SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

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

DATE OF REPORT June 12, 1998

YAHOO! INC.

(Exact name of registrant as specified in its charter)

0-26822
(Commission File Number)

California	77-0398689
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3420 Central Expressway
Santa Clara, California 95051
(Address of principal executive offices, with zip code)

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

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

On June 4, 1998, Yahoo! Inc., a California corporation ("Yahoo!"), entered into an Agreement and Plan of Merger ("Agreement") by and among Yahoo!, XY Acquisition Corporation, a wholly-owned subsidiary of Yahoo!, and Viaweb Inc., a Delaware corporation ("Viaweb"). Pursuant to the Agreement, on June 10, 1998 all outstanding shares of Viaweb capital stock were converted into 393,591 shares of capital stock and options to purchase Viaweb capital stock were converted into options to purchase 61,126 shares of Yahoo! Common Stock.

Yahoo! will file a registration statement on Form S-3 with the Securities and Exchange Commission, dated June 12, 1998, to permit the resale of the outstanding shares issued in the Merger. Yahoo! also has filed a registration statement on Form S-8 with the Securities and Exchange Commission with respect to the issuance of shares upon exercise of options assumed in the Merger.

Under the terms of the Agreement and a related Escrow Agreement dated June 10, 1998, a total of 62,673 shares of Yahoo!'s Common Stock and options to purchase 5,537 shares of Yahoo! Common Stock will be held in escrow for the purpose of indemnifying Yahoo! against certain liabilities of Viaweb. Such escrow will terminate on December 9, 1999.

This transaction was originally reported voluntarily under Item 5 (Other Events) of Form 8-K, dated June 8, 1998.

ITEM 5 OTHER EVENTS

The following risk factors are included for informational purposes and are hereby incorporated by reference in the Company's Registration Statements on Form S-3 and S-8 that will be filed with the Securities and Exchange Commission:

RISK FACTORS

THESE RISK FACTORS CONTAIN 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. 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 AS A RESULT OF THE RISK FACTORS SET FORTH BELOW.

LIMITED OPERATING HISTORY; ANTICIPATED LOSSES

The Company was incorporated in March 1995 and did not commence generating advertising revenues until August 1995. Accordingly, the Company has a limited operating history upon which an evaluation of the Company can be based, and its prospects are subject to the risks, expenses and uncertainties frequently encountered by companies in the new and rapidly evolving markets for Internet products and services, including the Web-based advertising market. Specifically, such risks include, without limitation, the failure to continue to develop and extend the Yahoo! brand, the failure to develop new media properties, the inability of the Company to maintain and increase the levels of traffic on Yahoo! properties, the development or acquisition of equal or superior services or products by competitors, the failure of the market to adopt the Web as an advertising medium, the failure to successfully sell Web-based advertising through the Company's recently developed internal sales force, potential reductions in market prices for Web-based advertising as a result of competition or other factors, the failure of the Company to effectively generate commerce-related revenues through sponsored services and placements in Yahoo! properties, the inability of the Company to effectively integrate the technology and operations of any other acquired businesses or technologies with its operations, such as the recent acquisition of Viaweb Inc., the failure of the Company to successfully develop and offer personalized Web-based services, such as e-mail services, to consumers without errors or interruptions in service, and the inability to continue to identify, attract, retain and motivate qualified personnel. There can be no assurance that the Company will be successful in addressing such risks. As of March 31, 1998, the Company had an accumulated deficit of $23,686,000. The limited operating history of the Company and the uncertain nature of the markets addressed by the Company make the prediction of future results of operations difficult or impossible and, therefore, the recent revenue growth experienced by the Company should not be taken as indicative of the rate of revenue growth, if any, that can be expected in the future. The Company believes that period-to-period comparisons of its operating results are not meaningful and that the results for any period should not be relied upon as an indication of future performance. The Company currently expects to continue to significantly increase its operating expenses to expand its sales and marketing operations, to continue to develop and extend the Yahoo! brand, to fund greater levels of product development, to develop and commercialize additional media properties, and to acquire complementary businesses and technologies. As a result of these factors, there can be no assurance that the Company will not incur significant losses on a quarterly and annual basis.

