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

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**FORM 10-Q**

For the quarterly period ended March 31, 2000

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-28018

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**YAHOO! INC.**

(Exact name of registrant as specified in its charter)

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

3420 Central Expressway

Santa Clara, California 95051

(Address of principal executive offices)

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

Indicate by check mark whether the Registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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**YAHOO! INC.**

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Class	Outstanding at April 3, 2000
Common Stock, \$0.001 par value	543,263,856

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**YAHOO! INC.**  
**Condensed Consolidated Balance Sheets**  
(unaudited, in thousands)

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

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**YAHOO! INC.**  
**Condensed Consolidated Statements of Operations**  
(unaudited, in thousands except per share amounts)

	<u>March 31,</u> <u>2000</u>	<u>December 31,</u> <u>1999</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 336,634	\$ 233,951
Short-term investments in marketable securities	655,304	638,508
Accounts receivable, net	59,719	54,426
Prepaid expenses and other current assets	20,351	19,038
<b>Total current assets</b>	<b>1,072,008</b>	<b>945,923</b>
Long-term investments in marketable securities	551,868	339,623
Property and equipment, net	64,391	58,111
Other assets	204,766	126,164
<b>Total assets</b>	<b>\$ 1,893,033</b>	<b>\$ 1,469,821</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 14,521	\$ 13,457
Accrued expenses and other current liabilities	105,264	88,154
Deferred revenue	114,899	90,708
<b>Total current liabilities</b>	<b>234,684</b>	<b>192,319</b>
Other liabilities	11,685	12,407
Minority interests in consolidated subsidiaries	25,852	3,790
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common Stock	543	533
Additional paid-in capital	1,447,242	1,143,646
Retained earnings (accumulated deficit)	63,844	(11,553)
Accumulated other comprehensive income	109,183	128,679
<b>Total stockholders' equity</b>	<b>1,620,812</b>	<b>1,261,305</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,893,033</b>	<b>\$ 1,469,821</b>

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

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**YAHOO! INC.**  
**Condensed Consolidated Statements of Cash Flows**  
(unaudited, in thousands)

	Three Months Ended	
	<u>March 31,</u> <u>2000</u>	<u>March 31,</u> <u>1999</u>
Net revenues	\$ 228,384	\$ 103,878
Cost of revenues	34,467	20,773
<b>Gross profit</b>	<b>193,917</b>	<b>83,105</b>
Operating expenses:		
Sales and marketing	78,520	42,762
Product development	23,200	13,988
General and administrative	12,854	8,409
Amortization of intangibles	4,062	3,203
Acquisition-related costs	415	10,237
<b>Total operating expenses</b>	<b>119,051</b>	<b>78,599</b>
<b>Income from operations</b>	<b>74,866</b>	<b>4,506</b>
Investment income, net	56,723	8,123
Minority interests in operations of consolidated subsidiaries	(1,837)	(325)
<b>Income before income taxes</b>	<b>129,752</b>	<b>12,304</b>
Provision for income taxes	51,901	10,508
<b>Net income</b>	<b>\$ 77,851</b>	<b>\$ 1,796</b>
<b>Net income per share—basic</b>	<b>\$ 0.14</b>	<b>\$ 0.00</b>
<b>Net income per share—diluted</b>	<b>\$ 0.13</b>	<b>\$ 0.00</b>
<b>Shares used in per share calculation—basic</b>	<b>538,509</b>	<b>504,048</b>
<b>Shares used in per share calculation—diluted</b>	<b>613,095</b>	<b>594,926</b>

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

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**YAHOO! INC.**  
**Notes to Condensed Consolidated Financial Statements**  
(unaudited)

**Note 1—The Company and Basis of Presentation**

Yahoo! Inc. ("Yahoo!" or the "Company") is a global Internet communications, commerce and media company that offers a comprehensive branded network of services to millions of individuals each month worldwide. The Company is incorporated in Delaware and commenced operations in 1995.

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

These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999. Certain prior period balances have been reclassified to conform to current period presentation. The condensed consolidated financial statements for the period ended March 31, 1999 have been restated to reflect the 1999 acquisitions of GeoCities, Encompass, Inc. ("Encompass"), Online Anywhere, and broadcast.com, inc. ("broadcast.com"), which were accounted for as poolings of interests.

#### Note 2—Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities, and is effective for fiscal years beginning after June 15, 2000, as amended by SFAS No. 137. The Company believes the adoption of this pronouncement will have no material impact on the Company's financial position and results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. In March 2000, the SEC issued SAB No. 101A to defer for one quarter the effective date of implementation of SAB No. 101 with earlier application encouraged. The Company is required to adopt SAB 101 in the second quarter of fiscal 2000. The Company does not expect the adoption of SAB 101 to have a material effect on our financial position or results of operations.

#### Note 3—Stock Split

During January 2000, the Company's Board of Directors approved a two-for-one Common Stock split which was effective on February 14, 2000. All share numbers in these condensed consolidated financial statements and notes thereto for all periods presented have been adjusted to reflect the two-for-one Common Stock split.

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#### Note 4—Other Assets (in thousands)

	Three Months Ended	
	March 31, 2000	March 31, 1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 77,851	\$ 1,796
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,204	9,773
Tax benefits from stock options	48,321	10,467
Minority interests in operations of consolidated subsidiaries	1,837	325
Non-cash gain from exchange of investments	(40,656)	—
Purchased in-process research and development	—	9,775
Other non-cash charges	717	671
Changes in assets and liabilities:		
Accounts receivable, net	(5,293)	(6,170)
Prepaid expenses and other assets	(6,353)	(3,519)
Accounts payable	1,066	1,028
Accrued expenses and other current liabilities	16,288	3,505
Deferred revenue	24,191	7,177
Net cash provided by operating activities	132,173	34,828
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(14,328)	(11,608)
Purchases of marketable securities	(327,338)	(221,140)
Proceeds from sales and maturities of marketable securities	184,525	203,632
Cash acquired in acquisition	1,557	—
Net cash used in investing activities	(155,584)	(29,116)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of Common Stock, net	126,646	27,910
Net cash provided by financing activities	126,646	27,910
Effect of exchange rate changes on cash and cash equivalents	(552)	(41)
Net change in cash and cash equivalents	102,683	33,581
Cash and cash equivalents at beginning of period	233,951	230,961
Cash and cash equivalents at end of period	\$ 336,634	\$ 264,542

#### Note 5—Basic and Diluted Net Income per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income 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 the exercise of stock options and warrants (using the treasury stock method). For the three month periods ended March 31, 2000 and 1999, common share equivalents approximated 74.6 million and 90.9 million shares, respectively, and were primarily related to shares issuable upon the exercise of stock options.

