1999 to Rogers in the amount of Nine Million United States Dollars (US \$9,000,000).

2.2 PAYMENTS BY ROGERS. Rogers shall deliver to Yahoo by wire transfer to an account designated by Yahoo an aggregate amount equal to accrued but unpaid royalties due and payable to Yahoo by Rogers under the Affiliation Agreement as of the Termination Date in two installments to be paid as follows:

(a) on the Termination Date, an amount equal to the accrued but unpaid royalties as of January 31, 1999; and

(b) seven (7) days after the Termination Date, an amount equal to the accrued but unpaid royalties for the period of February 1, 1999 to the Termination Date.

The royalties payable by Rogers to Yahoo pursuant to the Affiliation Agreement shall be reduced after February 15, 1999 (as such may be prorated) by the "net loss", if any, incurred by Rogers with respect to the maintenance and operation of Yahoo Canada from February 15, 1999 until the Termination Date in the ordinary course of business consistent with past practices. The determination of "net loss" in regard to the maintenance and operation of Yahoo Canada shall be determined in accordance with Generally Accepted Accounting Principles as set forth by the Canadian Institute of Chartered Accountants from time to time. Only those payments, expenses, charges and other liabilities or accruals directly allocable to the maintenance and operation of Yahoo Canada by Rogers shall be utilized in determining the "net loss" of Yahoo Canada. In addition, interest charges for the financing of Rogers shall not be included in "net loss" other than interest directly allocable for the maintenance and operation of Yahoo Canada. Notwithstanding the foregoing, the parties agree that in no event shall Yahoo be responsible for any "net losses" incurred by Rogers in connection with the operation of Yahoo Canada that

exceed the royalties payable by Rogers to Yahoo pursuant to the Affiliation Agreement for the period from February 15, 1999 to the Termination Date.

2.3 ACCOUNTING. Together with the royalty payment payable by Rogers pursuant to Section 2.2 above, Rogers shall provide Yahoo with a complete and accurate accounting of the royalties payable by Rogers.

2.4 TAXES. Except as otherwise provided in Section 2.5 of the Affiliation Agreement in regard to the payment set forth in Section 2.2 above, Rogers shall be solely responsible for the payment of any and all sales, use, consumption, value-added, goods and services or other taxes incurred as a result of this Agreement and the transactions contemplated hereby, and Rogers shall be solely responsible for the due and punctual payment and remittance of all such taxes to all applicable governmental authorities in Canada. In the event Yahoo is required by law to pay any interest or penalties in connection with the payment of taxes pursuant to the Affiliation Agreement as a result of actions or inactions on the part of Rogers, Rogers agrees to reimburse Yahoo for all such amounts paid and costs and expenses incurred by Yahoo in connection therewith, provided that Yahoo gives Rogers reasonable notice of such interest, penalties, costs and expenses prior to the payment thereof.

3. TERMINATION DATE. The "Termination Date" shall be March 1, 1999.

4. MUTUAL RELEASE. Subject to Section 13 and as of the Termination Date, the parties each fully release and discharge the other, and their respective officers, directors, employees, representatives and agents, and any affiliated corporations or companies from any and all potential and outstanding legal claims, actions, suits, duties, obligations, contracts, debts, demands, or causes of action whatsoever ("Claims"), whether known or unknown, whether in law or in equity, and whether past, future or present, arising out of, based upon, or relating to the Affiliation Agreement or any settlement or termination thereof, except for any Claims arising out of this Agreement.

5. CONTRACTS RELATING TO YAHOO CANADA. Rogers and Yahoo acknowledge and agree that the termination of the Affiliation Agreement, the return of certain assets and the assignment of certain contracts by Rogers to Yahoo is not an acquisition of a business, and except for the contractual obligations set forth on EXHIBIT B attached hereto (the "Assigned Contracts") or as otherwise expressly provided herein, Yahoo shall not assume or perform, and shall not be responsible for performing or satisfying, any of the duties, liabilities, obligations or agreements of Rogers, whether or not arising out of or relating to the Affiliation Agreement, including, but not limited to, any liabilities or other obligations arising in connection with the employment of Rogers' employees or the termination thereof, taxes, indebtedness, royalty payments, claims or legal proceedings and contractual obligations arising on or before the Termination Date. As of the Termination Date, Rogers assigns and transfers to Yahoo, and Yahoo assumes, all of the rights and obligations under the Assigned Contracts.

6. RETURN OF ASSETS. As of the Termination Date, Rogers shall return or cause to be returned to Yahoo all of the assets set forth on EXHIBIT C attached hereto (the "Returned Assets").

To the extent Rogers has any interests in such Returned Assets at the Termination Date, Rogers transfers and assigns to Yahoo, as of the Termination Date, all of its right, title and interest in and to the Returned Assets free and clear of any and all liens, claims, equities and encumbrances of any nature. In the event that the URL "www.yahoo.ca" is not able to be transferred to Yahoo or its affiliate or designee on or prior to the Termination Date, Rogers shall license exclusively to Yahoo all rights to use the URL "www.yahoo.ca" for the period after the Termination Date up to and including December 31, 1999 in exchange for a royalty of One United States Dollar (US \$1). If not assigned on or prior to the Termination Date, the URL "www.yahoo.ca" shall be assigned by Rogers to Yahoo or its affiliate or designee in consideration of One United States Dollar (US \$1) on December 31, 1999 or such earlier date as requested in writing by Yahoo.

