

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

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

DATE OF REPORT: July 20, 1999

YAHOO! INC.
(Exact name of registrant as specified in its charter)

0-26822
(Commission File Number)

3420 CENTRAL EXPRESSWAY
SANTA CLARA, CALIFORNIA 95051
(Address of principal executive offices, with zip code)
(408) 731-3300
(Registrant's telephone number, including area code)

The
Registrant hereby amends and restates its Report on Form 8-K filed with the Securities and Exchange Commission on July 20, 1999.

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On July 20, 1999, Yahoo! completed the acquisition of broadcast.com inc. ("broadcast.com"). A copy of the press release is included herein as Exhibit 99.1 and is incorporated by reference into this Item 2.

Attached
as Exhibit 99.2 are the consolidated financial statements for the six months ended June 30, 1999 and 1998 and the three years ended December 31, 1998 and the accompanying notes which reflect Yahoo!'s financial position and the results of operations as if broadcast.com was a wholly-owned subsidiary of Yahoo! since inception.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(c) EXHIBITS.

DELAWARE
(State or other jurisdiction of
incorporation or organization)

77-0398689
(I.R.S. Employer Identification No.)

*
Previously
filed.

SIGNATURES

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

99.1* Press Release dated July 20, 1999.
99.2 Consolidated Financial Statements of Yahoo! Inc.

YAHOO! INC.

INDEX TO EXHIBITS

YAHOO! INC.

Date: December 22, 1999

By: /s/ GARY VALENZUELA

Gary Valenzuela

Senior Vice President, Finance and Administration, and Chief
Financial Officer

*
Previously
filed.

QuickLinks

[ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS](#)

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EXHIBIT
99.2

YAHOO! INC.

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Exhibit Number	Description
99.1*	Press Release dated July 20, 1999.
99.2	Consolidated Financial Statements of Yahoo! Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Except for historical information, the discussion in this report (including, without limitation, the discussion under the headings "Results of Operations") contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, risks discussed under the caption "Risk Factors" in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1999 (A copy of which is available at www.sec.gov or upon request from the Company).

Overview

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. 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. Yahoo! was subsequently reincorporated on May 18, 1999 under the laws of Delaware. 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 October 20, 1997, the Company completed the acquisition of Four11 Corporation ("Four11"), a privately-held online communications and Internet directory company. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 6,022,880 shares of Yahoo! Common Stock for all of Four11's outstanding shares and assumed 593,344 options and warrants to purchase Yahoo! Common Stock. During the quarter ended December 31, 1997, the Company recorded a one-time charge of \$3.9 million for the acquisition. These costs consisted of investment banking fees, legal and accounting fees, redundancy costs, and certain other expenses directly related to the acquisition.

On June 10, 1998, the Company completed the acquisition of all outstanding shares of Viaweb Inc. ("Viaweb"), a provider of software and services for hosting online stores, through the issuance of 1,574,364 shares of Yahoo! Common Stock. All outstanding options to purchase Viaweb common stock were converted into options to purchase 244,504 shares of Yahoo! Common Stock. 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 is allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition. Results of operations for Viaweb have been included with those of the Company for periods subsequent to the date of acquisition.

The total purchase price of the acquisition was \$48.6 million including acquisition expenses of \$1.8 million. Of the purchase price, \$15.0 million was assigned to in-process research and development and expensed upon the consummation of the acquisition. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as determined by the Company and pursuant to discussions with the Staff of the Securities and Exchange Commission (the "Staff").

Among the factors considered in discussions with the Staff in determining the amount of the allocation of the purchase price to in-process research and development were various factors such as estimating the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenues generated from such projects, and discounting the net cash flows, in addition to other assumptions. The remaining identified intangibles, including the value of purchased technology and other intangibles, will be amortized on a straight-line basis over three and seven years, respectively. Amortization expense of purchased technology and other intangible assets was \$2.9 million and \$2.0 million, respectively, for the year

ended December 31, 1998. In addition, other factors were considered in discussions with the Staff in determining the value assigned to purchased in-process technology such as research projects in areas supporting the online store technology (including significant enhancement to the ability of the product to support multiple users and multiple servers), developing functionality to support the ability to process credit card orders, and enhancing the product's user interface by developing functionality that would allow the product to be used outside of the United States. If none of these projects is successfully developed, the Company's sales and profitability may be adversely affected in future periods. Additionally, the failure of any particular individual project in-process could impair the value of other intangible assets acquired. The Company began to benefit from the purchased in-process technology in late 1998.

Yahoo! is continuing the development efforts associated with online store technology, credit card processing and to a lesser extent international functionality. The development efforts with respect to the online store technology and credit card processing are on schedule with Yahoo!'s original assumptions with various features having been introduced as of December 31, 1998. Given the complexities of completing the international functionality, Yahoo! continues to make progress in the development of these features and now expects to be substantially complete by the fourth quarter of 1999.

On July 17, 1998, the Company completed the acquisition of WebCal Corporation ("WebCal"), a privately-held developer and marketer of Web-based calendaring and scheduling products, and publisher of EventCal, a comprehensive database of world-wide public events. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 541,908 shares of Yahoo! Common Stock for all of WebCal's outstanding shares. The historical operations of WebCal are not material to the Company's financial position or results of operations, therefore, prior period financial statements have not been restated for this acquisition.

In August 1998, the Company completed the purchase of certain Web-page development technology from Compu-Trak, Inc. for a total consideration of \$1.6 million, including \$850,000 in cash and 23,894 shares of Common Stock. During the year ended December 31, 1998, \$300,000 was recorded as purchased in-process research and development. The purchased technology is classified as property and equipment and is being amortized over one year.

On October 20, 1998, the Company acquired Yoyodyne Entertainment, Inc. ("Yoyodyne"), a privately-held, direct marketing services company. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 561,244 shares of Yahoo! Common Stock and options and warrants to purchase Yahoo! Common Stock for all of Yoyodyne's outstanding shares, options, and warrants. During October 1998, the Company recorded a one-time charge of \$2.1 million for acquisition-related costs. These costs consisted of broker fees, legal and accounting fees, and certain other expenses directly related to the acquisition.

In November 1998, the Company acquired SimpleNet, a provider of inexpensive Web site hosting services to consumers and small businesses. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 634,453 shares of Yahoo! Common Stock for all of SimpleNet's outstanding shares. The Company recorded a one-time charge of \$1.5 million for acquisition related costs. The costs consisted of broker fees, legal and accounting fees, and certain other expenses directly related to the acquisition.

On December 17, 1998, the Company completed the acquisition of all of the outstanding shares of HyperParallel, Inc. ("HyperParallel"), a company specializing in data analysis, through the issuance of 74,856 shares of Yahoo! Common Stock and approximately \$700,000 of cash totaling \$8.1 million including acquisition costs. The acquisition was accounted for as a purchase in accordance with APB 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 the acquisition. Results of

operations for HyperParallel have been included with those of the Company for periods subsequent to the acquisition.

Approximately \$2.3 million of the total purchase price was allocated to in-process research and development. This amount was developed by estimating the stage of development of each in-process research and development project at the date of the acquisition, estimating incremental cash flows generated from such projects, and discounting the net cash flows back to their present value using a discount rate of 35%, which represents a premium to the Company's cost of capital to take into account the uncertainty surrounding the successful development of the purchased in-process technology. The projections were based on management's estimates of market size and growth, expected trends in advertising and technology, expected research and development and selling and general administrative expenditures, and the expected timing of new product introductions. Approximately \$1.2 million of the total purchase price was allocated to existing technology which is being amortized over 3 years. The value of the existing technology was developed based on similar assumptions using a discount rate of 25%. The projections used in developing the values should not be considered an accurate predictor of future performance for several reasons, including the consideration of many factors outside the control of the Company. The remaining purchase price of approximately \$4.6 million was allocated to goodwill which is being amortized over 7 years. Tangible assets acquired and liabilities assumed were not material to the Company's financial statements.

The value assigned to purchased in-process technology was determined by identifying three research projects in-progress as of the acquisition date. These three research projects in-progress focus on technologies surrounding search tools. Two of the application oriented development projects were 70% and 20% complete as of the acquisition date. The first project has been completed and the second project is expected to be completed in the fourth quarter of 1999. The remaining project relates to the next release of the current search tool which was approximately 20% complete as of the acquisition date and is expected to be completed in the fourth quarter of 1999. Future research and development costs to be incurred on the individual in-process projects are not expected to be material to Yahoo!'s financial position or results of operations. In addition, if none of these projects were successfully developed, Yahoo!'s revenues and profitability would not be materially adversely affected.

In December 1998, the Company completed the acquisition of all the outstanding shares of Starseed, Inc. ("Starseed"), a developer of technology that enables the linking of topically related Web sites, through the issuance of 370,036 shares of Common Stock, approximately \$2 million in cash and the forgiveness of \$600,000 of debt. All outstanding options to purchase Starseed common stock were converted into options to purchase 145,512 shares of the Company's common stock.

The total purchase price of the acquisition was \$24.8 million. The acquisition was accounted for as a purchase in accordance with the provisions of APB 16 with the excess purchase price over the fair value of net assets acquired being recorded as goodwill. The purchase price was allocated to the assets acquired and the liabilities assumed based on their estimated fair values. Approximately \$1.2 million of the purchase price was allocated to purchased technology which is being amortized on a straight-line basis over one year and approximately \$24 million was allocated to goodwill which is being amortized on a straight-line basis over three years. The results of operations for Starseed are included with those of the Company's for the period subsequent to the date of acquisition.

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 APB 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 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 which was settled 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.

In March 1999, the Company completed the acquisition of Net Roadshow, Inc., a provider of Internet initial public offerings and other financial roadshow services. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 717,446 shares of Yahoo! Common Stock for all of Net Roadshow's outstanding shares.

On May 26, 1999, the Company acquired Encompass, a developer of consumer Internet access software. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 695,128 shares of Yahoo! Common Stock for all the Encompass outstanding common stock. Additionally, Yahoo! converted all outstanding Encompass stock options into approximately 110,000 Yahoo! stock options.

On May 28, 1999, the Company completed its acquisition of GeoCities, a publicly traded Internet company that offers a community of personal Web sites on the Internet within themed, online neighborhoods. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 21,640,342 shares of Yahoo! Common Stock for all the outstanding GeoCities common stock. Additionally, Yahoo! converted approximately 8,432,000 GeoCities stock options into approximately 5,707,000 Yahoo! stock options. In the second quarter of 1999, the Company recorded nonrecurring expenses of \$55 million relating to costs incurred with this transaction. The costs include investment banking and financial advisory fees of approximately \$39 million and other merger related expenses totaling \$16 million consisting of professional services; severance costs which relate to

termination of certain employees with redundant job functions in substantially all functional areas; closing costs of certain duplicate and redundant operating and sales facilities as well as the write-off of certain related fixed assets and leasehold improvements associated with the severance and closure activities; termination fees related to contracts which provide certain services to GeoCities which are redundant to certain pre-existing Yahoo! services; and other merger related expenses.

On May 28, 1999, the Company acquired Online Anywhere, a provider of Web delivery solutions for non-PC appliances. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 453,185 shares of Yahoo! Common Stock for all the Online Anywhere outstanding common stock. Additionally, Yahoo! converted all outstanding Online Anywhere stock options into approximately 87,000 Yahoo! stock options.