#### Note 6—Comprehensive Income

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

	March 31, 2000	December 31, 1999
Intangible assets	\$ 92,099	\$ 78,085
Investments in privately-held companies	39,910	20,750
Investment in Yahoo! Japan	68,083	10,641
Other	4,674	16,688
	\$ 204,766	\$ 126,164

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

#### Note 7—Acquisitions

In February 2000, the Company completed its acquisition of Arthas.com, operating under the trade name dotBank.com ("dotBank"). Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 593,911 shares of Yahoo! Common Stock for all of dotBank's outstanding shares. dotBank was incorporated in July 1999. The historical operations of dotBank 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. dotBank's accumulated deficit on February 29, 2000 was \$2,454,000. Results of operations of dotBank are included with those of Yahoo! for periods subsequent to the acquisition date.

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#### Note 8—Investments

In March 2000, Yahoo! Japan acquired GeoCities Japan and broadcast.com japan for 1,100 shares of Yahoo! Japan common stock for which the Company received 431 shares. Yahoo! owned 40% of GeoCities Japan and 44% of broadcast.com japan prior to the acquisition. As a result of the acquisition, the Company has recorded goodwill to be amortized over seven years, and a gain from investments of \$40.7 million. The Company continues to own approximately 34% of Yahoo! Japan.

In March 2000, the Company invested an additional \$61 million in Yahoo! Korea. As a result, the Company has recorded goodwill of \$20.2 million, which will be amortized over seven years. Yahoo!'s ownership in Yahoo! Korea is currently at 67%.

In March 2000, the Company issued 906,452 shares of its Common Stock valued at approximately \$136.7 million in exchange for 2,777,778 shares of common stock of Net2Phone, Inc. ("Net2Phone"). The investment is included in the condensed consolidated balance sheet under long-term investments in marketable equity securities.

#### Note 9—Segment Information

Based on the criteria established by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company operates in two principal business segments globally. The Company does not allocate any operating costs to its business services segment as management does not use this information to measure the performance of the operating segment. Management does not believe that allocating these expenses is material in evaluating the segment's performance.

Summarized information by segment as excerpted from the internal management reports is as follows (in thousands):

	Three Months Ended March 31,	
	2000	1999
Net income	\$ 77,851	\$ 1,796
Unrealized losses on available-for-sale securities	(18,944)	(565)

Comprehensive income

\$	58,355	\$	1,137
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**Revenue**

is attributed to individual countries according to the international online property that generated the revenue. International revenues accounted for 14% and 8% of net revenues during the quarters ended March 31, 2000 and 1999, respectively. No single foreign country accounted for more than 10% of net revenues for the quarters ended March 31, 2000 and 1999.

**Note 10—Commitments and Contingencies**

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights, and a variety of claims arising in connection with the Company's email, message boards, auction sites, shopping services, and other communications and community features, such as claims alleging defamation or invasion of privacy. In addition, from time to time, third parties assert patent infringement

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Claims against the Company in the form of letters, lawsuits and other forms of communication. Currently, the Company is engaged in two lawsuits regarding patent issues and has been notified of a number of other potential patent disputes.

In addition to intellectual property claims, the Company has also been advised that the FTC is conducting an inquiry into certain of the Company's consumer information practices to determine whether the Company has complied with applicable FTC consumer protection regulations. In connection with this inquiry, the FTC has requested that the Company provide information about its practices and submit various documents and other materials to the FTC.

The Company is not currently aware of any legal proceedings or claims that the Company believes are likely to have a material adverse effect on the Company's financial position or results of operations. However, the Company may incur substantial expenses in defending against third party claims or any action by the FTC. In the event of a determination adverse to the Company, the Company may incur substantial monetary liability, and be required to change its business practices. Either of these could have a material adverse effect on the Company's financial position and results of operations.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding the Company's expectations, beliefs, intentions or future strategies that are signified by the words "expects", "anticipates", "intends", "believes", or similar language. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. In evaluating the Company's business, prospective investors should carefully consider the information set forth below under the caption "Risk Factors" set forth herein. The Company cautions investors that its business and financial performance are subject to substantial risks and uncertainties.*

**Overview**

Yahoo! Inc. is a global Internet communications, commerce and media company that offers a comprehensive branded network of services to millions of individuals each month worldwide. As the first online navigational guide to the World Wide Web (the "Web"), [www.yahoo.com](http://www.yahoo.com) is the 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 also provides online business services designed to enhance the Web presence of Yahoo!'s clients, including audio and video streaming, store hosting and management, and Web site tools and services. The Company commenced operations in 1995.

In February 2000, the Company completed its acquisition of Arthas.com, operating under the trade name dotBank.com ("dotBank"). Under the terms of the acquisition, which was accounted for as a pooling of interests, the Company exchanged 593,911 shares of Yahoo! Common Stock for all of dotBank's outstanding shares. dotBank was incorporated in July 1999. The historical operations of dotBank 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. dotBank's accumulated deficit on February 29, 2000 was \$2,454,000. Results of operations of dotBank are included with those of Yahoo! for periods subsequent to the acquisition date.

In March 2000, the Company issued 806,452 shares of its Common Stock valued at approximately \$136.7 million in exchange for 2,777,778 shares of common stock of Net2Phone, Inc. ("Net2Phone"). The investment is included in the condensed consolidated balance sheet under long-term investments in marketable equity securities.

**Results of Operations****Net Revenues**

Net revenues were \$228.4 million for the quarter ended March 31, 2000, a 120% increase from \$103.9 million during the first quarter in 1999.

**Advertising Revenue.** Of the total net revenues for the quarters ended March 31, 2000 and 1999, advertising revenue was \$207.1 million and \$94.8 million, respectively. 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 3,565 customers advertised on the Company's online media properties during the quarter ended March 31, 2000 as compared to approximately 2,125 during the first quarter of 1999. No one customer accounted for 10% or more of net revenues during the quarters ended March 31, 2000 and 1999. Advertising purchases by SOFTBANK and its consolidated affiliates, a 23% stockholder of the Company at March 31, 2000, accounted for approximately 1% and 8% of net revenues during the quarters ended March 31, 2000 and 1999, respectively. Contracted prices on these orders are comparable to those given to other similarly situated customers of

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the Company. International revenues accounted for 14% and 8% of net revenues during the quarters ended March 31, 2000 and 1999, respectively. Barter revenues 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.

**Business Services Revenue.** Business services revenue consists of revenues generated from broadcasting live and on-demand audio and video events and subscription-based hosting services. Business services revenue comprised \$21.3 million and \$9.0 million of total net revenue for the quarters ended March 31, 2000 and 1999, respectively. The increase is primarily attributable to the increasing number of events broadcasted by the Company and the increasing number of users of the various hosting services.