7. REPRESENTATIONS AND WARRANTIES.

7.1 REPRESENTATIONS AND WARRANTIES OF ROGERS. Rogers hereby represents and warrants as of the date hereof and as of the Termination Date as follows:

(a) AUTHORITY. Rogers has the requisite corporate power and authority to execute and deliver this Agreement. This Agreement, and the consummation by Rogers of its obligations contained herein, have been duly authorized by all necessary corporate action of Rogers and the Agreement has been duly executed and delivered by Rogers.

(b) BINDING EFFECT. This Agreement is a valid and binding agreement of Rogers, and is enforceable against Rogers in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally, and general principles of equity.

(c) RETURNED ASSETS. To the extent that Rogers has any interest in the Returned Assets, Rogers has the right, power and authority to transfer the Returned Assets, and the Returned Assets shall be transferred to Yahoo, free and clear of all liens, claims, equities and encumbrances of any type or nature, other than the interests of Yahoo in the Returned Assets.

(d) CONTRACTS AND COMMITMENTS. Except for the Assigned Contracts set forth on EXHIBIT B, neither Rogers nor any of its affiliates, is a party to any contracts, agreements, licenses or commitments which relate to Yahoo Canada, which could prevent or hinder consummation of the transactions contemplated hereby or which could affect Yahoo's title to the Returned Assets or the Assigned Contracts or to Rogers' knowledge after reasonable inquiry, materially affect Yahoo's ability to operate Yahoo Canada. Rogers has provided Yahoo with true and correct copies of all of the Assigned Contracts. Each of the Assigned Contracts is a valid and binding obligation of Rogers and is enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally, and general principles of equity. Rogers is not, and is not aware that any other party to any of the Assigned Contracts is, in breach of the Assigned Contracts, and Rogers is not aware of any facts or circumstances that have occurred which, through the passage of time or the giving of notice, would result in a breach thereof. Except for the Assigned Contracts, Rogers does not have any debts, obligations, liabilities or commitments

of any nature relating to Yahoo Canada which may result in any claim against, or an obligation of, Yahoo.

(e) EMPLOYEES. None of the employees of Rogers who provide services for Yahoo Canada is a party to a collective bargaining agreement, a written employment agreement or an oral agreement which would be binding on Yahoo, with Rogers, or an affiliate of Rogers. To the best of Rogers' knowledge, no such employee is in violation of any term of any proprietary information or nondisclosure agreement, non-competition agreement or any other agreement affecting the relationship between such employee and Rogers. Rogers has no collective bargaining agreement with any of its employees and to the best of Rogers' knowledge, there is no labor union organizing activity pending or threatened, in either case with respect to Rogers' employees who are employed in connection with Yahoo Canada.

(f) LITIGATION. There is no action, suit, proceeding or investigation before any court or before or by any governmental department, agency or authority or before any arbitrator, except for the disputes between the parties hereto under the Affiliation Agreement, of any kind, that is pending or, to the best of Rogers' knowledge, threatened against Rogers relating to Yahoo Canada or which seeks to stay or enjoin the transactions contemplated by this Agreement or materially impair the operations of Yahoo Canada.

(g) CONSENTS. Rogers has not contravened or breached, and Rogers' consummation of, and performance of the obligations under, this Agreement will not cause any contravention or breach of, any laws, regulations, approvals, consents, orders, authorizations, registrations or filings with any governmental agency or third party in any manner or to any extent, that would interfere with, prevent or limit Rogers' performance of its obligations under this Agreement or which could have material adverse effect on the operations of Yahoo Canada.

7.2 REPRESENTATIONS AND WARRANTIES OF YAHOO. Yahoo hereby represents and warrants as of the date hereof and as of the Termination Date as follows:

(a) AUTHORITY. Yahoo has the requisite corporate power and authority to execute and deliver this Agreement. This Agreement, and the consummation by Yahoo of its obligations contained herein, have been duly authorized by all necessary corporate action of Yahoo and the Agreement has been duly executed and delivered by Yahoo.

(b) BINDING EFFECT. Each of this Agreement and the Promissory Note, when executed and delivered, shall be a valid and binding agreement of Yahoo, and is enforceable against Yahoo in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally, and general principles of equity.

(c) LITIGATION. There is no action, suit, proceeding or investigation before any court or before or by any governmental department, agency or authority or before any arbitrator, except for the disputes between the parties hereto under the Affiliation Agreement and applications with respect to Regulatory Consents (as defined in Section 9.4), of any kind, that is

pending or, to the best of Yahoo's knowledge, threatened against Yahoo relating to Yahoo Canada or which seeks to stay or enjoin the transactions contemplated by this Agreement.

(d) CONSENTS. All approvals, consents, orders, authorizations, registrations and filings with any governmental authority or third party required on the part of Yahoo in connection with the valid execution, delivery and performance of this Agreement and the transactions contemplated hereby have been obtained, or will be effective, as of the Termination Date.