On July 20, 1999, the Company completed its acquisition of broadcast.com, a publicly traded Internet company and leading aggregator and broadcaster of streaming audio and video programming on the Web. Under the terms of the acquisition, which was accounted for as a pooling of interests, the company exchanged approximately 28,647,000 shares of Yahoo! Common Stock for all of the broadcast.com outstanding common stock. Additionally, the Company converted options to purchase approximately 6,778,000 shares of broadcast.com common stock into options to purchase approximately 5,234,000 shares of Yahoo! Common Stock. The Company expects to record a one-time charge in the third quarter of 1999 of approximately \$22.1 million relating to expenses incurred in conjunction with this transaction. These costs include estimated investment banking and financial advisory fees of approximately \$14 million and other estimated merger related expenses totaling \$8.1 million consisting of professional services; severance costs related to termination of certain employees with redundant job functions in certain functional areas; securities registration fees; and other merger related expenses.

The consolidated financial statements and the accompanying notes reflect the Company's financial position and results of operations as if Four11, Yoyodyne, SimpleNet, Net Roadshow, Encompass, GeoCities, Online Anywhere and broadcast.com were wholly-owned subsidiaries of the Company since inception.

The Company's revenues are derived principally from the sale of banner and sponsorship advertisements. The Company's standard rates for banner advertising currently range from approximately \$6.00 per thousand impressions for run of network to approximately \$90.00 per thousand impressions for highly targeted audiences and properties. To date, the duration of the Company's banner advertising commitments has ranged from one week to two years. Sponsorship advertising contracts have longer terms (ranging from three months to three years) than standard banner advertising contracts and also involve more integration with Yahoo! services, such as the placement of buttons that provide users with direct links to the advertiser's Web site. Advertising revenues on both banner and sponsorship contracts are recognized ratably over the period in which the advertisement is displayed, provided that no significant Company obligations remain at the end of a period and collection of the resulting receivable is probable. Company obligations typically include guarantees of minimum number of "impressions," or times that an advertisement appears in pages viewed by users of the Company's online properties. To the extent minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues until the remaining guaranteed impression levels are achieved. The Company also earns revenue from development fees, business services, electronic commerce transactions, barter transactions, and membership programs. Revenue from development fees represents fees relating to the design, coordination, and integration of customers' content and links into Yahoo! online media properties. These development fees are recognized as revenue once the related activities have been performed and the customer's Web links are available on Yahoo! online media properties. Business services revenues include fees for broadcasting live and on-demand events as well as hosting services and are recognized in the month in which the service is performed, provided that no significant Company obligations remain and collection of the resulting receivable is probable. Revenues from electronic commerce transactions are recognized by the

Company upon notification from the advertiser of revenues earned by Yahoo!. Revenues from barter transactions are recognized during the period in which the advertisements are displayed in Yahoo! properties. Barter transactions are recorded at the fair value of the goods or services provided or received, whichever is more readily determinable in the circumstances. Revenues from certain membership programs are recognized on a monthly basis as the fees are earned. To date, revenues from development fees, business services, electronic commerce transactions, barter transactions, and membership programs have each been less than 10% of net revenues.

In August 1996, the Company entered into agreements with Visa International Service Association ("VISA") and another party (together, the "Visa Group") to establish a limited liability company, Yahoo! Marketplace L.L.C., to develop and operate a navigational service focused on information and resources for the purchase of consumer products and services over the Internet. During July 1997, prior to the completion of significant business activities and public launch of the property, the Company and VISA entered into an agreement under which the Visa Group released the Company from certain obligations and claims. In connection with this agreement, Yahoo! issued 2,797,924 shares of Yahoo! Common Stock to the Visa Group, for which the Company recorded a one-time, non-cash, pre-tax charge of \$21.2 million in the second quarter ended June 30, 1997.

Results of Operations for the Six Months Ended June 30, 1999 and 1998

Net Revenues

Net revenues were \$232.4 million for the six months ended June 30, 1999, a 166% increase from \$87.5 million during the first six months 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 2,800 customers advertised on the Company's online media properties during the quarter ended June 30, 1999 as compared to approximately 1,900 during the same period of 1998. No one customer accounted for 10% or more of net revenues during the six months ended June 30, 1999 and 1998. Advertising purchases by SOFTBANK and certain related companies ("SOFTBANK"), a 24% shareholder of the Company at June 30, 1999, accounted for approximately 5% and 1% of net revenues during the six months ended June 30, 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 six months ended June 30, 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 related expenses. Cost of revenues were \$46.1 million for the six months ended June 30, 1999, or 20% of net revenues, as compared to \$20.5 million, or 23% of net revenues for the six months ended June 30, 1998. The absolute dollar increase in cost of revenues from period to period 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 312 million page views per day in June 1999 compared with an average of approximately 116 million page views per day in June 1998. Yahoo! Japan, an unconsolidated joint venture of the Company, is included in these page views figures and accounted for an average of more than 22 million per day in June 1999 and an average of approximately 8 million per day in June 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 \$91.0 million, or 39% of net revenues for the six months ended June 30, 1999 as compared to \$49.2 million, or 56% of net revenues for the six months ended June 30, 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 subsequent to June 1998, with the addition of subsidiaries in Spain, Hong Kong, Taiwan, Singapore, and Brazil, 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 \$28.6 million, or 12% of net revenues for the six months ended June 30, 1999 as compared to \$14.5 million, or 17% of net revenues for the six months ended June 30, 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 \$17.0 million, or 7% of net revenues for the six months ended June 30, 1999 as compared to \$9.4 million, or 11% of net revenues for the six months ended June 30, 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

Amortization expense was \$6.7 million for the six months ended June 30, 1999 as compared to \$0.3 million for the six months ended June 30, 1998. The increase is principally attributable to goodwill amortization from the June 1998 Viaweb acquisition, the December 1998 HyperParallel acquisition, the December 1998 Starseed acquisition, and the January 1999 Yahoo! Canada acquisition. These acquisitions resulted in \$71.1 million in additional goodwill and other intangible assets.

Other-Nonrecurring Costs

For the six months ended June 30, 1999, the Company recorded nonrecurring costs of \$66.4 million. These costs were primarily attributable to \$56.6 million in acquisition related costs resulting from the acquisitions of GeoCities, Encompass, Online Anywhere, and Net Roadshow. The Company also recorded a nonrecurring charge of \$9.8 million in connection with the Log-Me-On acquisition for in-process research and development that had not yet reached technological feasibility and had no alternative future use.

For the six months ended June 30, 1998, the Company recorded a nonrecurring charge of \$15.0 million in connection with the Viaweb acquisition 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 \$16.7 million for the six months ended June 30, 1999 compared to \$4.3 million for the six months ended June 30, 1998. 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, \$43.2 million from the July 1998 broadcast.com initial public offering, \$34.3 million from the August 1998 GeoCities initial public offering, 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 income from operations of consolidated subsidiaries were \$1.2 million for the six months ended June 30, 1999 as compared to minority interests in losses from operations of consolidated subsidiaries of \$0.4 million for the year ago six month period. The decrease is attributable to the profitable results recorded in the European and Korean joint ventures in the aggregate during the six months ended June 30, 1999 as compared to losses in the year ago six month period. 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 provision for income taxes for the six months ended June 30, 1999 differs from the amount computed by applying the statutory federal rate principally due to nondeductible costs related to the acquisitions of GeoCities, Encompass, and Online Anywhere, nondeductible amortization charges related to other acquisitions, and a change in income tax regulations resulting in the recognition of certain acquired loss carryforward benefits. The projected 1999 effective income tax rate is 40%. The rate may change during the remainder of 1999 if operating results or acquisition related costs differ significantly from the current projections.

The provision for income taxes for the six months ended June 30, 1998 differs from the amount computed by applying the statutory federal rate principally due to changes in the valuation allowance principally related to limitations on net operating losses of acquired companies, and nondeductible acquisition related charges.

Net Income (Loss)

The Company recorded net income of \$1.5 million or \$0.01 per share basic and diluted for the six months ended June 30, 1999 compared to a net loss of \$20.8 million or \$0.11 per share basic and diluted for the six months ended June 30, 1998. The results for the six months ended June 30, 1999 include a non-recurring charge of \$66.4 million incurred in connection with January and May 1999 acquisitions and amortization of \$11.3 million from the purchased technology and intangible assets acquired in various purchase transactions. The results for the six months ended June 30, 1998 include a nonrecurring charge for in-process research and development of \$15.0 million in connection with the acquisition of Viaweb and amortization of \$0.7 million from the purchased technology and intangible assets acquired in that transaction.

Liquidity and Capital Resources for the Six Months Ended June 30, 1999 and 1998

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 June 30, 1999, the Company had cash and cash equivalents and investments in marketable debt securities totaling \$679.9 million as compared to \$626.8 million at December 31, 1998.

For the six months ended June 30, 1999, cash provided by operating activities of \$49.1 million was primarily due to net income before non-cash charges related to depreciation and amortization and purchased in-process research and development, and due to increases in deferred revenue of \$25.5 million and accrued expenses and other current liabilities of \$13.6 million, partially offset by an increase in prepaid expenses and other assets of \$15.4 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. The increase in accrued expenses and other current liabilities relates principally to charges associated with the GeoCities acquisition which had not yet been paid. For the six months ended June 30, 1998, cash provided by operating activities of \$15.5 million was primarily due to increases in deferred revenue and accrued expenses and other current liabilities, and to non-cash charges related to depreciation and amortization and purchased in-process research and development.

Cash used in investing activities was \$114.7 million for the six months ended June 30, 1999. Purchases (net of sales and maturities) of investments in marketable securities and other assets during the period were \$94.3 million and capital expenditures totaled \$20.4 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 in investing activities was \$40.3 million for the six months ended June 30, 1998. Purchases (net of sales and maturities) of investments in marketable securities during the period were \$32.6 million and capital expenditures totaled \$7.8 million.

For the six months ended June 30, 1999, cash provided by financing activities from the issuance of Common Stock, primarily due to the exercise of stock options, was \$61.1 million. For the six months ended June 30, 1998, cash provided by financing activities of \$44.3 million was primarily due to the receipt of \$25.0 million in connection with the sale of Mandatory Redeemable Convertible Preferred Stock and \$15.0 million from the issuance of Common Stock pursuant to the exercise of stock options.

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

Results of Operations for the Years Ended December 31, 1998, 1997 and 1996

Net Revenues

Net revenues were \$245.1 million, \$84.1 million, and \$23.8 million for the years ended December 31, 1998, 1997, and 1996, respectively. The increases from year to year are 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 4,300 customers advertised on the Company's online media properties during 1998 as compared to approximately 2,900 and 700 in 1997 and 1996, respectively. No one customer accounted for 10% or more of net revenues during the years ended December 31, 1998 and 1997, and SOFTBANK and certain related companies accounted for 10% of net revenues during 1996. Advertising purchases by SOFTBANK, a 27% shareholder of the Company at December 31, 1998, accounted for approximately 4% of net revenues during each of the years ended December 31, 1998 and 1997. Contracted prices on these orders are comparable to those given to other major customers of the Company. International revenues have accounted for less than 10% of net revenues during the years ended December 31, 1998, 1997, and 1996. 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 related expenses. Cost of revenues were \$52.2 million for the year ended December 31, 1998, or 21% of net revenues, as compared to \$19.9 million, or 24% of net revenues, and \$7.3 million, or 31% of net revenues, for the years ended December 31, 1997 and 1996, respectively. The absolute dollar increases in cost of revenues from year to year are 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 207 million page views per day in December 1998 compared with an average of approximately 84 million page views per day in December 1997 and an average of approximately 24 million page views per day in December 1996. Yahoo! Japan, an unconsolidated joint venture of the Company, is included in these page views figures and accounted for an average of approximately 13 million per day in December 1998, an average of approximately 5 million per day in December 1997, and an average of approximately 1.4 million per day in December 1996. 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 \$124.7 million for the year ended December 31, 1998, or 51% of net revenues. For the years ended December 31, 1997 and 1996, sales and marketing expenses were \$58.5 million and \$18.6 million, or 70% and 78% of net revenues, respectively. 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 year-to-year increases in absolute dollars are 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 Germany, France, and the United Kingdom during 1996, Sweden, Australia, Singapore, Korea, Denmark, and Norway during 1997, and Italy, Hong Kong, and Spain as well as Yahoo! guides in Spanish and Mandarin Chinese languages during 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 \$33.9 million, or 14% of net revenues for the year ended December 31, 1998 compared to \$16.7 million and \$6.9 million, or 20% and 29% of net revenues for the years ended December 31, 1997 and 1996, respectively. Product development expenses consist primarily of employee compensation relating to developing and enhancing the features and functionality of Yahoo! online media properties. The year-to-year increases in absolute dollars are primarily attributable to increases in the number of engineers that develop and enhance Yahoo! online media properties. To date, all internal product development costs have been expensed as incurred. 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 \$24.2 million, or 10% of net revenues for the year ended December 31, 1998 compared to \$12.9 million and \$7.9 million, or 15% and 33% of net revenues for the years ended December 31, 1997 and 1996, respectively. General and administrative expenses consist primarily of compensation and fees for professional services, and the year-to-year increases in absolute dollars are 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

Amortization expense was \$2.6 million for the year ended December 31, 1998. There was no amortization expense in 1997 and 1996. The increase is principally attributable to goodwill amortization resulting from the June 1998 Viaweb acquisition and the December 1998 Starseed acquisition which resulted in \$48.3 million in

additional goodwill and other intangible assets.