**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. The Company does not allocate any cost of revenues or operating costs to its business services segment as management does not use this information to measure the performance of the operating segment. Management does not believe that allocating these expenses is material in evaluating the segment's performance. Cost of revenues were \$34.5 million for the quarter ended March 31, 2000, or 15% of net revenues, as compared to \$20.8 million, or 20% of net revenues for the quarter ended March 31, 1999. The absolute dollar increase in cost of revenues from quarter to quarter is primarily attributable to an increase in the quantity of content available on the Company's online media properties, the increased usage of these properties, and an increase in license fees. 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 625 million page views per day in March 2000 compared with an average of approximately 235 million page views per day in March 1999. Yahoo! Japan, an unconsolidated joint venture of the Company, is included in these page view figures and accounted for an average of approximately 65 million per day in March 2000 and an average of approximately 17 million per day in March 1999. 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 \$78.5 million, or 34% of net revenues for the quarter ended March 31, 2000 as compared to \$42.8 million, or 41% of net revenues for the quarter ended March 31, 1999. Sales and marketing expenses consist primarily of advertising and other marketing related expenses (which include distribution costs), compensation and employee-related expenses (which include employer payroll taxes assessed on non-qualified stock option exercises), sales

commissions, and travel costs. The increase in absolute dollars is primarily attributable to an increase in advertising and distribution costs associated with the Company's aggressive brand-building strategy, increases in compensation expense associated with growth in its direct sales force and marketing personnel, expansion in the international subsidiaries with the addition of subsidiaries in Argentina, Brazil, China and Mexico subsequent to March 1999, 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.

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#### Product Development

Product development expenses were \$23.2 million, or 10% of net revenues for the quarter ended March 31, 2000 as compared to \$14.0 million, or 13% of net revenues for the quarter ended March 31, 1999. Product development expenses consist primarily of payroll and related expenses (which include employer payroll taxes assessed on non-qualified stock option exercises) incurred for enhancements to and maintenance of the Company's Web site, classification and organization of listings within Yahoo! properties, research and development expenses, amortization of capitalized Web site development costs, and other operating costs. 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 \$12.9 million, or 6% of net revenues for the quarter ended March 31, 2000 as compared to \$8.4 million, or 8% of net revenues for the quarter ended March 31, 1999. General and administrative expenses consist primarily of compensation (which include employer payroll taxes assessed on non-qualified stock option exercises) 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 expenses were \$4.1 million and \$3.2 million for the quarters ended March 31, 2000 and 1999, respectively. The increase is principally attributable to goodwill amortization resulting from the November 1999 ISSG acquisition which resulted in \$12.1 million of goodwill and other intangible assets.

#### Other-Nonrecurring Costs

For the quarter ended March 31, 2000, the Company recorded a non-recurring charge of \$415,000 relating to expenses incurred in connection with the acquisition of dotBank. For the quarter ended March 31, 1999, acquisition-related charges included \$462,000 attributable to the merger with NetRoadshow and a nonrecurring charge of \$9.8 million for in-process research and development that had not yet reached technological feasibility and had no alternative future use.

#### Investment Income, Net

Investment income, net of expense, was \$56.7 million for the quarter ended March 31, 2000. For the quarter ended March 31, 1999, investment income was \$8.1 million. The increase is primarily attributable to a higher average investment balance and a gain from the exchange of certain equity investments in the amount of \$40.7 million. Investment income in future periods may fluctuate as a result of fluctuations in average cash balances maintained by the Company and changes in the market rates of its investments.

#### Minority Interests in Operations of Consolidated Subsidiaries

Minority interests in operations of consolidated subsidiaries were \$(1.8) million for the quarter ended March 31, 2000 compared to \$(325,000) for the year ago quarter. The change is attributable to the continuing profitable results recorded in the European and Korean joint ventures in the aggregate during the quarter ended March 31, 2000 as compared to the year ago quarter. The Company expects that minority interests in operations of consolidated subsidiaries in the aggregate will continue to fluctuate in future periods as a function of the results from consolidated subsidiaries. If the consolidated subsidiaries

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remain profitable, the minority interests adjustment on the statement of operations will continue to reduce the Company's net income by the minority partners' share of the subsidiaries' net income.

#### Income Taxes

The Company's effective income tax rate for the quarter ended March 31, 2000 was 40% and differs from the amount computed by applying the statutory federal rate principally due to state income taxes and nondeductible amortization charges related to acquisitions. This rate may change during the remainder of 2000 if operating results or acquisition related costs differ significantly from current projections.

#### Net Income

The Company recorded net income of \$77.9 million or \$0.13 per share diluted for the quarter ended March 31, 2000 compared to net income of \$1.8 million or \$0.00 per share diluted for the quarter ended March 31, 1999. The results for the quarter ended March 31, 2000 include a non-recurring charge of \$415,000 incurred in connection with the February 2000 acquisition of dotBank, employer payroll taxes on option exercises of \$6.4 million, amortization of purchased technology and intangible assets acquired in certain acquisitions of \$6.2 million, and a non-cash gain from the exchange of certain equity investments of \$40.7 million. The results for the quarter ended March 31, 1999 include non-recurring charges of \$10.2 million incurred in connection with various acquisitions, and amortization of purchased technology and intangible assets of \$5.2 million.

The Company is subject to employer payroll taxes on employee exercises of non-qualified stock options. Assuming the fair market value of the Company's Common Stock was \$175 per share on March 31, 2000, employer payroll taxes on unrealized gains related to vested and unvested non-qualified stock options would be approximately \$60.5 million and \$140.6 million, respectively. These employer payroll taxes would be recorded as a charge to operations in the period such options are exercised based on actual gains realized by employees. Net proceeds that the Company would receive upon the exercise of such vested and unvested stock options would approximate \$221.9 million and \$3.3 billion, respectively. In addition, the Company would receive tax deductions for gains realized by employees on the exercise of non-qualified stock options for which the benefit is recorded as additional paid-in capital. The Company's quarterly results of operations and cash flows could vary significantly depending on the actual period that the stock options are exercised by employees and, consequently, the amount of employer payroll taxes assessed.

#### Liquidity and Capital Resources

Yahoo! invests excess cash predominantly in debt instruments that are highly liquid, of high-quality investment grade, and predominantly have maturities of less than one year with the intent to make such funds readily available for operating purposes. At March 31, 2000, the Company had cash and cash equivalents and investments in marketable debt securities totaling \$1.2 billion compared to \$961.1 million at December 31, 1999.

For the three months ended March 31, 2000, cash provided by operating activities of \$132.2 million was primarily due to net income before taxes. For the three months ended March 31, 1999, cash provided by operating activities of \$34.8 million was primarily due to net income before taxes and other non-cash costs.

Cash used in investing activities was \$155.6 million for the quarter ended March 31, 2000. Purchases (net of proceeds and maturities) of investments in marketable securities during the period were \$142.8 million and capital expenditures totaled \$14.3 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 \$29.1 million

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For the quarter ended March 31, 1999. Purchases (net of proceeds and maturities) of investments in marketable securities during the period were \$17.5 million and capital expenditures totaled \$11.6 million.

For the three months ended March 31, 2000 and 1999, cash provided by financing activities from the issuance of Common Stock pursuant to the exercise of stock options was \$126.7 million and \$27.9 million, respectively.