8. POST-TERMINATION DATE SERVICES.

8.1 SERVICES BY ROGERS. During the period of time commencing with the Termination Date and ending on the dates set out in Exhibit D or in any event not later than May 31, 1999, for no additional consideration, Rogers shall supply the services to Yahoo set out in EXHIBIT D.

8.2 SERVICES BY YAHOO. During the period of time commencing with the Termination Date and ending on the dates set out in Exhibit D or in any event not later than May 31, 1999, for no additional consideration, Yahoo shall perform the obligations set out in EXHIBIT D.

8.3 COMPANY REPRESENTATIVES. In order to facilitate the provision of services contemplated by Section 8, Yahoo and Rogers hereby appoint Maury Zeff, and Mike Abramsky, or in his absence Brian Segal, as their respective representatives for this purpose. Each of Yahoo and Rogers shall cause such representatives to be available upon reasonable notice to assist in the provision of such Services. All requests for information or services shall be directed to the representative(s) of the party identified in EXHIBIT D.

9. OTHER AFFIRMATIVE COVENANTS.

9.1 ACCESS TO INFORMATION; AUDITS. From and after the date hereof and for a period of six (6) months after the Termination Date, Rogers agrees to permit access to, and shall make available to Yahoo's representatives, the properties, books and records and such other documentation of Rogers relating to the operations of Yahoo Canada as may be reasonably requested by Yahoo to facilitate the transactions contemplated by this Agreement. For a period of six (6) months following the Termination Date, Yahoo shall have the right, upon five (5) business days notice and at its own expense, to audit during regular business hours the books and records of Rogers that are relevant to the royalty payment pursuant to Section 2.2 of this Agreement.

9.2 FURTHER ASSURANCES. Each of the parties hereto shall use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all other things reasonably necessary, proper or advisable to consummate as promptly as practicable the transactions contemplated by this Agreement. Without limiting the generality of the foregoing, each of the parties shall use good faith efforts to provide the services set forth in Section 8, subject to the limitations set forth in Section 16.4.

9.3 REGULATORY MATTERS. Rogers and Yahoo shall each use commercially reasonable efforts to obtain and assist the other party to obtain promptly all U.S. and Canadian regulatory and governmental approvals, consents, authorizations and filings which such other party deems advisable, upon the advice of legal counsel, and of which such party provided written notice prior to the Termination Date ("Regulatory Consents").

9.4 NOTICE OF CLAIMS. In the event that Rogers receives or is provided notice of any claim or threatened suit, action or proceeding prior to the Termination Date that it reasonably believes is likely to rise to the level of any suit, action or proceeding described in Section 13.1(d), Rogers shall provide notice of same to Yahoo as soon as practicable.

9.5 CONFIDENTIALITY OBLIGATIONS. Neither party shall induce or encourage any former employee of the other party to disclose any Confidential Information of the other party, breach any duties or obligations owed to the other party, or breach any non-disclosure, confidentiality or employment agreement of such former employee with the other party.

10. ROGERS' EMPLOYEES. Rogers acknowledges that Yahoo shall not have, and is not under, any obligation to employ any of the Rogers' employees who provide services that relate to Yahoo Canada. Without limiting the generality of the foregoing, Rogers agrees that Yahoo shall not be responsible for performing or satisfying any of the liabilities or obligations of Rogers relating to any employees of Rogers, including, but not limited to, employee benefits, severance or termination payments, arising on or prior to the Termination Date. Rogers further acknowledges, however, that Yahoo may desire, but is not obligated, to employ a limited number of key employees of Rogers' dedicated to Yahoo Canada and listed in EXHIBIT E, and Rogers agrees not to interfere with the employment by Yahoo of such employees listed on EXHIBIT E. Rogers agrees to provide Yahoo with all information relating to the compensation and benefits of the employees listed on EXHIBIT E, including, without limitation, all termination, severance, holiday, vacation, pregnancy and parental leave benefits and accruals related thereto, except to the extent that providing such information would violate confidentiality obligations of Rogers. For greater certainty, nothing in this Agreement shall preclude Rogers from dealing with its employees listed in EXHIBIT E in the normal course, including offering raises and bonuses in the ordinary course of business consistent with past practices. Nothing in this Agreement shall preclude Rogers from attempting to retain any of its employees not listed in EXHIBIT E. All liabilities or obligations relating to any employees of Yahoo who are former employees of Rogers arising after such employee terminates his or her employment with Rogers shall be the responsibility of Yahoo. All liabilities or obligations relating to any employees of Rogers not employed by Yahoo after the Termination Date shall remain the responsibility of Rogers.