Other-Nonrecurring Costs

For the year ended December 31, 1998, the Company recorded nonrecurring costs of \$21.2 million. These costs were primarily attributable to \$17.6 million of in-process research and development that had not yet reached technological feasibility and had no alternative future use and were recorded in connection with the acquisitions of Viaweb, Hyperparallel, and SimpleNet and the purchase of certain Webpage development technology from Compu-Trak. The Company also recorded nonrecurring costs of \$3.6 million for acquisition related expenses in connection with the acquisitions of Yoyodyne and SimpleNet.

For the year ended December 31, 1997, the Company recorded non-recurring costs of \$25.1 million, of which \$21.2 million related to a one-time non-cash charge to consummate the Company's release from obligations associated with an agreement with VISA and \$3.9 million in acquisition related charges in connection with the acquisition of Four11.

Investment Income, Net

Investment income, net of expense, was \$18.8 million for the year ended December 31, 1998 compared to \$4.8 million and \$4.0 million for the years ended December 31, 1997 and 1996, respectively. The increase from 1997 to 1998 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, \$43.2 million from the July 1998 broadcast.com initial public offering and \$84.3 million from the August 1998 GeoCities initial public offering. 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 losses from operations of consolidated subsidiaries were \$68,000 for the year ended December 31, 1998 compared to \$727,000 and \$540,000 for the years ended December 31, 1997 and 1996, respectively. The decrease from 1997 to 1998 is primarily attributable to near break-even results in the European and Korean joint ventures in the aggregate. The increase from 1996 to 1997 is primarily attributable to the staggered launch dates of the joint ventures. Yahoo! Europe operations began during the third quarter of 1996 and Yahoo! Korea operations started in the third quarter of 1997. 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. When, and if, the consolidated subsidiaries become profitable, the minority interests adjustment on the statement of operations will reduce the Company's net income by the minority partners' share of the subsidiaries' net income.

Income Taxes

Yahoo! recorded an income tax provision of \$17.8 million in 1998. At December 31, 1998, the Company had net operating loss carryforwards and research tax credit carryforwards, which if not utilized, will begin to expire in 2002 through 2010. Gross deferred tax assets totaled \$176.2 million of which approximately \$141.0 million relates to net operating loss carryforwards and tax credit carryforwards from the exercise of stock options. When recognized, the tax benefit of the loss and credit carryforwards is accounted for as a credit to additional paid-in capital rather than as a reduction of income tax expense. The Company has a valuation allowance of \$169.8 million for deferred tax assets for which realization is not more-likely-than-not. The Company's 1998 estimated income tax rate was impacted during the year by the release of the prior year's valuation allowance, nondeductible acquisition-related charges, and pre-acquisition losses of companies acquired in 1998.

Net Loss

The Company recorded a net loss of \$12.7 million or \$0.06 per share diluted for the year ended December 31, 1998 compared to net losses of \$43.4 million and \$12.4 million, or \$0.23 and \$0.07 per share diluted for the years ended December 31, 1997 and 1996, respectively. The results for 1998 include non-recurring charges of \$21.2 million incurred in connection with various 1998 acquisitions and amortization of \$3.5 million and \$2.6 million from the purchased technology and intangible assets acquired in certain of those acquisitions. The results for 1997 include the one-time, non-cash, pre-tax charge of \$21.2 million recorded during the second quarter of 1997 for the restructuring of the Yahoo!

Marketplace agreements with the Visa Group and the one-time charge of \$3.9 million recorded during the fourth quarter of 1997 for costs incurred for the acquisition of Four11.

Liquidity and Capital Resources for the Years Ended December 31, 1998, 1997, and 1996

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 December 31, 1998, the Company had cash and cash equivalents and investments in marketable debt securities totaling \$626.8 million compared to \$136.6 million at December 31, 1997.

For the year ended December 31, 1998, cash provided by operating activities of \$82.2 million was primarily due to earnings before non-recurring charges of \$17.6 million and depreciation and amortization of \$16.5 million, increases in deferred revenue (due to invoicing and cash receipts in excess of revenue) of \$34.1 million and accrued liabilities of \$22.7 million, and tax benefits from stock option plans of \$17.8 million, partially offset by an increase in accounts receivable of \$19.6 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 year ended December 31, 1997, cash used in operating activities of \$14.7 million was primarily due to the net loss and increases in accounts receivable of \$8.5 million and prepaid expenses and other assets of \$7.2 million, partially offset by a non-cash charge of \$21.2 million, and increases in accrued expenses and other current liabilities of \$9.3 million, accounts payable of \$4.7 million, and deferred revenue of \$3.4 million. For the year ended December 31, 1996, cash used by operating activities was \$9.3 million.

Cash used in investing activities was \$383.5 million for the year ended December 31, 1998. Purchases (net of sales and maturities) of investments in marketable securities and other assets during the period were \$360.7 million and capital expenditures totaled \$22.9 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 provided by investing activities was \$14.8 million for the year ended December 31, 1997. Sales and maturities (net of purchases) of investments in marketable securities during the period were \$25.6 million and capital expenditures totaled \$10.8 million. Cash used in investing activities was \$77.7 million for the year ended December 31, 1996. Purchases (net of sales and maturities) of investments in marketable securities and other assets during the period were \$72.7 million and capital expenditures totaled \$5.0 million.

For the year ended December 31, 1998, cash provided by financing activities of \$439.9 million was due primarily to the issuance of Common Stock to SOFTBANK in the net amount of \$250 million during July 1998, the issuance of common stock as part of the broadcast.com July 1998 initial public offering in the net amount of \$43.2 million, the issuance of Common Stock as part of the GeoCities August 1998 initial public offering in the amount of \$84.3 million, the receipt of \$25.0 million in connection with the sale of Mandatory Redeemable Convertible Preferred Stock, and the issuance of Common Stock pursuant to the exercise of stock options. For the year ended December 31, 1997, cash provided by financing activities of \$53.5 million was due primarily to the receipt of \$7.9 million in connection with the sale of Mandatory Redeemable Convertible Preferred Stock and the issuance of Common Stock pursuant to the exercise of stock options. For the year ended December 31, 1996, cash provided by financing activities of \$120.1 million was primarily due to the March 1996 issuance of 5.1 million shares of Mandatory Redeemable Convertible Series C Preferred Stock for aggregate proceeds of \$63.8 million, the April 1996 initial public offering of 17.9 million shares of Common Stock for net proceeds of \$35.1 million, and other issuances of Common Stock.

The Company currently has no material commitments other than those under operating lease agreements. 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 stockholders.

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.

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 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! customers and advertisers.

Year 2000 Compliance Assessment Plans. Unlike some other businesses, Yahoo! does not have an installed base of legacy systems dating back many years. Nonetheless, in order to reduce the risks of the Year 2000 compliance problem, this spring, Yahoo! undertook a formal assessment of the impact of the Year 2000 problem. 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 Yahoo! business partners, including content providers and ISPs.

Yahoo! is conducting its formal assessment of Year 2000 compliance 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.

Based on this assessment, 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, we expect these modifications to be provided by the vendors of the computer and software products we have installed. Yahoo! also believes that its major vendors have or are now addressing the Year 2000 compliance problem in a responsible manner.

Yahoo! does not anticipate, however, undertaking a formal assessment of the Year 2000 compliance 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!.

Yahoo! has not incurred material costs to date in this formal 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.

Risks Relating to Compliance Efforts. Based on the completed 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 the Company 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 compliance 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:

• additional 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; or

• 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.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Yahoo! Inc. and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/
PricewaterhouseCoopers LLP

Management's Discussion and Analysis of Financial Condition and Results of Operations

Report of Independent Accountants

Consolidated Balance Sheets at June 30, 1999 (unaudited) and December 31, 1998 and 1997

Consolidated Statements of Operations for the six months ended June 30, 1999 and 1998 (unaudited) and for the years ended December 31, 1998, 1997, and 1996

Consolidated Statements of Stockholders' Equity for the six months ended June 30, 1999 (unaudited) and for the years ended December 31, 1998, 1997, and 1996

Consolidated Statements of Cash Flows for the six months ended June 30, 1999 and 1998 (unaudited) and for the years ended December 31, 1998,

Yahoo! Inc.

Consolidated Balance Sheets

(in thousands, except par value)

San Jose, California

January 8, 1999, except as to the stock split described in Note 1 which

is as of February 8, 1999 and the poolings of interests with GeoCities, Encompass, Inc. and Online Anywhere and the reincorporation as described in Note 1 and Note 11 which are as of May 28, 1999 and the pooling of interests with broadcast.com inc. as described in Note 1 and Note 11 which is as of July 20, 1999

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

Yahoo! Inc.

Consolidated Statements of Operations

(in thousands, except per share amounts)

	June 30,	December 31,	
	1999	1998	1997
	(unaudited)		
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 226,467	\$ 230,961	\$ 92,197
Short-term investments in marketable securities	366,802	341,822	27,772
Accounts receivable, net of allowance of \$7,404 (unaudited), \$5,947 and \$2,772 in 1999, 1998 and 1997	40,699	34,089	14,393
Prepaid expenses and other current assets	14,072	10,860	33,397
Total current assets	648,040	617,732	167,669
Long-term investments in marketable securities	157,536	55,931	16,702
Property and equipment, net	43,053	31,007	12,829
Other assets	104,443	76,349	6,151
Total assets	\$ 953,072	\$ 781,019	\$ 203,351
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 8,990	\$ 9,986	\$ 8,122
Accrued expenses and other current liabilities	57,047	46,147	17,168
Deferred revenue	65,305	39,796	5,665
Total current liabilities	131,342	95,929	30,955
Other liabilities	8,107	6,830	1,302
Minority interests in consolidated subsidiaries	2,412	1,248	716
Commitments and contingencies (Note 10)			
Mandatory redeemable convertible preferred stock	—	—	33,137
Stockholders' equity:			
Preferred Stock, \$0.001 par value; 10,000 shares authorized; none issued or outstanding in 1998 and 1997	—	—	—
Common Stock, \$0.001 par value; 900,000 shares authorized; 257,318 (unaudited), 248,999 and 205,229 issued and outstanding in 1999, 1998 and 1997	257	249	205
Additional paid-in capital	843,369	747,766	195,061
Accumulated deficit	(71,153)	(71,861)	(57,582)
Accumulated other comprehensive income (loss)	30,738	858	(443)
Total stockholders' equity	811,211	677,012	137,241
Total liabilities and stockholders' equity	\$ 953,072	\$ 781,019	\$ 203,351

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

Yahoo! Inc.