During 1999, the Company entered into agreements for the development of an office complex in Sunnyvale, California, to be constructed from 2000 through 2003, and to serve as the Company's new headquarters. Upon substantial completion of the buildings, the Company will collateralize a lease facility with deposited funds equal to the amount of the funds drawn on the facility by the lessors, estimated to range from \$300 to \$350 million. Rent obligations for the buildings will bear a direct relationship to the lessors' carrying costs. The amount of the rent obligation is contingent upon future events.

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.

#### RISK FACTORS

**We are in a highly competitive industry and some of our competitors may be more successful in attracting and retaining customers.**

The market for Internet products and services is highly competitive and we expect that competition will continue to intensify. Negative competitive developments could have a material adverse effect on our business and the trading price of our stock.

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

- companies offering communications services either on a stand-alone basis or integrated into other products and media properties;
- vertical markets where competitors may have advantages in expertise, brand recognition, and other factors;
- manufacturers of personal computers who may develop their own Internet portals to which they would direct their customers;
- online merchant hosting services; and
- online broadcasting of business events.

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In particular, we face significant competition from America Online and Microsoft (MSN) and, to a less significant extent, other companies that have combined a variety of services under one brand in a manner similar to Yahoo! including CGI (Alta Vista), the Walt Disney Company (The GO Network), Excite@Home, and Lycos. In certain of these cases, our competition has a direct billing relationship with the user, which we generally lack. This relationship permits our competitors to have several potential advantages including the potential to be more effective than us in targeting services and advertisements to the specific taste of their users. America Online and Time Warner recently announced the proposed merging of their companies. If completed, the merger will provide America Online with content from Time Warner's movies and television, music, books and periodicals, news, sports and other media holdings; access to a network of cable and other broadband delivery technologies; and considerable resources for future growth and expansion. The proposed America Online and Time Warner combination will also provide America Online with access to a broad potential customer base consisting of Time Warner's current customers and subscribers of its various media properties. We also face competition from Web sites focused on vertical markets where expertise in a particular segment of the market may provide a competitive advantage. On an international level, we compete directly with local providers; they may have several advantages, including greater knowledge about the particular country or local market. We must continue to obtain more knowledge about our users and their preferences as well as increase our branding and other marketing activities in order to remain competitive.

A large number of these Web sites and online services as well as high-traffic e-commerce merchants such as Amazon.com, Inc. also offer or are expected to offer informational and community features that may be competitive with the services that we offer. In order to effectively compete, we may need to expend significant internal engineering resources or acquire other technologies and companies to provide or enhance such capabilities. Any of these efforts could have a material adverse effect on our business, operating results and financial condition and be dilutive to our stockholders.

**Financial results for any particular period will not predict results for future periods.**

Because of the uncertain nature of the rapidly changing market we serve, period-to-period comparisons of operating results are not likely to be meaningful. In addition, you should not rely on the results for any period as an indication of future performance. In particular, although we experienced strong revenue growth through the first quarter of 2000, we do not believe that this level of revenue growth on a percentage basis will be sustained in future periods. In addition, we currently expect that our operating expenses will continue to increase significantly as we expand our sales and marketing operations, continue to develop and extend the Yahoo! brand, fund greater levels of product development, develop and commercialize additional media properties, and acquire complementary businesses and technologies. Further, we are subject to employer payroll taxes when our employees exercise their non-qualified stock options. The employer payroll taxes are assessed on each employee's gain, which is the difference between the price of our common stock on the date of exercise and the exercise price. During a particular period, these payroll taxes could be material. Assuming the fair market value of our Common Stock was \$175 per share on March 31, 2000, employer payroll taxes on unrealized gains related to vested and unvested non-qualified stock options would be approximately \$60.5 million and \$140.6 million, respectively. These employer payroll taxes would be recorded as a charge to operations in the period such options are exercised based on actual gains realized by employees. Net proceeds that we would receive upon the exercise of such vested and unvested stock options would approximate \$221.9 million and \$3.3 billion, respectively. In addition, we would receive tax deductions for gains realized by employees on the exercise of non-qualified stock options for which the benefit is recorded as additional paid-in capital. However, because we are unable to predict our future stock price and the number of optionees who may exercise during any particular period, we cannot predict what, if any, expense will be recorded in a future period and the impact on our future financial results. In addition, if revenue growth levels do not meet our expectations, our financial results will be adversely affected.

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**We rely heavily on revenues derived from Internet advertising, which may prove to be an ineffective means of advertising for our current and potential clients.**

Currently, the majority of our revenues come from advertisements displayed on our online properties. Our ability to continue to achieve substantial advertising revenue depends upon:

- growth of our user base;
- our user base being attractive to advertisers;

- our ability to derive better demographic and other information from our users;

- acceptance by advertisers of the Web as an advertising medium; and

- our ability to transition and expand into other forms of advertising.

If we are unsuccessful in adapting to the needs of our advertisers, it could have a material adverse effect on our business, operating results and financial condition.

**We derive the majority of our revenues from the sale of advertisements under short-term contracts, which are difficult to forecast accurately.**

Most of our revenues are currently derived from agreements with advertisers or sponsorship arrangements. These agreements generally have terms no longer than three (3) years and, in many cases, the terms are much shorter. In cases where the advertiser is providing services, the agreements often have payments contingent on usage levels. Accordingly, it is difficult to accurately forecast these revenues. However, our expense levels are based in part on expectations of future revenues and, to a large extent, are fixed. We may be unable to adjust spending quickly enough to compensate for any unexpected revenue shortfall. Accordingly, the cancellation or deferral of advertising or sponsorship contracts could have a material adverse effect on our financial results. Because our operating expenses are likely to increase significantly over the near term, to the extent that our expenses increase but our revenues do not, our business, operating results, and financial condition may be materially and adversely affected.

**The rate structure of some of our sponsorship arrangements subjects us to financial risk.**

A key element of our strategy is to generate advertising revenues through sponsored services and placements by third parties in our online media properties in addition to banner advertising. We typically receive sponsorship fees or a portion of transaction revenues in return for minimum levels of user impressions to be provided by us. These arrangements expose us to potentially significant financial risks in the event our usage levels decrease, including the following:

- the fees we are entitled to receive may be adjusted downwards;

- we may be required to "make good" on our obligations by providing alternative services;

- the sponsors may not renew the agreements or may renew at lower rates; and

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

Accordingly, any leveling off or decrease of our user base or the failure to generate anticipated levels of shared transaction revenues could result in a significant decrease in our revenue levels.