11. CONFIDENTIALITY.

11.1 CONFIDENTIALITY COVENANT. All information concerning each party to this Agreement, whether disclosed prior to or after the date hereof, including, without limitation, all commercial, financial, sales, marketing, technological, customer and software information, is deemed to be proprietary and confidential information of the disclosing party ("Confidential Information"). Each party agrees not to disclose or use, other than as required to perform its obligations under this Agreement, the other party's Confidential Information in any manner whatsoever without the prior written consent of the disclosing party. Each of the parties hereto shall cause its officers, directors, employees, representatives and agents ("Representatives") to observe the terms of this Section 11 and will be responsible for any breach of this Section 11 by any of its Representatives. Confidential Information does not include information that (a) is or becomes publicly available other than by disclosure by the receiving party, (b) is or becomes available to the receiving party from a source that is not prohibited from disclosing such information, (c) is or was known to the receiving party prior to receipt of such information by the disclosing party, as evidenced by prior written records of the receiving party, or (d) is required to be disclosed, on the advice of legal counsel, by law, regulation or legal process; provided, where not precluded by law, regulation or legal process, the receiving party provides the disclosing party with reasonable notice of such obligation to allow the disclosing party sufficient time to object. Except for that Confidential Information that the receiving party is required to maintain by law or regulation, such as accounting records, invoices and sales reports, as soon as practicable after the Termination Date, the recipient of any Confidential Information of the other party hereto shall (a) promptly destroy such Confidential Information in its possession or (b) promptly deliver to the disclosing party such Confidential Information, at the option of the disclosing party. In the event of any conflict between this Section 11 and the Affiliation Agreement with respect to obligations of confidentiality prior to the Termination Date, this Section 11 shall prevail.

11.2 CERTAIN ROGERS INFORMATION INCLUDED. The parties agree, confirm and acknowledge that, except as provided in this Section 11.2, all Rogers' customers, subscribers, advertisers and all Canadian market information, and all information concerning such customers, subscribers, advertisers and the Canadian market (including without limitation their identity and the identity of the Yahoo System in their possession, as defined in the Affiliation Agreement), shall be (and is hereby deemed to be) the sole and exclusive property, and confidential information, of Rogers, and shall be included in the definition of Rogers' "Confidential Information" set out in Section 11.1 hereof. Rogers hereby grants Yahoo an unrestricted, perpetual and royalty-free right to use all information provided to Yahoo by Rogers pursuant to this Agreement for its internal commercial purposes.

12. YAHOO INTELLECTUAL PROPERTY. Yahoo retains all rights, title and interest in and to its trade secrets, trademarks, know-how, copyrights, patents, trade dress and other proprietary rights ("Yahoo Intellectual Property") that were licensed to Rogers under the Affiliation Agreement or otherwise a subject of the Affiliation Agreement and nothing contained in the Affiliation Agreement, this Agreement or otherwise shall be deemed to grant Rogers any interest therein. Without limiting the generality of the foregoing, after the date hereof, Rogers shall have

no right to use any of the Yahoo Intellectual Property in any manner whatsoever, except as mutually agreed for purposes of providing services under Section 8. Notwithstanding the foregoing, Yahoo acknowledges that nothing in this Agreement shall preclude Rogers from retaining and using all industry and trade knowledge, know-how and intellectual property of general application which was not acquired or developed by Rogers for the primary purpose of, and primarily in connection with Yahoo Canada or such intellectual property rights, developed by or on behalf of Rogers as Rogers Yahoo Canada Intellectual Property (as defined in the Affiliation Agreement), that are listed on EXHIBIT F attached hereto.

13. CONDITIONS TO CLOSING.

13.1 CONDITIONS PRECEDENT TO OBLIGATIONS OF YAHOO. The obligations of Yahoo to consummate the transactions contemplated under this Agreement shall be subject to the satisfaction or waiver of the following conditions prior to or as of the Termination Date:

(a) UNDISCLOSED LIABILITIES. There shall be no liability of Rogers, contingent or otherwise, other than the Assigned Contracts, which would become material obligations of Yahoo as a result of the transactions contemplated hereby.

(b) CONSENTS. All material consents or authorizations required pursuant to the Assigned Contracts shall have been obtained.

(c) LITIGATION. There shall not be any injunction, court order or order of an administrative tribunal (A) staying or enjoining the transactions contemplated by this Agreement, including, without limitation, Yahoo's ownership rights relating to Yahoo Canada or the Returned Assets or (B) otherwise materially impairing the operations of Yahoo Canada.

(d) URL. Rogers shall have caused Yahoo Communications, Inc. to convey, or if unable to do so as contemplated in Section 6 hereof, to license, the URL "yahoo.ca" to Yahoo, or an affiliate or designee of Yahoo, and to change its corporate name such that there is no reference to the name Yahoo or any confusingly similar variant.

(e) ROYALTY PAYMENTS. Yahoo shall have received the first of the royalty payments set forth in Section 2.2 of this Agreement.

13.2 CONDITIONS PRECEDENT TO OBLIGATIONS OF ROGERS. The obligations of Rogers to consummate the transactions contemplated under this Agreement shall be subject to the satisfaction or waiver of the following conditions prior to or as of the Termination Date:

(a) LITIGATION. There shall not be any injunction, court order or order of an administrative tribunal staying or enjoining the transactions contemplated by this Agreement.

(b) PAYMENTS BY YAHOO. Rogers shall have received the first installment of the Termination Fee and the Promissory Note, or payment in lieu thereof, in the

amount of the second installment of the Termination Fee.

14. **TERMINATION.** This Agreement shall terminate upon the earliest of (a) at the option of Rogers, the failure to satisfy any of the conditions set forth in Section 13.2 hereof as of the Termination Date, or (b) at the option of Yahoo, the failure to satisfy any of the conditions set forth in Section 13.1 hereof as of the Termination Date. Upon termination of this Agreement for any reason (i) Yahoo and Rogers shall each continue to be bound by the terms of the Affiliation Agreement, and each party shall perform its respective obligations thereunder, as such obligations existed immediately prior to the execution of the Letter Agreement; and (ii) either party may proceed with the dispute resolution process requirements of the Affiliation Agreement with respect to the Disputes (as defined in Section 15 below).