On June 10, 1998, the Company completed the acquisition of Viaweb Inc., a provider of software and services for hosting online stores, in exchange for 393,591 shares of the Company's Common Stock and assumption of options to purchase an aggregate of 61,126 shares of the Company's Common Stock. Based

upon the closing price of the Company's Common Stock on June 5, 1998, the shares issued or issuable in the transaction had an aggregate value of approximately $49 million. The Company anticipates that it will incur a one-time charge of approximately $45 million in the second quarter of 1998 for acquired in-process technology and expenses associated with the transaction. The remaining purchase price of approximately $4 million will be allocated to acquired technology and other intangible assets to be amortized over a three-year period. As a result of the expense to be incurred in the second quarter of 1998, the Company anticipates reporting a net loss for such quarter and for the year ending December 31, 1998.

FLUCTUATIONS IN QUARTERLY OPERATING RESULTS

As a result of the Company's limited operating history, the Company does not have historical financial data for a significant number of periods on which to base planned operating expenses. The Company derives the majority of its revenues from the sale of advertisements under short-term contracts, which are difficult to forecast accurately. The Company's expense levels are based in part on its expectations concerning future revenue and, to a large extent, are fixed. Quarterly revenues and operating results depend substantially upon the advertising revenues received within the quarter, which are difficult to forecast accurately. Accordingly, the cancellation or deferral of a small number of advertising or sponsorship contracts could have a material adverse effect on the Company's business, results of operations, and financial condition. The Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall, and any significant shortfall in revenue in relation to the Company's expectations would have an immediate adverse effect on the Company's business, operating results, and financial condition. In addition, the Company plans to continue to significantly increase its operating expenses to expand its sales and marketing operations, to continue to develop and extend the Yahoo! brand, to fund greater levels of product development, and to develop and commercialize additional media properties. To the extent that such expenses precede or are not subsequently followed by increased revenues, the Company's business, operating results, and financial condition will be materially and adversely affected. As a result of these factors, there can be no assurance that the Company will not incur significant losses in the future.

The Company's operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside the Company's control. These factors include the level of usage of the Internet, demand for Internet advertising, the addition or loss of advertisers, the level of user traffic on Yahoo! and the Company's other online media properties, the advertising budgeting cycles of individual advertisers, the mix of types of advertising sold by the Company (such as the amount of targeted advertising, which generally has higher rates), sold as a percentage of total advertising sold, the amount and timing of capital expenditures and other costs relating to the expansion of the Company's operations, the introduction of new products or services by the Company or its competitors, pricing changes for Web-based advertising, the timing of initial set-up, engineering or development fees that may be paid in connection with larger advertising and distribution arrangements, technical difficulties with respect to the use of Yahoo! or other media properties developed by the Company, incurrence of costs relating to future acquisitions, general economic conditions, and economic conditions specific to the Internet and online media. As a strategic response to changes in the competitive environment, the Company may from time to time make certain pricing, service or marketing decisions, or business combinations that could have a material adverse effect on the Company's business, results of operations, and financial condition. Seasonality may affect the amount of customer advertising dollars placed with the Company in the first and third calendar quarters as advertisers historically spend less during these quarters. The Company also expects to experience seasonality in its business, with user traffic on Yahoo! and the Company's other online media properties being lower during the summer and year-end vacation and holiday periods, when usage of the Web and the Company's services typically experience slower growth or decline.

A key element of the Company's strategy is to generate advertising revenues through sponsored services and placements by third parties in the Company's online media properties in addition to banner

advertising. In connection with these arrangements, the Company may receive sponsorship fees as well as a portion of transaction revenues received by the third-party sponsor from users originated through the Yahoo! placement, in return for minimum levels of user impressions to be provided by the Company. To the extent implemented, these arrangements expose the Company to potentially significant financial risks, including the risk that the Company fails to deliver required minimum levels of user impressions or "click throughs" (in which case, these agreements typically provide for adjustments to the fees payable thereunder or "make good" periods), that third-party sponsors do not renew the agreements at the end of their term, that the arrangements do not generate anticipated levels of shared transaction revenue, or that sponsors default in the payment commitments in such agreements, which could result in the Company failing to achieve anticipated revenue from the sponsorship arrangements. In addition, because the Company has limited experience with these arrangements, the Company is unable to determine what effect such arrangements will have on gross margins and results of operations. Although transaction-based fees have not to date represented a material portion of the Company's net revenues, if and to the extent such revenues become significant, the foregoing factors could result in greater variations in the Company's quarterly operating results and could have a material adverse effect on the Company's business, results of operations, and financial condition.