**We have spent considerable amounts of money and resources to provide a variety of communications services, but such services may not prove to be successful.**

Currently, a substantial portion of the traffic on our online properties is directed at our communications services, such as email, instant messaging, calendaring and chat rooms, and we expect this trend to

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continue for the foreseeable future. We provide these and other basic communications services free of charge to our users, as is the case with most of our competitors, and have not yet determined an effective means of generating revenues from the provision of such services. In addition, alternative revenue models for our communications and electronic commerce services, such as subscription fees and commissions, are relatively unproven and may not generate sufficient revenues to be meaningful to us. As communications services become an increasingly important part of our total offering, we must continue to provide new communications applications which are compelling to users and utilize more sophisticated communications technologies to provide such applications to many types of access devices in addition to the personal computer, while developing an effective method for generating revenues for such services. In addition, the development of these technologies require long development cycles and a more significant investment by us. If we were unable to develop such applications or use such technologies, the size and rate of growth in our user base would be adversely affected. If we cannot develop a means by which we generate revenues from our communications services that are more than sufficient to offset the costs of providing such services, our business, operating results and financial condition would be materially adversely affected.

**We may not be successful in expanding the number of users of our electronic commerce services and our ability to effectively provide these services is limited because we do not have a direct billing relationship with our customers.**

We have focused, and intend to continue to focus, significant resources on the development and enhancement of our electronic commerce properties. These properties, such as Yahoo! Shopping, link users with a network of retailers with which we have relationships. However, we merely provide a means through which our users can access the sellers of the products such users may wish to purchase and do not establish a direct billing relationship with our users as a result of any such purchase. In addition, a large number of our users currently utilize our online shopping services simply to gather information for future offline purchases. We will need to effectively induce information gatherers to make purchases in order for our electronic commerce properties to be successful. The revenue that we derive from our electronic commerce services is typically in the form of a bounty or a commission paid by the retailer from whom our user purchased a product. If the user had a favorable buying experience with a particular retailer, the user may subsequently contact that retailer directly rather than through our service. If our users bypass our electronic commerce properties, such as Yahoo! Shopping, and contact retailers directly, we will not receive any revenue for purchases made through such direct contact. Competing providers of online shopping, including merchants with which we have relationships, may be able to provide a more convenient and comprehensive online shopping experience due to their singular focus on electronic commerce. As a result, we may have difficulty competing with those merchants for users of electronic commerce services. The inability of our electronic commerce properties to generate significant revenues could have a material adverse effect on our business.

**We will continue to expand into international markets in which we have limited experience.**

A key part of our strategy is to develop Yahoo!-branded online properties in international markets and we have developed, through joint ventures, subsidiaries and branch offices, Yahoo! properties localized for over 20 other countries. To date, we have only limited experience in developing localized versions of our products and marketing and operating our products and services internationally and we rely on the efforts and abilities of our foreign business partners in such activities.

We believe that in light of substantial anticipated competition, we need to move quickly into international markets in order to effectively obtain market share. However, in a number of international markets, especially those in Europe, we face substantial competition from Internet Service Providers (ISPs) that offer or may offer their own navigational services. Many of these ISPs have a dominant market share in their territories. Further, foreign providers of competing online services may have a substantial advantage over us in attracting users in their country due to more established branding in that country,

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greater knowledge with respect to the tastes and preferences of users residing in that country and/or their focus on a single market. We expect to continue to experience higher costs as a percentage of revenues in connection with the development and maintenance of international online properties. International markets we have selected may not develop at a rate that supports our level of investment. In particular, international markets typically have been slower than domestic markets in adopting the Internet as an advertising and commerce medium.

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

- trade barriers and unexpected changes in regulatory requirements;

- difficulties in developing, staffing and simultaneously managing a large number of unique foreign operations as a result of distance, language and cultural differences;

- higher costs of doing business in foreign countries;

- longer payment cycles and currency exchange rate fluctuations;

political  
instability and export restrictions;

seasonal  
reductions in business activity;

risks  
related to government regulation including those more fully described below; and

potentially  
adverse tax consequences.

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

**We depend on key personnel who may not continue to work for us.**

We are substantially dependent on the continued services of our key personnel, including our two founders, our chief executive officer, president, chief financial officer, chief technical officer, and vice presidents. Each of these individuals has acquired specialized knowledge and skills with respect to Yahoo! and its operations. As a result, if any of these individuals were to leave Yahoo!, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience. Many of our management personnel have reached or will soon reach the four-year anniversary of their Yahoo! hiring date and, as a result, will have become or will shortly become fully vested in their initial stock option grants. While management personnel are typically granted additional stock options, which will usually vest over a period of four years, subsequent to their hire date to provide additional incentive to remain at Yahoo!, the initial option grant is typically the largest and an employee may be more likely to leave our employ upon completion of the vesting period for the initial option grant.

We expect that we will need to hire additional personnel in all areas. The competition for qualified personnel is intense, particularly in the San Francisco Bay Area, where our corporate headquarters are located. At times, we have experienced difficulties in hiring personnel with the right training or experience, particularly in technical areas. We do not maintain key person life insurance for any of our personnel. If we do not succeed in attracting new personnel, or retaining and motivating existing personnel, our business will be adversely affected.

**We may have difficulty scaling and adapting our existing architecture to accommodate increased traffic and technology advances.**

Yahoo! is one of the most highly trafficked Web sites on the Internet and is regularly exceeding previous standards for numbers of simultaneous users, unique users and daily page views delivered. In

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addition, the services offered by Yahoo! and popular with users have changed significantly in the past and are expected to change rapidly in the future. Much of the architecture that we employ was not originally designed to accommodate levels or types of use that we currently experience on our online properties and it is unclear whether current or future anticipated levels of traffic will result in delays or interruptions in our service. In particular, the architecture utilized for our email and certain other communication services was not primarily designed for this purpose and may not provide satisfactory service in the future, especially as it becomes an increasingly important service offering. In the future, we may be required to make significant changes to our architecture, including moving to a completely new architecture. If we are required to switch architectures, we may incur substantial costs and experience delays or interruptions in our service. If we experience delays or interruptions in our service due to inadequacies in our current architecture or as a result of a change in architectures, users may become dissatisfied with our service and move to competing providers of online services. Further, to the extent that demand for our broadcast services content increases, we will need to expand our infrastructure, including the capacity of our hardware servers and the sophistication of our software. This expansion is likely to be expensive and complex and require additional technical expertise. Also, as we acquire users who rely upon us for a wide variety of services, it becomes more technologically complex and costly to retrieve, store and integrate data that will enable us to track each user's preferences. Any loss of traffic, increased costs, inefficiencies or failures to adapt to new technologies and the associated adjustments to our architecture would have a material adverse effect on our business.

**Our competitors often provide Internet access or computer hardware to our customers and they could make it difficult for our customers to access our services.**

Our users must access our services through an Internet service provider, or ISP, with which the user establishes a direct billing relationship using a personal computer or other access device. To the extent that an access provider, such as America Online, or a computer or computing device manufacturer offers online services or properties that are competitive with those of Yahoo!, the user may find it more convenient to use the services or properties of that access provider or manufacturer. In addition, the access provider or manufacturer may make it difficult to access our services by not listing them in the access provider's or manufacturer's own directory. Also, because an access provider gathers information from the user in connection with the establishment of the billing relationship, an access provider may be more effective than Yahoo! in tailoring services and advertisements to the specific tastes of the user. To the extent that a user opts to use the services offered by his or her access provider or those offered by computer or computing device manufacturers rather than the services provided by Yahoo!, our business, operating results and financial condition will be materially adversely affected.