15. **DISPUTE RESOLUTION PROCESS.** Yahoo and Rogers agree that the dispute resolution process requirements of the Affiliation Agreement with respect to the disputes (the "Disputes") set forth in Rogers' letter of December 8, 1998 and Yahoo's letter of December 9, 1998 are suspended and that neither party shall take any additional steps or proceedings to prosecute such Disputes, or to otherwise pursue the Disputes under the provisions of the Affiliation Agreement, during the term of this Agreement. In the event of a termination of this Agreement for any reason, either party may proceed with the dispute resolution process set forth in the Affiliation Agreement regarding the Disputes. Upon consummation of the transactions contemplated by this Agreement, the arbitration proceedings initiated under the Affiliation Agreement with respect to the Disputes shall irrevocably terminate.

16. **LIABILITY**

16.1 **INDEMNIFICATION BY ROGERS.** Rogers shall indemnify and hold harmless Yahoo against any and all losses, liabilities, claims and expenses, including reasonable attorneys' fees and costs ("Losses"), sustained by Yahoo resulting from, arising out of, or in connection with (i) any material inaccuracy in, breach of, or non-fulfillment of any representation, warranty, covenant or other obligation of Rogers contained in this Agreement, (ii) any liability or obligation of Rogers not specifically assumed by Yahoo or (iii) any claim by a third party or governmental or regulatory authority relating to the period prior to the Termination Date and in respect of which Rogers would have been required to indemnify Yahoo under subsection 5.2(2) of the Affiliation Agreement if that Agreement were not terminated; provided that the indemnification procedures and any remedies to enforce such obligations shall be governed solely by this Agreement.

16.2 **INDEMNIFICATION BY YAHOO.** Yahoo shall indemnify and hold harmless Rogers against any and all Losses sustained by Rogers resulting from, arising out of, or in connection with (i) any material inaccuracy in, breach of, or non-fulfilment of any representation, warranty, covenant or agreement made by or other obligation of Yahoo contained in this Agreement and/or the Promissory Note, (ii) Yahoo's failure to satisfy or otherwise discharge any obligations under the Assigned Contracts after the Termination Date, (iii) any claim by a third party or governmental or regulatory authority relating to Yahoo's operation of Yahoo Canada after the Termination Date, (iv) any claim by a third party or

governmental or regulatory authority relating to the period prior to the Termination Date and in respect of which Yahoo would have been required to indemnify Rogers under subsection 5.2(1) of the Affiliation Agreement if that Agreement were not terminated, provided that the indemnification procedures and any remedies to enforce such obligations shall be governed solely by this Agreement, and (v) any actual or threatened claim that the performance by Rogers of its obligations under this Agreement after the Termination Date, infringes, breaches, or harms in any manner or to any extent the Intellectual Property Rights (as that term is defined in the Affiliation Agreement) of any other person, provided Rogers acts in a commercially reasonable manner.

16.3 PROCEDURES. In the event any third party asserts any claim with respect to any matter as to which the indemnities in this Agreement relate, the party against whom the claim is asserted (the "Indemnified Party") shall give prompt notice to the other party (the "Indemnifying Party"), and the Indemnifying Party shall have the right at its election to take over the defense or settlement of the third party claim at its own expense by giving prompt notice to the Indemnified Party. If the Indemnifying Party does not give such notice and does not proceed diligently so to defend the third party claim within 30 days after receipt of the notice of the third party claim, the Indemnifying Party shall be bound by any defense or settlement that the Indemnified Party may make as to those claims and shall reimburse the Indemnified Party for its losses and expenses related to the defense or settlement of the third party claim. The parties shall cooperate in defending against any asserted third party claims. For purposes of this Section 16, the indemnification of the Indemnified Party shall also include the indemnification of the Indemnified Party's employees, agents, affiliates, and third parties performing services for the Indemnified Party.

16.4 LIMITATION OF LIABILITY. Any claim under this Agreement with respect to any breach of warranty by either party must be brought within eighteen months of the Termination Date. Rogers and Yahoo each agree that each party's liability to the other party for any and all direct harm, liability, expense, cost, loss or damage, whether in negligence, tort, equity, contract or otherwise, arising out of, or in connection with, this Agreement shall be strictly limited in the aggregate, in respect of each and all incidences or occurrences, to US\$18 million, provided that Rogers' liability arising out of, or in connection with Section 8.1 shall be strictly limited in the aggregate to US\$500,000. EXCEPT WITH RESPECT TO THE PROVISIONS OF SECTIONS 16.1 AND 16.2 HEREOF, UNDER NO CIRCUMSTANCES WILL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, THIRD PARTY, SPECIAL, INCIDENTAL, CONSEQUENTIAL OR EXEMPLARY EXPENSES, COSTS, LIABILITY, LOSS, OR DAMAGE WHATSOEVER (EVEN IF THAT PARTY HAS BEEN ADVISED OF SUCH DAMAGES.)