Consolidated Statements of Stockholders' Equity

(in thousands)

	Six Months Ended June 30,		Year Ended December 31,		
	1999	1998	1998	1997	1996
	(unaudited)	(unaudited)			
Net revenues	\$ 232,447	\$ 87,533	\$ 245,100	\$ 84,108	\$ 23,793
Cost of revenues	46,108	20,549	52,154	19,882	7,287
Gross profit	186,339	66,984	192,946	64,226	16,506
Operating expenses:					
Sales and marketing	90,973	49,171	124,734	58,467	18,641
Product development	28,582	14,462	33,917	16,699	6,924
General and administrative	16,976	9,350	24,154	12,877	7,884
Amortization of intangibles	6,662	290	2,628	—	—
Other-nonrecurring costs	66,362	15,000	21,234	25,095	—
Total operating expenses	209,555	88,273	206,667	113,138	33,449
Loss from operations	(23,216)	(21,289)	(13,721)	(48,912)	(16,943)
Investment income, net	16,673	4,302	18,806	4,809	3,973
Minority interests in operations of consolidated subsidiaries	(1,164)	355	68	727	540
Income (loss) before income taxes	(7,707)	(16,632)	5,153	(43,376)	(12,430)
Provision (benefit) for income taxes	(9,240)	4,131	17,827	—	—
Net income (loss)	\$ 1,533	\$ (20,763)	\$ (12,674)	\$ (43,376)	\$ (12,430)
Net income (loss) per share—basic and diluted	\$ 0.01	\$ (0.11)	\$ (0.06)	\$ (0.23)	\$ (0.07)
Shares used in per share calculation—basic	253,965	201,302	219,995	195,771	174,325
Shares used in per share calculation—diluted	297,122	201,302	219,995	195,771	174,325

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

Yahoo! Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)					
	Shares	Amount	Shares	Amount										
Balance at December 31, 1995	8,938	\$	404	\$	77	\$	7,026	\$	(1,776)	\$	—	\$	5,731	
Comprehensive income (loss):														
Net loss	—		—		—		—		(12,430)		—		(12,430)	\$ (12,430)
Other comprehensive income (loss), net of tax:														
Foreign currency translation adjustment														(63)
Other comprehensive income (loss)	—		—		—		—		(63)		(63)		(63)	(63)
Comprehensive income (loss)													\$	(12,493)
Accretion of Mandatory Redeemable Convertible Preferred Stock	—		—		—		(105)		—		—		(105)	
Issuance of Convertible Preferred Stock	5,100		5		—		63,745		—		—		63,750	
Sale of Common Stock, net of issuance costs	—		—		28,325		28		53,259		—		53,287	
Conversion of Convertible Preferred Stock to Common Stock	(12,838)		(13)		77,028		77		(64)		—		—	
Issuance of Common Stock pursuant to employee stock plans	—		—		2,978		3		7		—		10	
Compensation expense on option grants and warrant issuances	—		—		—		221		—		—		221	
Balance at December 31, 1996	1,200		396		185,108		185		124,089		(14,206)		(63)	110,401
Comprehensive income (loss):														
Net loss	—		—		—		—		(43,376)		—		(43,376)	\$ (43,376)
Other comprehensive income (loss), net of tax:														
Foreign currency translation adjustment														(380)
Other comprehensive income (loss)	—		—		—		—		(380)		(380)		(380)	(380)
Comprehensive income (loss)													\$	(43,756)
Accretion of Mandatory Redeemable Convertible Preferred Stock	—		—		—		(832)		—		—		(832)	
Conversion of Convertible Preferred Stock to Mandatory Redeemable Convertible Preferred Stock	(1,200)		(396)		—		—		—		—		(396)	
Sale of Common Stock, net of issuance costs	—		—		5,222		5		32,729		—		32,734	
Issuance of Common Stock pursuant to employee stock plans, exercise of warrants and other	—		—		11,640		11		7,556		—		7,567	
Issuance of Common Stock for acquisitions and investments	—		—		461		1		6,399		—		6,400	
Issuance of Common Stock pursuant to Visa Group Agreement	—		—		2,798		3		21,047		—		21,050	
Write-up of investment in Yahoo! Japan	—		—		—		—		1,700		—		1,700	
Compensation and other expense on option grants and warrant issuances	—		—		—		2,373		—		—		2,373	
Balance at December 31, 1997	—		—		205,229		205		195,061		(57,582)		(443)	137,241
Comprehensive income (loss):														
Net loss	—		—		—		—		(12,674)		—		(12,674)	\$ (12,674)
Other comprehensive income (loss), net of tax:														
Net unrealized gains on securities														1,013
Foreign currency translation adjustment														288
Other comprehensive income (loss)	—		—		—		—		—		1,301		1,301	1,301
Comprehensive income (loss)													\$	(11,373)
Accretion of Mandatory Redeemable Convertible Preferred Stock	—		—		—		(1,396)		—		—		(1,396)	
Conversion of Mandatory Redeemable Convertible Preferred Stock to Common Stock	—		—		14,590		15		34,414		—		34,429	
Issuance of Common Stock pursuant to employee stock plans, exercise of warrants and other	—		—		11,643		11		31,832		—		31,843	
Issuance of Common Stock for acquisitions	—		—		2,752		3		77,139		—		77,142	
Sale of Common Stock, net of issuance costs	—		—		14,785		15		385,298		—		385,313	
Compensation expense on option grants	—		—		—		—		2,163		—		2,163	
Tax benefits from stock options	—		—		—		—		23,255		—		23,255	
Distribution to Stockholders	—		—		—		—		(538)		—		(538)	
Accumulated deficit from acquisition	—		—		—		—		(1,067)		—		(1,067)	
Balance at December 31, 1998	—		—		248,999		249		747,766		(71,861)		858	677,012
Comprehensive income (loss):														
Net income (unaudited)	—		—		—		—		—		1,533		—	1,533
Other comprehensive income (loss), net of tax:														
Net unrealized gains on securities (unaudited)														38,114
Foreign currency translation adjustment (unaudited)														(234)
Other comprehensive income (loss) (unaudited)	—		—		—		—		—		37,880		37,880	37,880
Comprehensive income (loss) (unaudited)													\$	39,413
Issuance of Common Stock pursuant to employee stock plans and exercise of warrants (unaudited)	—		—		8,189		8		61,877		—		—	61,885
Compensation expense on option grants (unaudited)	—		—		—		—		1,495		—		—	1,495
Issuance of Common Stock for acquisitions (unaudited)	—		—		130		—		17,811		—		—	17,811
Undistributed earnings related to business acquisitions (unaudited)	—		—		—		—		825		(825)		—	—
Tax benefits from stock options (unaudited)	—		—		—		—		13,595		—		—	13,595
Balance at June 30, 1999 (unaudited)	—	\$	—		257,318	\$	257		843,369	\$	(71,153)	\$	38,738	\$ 811,211

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

YAHOO! INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY. Yahoo! Inc. ("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 Company consummated acquisitions of the following companies as of the dates indicated in business combinations that were accounted for as poolings of interests: broadcast.com inc. ("broadcast.com"), July 1999; GeoCities, May 1999; Encompass, Inc. ("Encompass"), May 1999; Online Anywhere, May 1999; Net Roadshow, Inc. ("Net Roadshow"), March 1999; SimpleNet, November, 1998; Yoyodyne Entertainment, Inc. ("Yoyodyne"), October 1998; and Four11 Corporation ("Four11"), October 1997. The consolidated financial statements for the six months ended June 30, 1999 and 1998 and the three years ended December 31, 1998 and the accompanying notes reflect the Company's financial position and the results of operations as if the acquired entities were wholly-owned subsidiaries of the Company since inception.

Components of the consolidated results of operations of Yahoo! and the acquired companies, prior to their acquisitions by Yahoo!, are as follows (in thousands):

	Six Months Ended June 30,		Year Ended December 31,		
	1999	1998	1998	1997	1996
	(unaudited)	(unaudited)			
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)	\$ 1,533	\$ (28,763)	\$ (12,674)	\$ (43,376)	\$ (12,438)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	28,392	4,783	16,472	4,644	1,389
Tax benefits from stock options	—	—	17,827	—	—
Non-cash charges related to stock option grants and warrant issuances	1,651	684	2,429	1,796	197
Minority interests in operations of consolidated subsidiaries	1,164	(355)	(68)	(727)	(540)
Purchased in-process research and development	9,775	15,088	17,608	—	—
Other non-cash charges	—	—	—	21,245	—
Changes in assets and liabilities:					
Accounts receivable, net	(6,611)	(8,738)	(19,596)	(8,524)	(4,931)
Prepaid expenses and other assets	(15,418)	880	2,388	(7,239)	(2,359)
Accounts payable	(2,588)	262	1,141	4,708	1,520
Accrued expenses and other current liabilities	13,622	9,282	22,667	9,347	5,994
Deferred revenue	25,599	14,615	34,126	3,395	1,832
Net cash provided by (used in) operating activities	49,199	15,490	82,232	(14,739)	(9,328)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property and equipment	(28,439)	(7,775)	(22,863)	(18,824)	(4,987)
Purchases of marketable securities	(386,785)	(79,945)	(511,526)	(58,753)	(115,247)
Proceeds from sales and maturities of marketable securities	327,392	47,242	159,858	86,678	43,240
Other investments	(34,917)	136	(9,088)	(2,294)	(729)
Net cash provided by (used in) investing activities	(114,669)	(48,342)	(383,547)	14,887	(77,723)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Proceeds from issuance of Common Stock and Convertible Preferred Stock, net	61,787	43,978	442,209	52,009	118,346
Proceeds from minority investors	—	608	608	999	1,850
Other	(598)	(248)	(2,928)	499	712
Net cash provided by financing activities	61,189	44,338	439,881	53,507	120,108
Effect of exchange rate changes on cash and cash equivalents	(43)	97	288	(380)	(63)
Net change in cash and cash equivalents	(4,494)	19,575	138,854	53,195	32,984
Cash and cash equivalents at beginning of year	239,961	92,187	92,187	38,912	5,918
Cash and cash equivalents at end of period	\$ 228,467	\$ 111,682	\$ 230,961	\$ 92,187	\$ 38,912

STOCK SPLITs. During July 1998 and January 1999, the Company's Board of Directors approved two-for-one Common Stock splits which were effective on August 3, 1998 and February 8, 1999, respectively. All share numbers in these consolidated financial statements and notes thereto for all periods presented have been adjusted to reflect the two-for-one common stock splits.

PRINCIPLES

OF CONSOLIDATION. The consolidated financial statements include the accounts of Yahoo! Inc. and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The equity and net income or loss attributable to the minority stockholder interests which related to the Company's subsidiaries, are shown separately in the consolidated balance sheets and consolidated statements of operations, respectively. Investments in entities owned 28% or more but less than majority owned and not otherwise controlled by the Company are accounted for under the equity method.

RECLASSIFICATIONS.

Certain prior years' balances have been reclassified to conform with the current year's presentation.

REVENUE

RECOGNITION. The Company's revenues are derived principally from the sale of banner and sponsorship advertisements. The Company's standard rates for banner advertising currently range from approximately \$6.00 per thousand impressions for run of network to approximately \$90.00 per thousand impressions for highly targeted audiences and properties. To date, the duration of the Company's banner advertising commitments has ranged from one week to two years. Sponsorship advertising contracts have longer terms (ranging from three months to three years) than standard banner advertising contracts and also involve more integration with Yahoo! services, such as the placement of buttons that provide users with direct links to the advertiser's Web site. Advertising revenues on both banner and sponsorship contracts are recognized ratably over the period in which the advertisement is displayed, provided that no significant Company obligations remain at the end of a period and collection of the resulting receivable is probable. Company obligations typically include guarantees of minimum number of "impressions," or times that an advertisement appears in pages viewed by users of the Company's online properties. To the extent minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues until the remaining guaranteed impression levels are achieved.