**Our business services, while costly to develop, may fail to gain market acceptance.**

We have invested a significant amount of money and resources in the creation of our business services, such as the creation and hosting of streaming content of third parties, but such services are unproven and may fail to gain market acceptance. Because the market for these business services is new and evolving, it is difficult to predict the size of this market and its rate of growth, if any. In addition, it is uncertain whether businesses and other organizations will utilize the Internet to any significant degree as a means of broadcasting business conferences and other events. Potential business services customers must accept audio and video broadcast services over the Internet as a viable alternative to face-to-face meetings, television or audio, audio teleconferences and video conferencing. We cannot assure you that the market for business services will continue to develop or be sustainable. If the market fails to develop, develops more slowly than expected or becomes more competitive than is currently expected, our operating results could be adversely affected.

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**More individuals are utilizing non-PC devices to access the Internet and we may not be successful in developing a version of our service that will gain widespread adoption by users of such devices.**

In the coming years, the number of individuals who access the Internet through devices other than a personal computer such as personal digital assistants, cellular telephones and television set-top devices is expected to increase dramatically. Our services are designed for rich, graphical environments such as those available on personal and laptop computers. The lower resolution, functionality and memory associated with alternative devices may make the use of our services through such devices difficult and we may be unsuccessful in our efforts to modify our online properties to provide a compelling service for users of alternative devices. As we have limited experience to date in operating versions of our service developed or optimized for users of alternative devices, it is difficult to predict the problems we may encounter in doing so and we may need to devote significant resources to the creation, support and maintenance of such versions. If we are unable to attract and retain a substantial number of alternative device users to our online services, we will fail to capture a sufficient share of an increasingly important portion of the market for online services. Further, as the majority of our revenues are derived through the sale of banner and other advertising optimized for a personal computer screen, we may not be successful at developing a viable strategy for deriving substantial revenues from online properties that are directed at the users of alternative devices. Any failure to develop revenue-generating online properties that are adopted by a significant number of handheld device users could have a material adverse effect on our business, operating results and financial condition.

**We rely on the value of the Yahoo! brand and the costs of maintaining and enhancing our brand awareness are increasing.**

We believe that maintaining and expanding the Yahoo! brand is an important aspect of our efforts to attract and expand our user and advertiser base. We also believe that the importance of brand recognition will increase due to the growing number of Internet sites and the relatively low barriers to entry. We have spent considerable money and resources to date on the establishment and maintenance of the Yahoo! brand. However, because the number of Internet navigation, commerce, community and service companies continues to grow dramatically, it has become increasingly difficult and, due to increased competition, expensive, to obtain quality television, radio, magazine, Internet and other advertising space. Further, the proliferation of Internet-based companies has resulted and will continue to result in increased consumer confusion. Consequently, we will spend increasing amounts of money on, and devote greater resources to, advertising, marketing and other brand-building efforts to preserve and enhance consumer awareness of the Yahoo! brand during 2000. We may not be able to successfully maintain or enhance consumer awareness of our brand and, even if we are successful in our branding efforts, such efforts may not be cost-effective. If we are unable to maintain or enhance consumer awareness of the Yahoo! brand in a cost-effective manner, our business, operating results and financial condition would be materially and adversely affected.

**The successful operation of our business depends upon the supply of critical elements from other companies.**

We will depend upon third parties, to a substantial extent, for several critical elements of our business including various technology, infrastructure, content development, software and distribution components.

**Technology and Infrastructure.** We rely on a private third-party provider, Frontier GlobalCenter, Inc., for our principal Internet connections. Email and other service Internet connections are provided to us by GTE. We rely on Network Appliances for key components of our email service. We also rely on Exodus Communications for the hosting of our users' homepages and Level 3 Communications for hosting and access to our broadcast services. Any disruption in the Internet access provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could have a material adverse effect on our business, operating results, and financial condition. We license technology and related databases from third parties for certain elements of our

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properties, including, among others, technology underlying the delivery of news, stock quotes and current financial information, chat services, street mapping and telephone listings, streaming capabilities and similar services. We have experienced and expect to continue to experience interruptions and delays in service and availability for such elements. Furthermore, we are dependent on hardware suppliers for prompt delivery, installation, and service of servers and other equipment to deliver our products and services. Any errors, failures, interruptions, or delays experienced in connection with these third-party technologies and information services could negatively impact our relationship with users and adversely affect our brand and our business, and could expose us to liabilities to third parties.

**Distribution Relationships.** To increase traffic for our online properties and make them more available and attractive to advertisers and consumers, we have certain distribution agreements and informal relationships with leading Web browser providers such as Microsoft, operators of online networks and leading Web sites, software developers and computer manufacturers, such as Toshiba, Hewlett-Packard and Gateway, and telecommunications companies, such as Sprint PCS. These distribution arrangements typically are not exclusive and do not extend over a significant amount of time. Further, some of our distributors are competitors or potential competitors who may not renew their distribution contracts with us. Potential distributors may not offer distribution of our properties and services on reasonable terms, or at all. In addition, as new methods for accessing the Web become available, we may be required to enter into additional distribution relationships. Any failure to obtain distribution or to obtain distribution on terms that are reasonable, could have a material adverse effect on our business, results of operations, and financial condition.

**Streaming media software.** We rely on the two leading providers of streaming media products, RealNetworks and Microsoft, to license the software necessary to broadcast streaming audio and video content to our users. There can be no assurance that these providers will continue to license these products to us on reasonable terms, or at all. Our users are currently able to electronically download copies of the software to play streaming media free of charge, but providers of streaming media products may begin

charging users for copies of their player software or otherwise change their business model in a manner that slows the widespread acceptance of these products. In order for our broadcast services to be successful, there must be a large base of users of these streaming media products. We have limited or no control over the availability or acceptance of streaming media software, and to the extent that any of these circumstances occur, the broadcast services portion of our business will be materially adversely affected.

***Our dependence on third party content providers subjects us to risks.***

The Company's future success depends upon its ability to aggregate compelling content and deliver that content through its online properties. Much of the content that attracts users to the Yahoo! online properties, such as news items, stock quotes, weather reports, maps and audio and video content, is licensed from third parties such as Reuters and TIBCO. In particular, Yahoo! Broadcast relies on major sports organizations, radio and television stations, record labels, cable networks, businesses, colleges and universities, film producers and distributors, and other organizations for a large portion of the content available on the site. Our ability to maintain and build relationships with third-party content providers will be critical to our success. We may be unable to enter into or preserve relationships with the third parties whose content we seek to obtain. Many of our current licenses for third-party content extend for a period of less than two years and there can be no guarantee that they will be renewed upon their expiration. In addition, as competition for compelling content increases both locally and abroad, Yahoo!'s content providers may increase the prices at which they offer their content to Yahoo! and potential content providers may not offer their content on terms agreeable to Yahoo!. An increase in the prices charged to us by third-party content providers could have a material adverse effect on our business, operating results and financial condition. Further, many of our content licenses with third parties are non-exclusive. Accordingly, other Webcasters may be able to offer similar or identical content. Likewise, most sports and entertainment content available on our online properties are also available on other media such as radio or

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television. These media are currently, and for the foreseeable future will be, much more widely adopted for listening or viewing such content than the Web. These factors also increase the importance of our ability to deliver compelling editorial content and personalization of this content for users in order to differentiate ourselves. If we are unable to license or acquire compelling content, if other companies broadcast content that is similar to or the same as that provided by Yahoo!, or if we do not develop compelling editorial content or personalization services, the number of users on our online properties may not grow at all or at a slower rate than anticipated, which would decrease our advertising revenue.