17. PUBLICITY. Neither party to this Agreement shall publicly disclose the existence or nature of this Agreement without the consent of the other party, which shall not be unreasonably withheld; provided, however, that either party may, without the prior consent of the other party, issue a press release or otherwise publicly disclose this Agreement if, upon the advice of legal counsel, such disclosure is required by law or the rules or regulations governing the securities exchange on which such party's securities are registered for trading; provided further, however,

that such party shall use its best efforts to provide twenty-four (24) hours prior notice of such required release.

18. MISCELLANEOUS.

18.1 GOVERNING LAW; VENUE. This Agreement will be governed by and construed in accordance with the laws of the State of New York applicable to contracts between residents of that State and executed in and to be performed in that State. The parties hereto agree that any claim, suit or action brought to enforce the terms of this Agreement shall be brought in the State of New York before a judge alone and the parties hereby consent to the personal jurisdiction of such State.

18.2 ENTIRE AGREEMENT. This Agreement and the exhibits hereto constitute the entire agreement between the parties hereto relating to the subject matter hereof and shall supersede and replace in its entirety the Letter Agreement. There are not and shall not be any oral statements, representations, warranties, undertakings or agreements between the parties.

18.3 AMENDMENTS; WAIVER. This Agreement may not be amended or modified in any respect except by written instrument signed by the parties hereto. No waiver of any provision of this agreement or any breach hereunder shall be valid or effective unless such waiver is set forth in writing and signed by the party giving such waiver; and no such waiver shall be deemed a waiver of any subsequent breach of the same or similar nature or any other breach of the other party.

18.4 COUNTERPARTS. This Agreement may be executed in several counterparts which shall constitute one agreement. Facsimile signatures shall be binding.

18.5 ASSIGNMENT. This Agreement may not be assigned without the written consent of the parties hereto; provided, however, that either party shall be entitled to assign its rights hereunder, in whole or in part, to one or more of its affiliates. This Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the parties hereto.

18.6 ATTORNEYS' FEES. Should any lawsuit, action or proceeding be brought to enforce the rights or obligations relating to this Agreement, the prevailing party shall be entitled to be reimbursed by the other party for all reasonable attorneys' fees, expenses and costs incurred as a result thereof.

18.7 SEVERABILITY. In case any provision of this Agreement shall be invalid, illegal or unenforceable, it shall, to the extent practicable, be modified so as to make it valid, legal and enforceable and to retain as nearly as practicable the intent of the parties, and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

18.8 NOTICES. All notices and other communications required or permitted

hereunder shall be in writing and shall be deemed effectively given upon personal delivery, one day following mailing by a reputable overnight courier or by facsimile transmission with confirmation of receipt or five business days following mailing by registered or certified mail addressed: (i) if to Yahoo, 3420 Central Expressway, Santa Clara, California 95051, facsimile number (408) 731-3400, attn: Heather Killen and Douglas P. Feick, or (ii) if to Rogers, 777 Bay Street, Toronto, Canada M5W 1A7, facsimile number (416) 593-3175, attn: Timothy Root, with a copy to 333 Bloor Street East, 10th Floor, Toronto, Ontario, Canada, M4W 1G9, facsimile number: (416) 935-3548, attn: David Miller, or at such other address or facsimile number as either Yahoo or Rogers shall have furnished to the other party.

18.9 MUTUAL DRAFTING. Each party has cooperated in the negotiations, drafting, and preparing of this Agreement. Therefore, no provision of this Agreement shall be construed against any party by reason of the fact that such party or its legal counsel was the draftsman of such provision.

18.10 HEADINGS. The headings of the paragraphs of this Agreement are included for purposes of convenience only and shall not affect the interpretation of any of its provisions.

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed by officers duly authorized as of the date first written above.

YAHOO! INC.

By: _____

Its: _____

ROGERS MEDIA INC.

By: _____

Its: _____

By: _____

Its: _____

EXHIBIT A

FORM OF PROMISSORY NOTE

FOR VALUE RECEIVED, Yahoo! Inc. hereby promises to pay to or to the order of Rogers Media Inc. on or before April 1, 1999 the principal amount of \$9,000,000, in lawful money of the United States of America, together with any interest accrued thereon as hereinafter provided.

The principal amount under this promissory note (the "Note") remaining unpaid and outstanding from time to time shall bear interest from and after the business day following April 1, 1999, at a rate equal to the Prime Rate plus one percent per annum, compounded and payable monthly in arrears on the last business day of each month. All compounded interest hereunder remaining unpaid and outstanding from time to time shall bear interest at the same rate and shall be compounded in the same manner as the unpaid principal amount hereof. Such interest shall accrue on a day-to-day basis.

For the purposes of this Note, "Prime Rate" shall mean a rate per annum equal to the annual variable rate of interest quoted or published from time to time as the prime rate of interest charged by the Royal Bank of Canada for commercial loans in United States dollars made by it in Canada.

The whole or any part of the principal amount of this Note may be prepaid by the undersigned at any time or from time to time without notice, bonus or penalty of any kind.

The undersigned hereby waives presentment for payment, notice of non-payment, protest and notice of protest and hereby agrees to pay all reasonable costs and expenses (including all reasonable legal costs) paid or incurred in collecting any amount due and payable hereunder after demand for payment thereof has been made.