The Company also earns revenue from development fees, business services, electronic commerce transactions, barter transactions, and membership programs. Revenue from development fees represents fees relating to the design, coordination, and integration of customers' content and links into Yahoo! online media properties. These development fees are recognized as revenue once the related activities have been performed and the customer's Web links are available on Yahoo! online media properties. Business services revenues include fees for broadcasting live and on-demand events as well as hosting services and are recognized in the month in which the service is performed, provided that no significant Company obligations remain and collection of the resulting receivable is probable. Revenues from electronic commerce transactions are recognized by the Company upon notification from the advertiser of revenues earned by Yahoo!. Revenues from barter transactions are recognized during the period in which the advertisements are displayed in Yahoo! properties. Barter transactions are recorded at the fair value of the goods or services provided or received, whichever is more readily determinable in the circumstances. Revenues from certain membership programs are recognized on a monthly basis as the fees are earned. To date, revenues from development fees, business services, electronic commerce

transactions, barter transactions, and membership programs have each been less than 10% of net revenues.

No

one customer accounted for 10% or more of net revenues during 1998 and 1997, and SOFTBANK and its related companies ("SOFTBANK"), a holder of approximately 27% of the Company's Common Stock at December 31, 1998, accounted for 10% of net revenues during 1996 (see Note 4).

Deferred

revenue is primarily comprised of billings in excess of recognized revenue relating to advertising contracts and payments received pursuant to sponsorship advertising contracts in advance of revenue recognition.

PRODUCT

DEVELOPMENT. Costs incurred in the classification and organization of listings within Yahoo! properties and the development of new products and enhancements to existing products are charged to expense as incurred. Material software development costs subsequent to the establishment of technological feasibility are capitalized. Based upon the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant.

ADVERTISING

COSTS. Advertising production costs are recorded as expense the first time an advertisement appears. All other advertising costs are expensed as incurred. Advertising expense totaled approximately \$39.2 million, \$14.1 million, and \$4.7 million for 1998, 1997, and 1996, respectively.

BENEFIT

PLAN. The Company maintains a 401(k) Profit Sharing Plan (the "Plan") for its full-time employees. Each participant in the Plan may elect to contribute from 1% to 17% of his or her annual compensation to the Plan. The Company matches employee contributions at a rate of 25%. Employee contributions are fully vested, whereas vesting in matching Company contributions occurs at a rate of 33.3% per year of employment. During 1998, 1997 and 1996, the Company's contributions amounted to \$623,000, \$273,000, and \$81,000, respectively.

CASH

AND CASH EQUIVALENTS, SHORT AND LONG-TERM INVESTMENTS. The Company invests its excess cash in debt instruments of the U.S. Government and its agencies, and in high-quality corporate issuers. All highly liquid instruments with an original maturity of three months or less are considered cash equivalents, those with original maturities greater than three months and current maturities less than twelve months from the balance sheet date are considered short-term investments, and those with maturities greater than twelve months from the balance sheet date are considered long-term investments.

The

Company's marketable securities that are classified as available-for-sale as of the balance sheet date are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity. Realized gains or losses and permanent declines in value, if any, on available-for-sale securities are reported in other income or expensed as incurred. As of December 31, 1998, the Company recorded net unrealized gains, net of income taxes, of \$1.0 million. The Company's marketable securities that are classified as held-to-maturity are reported at amortized cost in the balance sheets. The Company utilizes specific identification in computing realized and unrealized gains and losses on held-to-maturity investments.

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 when events and circumstances indicate that such assets might be impaired. To date, no such impairment has been recorded. 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.

CONCENTRATION

OF CREDIT RISK. Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash, cash equivalents, short and long-term investments, and accounts receivable. Substantially all of the Company's cash, cash equivalents, short and long-term investments are managed by four financial institutions. Accounts receivable are typically unsecured and are derived from revenues earned from customers primarily located in the United States. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses; historically, such losses have been within management's expectations. At December 31, 1998 and 1997, no one customer accounted for 10% or more of the accounts receivable balance.

DEPRECIATION

AND AMORTIZATION. Property and equipment, including leasehold improvements, are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, generally two to five years. Goodwill and other intangible assets are included in other assets and are carried at cost less accumulated amortization, which is being provided on a straight-line basis over the economic lives of the respective assets, generally three to ten years. The Company periodically evaluates the recoverability of its long-lived assets based on expected undiscounted cash flows and recognizes impairments, if any, based on expected discounted future cash flows.

INCOME

TAXES. Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

STOCK-BASED

COMPENSATION. The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation cost is recognized over the vesting period based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock.

FOREIGN

CURRENCY AND INTERNATIONAL OPERATIONS. The functional currency of the Company's international subsidiaries is the local currency. The financial statements of these subsidiaries are translated to United States dollars using year-end rates of exchange for assets and liabilities, and

average rates of exchange for the year for revenues, costs, and expenses. Translation gains (losses), which are deferred and accumulated as a component of stockholders' equity, were \$288,000, (\$380,000), and (\$63,000) for 1998, 1997, and 1996, respectively. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations and were not significant during the periods presented. International revenues have accounted for less than 10% of net revenues in the years ended December 31, 1998, 1997, and 1996. International assets were not significant at December 31, 1998 or 1997.

BASIC

AND DILUTED NET INCOME (LOSS) PER SHARE. Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income (loss) 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). During the six months ended June 30, 1998 and the years ended December 31, 1998, 1997 and 1996, options to purchase approximately 54.1 million (unaudited), 64.6 million, 52.5 million, and 39.8 million shares, respectively, were outstanding but were not included in the computation because they were antidilutive. For the six months ended June 30, 1999, common equivalent shares approximated 43.0 million shares and related to shares issuable upon the exercise of stock options. Net income (loss) for the six months ended June 30, 1998 and the years ended December 31, 1998, 1997 and 1996 was adjusted to reflect accretion related to the mandatory redeemable preferred stock in the amount of \$1.2 million (unaudited), \$1.4 million, \$832,000 and \$105,000, respectively, in computing basic and diluted net loss per share.

USE

OF ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

COMPREHENSIVE

INCOME. In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS 130, "Reporting Comprehensive Income," which was adopted by the Company in the first quarter of fiscal 1998. SFAS 130 establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Accumulated other comprehensive income, as presented on the accompanying consolidated balance sheets, consists of the net unrealized gains on available-for-sale securities, net of tax, and the cumulative translation adjustment.

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 No. 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, 2000, as amended by SFAS

No. 137. The Company has not determined the effect, if any, that may result from adoption of this pronouncement. In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This standard requires companies to capitalize qualifying computer software costs which are incurred during the application development stage and amortize them over the software's estimated useful life. SOP 98-1 is effective for fiscal years beginning after December 15, 1998.

UNAUDITED

INTERIM RESULTS. The accompanying consolidated interim financial statements as of June 30, 1999 and for the six months ended June 30, 1999 and 1998 are unaudited. In the opinion of management, the unaudited consolidated interim financial statements have been prepared on the same basis as the annual consolidated financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the results of these periods. The data and other information disclosed in the notes to the consolidated financial statements related to these

periods are unaudited. The results for the six months ended June 30, 1999 are not necessarily indicative of the results to be expected for the year.

NOTE 2 BALANCE SHEET COMPONENTS (IN THOUSANDS)

	Six Months Ended June 30,		Year Ended December 31,		
	1999	1998	1998	1997	1996
	(unaudited)				
Net revenues:					
Yahoo!	\$ 193,929	\$ 70,653	\$ 198,981	\$ 65,340	\$ 19,073
broadcast.com	22,390	6,839	17,392	6,776	1,696
GeoCities	12,984	5,542	18,227	4,462	314
Encompass	1,860	66	1,960	17	—
Online Anywhere	73	100	100	200	—
Net Roadshow	1,211	1,273	1,898	30	—
SimpleNet	—	2,192	4,718	2,293	293
Yoyodyne	—	868	1,824	3,039	1,793
Four11	—	—	—	1,951	624
	\$ 232,447	\$ 87,533	\$ 245,100	\$ 84,108	\$ 23,793
Net income (loss):					
Yahoo!	\$ 26,021	\$ (3,196)	\$ 30,216	\$ (19,973)	\$ (2,334)
broadcast.com	(6,472)	(6,585)	(14,290)	(6,474)	(2,989)
GeoCities	(17,249)	(7,253)	(19,759)	(8,903)	(3,006)
Encompass	(173)	(1,428)	(1,989)	(2,045)	—
Online Anywhere	(1,285)	(282)	(1,054)	(107)	—
Net Roadshow	691	985	984	(133)	—
SimpleNet	—	(393)	(2,154)	(194)	(8)
Yoyodyne	—	(2,511)	(4,628)	(2,633)	(2,142)
Four11	—	—	—	(2,914)	(1,951)
	\$ 1,533	\$ (20,763)	\$ (12,674)	\$ (43,376)	\$ (12,430)

NOTE 3 INVESTMENTS

At December 31, 1998, short and long-term investments in marketable securities were classified as available-for-sale and held-to-maturity as follows (in thousands):

	December 31,	
	1998	1997
Property and equipment:		
Computers and equipment	\$ 35,504	\$ 13,907
Furniture and fixtures	6,538	2,851
Leasehold improvements	5,116	1,862
	47,158	18,620
Less: accumulated depreciation	(16,151)	(5,791)
	\$ 31,007	\$ 12,829
Other assets:		
Intangible assets (Note 5)	\$ 66,063	\$ 1,657
Investments in privately-held companies	5,445	100
Other	4,841	4,394
	\$ 76,349	\$ 6,151
Accrued expenses and other current liabilities:		
Accrued compensation and related expenses	\$ 13,246	\$ 3,514
Accrued content, connect, and other costs	10,276	4,279
Accrued sales and marketing related expenses	6,847	2,946
Accrued professional service expenses	5,973	1,732
Other	9,805	4,697

	\$	46,147	\$	17,168
The contractual maturities of debt securities classified as available-for-sale and held-to-maturity as of December 31, 1998 are as follows (in thousands):				
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
AVAILABLE-FOR-SALE				
U.S. Government and agencies	\$ 331,757	\$ 611	\$ —	\$ 332,368
Municipal bonds	12,893	81	—	12,974
Corporate debt securities	8,584	26	—	8,610
Corporate equity securities	1,000	910	—	1,910
Other	3,020	—	(20)	3,000
	357,254	1,628	(20)	358,862
HELD-TO-MATURITY				
U.S. Government and agencies	20,774	—	(41)	20,733
Corporate debt securities	18,117	—	(5)	18,112
	38,891	—	(46)	38,845
	\$ 396,145	\$ 1,628	\$ (66)	\$ 397,707

At December 31, 1997, short and long-term investments in marketable securities were classified as available-for-sale and consisted of 81% corporate debt securities, 8% debt securities of the U.S. Government and its agencies, 4% municipal debt securities, and 7% foreign debt securities. At December 31, 1997, the fair value of the investments approximated cost.

NOTE 4 RELATED PARTY TRANSACTIONS

During 1998, 1997 and 1996, the Company recognized net revenues of approximately \$11.8 million, \$3.2 million, and \$2.4 million, respectively, on advertising contracts and publication, development, and licensing arrangements with SOFTBANK and certain related companies (such as E*Trade Group, Inc., Kingston Technology Company, and E-Loan, Inc.), a holder of approximately 27% of the Company's Common Stock at December 31, 1998. Prices on these contracts were comparable to those given to other similar customers of the Company. Additionally, three SOFTBANK-related companies provided Internet access and sales and marketing-related services for fees of approximately \$3.1 million, \$3.2 million, and \$2.3 million during 1998, 1997, and 1996, respectively.