***As we provide more audio and video content, particularly music, we may be required to spend significant amounts of money on content acquisition and content broadcasts.***

Until recently, the majority of the content that we provided to our users was in print, picture or graphical format and was either created internally or licensed to us by third parties for little or no charge. However, we have been providing recently and we intend to continue to provide increasing amounts of audio and video content to our users, such as the broadcast of music, film content, speeches, news footage, concerts and other special events, through our broadcast services division and our other media properties, and such content may require us to make substantial payments to third parties from whom we will license or acquire such content. For example, in order to broadcast music through our online properties, we are currently required to pay royalties both on the copyright in the musical compositions and the copyright in the actual sound recordings of the music to be broadcast. Through our broadcast services division, we currently have license agreements in place with ASCAP and BMI, and are in negotiations for a license agreement with SESAC, that permit us to license the copyright for the public performance of musical compositions for which they control the rights. With respect to the copyrights in the specific sound recordings that we desire to broadcast, we must either secure a license directly from the record labels that own the rights to such recordings, or pay a statutory license fee. The statutory license fee and other terms for these licenses have not yet been determined and, therefore, the costs of broadcasting music through our online properties remains unclear. If these royalty rates are above our expectations, if the royalty rates charged by the various performance rights societies increase or if any of these or other parties with music licensing rights impose terms that make it difficult or impossible to broadcast music, we may be unable to provide music content to our users in a cost-effective manner. We believe that users of Internet services such as the Yahoo! online properties will increasingly demand high-quality audio and video content. The revenue that we receive as a result of our audio and video broadcasts may not justify the costs of providing such broadcasts. Our inability to cost-effectively provide high-quality audio and/or video content to our users could have a material adverse effect on our business, operating results and financial condition.

***To successfully improve our rich media offerings, we must rely on the deployment of a true multicasting network.***

The streaming services that we acquired upon our acquisition of broadcast.com originally deployed unicast (one user per company originated stream) technology to broadcast audio and video programming to users over the Internet. Recently, it began to deploy another broadcast technology, multicasting (multiple users per company originated stream). We believe that demand for multicasting will continue to expand and, as a result, we must continue to enhance this capability in the future.

We will be required to test, deploy and successfully scale a multicast network infrastructure to serve mass audiences. There can be no assurance that we will be successful in doing so, that multicasting will be able to support a substantial audience, or that an alternative technology will not emerge that offers superior broadcasting technology as compared to multicasting. In the event that multicasting technology is not successfully deployed in a timely manner or such an alternative technology emerges, we may be required to expend significant resources to deploy a technology other than multicasting, which could adversely affect our results of operations. If Yahoo! Broadcast Services fails to scale its broadcasts to large audiences of simultaneous users, such failure could adversely affect that portion of our business.

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***We must manage our growth successfully, including the integration of recently-acquired companies, in order to achieve our desired results.***

We have experienced dramatic growth in personnel in recent years and expect to continue to hire large numbers of additional personnel. As the number of Yahoo! employees grows, it will become increasingly difficult and more costly to manage our personnel. Further, as a result of recent acquisitions and international expansion, almost one-half of our employees are based outside of our Santa Clara headquarters. If we are unable to effectively manage a large and geographically dispersed group of employees, our business will be adversely affected.

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

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

We may not be successful in addressing these risks or any other problems encountered in connection with such acquisitions.

***Our intellectual property rights are costly and difficult to protect.***

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

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***We may be subject to intellectual property infringement claims, which are costly to defend and could limit our ability to use certain technologies in the future.***

Many parties are actively developing search, indexing, e-commerce and other Web-related technologies, as well as a variety of online business models and methods. We believe that these parties will continue to take steps to protect these technologies, including, but not limited to, seeking patent protection. As a result, disputes regarding the ownership of these technologies and rights associated with online business are likely to arise in the future. In addition to existing patents and intellectual property rights, we anticipate that additional third-party patents related to our services will be issued in the future. From time to time, parties assert patent infringement claims against us in the form of letters, lawsuits and other forms of communications. Currently, we are engaged in two lawsuits regarding patent issues and have been notified of a number of other potential disputes.

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

We are aware of lawsuits filed against two of our competitors regarding the presentation of advertisements in response to search requests on "keywords" that may be trademarks of third parties. Initial rulings in these lawsuits were in favor of our competitors, but the plaintiffs in these lawsuits have appealed these initial rulings. In addition, lawsuits have been filed against broadcast.com, a company we acquired in July 1999, alleging patent infringement relating to broadcast.com's use of streaming media products. It is not clear what, if any, impact an adverse ruling in these recently-filed lawsuits would have on us.

**We are subject to U.S. and foreign government regulation of the Internet, the impact of which is difficult to predict.**

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

Several recently passed federal laws could have an impact on our business. The Digital Millennium Copyright Act is intended to reduce the liability of online service providers for listing or linking to third-party Web sites that include materials that infringe copyrights or other rights of others. The Children's Online Protection Act and the Children's Online Privacy Protection Act are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Such legislation may impose significant additional costs on our business or subject us to additional liabilities.

We post privacy policies concerning the use and disclosure of user data. In addition, GeoCities, a company we acquired in 1999, is required to comply with a consent order between it and the Federal Trade Commission (the "FTC"), which imposes certain obligations and restrictions with respect to information

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collected from users. Further, the FTC is conducting an inquiry into certain of our consumer information practices to determine whether we have complied with applicable FTC consumer protection regulations. In connection with this inquiry, the FTC has requested that we provide information about our practices and submit various documents and other materials to the FTC. Any failure by us to comply with our posted privacy policies, the consent order, FTC requirements (including the inquiry mentioned above) or other privacy-related laws and regulations could result in proceedings by the FTC or others which could potentially have an adverse effect on our business, results of operations and financial condition.

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

**We may be subject to legal liability for our online services.**

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

We also periodically enter into arrangements to offer third-party products, services, or content under the Yahoo! brand or via distribution on various Yahoo! properties, including stock quotes and trading information. We may be subject to claims concerning these products, services or content by virtue of our involvement in marketing, branding, broadcasting or providing access to them, even if we do not ourselves host, operate, provide, or provide access to these products, services or content. While our agreements with these parties often provide that we will be indemnified against such liabilities, such indemnification may not be adequate.