This Note shall enure to the benefit of the holder hereof and its successors and assigns and shall be binding on the undersigned and its successors and assigns.

This Note shall be governed by and construed and enforced in accordance with the laws of the State of New York and the federal laws of the United States of America applicable therein. The undersigned hereby attorns to the non-exclusive jurisdiction of the courts of the State of New York.

DATED as of the ____th day of _____, 1999.

YAHOO! INC.

By: _____

Its: _____

EXHIBIT B

ASSIGNED CONTRACTS

- - Linking Agreement between Rogers and Microsoft Network, LLC, dated January 23, 1998. (The consent to assignment required pursuant to this Agreement shall not be a material consent for the purposes of Section 13 hereof).
- - Advertising and Insertion Orders set forth on Schedule 1 attached hereto, together with such additional advertising orders for Yahoo Canada that may be entered into up to the Termination Date.

SCHEDULE 1
TO EXHIBIT B

INSERTION ORDER

\$

[illegible][illegible]
$$\begin{array}{c} \text{---} \\ \text{[*]} \\ \text{---} \\ \text{---} \end{array}$$

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[*] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY
WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT
TO THE OMITTED PORTIONS.

EXHIBIT C

RETURNED ASSETS

- - URL (www.yahoo.ca) for Yahoo Canada
- - Products and merchandise that incorporate Yahoo brand features.

EXHIBIT D

POST-TERMINATION SERVICES/OBLIGATIONS

COORDINATORS:

ROGERS COORDINATORS. Questions and requests for information from Yahoo! Inc. ("Yahoo") should be directed in writing, whether by e-mail or facsimile, first to [*] and then to the following representatives from Rogers Media Inc. ("Rogers"):

- Technical issues for platform, DNS, hosting, etc.: [*]
- Technical issues for content feeds and content partners: [*]
- Sales, ad serving and insertion order issues: [*]
- Financial reconciliation issues: [*]
- All other general issues: [*]

YAHOO COORDINATORS. Questions and requests for information from Rogers should be directed by email (or in writing, if necessary, by facsimile), to [*] and to the following representatives from Yahoo! Inc. ("Yahoo"), as applicable:

- Technical, hosting and engineering issues: [*]
- Sales, ad serving and insertion order issues: [*]
- Financial issues: [*]
- Content and production issues: [*]
- Marketing, PR and communication issues: [*]; and
- All other general issues: [*].

OBLIGATIONS OF YAHOO AND ROGERS:

HOSTING:

ROGERS OBLIGATIONS:

- Rogers shall, until two weeks after Rogers has sent written authorization to the Canadian domain registry to transfer "www.yahoo.ca" to Yahoo, continue operating and maintaining "www.yahoo.ca" in the ordinary course of business, consistent with past practices, and agrees to use commercially reasonable efforts not to cause any disruptions or cessation of Yahoo's services in Canada.
- Rogers will assist in the switchover in terms of file transfer assistance, remote machine access, and any other server aid required during this switchover. Any such

[*] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

requests for assistance shall be sent in writing to the appropriate Coordinator for Rogers. Rogers will use reasonable efforts to respond to requests in a timely fashion.

- Except as may be required by law or regulation, Rogers will permanently remove and destroy all Confidential Information of Yahoo in its possession within 10 business days after its servers are switched off, but in any event no later than March 31, 1999. Rogers will provide Yahoo with a letter confirming such removal and destruction.
- Rogers will assist in the transfer of "www.yahoo.ca" to Yahoo, including providing its assent to the CA Domain Registrar requesting the transfer of the "www.yahoo.ca" domain from Yahoo Communications Inc. to a Canadian corporation owned by Yahoo. As soon as practicable, Rogers shall send written authorization to the Canadian domain registry to transfer "www.yahoo.ca" to Yahoo.

YAHOO OBLIGATIONS:

- Yahoo shall be responsible for the set up and operations of its servers.
- Yahoo shall be responsible for the transfer of the "www.yahoo.ca" domain to Yahoo and the transition and propagation of the IP address through the Internet; provided that Rogers shall provide its assent to the transfer as soon as practicable.
- Except as may be required by law or regulation or as otherwise provided in the Termination Agreement, Yahoo will permanently remove and destroy all Confidential Information of Rogers in its possession within 10 business days after the transfer of the URL, but in any event no later than March 31, 1999. Yahoo will provide Rogers with a letter confirming such removal and destruction.

AD SERVING AND SALES:

ROGERS OBLIGATIONS:

- On the Termination Date, Rogers shall provide a final sales reports for each account up to March 1, 1999.
- On the Termination Date, Rogers shall provide a list of current, active 'high-level' prospects to Yahoo up to March 1, 1999.
- Rogers shall provide a final sales report for each current account on the Termination Date. In addition, within 15 days of the Termination Date, Rogers shall provide a list of accounts, together with any available contact information, that were approached during the previous 12 month period by Rogers personnel assigned to sell advertising on Yahoo Canada and for which Rogers has maintained a written record (e.g., ACT information maintained by [*] and [*]). For the period from the Termination Date to March 31, 1999, to the extent Yahoo requires any additional explanation about specific accounts, Rogers will attempt to answer any questions directed to the appropriate Coordinator on a timely basis.