NOTE 5 ACQUISITIONS

ACQUISITION OF NETCONTROLS. On July 31, 1997, the Company entered into a stock purchase agreement to acquire all of the outstanding capital stock of NetControls, Inc. for 148,668 shares of the Company's Common Stock. The acquisition was recorded as a purchase for accounting purposes and the majority of the purchase price of approximately \$1.4 million is being amortized over the three-year estimated useful life of the technology acquired. Upon acquisition, the historical financial results of NetControls, Inc. were not material to the accompanying financial statements.

ACQUISITION OF FOUR11. On October 20, 1997, the Company completed the acquisition of Four11 Corporation, a privately-held online communications and Internet directory company. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 6,022,880 shares of Yahoo! Common Stock for all of Four11's outstanding shares and assumed 593,344 options and warrants to purchase Yahoo! Common Stock. During the quarter ended December 31, 1997, the Company recorded a one-time charge of \$3.9 million for acquisition-related costs. These costs consisted of investment banking fees, legal and accounting fees, redundancy costs, and certain other expenses directly related to the acquisition.

ACQUISITION OF VIAWEB INC. On June 10, 1998, the Company completed the acquisition of all outstanding shares of Viaweb, a provider of software and services for hosting online stores, through the issuance of 1,574,364 shares of Yahoo! Common Stock. All outstanding options to purchase Viaweb common stock were converted into options to purchase 244,504 shares of Yahoo! Common Stock. The acquisition was accounted for as a purchase in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 16. Under the purchase method of accounting, the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition. Results of operations for Viaweb have been included with those of the Company for periods subsequent to the date of acquisition.

The total purchase price of the acquisition was \$48.6 million including acquisition expenses of \$1.8 million. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as determined by the Company and pursuant to discussions with the Staff of the Securities and Exchange Commission (the "Staff") as follows (in thousands):

AVAILABLE-FOR-SALE	
Due within one year	\$ 308,025
Due after one year through two years	48,927
	356,952
HELD-TO-MATURITY	
Due within one year	33,797
Due after one year through two years	5,094
	38,891
	\$ 395,843

Among the factors considered in discussions with the Staff in determining the amount of the allocation of the purchase price to in-process research and development were various factors such as estimating the stage of development of each in-process research and development project at the date of acquisition, estimating cash flows resulting from the expected revenues generated from such projects, and discounting the net cash flows, in addition to other assumptions. The remaining identified intangibles, including the value of purchased technology and other intangibles are amortized on a straight-line basis over three and seven years, respectively. Amortization expense of purchased technology and other intangible assets was \$2.9 million and \$2.0 million, respectively, for the year ended December 31, 1998. A deferred tax liability has been recognized for the difference between the assigned values for book purposes and the tax bases of assets in accordance with the provisions of SFAS 109. In addition, other factors were considered in discussions with the Staff in determining the value assigned to purchased in-process technology such as research projects in areas supporting the online store technology (including significant enhancement to the ability of the product to support multiple users and multiple servers), developing functionality to support the ability to process credit card orders, and enhancing the product's user interface by developing functionality that would allow the product to be used outside of the United States. If none of these projects is successfully developed, the Company's sales and profitability may be adversely affected in future periods. Additionally, the failure of any particular individual project in-process could impair the value of other intangible assets acquired. The Company began to benefit from the purchased in-process technology in late 1998.

Yahoo! is continuing the development efforts associated with online store technology, credit card processing and to a lesser extent international functionality. The development efforts with respect to the online store technology and credit card processing are on schedule with Yahoo!'s original assumptions with various features having been introduced as of December 31, 1998. Given the complexities of completing the international functionality, Yahoo! continues to make progress in the development of these features and now expects to be substantially complete by the end of the fourth quarter of 1999.

ACQUISITION OF WEBCAL CORPORATION. On July 17, 1998, the Company completed the acquisition of WebCal Corporation ("WebCal"), a privately-held developer and marketer of Web-based calendaring and scheduling products, and publisher of EventCal, a comprehensive database of world-wide public events. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 541,908 shares of Yahoo! Common Stock for all of WebCal's outstanding shares. The historical operations of WebCal are not material to the Company's financial position or results of operations, therefore, prior period financial statements have not been restated for this acquisition. WebCal's accumulated deficit on July 17, 1998 was \$1.1 million. Net revenues and net loss for WebCal in 1998 through the date of the acquisition approximated \$2,000 and \$847,000, respectively.

ACQUISITION OF WEBPAGE DEVELOPMENT TECHNOLOGY FROM COMPU-TRAK, INC. In August 1998, the Company completed the purchase of certain Web-page development technology for a total consideration of \$1.6 million, including \$850,000 in cash and 23,894 shares of Common Stock. During the year ended December 31, 1998, \$300,000 was recorded as purchased in-process research and development. The purchased technology is classified as property and equipment and is being amortized over one year.

ACQUISITION OF YOYODYNE ENTERTAINMENT, INC. On October 20, 1998, the Company acquired Yoodyne Entertainment, Inc., a privately-held, direct marketing services company. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 561,244 shares of Yahoo! Common Stock and options and warrants to purchase Yahoo! Common Stock for all of Yoodydyne's outstanding shares, options, and warrants. The consolidated financial statements for the three years ended December 31, 1998 and the accompanying notes reflect the Company's financial position and the results of operations as if Yoodydyne was a wholly-owned subsidiary of the Company since inception. During October 1998, the Company recorded a one-time charge of \$2.1 million for acquisition-related costs. These costs consisted of broker fees, legal and accounting fees, and certain other expenses directly related to the acquisition.

ACQUISITION OF SIMPLENET. In November 1998, the Company acquired SimpleNet, a provider of Web site hosting services to consumers and small businesses. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 634,453 shares of Yahoo! Common Stock for all of SimpleNet's outstanding shares. The consolidated financial statements for the three years ended December 31, 1998 and the accompanying notes reflect the Company's financial position and the results of operations as if SimpleNet was a wholly-owned subsidiary of the Company since inception. The Company recorded a one-time charge of \$1.5 million for acquisition related costs. These costs consisted of broker fees, legal and accounting fees, and certain other expenses directly related to the acquisition.

ACQUISITION OF HYPERPARALLEL, INC. On December 17, 1998, the Company completed the acquisition of all of the outstanding shares of HyperParallel, Inc. ("HyperParallel"), a company specializing in data analysis, through the issuance of 74,856 shares of Yahoo! Common Stock and approximately \$700,000 of cash for a purchase price totaling \$8.1 million including acquisition costs. The acquisition was accounted for as a purchase in accordance with APB 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 the acquisition. Results of operations for HyperParallel have been included with those of the Company for periods subsequent to the acquisition.

Approximately \$2.3 million of the total purchase price was allocated to in-process research and development. This amount was developed by estimating the stage of development of each in-process research and development project at the date of the acquisition, estimating incremental cash flows generated from such projects, and discounting the net cash flows back to their present value using a discount rate of 35%, which represents a premium to the Company's cost of capital to take into account the uncertainty surrounding the successful development of the purchased in-process technology. The projections were based on management's estimates of market size and growth, expected trends in advertising and technology, expected research and

development and selling and general administrative expenditures, and the expected timing of new product introductions. Approximately \$1.2 million of the total purchase price was allocated to existing technology which is being amortized over 3 years. The value of the existing technology was developed based on similar assumptions using a discount rate of 25%. The projections used in developing the values should not be considered an accurate predictor of future performance for several reasons, including the consideration of many factors outside the control of the Company. The remaining purchase price of approximately \$4.6 million was allocated to goodwill which is being amortized over 7 years. Tangible assets acquired and liabilities assumed were not material to the Company's financial statements.

The value assigned to purchased in-process technology was determined by identifying three research projects in-progress as of the acquisition date. These three research projects in-progress focus on technologies surrounding search tools. Two of the application oriented development projects were 70% and 20% complete as of the acquisition date. The first project was completed in early 1999 and the second project is expected to be completed in the fourth quarter of 1999. The remaining project relates to the next release of the current search tool which was approximately 20% complete as of the acquisition date and is expected to be completed in the fourth quarter of 1999. Future research and development costs to be incurred on the individual in-process projects are not expected to be material to Yahoo!'s financial position or results of operations. In addition, if none of these projects were successfully developed, Yahoo!'s revenues and profitability would not be materially adversely affected.

ACQUISITION

OF STARSEED, INC. In December 1998, the Company completed the acquisition of all the outstanding shares of Starseed, Inc. ("Starseed"), a developer of technology that enables the linking of topically related Web sites, through the issuance of 370,036 shares of Common Stock, approximately \$2 million in cash and the forgiveness of \$600,000 of debt. All outstanding options to purchase Starseed common stock were converted into options to purchase 145,512 shares of the Company's common stock.

The total purchase price of the acquisition was \$24.8 million. The acquisition was accounted for as a purchase in accordance with the provisions of APB 16 with the excess purchase price over the fair value of net assets acquired being recorded as goodwill. The purchase price was allocated to the assets acquired and the liabilities assumed based on their estimated fair values as follows (in thousands):

In-process research and development	\$	15,000
Purchased technology		15,000
Goodwill		24,332
Tangible assets acquired		571
Liabilities assumed		(344)
Deferred tax liability		(6,000)
		<u> </u>
	\$	48,559
		<u> </u>

The results of operations for Starseed are included with those of the Company's for the period subsequent to the date of acquisition. The purchased technology is being amorized on a straight-line basis over one year. The goodwill and other intangibles are being amortized on a straight-line basis over three years.

UNAUDITED

PRO FORMA DISCLOSURES OF SIGNIFICANT ACQUISITIONS. The following unaudited pro forma consolidated results of operations give effect to the acquisitions of Viaweb, HyperParallel, and Starseed as if they occurred as of the beginning of the period (in thousands, except per share data):

Purchased technology	\$	1,189
Goodwill and other intangible assets		23,992
Other assets		161
Liabilities assumed		(560)
		<u> </u>
	\$	24,782
		<u> </u>

NOTE 6 JOINT VENTURES

YAHOO!

JAPAN. During April 1996, the Company signed a joint venture agreement with SOFTBANK whereby Yahoo! Japan Corporation was formed to establish and manage in Japan a Japanese version of the Yahoo! Internet Guide, develop related Japanese online navigational services, and conduct other related business. The Company's ownership interest in the joint venture upon inception was 40%.

During November 1997, Yahoo! Japan Corporation completed its initial public offering raising total proceeds of approximately \$5.5 million. Accordingly, the Company increased its investment by \$1.7 million, recorded as additional paid-in capital, to reflect the increase in the Company's share of the investment. The investment is being accounted for using the equity method and the Company's share of net income, to date, has been immaterial. At December 31, 1998, the carrying value of the investment was \$2.9 million and is recorded in other assets. The fair value of the Company's 34% ownership in Yahoo! Japan, based on the quoted trading price, was approximately \$170 million at December 31, 1998. At June 30, 1999, the fair value of the Company's ownership in Yahoo! Japan was approximately \$1.7 billion (unaudited).

YAHOO!

EUROPE. On November 1, 1996, the Company signed a joint venture agreement with a subsidiary of SOFTBANK whereby separate companies were formed in Germany, the United Kingdom, and France ("Yahoo! Europe") to establish and manage versions of the Yahoo! Internet Guide for those countries, develop related online navigational services, and conduct other related business. The parties have invested a total of \$6.0 million in proportion to their respective equity interests as of December 31, 1998. The Company has a majority share of approximately 70% in each of the Yahoo! Europe entities, and therefore, has consolidated their financial results. During 1998, 1997 and 1996, Yahoo! Europe incurred losses from operations of \$409,000, \$1,807,000 and \$842,000, respectively. SOFTBANK's interest in the net assets of Yahoo! Europe at December 31, 1998 and 1997, as represented by the minority interest on the balance sheet, was \$683,000 and \$405,000, respectively.