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

**Our stock price has been volatile historically, which may make it more difficult for you to resell shares when you want at prices you find attractive.**

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the first quarter of 2000, the closing sale prices of our common stock on the Nasdaq Stock Market ranged from \$153.81 to \$237.50 and the sale price of our common stock closed at \$133.50 on April 11, 2000. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable, and news reports relating to trends in our markets. In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced extreme volatility that often

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has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance.

**Management and one large stockholder beneficially own approximately 41% of our stock; their interests could conflict with yours; significant sales of stock held by them could have a negative effect on Yahoo!'s stock price.**

Yahoo!'s directors and executive officers and SOFTBANK beneficially own approximately 41% of our outstanding common stock as of March 31, 2000. Eric Hippeau is a member of our Board of Directors and is also the Chairman and CEO of Ziff-Davis, a subsidiary of SOFTBANK. As a result of their ownership and positions, our directors and executive officers and SOFTBANK collectively are able to significantly influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of Yahoo!. In addition, sales of significant amounts of shares held by Yahoo!'s directors and executive officers and SOFTBANK, or the prospect of these sales, could adversely affect the market price of Yahoo! Common Stock.

**Our operations could be significantly hindered by the occurrence of a natural disaster or other catastrophic event.**

Our operations are susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins and similar events. In addition, the majority of our network infrastructure is located in Northern California, an area susceptible to earthquakes. We do not have multiple site capacity for all of our services in the event of any such occurrence. Despite our implementation of network security measures, our servers are vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. In addition, we are vulnerable to coordinated attempts to overload our systems with data, resulting in denial or reduction of service to some or all of our users for a period of time. We have experienced a coordinated denial of service attack in the past, and may experience such attempts in the future. We do not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any of these events. Any such event could have a material adverse effect on our business, operating results, and financial condition.

**Anti-takeover provisions could make it more difficult for a third party to acquire us.**

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

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### Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

**Investments** in both fixed rate and floating rate interest earning instruments carries a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, the Company's future investment income may fall short of expectations due to changes in interest rates or the Company may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates.

**Foreign Currency Risk.** International revenues from the Company's foreign subsidiaries accounted for approximately 14% of total revenues in the quarter ended March 31, 2000. International sales are made mostly from the Company's foreign sales subsidiaries in their respective countries and are typically denominated in the local currency of each country. These subsidiaries also incur most of their expenses in the local currency. Accordingly, all foreign subsidiaries use the local currency as their functional currency.

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

The Company's exposure to foreign exchange rate fluctuations arises in part from intercompany accounts in which costs incurred in the United States are charged to the Company's foreign sales subsidiaries. These intercompany accounts are typically denominated in the functional currency of the foreign subsidiary in order to centralize foreign exchange risk with the parent company in the United States. The Company is also exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, these results, when translated, may vary from expectations and adversely impact overall expected profitability. The effect of foreign exchange rate fluctuations on the Company in the quarter ended March 31, 2000 was not material.

**Investment Risk.** The Company invests in equity instruments of privately-held 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% and the Company does not have the ability to exercise significant influence over operations. For these investments in privately-held companies, the Company's policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. The Company identifies and records impairment losses on long-lived assets when events and circumstances indicate that such assets might be impaired. To date, no such impairment has been recorded. Since the Company's initial investment, certain of these investments in privately-held companies have become marketable equity securities upon the investees completing initial public offerings. Such investments, most of 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.

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**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights, and a variety of claims arising in connection with the Company's email, message boards, auction sites, shopping services, and other communications and community features, such as claims alleging defamation or invasion of privacy. In addition, from time to time, third parties assert patent infringement claims against the Company in the form of letters, lawsuits and other forms of communication. Currently, the Company is engaged in two lawsuits regarding patent issues and has been notified of a number of other potential patent disputes.

In addition to intellectual property claims, the Company has also been advised that the FTC is conducting an inquiry into certain of the Company's consumer information practices to determine whether the Company has complied with applicable FTC consumer protection regulations. In connection with this inquiry, the FTC has requested that the Company provide information about its practices and submit various documents and other materials to the FTC.

The Company is not currently aware of any legal proceedings or claims that the Company believes are likely to have a material adverse effect on the Company's financial position or results of operations. However, the Company may incur substantial expenses in defending against third party claims or any action by the FTC. In the event of a determination adverse to the Company, the Company may incur substantial monetary liability, and be required to change its business practices. Either of these could have a material adverse effect on the Company's financial position and results of operations.

**Item 2. Changes in Securities**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits and Reports on Form 8-K**

a. The exhibits listed in the accompanying Index to Exhibits are filed as part of this Report on Form 10-Q.

b. Reports on Form 8-K:

On January 12, 2000, the Company filed a report on Form 8-K which announced (i) Yahoo's financial results for the quarter and year ended December 31, 1999 and (ii) a 2-for-1 stock split. A copy of Yahoo's press releases announcing these matters were attached and incorporated by reference therein.

On January 12, 2000, the Company filed a report on Form 8-K/A which amends the Form 8-K previously filed on July 20, 1999. The original Form 8-K announced the completion of the

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Company's acquisition of broadcast.com and included its press release therein. The Form 8-K/A included the following statements:

• 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; and

• Selected financial data for the four years ended December 31, 1998 and the quarterly financial data for the eleven quarters ended September 30, 1999 that have been restated to reflect the 1999 acquisitions of NetRoadshow, Inc., Encompass, Inc., GeoCities, Online Anywhere, and broadcast.com, which were accounted for as poolings of interests, as if the above acquired entities were wholly-owned subsidiaries of Yahoo! since inception.

### Signatures

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

	Three Months Ended March 31,	
	2000	1999
Net revenues:		
Advertising	\$ 207,075	\$ 94,848
Business services	21,309	9,030
	\$ 228,384	\$ 103,878

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### YAHOO! INC. Index to Exhibits

#### YAHOO! INC.

Dated: April 14, 2000

By: /s/ GARY VALENZUELA

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

Dated: April 14, 2000

By: /s/ JAMES J. NELSON

Vice President, Finance  
(Principal Accounting Officer)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE YAHOO! INC. FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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3-MOS	DEC-31-2000	
	JAN-01-2000	
	MAR-31-2000	
		336,634
		655,304
		72,563
		12,844
		0
	1,072,008	
		104,622
	40,231	
	1,893,033	
	234,684	
		0
	0	
		0
		543
1,620,812	1,620,269	
		0
	228,384	
		0
	34,467	
	119,051	
	0	
	0	
	129,752	
	51,901	
	77,851	
	0	
	0	
		0
	77,851	
	0.14	
	0.13	

REFLECTS BASIC EPS ACCORDING TO SFAS 128

Title

Exhibit  
No.

Financial Data Schedule

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