YAHOO OBLIGATIONS

- From the date of transition of the ad serving operations from Rogers to Yahoo, but in any event no later than the Termination Date, Yahoo shall be responsible for ad

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serving, including ensuring the correct content and placement of all advertising on the site.

- Following the Termination Date, Yahoo shall be responsible for all sales activities and pre-sales and post-sales communications with advertising customers.

BILLING, RECONCILIATION, FINANCE:

ROGERS OBLIGATIONS:

- Rogers shall have billed all accounts to the end of February, and will prepare a final reconciliation of accounts, costs and royalty obligations as of February 15, 1999 and the Termination Date, so that Yahoo receives the appropriate portion of royalties (determined on the basis of number of days) up to the Termination Date, for which purposes account shall be taken of any "net loss" of Rogers, as contemplated by Section 2.2 of the Termination Agreement. Rogers shall provide a complete accounting of any such "net losses" and the calculation of the amounts payable to Yahoo.
- Rogers shall provide to Yahoo complete copies of all current, active advertising and insertion orders and all creative and other salient information regarding such advertising and insertion orders.
- As soon as practicable, but in any event no later than March 31, 1999, Rogers shall provide Yahoo with the following financial materials. For the period from the Termination Date until March 31, 1999, to the extent Yahoo requires any additional explanation regarding the financial materials, Rogers will attempt to answer any questions directed to the appropriate Coordinator on a timely basis.
 1. Listing of all invoices by month from inception to Termination Date.
 2. Listing of all cash receipts from inception to Termination Date.
 3. Listing of all adjustments and bad debts from inception to Termination Date.
 4. Overall proof and reconciliation of accounts receivable balance and royalty revenues.
 5. Detail of any unbilled receivables, if any, as of the Termination Date.
 6. Detail of current deferred revenue (unmet page view obligations, prepaid campaigns) as of the Termination Date.

YAHOO OBLIGATIONS:

- Yahoo shall be responsible for all subsequent billing of accounts from and after March 1, 1999.

CONTENT:

YAHOO OBLIGATIONS:

- From the date of transition of the site hosting operations from Rogers to Yahoo, Yahoo shall be responsible for all content on Yahoo Canada site.

STAFF, RETURNED ASSETS AND OTHER MATTERS:

ROGERS OBLIGATIONS:

- Rogers will arrange to redirect in a timely manner to Yahoo any correspondence, email, payments or other materials it receives in respect of Yahoo Canada after the Termination Date.
- As soon as practicable following the Termination Date, Rogers shall send the tangible Returned Assets to The Exchange Tower, 1800-130 King Street West, Office #1871, Toronto, Ontario M5X 1E3. Rogers shall provide notice to Yahoo prior to shipment.

YAHOO OBLIGATIONS:

- Yahoo will arrange to redirect to Rogers in a timely manner any correspondence, email, payments or other materials its receives through the "www.yahoo.ca" site or otherwise after the Termination Date that relates to Rogers or to Yahoo Canada prior to the Termination Date.

EXHIBIT E

KEY YAHOO CANADA EMPLOYEES

[*]
[*]
[*]
[*]
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[*]

[*] CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

EXHIBIT F

ROGERS YAHOO CANADA INTELLECTUAL PROPERTY

All industry and trade knowledge, know-how and intellectual property of general application which was not acquired or developed by Rogers for the primary purpose of, and primarily in connection with Yahoo Canada, and the following modifications, revisions, additions, customizations and enhancements made by Rogers to the Yahoo Internet Directory pursuant to the Affiliation Agreement:

- Application software for parsing Canadian Press news feed
- Today's News
- Weekly Picks
- NHL
- Holiday Shop Online

After execution of this Agreement and prior to the Termination Date, Yahoo shall perform a review of the Rogers Yahoo Canada Intellectual Property (as defined in the Affiliation Agreement), together with other Rogers intellectual property associated and used with Yahoo Canada, to determine its applicability in connection with the maintenance and operation of Yahoo Canada. In the event that Yahoo determines, at any time within one month after the Termination Date, that any such Rogers Yahoo Canada Intellectual Property or other Rogers intellectual property associated and used with Yahoo Canada is reasonably necessary for the maintenance and operation of Yahoo Canada, then as of the Termination Date Rogers shall grant to Yahoo a non-exclusive, perpetual royalty-free license to use same for maintenance and operation of Yahoo Canada following the Termination Date. THE FOREGOING LICENSES SHALL BE PROVIDED "AS IS", AND ROGERS HEREBY DISCLAIMS ALL WARRANTIES, EXPRESS, IMPLIED OR STATUTORY, WITH RESPECT TO THE FOREGOING INTELLECTUAL PROPERTY, INCLUDING, BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE YAHOO!
INC. FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 1999 AND IS QUALIFIED IN ITS
ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS		
	DEC-31-1999	
	JAN-01-1999	
	MAR-31-1999	
		184,463
		251,858
		32,701
		5,825
		0
	472,321	
		30,271
	10,346	
	791,679	
102,094		
		0
0		
		0
		24
	683,545	
791,679		
		0
	86,064	
		0
		9,697
	55,714	
	0	
	0	
	26,943	
	10,508	
16,435		
	0	
	0	
		0
	16,435	
	0.08	
	0.07	

reflects basic EPS according to SFAS 128