YAHOO!

KOREA. During August 1997, the Company signed a joint venture agreement with SOFTBANK and other SOFTBANK affiliated companies whereby Yahoo! Korea was formed to develop and operate a Korean version of the Yahoo! Internet Guide, develop related Korean online navigational services, and conduct other related business. The parties have invested a total of \$1.0 million in proportion to their respective equity interests. The Company has a majority share of approximately 60% in the joint venture, and therefore, has consolidated the financial results, which have been insignificant to date. SOFTBANK's interest in the net assets of Yahoo! Korea at December 31, 1998 and 1997, as represented by the minority interest on the balance sheet, was \$365,000 and \$311,000, respectively.

GEOCITIES

JAPAN. During November 1997, the Company and SOFTBANK formed a joint venture called GeoCities Japan Corporation ("GeoCities Japan") to create and manage a Japanese version of the GeoCities web site. In accordance with the joint venture agreement ("Agreement"), the Company purchased 40% of GeoCities Japan for approximately \$645,000 and licensed certain intellectual properties for the purpose of localizing the Japanese version of GeoCities to GeoCities Japan. The Agreement remains in effect perpetually, provided that, if as of April 1, 2001, or any April 1 thereafter; (i) GeoCities Japan has sustained net losses for the four consecutive fiscal quarters, and (ii) the Company and SOFTBANK differ with respect to the future business plan of GeoCities Japan, then each party shall have the right ot terminate the Joint Venture with 90-days notice. The investment is being accounted for using the equity method and the Company's share of net loss, to date, has been immaterial.

YAHOO!

MARKETPLACE. On August 26, 1996, Yahoo! entered into agreements with Visa International Service Association ("VISA") and another party (together, the "Visa Group") to establish a limited liability company, Yahoo! Marketplace L.L.C., to develop and operate a navigational service focused on information and resources for the purchase of consumer products and services over the Internet. Yahoo!'s principal obligations include a commitment to provide operating contributions to support implementation of the service including its look and feel, development of its software, hiring of its management, promotion of the service, promotion of VISA, a nonexclusive license to Yahoo! Marketplace to use the Yahoo! brand and search tools, and an agreement that Yahoo! Marketplace would be used exclusively for the activities defined in the operating agreement. VISA's key obligations included a commitment to provide operating contributions including encouraging VISA member banks to participate and utilize the services of Yahoo! Marketplace, assistance in implementing systems to process payments, other marketing assistance activities, providing non-exclusive rights to utilization of the VISA brand, and an agreement not to compete for 18 months by entering into a similar arrangement with a Yahoo! competitor. As of December 31, 1996, the parties had invested a total of \$1.0 million. At December 31, 1996, Yahoo! owned approximately 55% of the equity interest in Yahoo! Marketplace. Yahoo! Marketplace incurred start-up losses of \$246,000 in 1997 and \$637,000 in 1996.

During

May 1997, Yahoo! received a letter from VISA formally expressing its concerns with respect to breach of contract, Yahoo! support obligations, and exclusivity. In June 1997, Yahoo! conducted numerous discussions concerning settlement of these obligations and claims and proposed a settlement with the Visa Group which was signed in July 1997, prior to the completion of significant business activities and public launch of the property. In connection with this settlement, Yahoo! issued 2,797,924 shares of Yahoo! Common Stock to the Visa Group, for which Yahoo! recorded a one-time, non-cash, pre-tax charge of \$21.2 million in the second quarter ended June 30, 1997. The settlement ultimately released Yahoo! from all of its obligations described above. The agreement settled all disputes and claims arising among the parties with respect to the interpretation of and the parties' respective performance under the agreements and released the parties from further liability. It also released Yahoo! from any other further damage claims by VISA for non-performance. Yahoo! also forfeited its non-compete commitment from VISA. No portions of these agreements continued in effect subsequent to the settlement.

NOTE 7 LINE OF CREDIT

The Company has a \$10 million revolving line of credit which includes a \$7 million revolving credit facility and a \$3 million lease facility which expires in December 1999. Interest on borrowings under the revolving credit and lease facilities is the prime rate and prime rate plus 0.75%, respectively (7.75% and 8.5% at December 31, 1998, respectively). The facility is collateralized and has financial covenants which applied to GeoCities prior to its acquisition by Yahoo!. As of June 30, 1999 (unaudited) and December 31, 1998 and 1997, there were no borrowings under the facility.

NOTE 8 STOCKHOLDERS' EQUITY

COMMON

STOCK. On April 11, 1996, the Company completed its initial public offering of 17.9 million shares of its Common Stock. Net proceeds to the Company aggregated \$35.1 million. As of the closing date of the offering, all of the Convertible Preferred Stock outstanding was converted into an aggregate of approximately 77.0 million shares of Common Stock. On July 14, 1998, the Company received proceeds of \$250 million in exchange for 5,453,760 newly issued shares of Common Stock through a private placement with SOFTBANK. The shares purchased by SOFTBANK are subject to a pre-existing agreement, entered into in 1996, that prohibits SOFTBANK from purchasing additional shares of the Company's capital stock if such purchase would result in SOFTBANK owning more than 35% of the Company's capital stock (assuming the exercise of all outstanding options and warrants to purchase capital stock).

Prior

to their acquisitions by Yahoo!, GeoCities and broadcast.com completed initial public offerings and private placements selling the equivalent of 7,848,000, 4,389,000 and 2,045,000 shares of Yahoo! Common Stock in 1998, 1997 and 1996 for total net proceeds of \$127.5 million, \$25.7 million and \$8.6 million, respectively

MANDATORY

REDEEMABLE CONVERTIBLE PREFERRED STOCK. Prior to the merger with Yahoo!, GeoCities had six series of mandatory redeemable convertible preferred stock outstanding. Redemption, at the option of the holder, could be elected beginning on January 1, 2000 at an amount equal to the original issue price plus seven percent per annum. The Company has recorded accretion on this preferred stock through the date of GeoCities initial public offering at which time the preferred stock converted to common stock.

STOCK

OPTION PLANS. Pursuant to the consummation of the acquisitions of Viaweb, Voyodyne, GeoCities, Encompass, Online Anywhere, and broadcast.com, the Company assumed the Viaweb 1997 Stock Option Plan (the "Viaweb Plan"), the 1996 Voyodyne Stock Option Plan (the "Voyodyne Plan"), the GeoCities 1998 Stock Option Plan (the "GeoCities Plan"), the 1998 Starseed Stock Option Plan (the "Starseed Plan"), the Encompass, Inc. Stock Option Plan (the "Encompass Plan"), the Online Anywhere 1997 Stock Plan (the "Online Anywhere Plan"), and the 1998 broadcast.com Stock Option Plan (the "broadcast.com Plan"), respectively (collectively the "Plans"). As of December 31, 1998, the Company had ten stock-based compensation plans.

The

Plans allow for the issuance of incentive stock options, non-qualified stock options, and stock purchase rights to purchase a maximum of approximately 100.0 million shares of the Company's Common Stock. Under the Plans, incentive stock options may be granted to employees, directors, and officers of the Company and non-qualified

stock options and stock purchase rights may be granted to consultants, employees, directors, and officers of the Company. Options granted under the Plans are for periods not to exceed ten years, and must be issued at prices not less than 100% and 85%, for incentive and nonqualified stock options, respectively, of the fair market value of the stock on the date of grant as determined by the Board of Directors. Options granted to stockholders who own greater than 10% of the outstanding stock are for periods not to exceed five years and must be issued at prices not less than 110% of the fair market value of the stock on the date of grant as determined by the Board of Directors. Options granted under the Plans generally vest 25% after the first year of service and ratably each month over the remaining thirty-six month period.

The 1996 Directors' Stock Option Plan (the "Directors' Plan") provides for the issuance of up to 1.2 million non-statutory stock options to non-employee directors of the Company. Each person who becomes a non-employee director of the Company after the date of the Company's initial public offering will automatically be granted a non-statutory option (the "First Option") to purchase shares of Common Stock upon the date on which such person first becomes a director. Thereafter, each director of the Company will be granted an annual option (the "Annual Option") to purchase shares of Common Stock. Options under the Directors' Plan will be granted at the fair market value of the stock on the date of grant as determined by the Board of Directors and will vest in equal monthly installments over four years, in the case of the First Option, or at the end of four years in the case of the Annual Option. Options granted under the Directors' Plan are for periods not to exceed 10 years.

Activity under the Company's stock option plans is summarized as follows (in thousands, except per share amounts):

	Year Ended December 31,	
	1998	1997
Net revenues	\$ 246,122	\$ 85,057
Net loss	(32,462)	(68,777)
Net loss per share—basic and diluted	(0.15)	(0.35)

The following table summarizes information concerning outstanding and exercisable options at December 31, 1998 (in thousands, except per share amounts):

	Available for Grant	Options Outstanding	Weighted Average Price per Share
Balance at December 31, 1995	23,502	20,432	\$ —
Additional shares reserved	21,708	—	—
Options granted	(24,169)	24,169	1.69
Options exercised	—	(2,978)	—
Options canceled	1,864	(1,864)	1.65
Balance at December 31, 1996	22,904	39,759	0.96
Additional shares reserved	34,104	—	—
Options granted	(23,201)	23,201	7.97
Options exercised	—	(9,687)	0.53
Options canceled	796	(796)	1.91
Balance at December 31, 1997	34,602	52,478	4.10
Additional shares reserved	8,245	—	—
Options granted	(26,665)	26,665	45.85
Options exercised	—	(11,348)	2.73
Options canceled	3,194	(3,194)	10.83
Balance at December 31, 1998	19,376	64,601	\$ 21.23

Options to purchase approximately 9.2 million shares and 3.3 million shares were vested at December 31, 1997 and 1996, respectively. The weighted average exercise prices per share for options vested at December 31, 1997 and 1996 were \$1.03 and \$0.01, respectively. Through December 31, 1998, Yahoo! and certain acquired entities recorded compensation expense related to certain stock options issued with exercise prices below the fair market value of the related common stock. The Company recorded compensation expense in the amount of \$2,163,000, \$1,239,000, and \$164,000 in 1998, 1997, and 1996, respectively. As of December 31, 1998, approximately \$8,018,000 remains to be amortized over the remaining vesting periods of the options.

EMPLOYEE STOCK PURCHASE PLAN. Effective March 6, 1996, the Company's Board of Directors adopted the Employee Stock Purchase Plan (the "Purchase Plan"), which provides for the issuance of a maximum of 1,800,000 shares of Common Stock. Eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of the Company's Common Stock on every December 31st and June 30th. The price of the Common Stock purchased under the Purchase Plan will be equal to 85% of the lower of the fair market value of the Common Stock on the commencement date of each six month offering period or the specified purchase date. During 1998, 126,000 shares were purchased at prices from \$14.72 to \$36.10 per share. During 1997, 537,000 shares were purchased at prices from \$1.85 to \$4.83 per share. There were no shares issued under the Purchase Plan during 1996. At December 31, 1998, 1,137,000 shares were available under the Purchase Plan for future issuance.

STOCK COMPENSATION. The Company accounts for stock-based compensation in accordance with the provisions of APB 25. Had compensation expense been determined based on the fair value at the grant dates, as prescribed in SFAS 123, the Company's results would have been as follows (in thousands, except per share amounts):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
less than \$0.01	8,052	6.6	\$ —	5,237	\$ —
0.03-1.17	7,118	7.0	0.61	3,279	0.69
1.25-3.29	8,935	7.1	2.26	3,075	2.08
3.31-8.08	9,705	8.3	5.02	1,546	4.97
10.27-13.47	8,112	8.8	12.95	1,804	13.06
13.94-29.64	6,772	9.0	20.67	143	14.50
30.38-59.01	9,243	9.4	45.00	8	36.10
62.41-135.00	6,664	9.9	95.70	—	—
	64,601	8.2	\$ 21.23	15,092	\$ 2.80

Prior to the Company's initial public offering, the fair value of each option grant was determined on the date of grant using the minimum value method. Subsequent to the offering, the fair value was determined using the Black-Scholes model. The weighted average fair market value of an option granted during 1998, 1997, and 1996 was \$24.11, \$3.81, and \$0.77, respectively. Except for the volatility assumption which was only used under the Black-Scholes model, the following range of assumptions was used to perform the calculations: expected life of 36 months in 1998 and 1997, and 30 months in 1996; risk-free interest rate ranges of 4.2% to 5.6% during 1998, 5.6% to 6.6% during 1997, and 5.1% to 6.5% during 1996; expected volatility of 67% in 1998, 59% in 1997, and 53% in 1996; and no expected dividend yield for the three years ended December 31, 1998. Because additional stock options are expected to be granted each year, the above pro forma disclosures are not representative of pro forma effects on reported financial results for future years.

NOTE 9 INCOME TAXES

The components of income (loss) before taxes are as follows (in thousands):

	1998	1997	1996
Net loss:			
As reported	\$ (12,674)	\$ (43,376)	\$ (12,430)
Pro forma	\$ (63,529)	\$ (50,043)	\$ (13,313)
Net loss per share—basic and diluted:			
As reported	\$ (0.06)	\$ (0.23)	\$ (0.07)
Pro forma	\$ (0.30)	\$ (0.26)	\$ (0.08)

The provision for income taxes in 1998 is comprised of the following (in thousands):

	Year Ended December 31,		
	1998	1997	1996
United States	\$ 6,456	\$ (40,818)	\$ (11,491)
Foreign	(1,303)	(2,558)	(939)
	\$ 5,153	\$ (43,376)	\$ (12,430)

No provision for federal and state income taxes for 1997 and 1996 has been recorded as the Company incurred net operating losses for these periods.

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate as follows (in thousands):

Current:	
Federal	\$ 20,333
State	1,937
	22,270
Deferred:	
Federal	(3,616)
State	(827)

Total provision		\$	17,827

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

	Year Ended December 31,		
	1998	1997	1996
Income tax at the federal statutory rate of 35%	\$ 1,804	\$ (15,182)	\$ (4,350)
State income tax, net of federal benefit	1,473	(1,896)	(231)
Non-deductible acquisition-related charges	8,521	—	—
Research tax credits	(1,155)	—	—
Change in valuation allowances	7,085	15,660	4,541
Other	99	1,418	40
	\$ 17,827	\$ —	\$ —

As of December 31, 1998, the Company's federal and state net operating loss carryforwards for income tax purposes were approximately \$391 million and \$237 million, respectively. If not utilized, the federal net operating loss carryforwards will begin to expire in 2019, and the state net operating loss carryforwards will begin to expire in 2002. The Company's federal and state research tax credit carryforwards for income tax purposes are approximately \$10.7 million and \$10.1 million, respectively. If not utilized, the federal tax credit carryforwards will begin to expire in 2010. Approximately \$71 million of net operating loss carryforwards relate to acquired entities and expire beginning in 2010. Utilization of these net operating loss carryforwards may be limited by a cumulative stock ownership change of more than 50%, or by other limitations.

Gross deferred tax assets of approximately \$141 million as of December 31, 1998 pertain to certain net operating loss carryforwards and credit carryforwards resulting from the exercise of employee stock options. When recognized, the tax benefit of these loss and credit carryforwards are accounted for as a credit to additional paid-in capital rather than a reduction of the income tax provision. Deferred tax assets include approximately \$1.6 million related to net operating loss carryforwards in various foreign jurisdictions. These carryforwards will expire if not utilized.

NOTE 10 COMMITMENTS AND CONTINGENCIES

OPERATING

LEASES. During December 1998, the company entered into a non-cancelable operating sublease agreement that will provide the Company with additional office space at its existing Santa Clara, California location. Additionally during 1998, the company entered into various other non-cancelable operating lease agreements for its sales offices throughout the U.S. and its international subsidiaries. Future minimum lease payments under non-cancelable operating leases with initial terms of one year or more are \$7.3 million in 1999, \$6.0 million in 2000, \$4.7 million in 2001, \$4.2 million in 2002, \$4.4 million in 2003, and \$5.0 million thereafter. Certain of the Company's lease agreements have a five year renewal option from the date of expiration. Total minimum rental payments aggregate

\$31.6 million. Rent expense under operating leases totaled \$5.5 million, \$2.9 million, and \$0.8 million during 1998, 1997, and 1996, respectively.

LEGAL.

Prior to the merger of Yahoo! and GeoCities, GeoCities and the Federal Trade Commission ("FTC") staff attorneys executed a Consent Order in February 1999 in connection with certain past business practices of the Company related to disclosure of personal identifying information to third parties. Based on the scope of the Consent Order, the Company does not believe that its compliance with the Consent Order will have a material adverse effect on the Company's business, results of operation, financial condition, or cash flows.

On

August 14, 1998, a lawsuit was filed against GeoCities involving GeoCities' collection and use of personal identifying information. The complaint in this case follows the FTC draft complaint without alleging any new facts. This case involves a single cause of action for the alleged violation of California Business and Professions Code and seeks an injunction, disgorgement and any profits obtained as a result of the alleged improper activity, and attorneys' fees. On September 30, 1998, an additional case was filed against GeoCities related to the same activity. This suit also purported to be a class action and sought disgorgement of any profits obtained as a result of the alleged improper activity, unspecified damages, and attorneys' fees. The court determined the two cases are related and set a joint non-binding mediation which was to have been conducted by the end of August 1999. The mediation was continued to

November 4, 1999 by agreement of the parties and a further status conference will be held with the Court on November 17, 1999. On April 30, 1999, a third case was filed against GeoCities again related to the same activity. This suit also purported to be a class action and asserted a single cause of action for an alleged violation of the Pennsylvania Unfair Trade Practices and Consumer Protection Law. This suit seeks the greater of (a) \$100 per class member or (b) actual damages. The initial status conference was originally scheduled for June 9, 1999 but was recently continued until December 1, 1999.

Based

on the Company's analysis of these lawsuits and given that they involve the same set of circumstances that are covered in the FTC matter, the Company believes that the allegations contained in the three complaints are without merit and intends to defend these actions vigorously.

From

time to time the Company is subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights 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.

NOTE 11 SUBSEQUENT EVENTS

ACQUISITION

OF BROADCAST.COM. On July 20, 1999, the Company completed its acquisition of 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 exchanged approximately 28,647,000 shares of Yahoo! Common Stock for all of the broadcast.com outstanding common stock. Additionally, the Company converted options to purchase approximately 6,778,000 shares of broadcast.com common stock into options to purchase approximately 5,234,000 shares of Yahoo! Common Stock. The Company expects to record a one-time charge in the third quarter of 1999 of approximately \$22.1 million relating to expenses incurred with this transaction. The charge includes direct transaction costs including estimated investment banking and financial advisory fees of approximately \$14 million and other

estimated merger-related expenses totaling \$8.1 million. Other merger-related expenses consist of professional services (\$3.2 million); severance costs associated with the termination of certain employees with redundant job functions in certain functional areas (\$1.3 million); securities registration fees (\$2.5 million); and other merger related expenses (\$1.1 million).

ACQUISITION

OF GEOCITIES. On May 28, 1999, the Company acquired GeoCities, a publicly traded Internet company that offers a community of personal web sites on the Internet within themed, online neighborhoods. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 21,640,342 shares of Yahoo! Common Stock for all of GeoCities outstanding common stock. Additionally, Yahoo! converted approximately 8,432,000 GeoCities stock options into approximately 5,707,000 Yahoo! stock options. In the second quarter of 1999, the Company recorded expenses of approximately \$55 million relating to costs incurred with this transaction. The costs include estimated investment banking and financial advisory fees of approximately \$39 million and other estimated merger related expenses totaling \$16 million consisting of professional services; severance costs which relate to termination of certain employees with redundant job functions in substantially all functional areas; closing costs of certain duplicate and redundant operating and sales facilities which are expected to be closed within 30 to 90 days of consummation of the merger as well as the write-off of certain related fixed assets and leasehold improvements associated with the severance and closure activities; termination fees related to contracts which provide certain services to GeoCities which are redundant to certain pre-existing Yahoo! services; and other merger related expenses.

ACQUISITION

OF ONLINE ANYWHERE. On May 28, 1999, the Company acquired Online Anywhere, a provider of Web delivery solutions for non-PC appliances. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 43,185 shares of Yahoo! Common Stock for all the Online Anywhere outstanding common stock. Additionally, Yahoo! converted all outstanding Online Anywhere stock options into approximately 87,000 Yahoo! stock options.

ACQUISITION

OF ENCOMPASS. On May 26, 1999, the Company acquired Encompass, a developer of consumer Internet access software. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 695,128 shares of Yahoo! Common Stock for all the Encompass outstanding common stock. Additionally, Yahoo! converted all outstanding Encompass stock options into approximately 110,000 Yahoo! stock options.

REINCORPORATION

IN DELAWARE. On May 14, 1999, the Company's stockholders approved a change in the state of incorporation of California to Delaware. The par value of the Company's Common Stock was changed to \$0.001 from \$0.0001 pursuant to the reincorporation. The consolidated financial statements and notes thereto for all periods presented have been adjusted to reflect the reincorporation. In addition, the Company's stockholders approved an increase in the number of shares reserved for issuance under employee stock option plans to 40 million shares.

ACQUISITION

OF NET ROADSHOW. In March 1999, the Company completed the acquisition of Net Roadshow, Inc., a provider of Internet initial public offerings and other financial roadshow services. Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 717,446 shares of Yahoo! Common Stock for all of Net Roadshow's outstanding shares. The consolidated financial statements for the three years ended December 31, 1998 and the accompanying notes reflect the Company's financial position and the results of operations as if Net Roadshow was a wholly-owned subsidiary of the Company since inception.

NOTE 12 SUBSEQUENT EVENTS (UNAUDITED)

ACQUISITION

OF YAHOO! CANADA. 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 which was settled 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 six months ended June 30, 1999 and 1998, and for the three years ended December 31, 1998 would not have been materially different had the companies combined at the beginning of the respective periods.

ACQUISITION

OF LOG-ME-ON. 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 APB 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.

TAXES. During the second quarter of 1999, the Company released the valuation allowance on certain acquired net operating losses as a result of a change in tax regulations resulting in a tax benefit. The tax provision for the six months ended June 30, 1999 differs from the amount computed by applying the statutory federal income tax rate principally due to nondeductible acquisition related charges and the change in the valuation allowance.

INCOME

UNREALIZED

GAIN. In September 1998, the Company made a \$5 million investment in a company which completed its initial public offering in June 1999, which resulted in the Company recording an unrealized gain of approximately \$56.8 million at June 30, 1999.

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	Year Ended December 31,		
	1998	1997	1996
Deferred income tax assets:			
Net operating loss and credit carryforwards	\$ 171,003	\$ 33,984	\$ 5,726
Non-deductible reserves and expenses	5,147	4,999	1,446
Gross deferred tax assets	176,150	38,983	7,172
Valuation allowance	(169,826)	(38,614)	(7,172)
	6,324	369	—
Deferred income tax liabilities:			
Unrealized investment gains	(595)	—	—
Intangible assets	(4,833)	—	—
Other	(896)	(369)	—
Gross deferred tax liabilities	(6,324)	(369)	—
	\$ —	\$ —	\$ —