Due to all of the foregoing factors, in some future quarter the Company's operating results may fall below the expectations of securities analysts and investors. In such event, the trading price of the Company's Common Stock would likely be materially and adversely affected.

COMPETITION

The market for Internet products and services is highly competitive and competition is expected to continue to increase significantly. There are no substantial barriers to entry in these markets, and the Company expects that competition will continue to intensify.

MULTIPLE PROVIDERS OF COMPETITIVE SERVICE. The Company competes with many other providers of online navigation, information and community services. As the Company expands the scope of its Internet services, it will compete directly with a greater number of Internet sites and other media companies. Many companies offer competitive products or services addressing Web navigation services, including, among others, America Online Inc. (NetFind), C--NET, Inc. (Snap! Online), Digital Equipment Corporation (AltaVista), Excite, Inc. (including WebCrawler), Infoseek Corporation, Inktomi, Lycos, Inc. (including Tripod), Microsoft Corporation (Internet Start), Netscape Communications Corporation (Netcenter), and Wired Ventures, Inc. (hotbot). In addition, the Company competes with metasearch services and software applications, such as C--NET's search.com service, that allow a user to search the databases of several directories and catalogs simultaneously. The Company also competes indirectly with database vendors that offer information search and retrieval capabilities with their core database products. In addition, many large media companies have announced that they are contemplating Internet navigation services and are attempting to become "gateway" sites for Web users. For example, both Time Inc. and CBS have announced initiatives to develop Web services in order to have their Web sites become the starting point for users navigating the Web and C--NET recently announced that NBC has purchased an equity interest in C--NET's Snap! Online navigational service, and that C--NET and NBC will operate the service as a joint venture.

A large number of Web sites and online services (including, among others, the Microsoft Network, AOL, Netscape (Netcenter), and other Web navigation companies such as Excite, Lycos, and Infoseek) also offer informational and community features, such as news, stock quotes, sports coverage, Yellow Pages and email listings, weather news, chat services, bulletin board listings and online store hosting services that are competitive with the services offered by the Company. For example, Netscape, which experiences high levels of traffic on its Web sites by virtue of default settings and buttons on its popular Web browser products, recently announced an initiative to significantly enhance its Netcenter service as a "gateway" Web site, which will involve commercial relationships between Netscape and certain of the

Company's competitors. A number of companies, including HotMail (which was recently acquired by Microsoft) and WhoWhere?, offer Web-based email service similar to those offered by the Company, and such companies have and are expected to continue to provide such services in tandem with larger navigational sites and online services. AOL recently announced the acquisition of Mirabilis, a provider of "ICQ" instant Internet messaging software and services that compete with the Company's Yahoo! Pager offering, and the ICQ user base will provide AOL with an additional platform for distribution of AOL's other navigation, information and communications services that compete with those of the Company. Several companies, including large companies such as Microsoft and AOL and their affiliates, also are developing or currently offer online information services for local markets, which compete with the Company's regional Yahoo! online properties. As a result of the Company's recent acquisition of Viaweb, Inc., the Company also expects to face competition in the market for hosting online merchant stores. The Company also faces intense competition in international markets, including competition from U.S.-based competitors as well as media and online companies that are already well established in those foreign markets.

CONSOLIDATION OF PRODUCTS OFFERED BY WEB BROWSERS AND OTHER INTERNET POINTS OF ENTRY. The Company also faces competition from providers of software and other Internet products and services that incorporate search and retrieval features into their offerings. For example, Web browsers offered by Netscape and Microsoft, which are the most widely used browsers, increasingly incorporate prominent search buttons and similar features, such as features based on "push" technologies, that direct search traffic to competing services, including those that may be developed or licensed by such parties, that could make it more difficult for Internet viewers to find and use the Company's products and services. Netscape recently announced an agreement with Excite under which Excite will be the most prominent navigational service within the Netcenter Website. In the future, Netscape and Microsoft and other browser suppliers may also more tightly integrate products and services similar to the Company's into their browsers or their browsers' pre-set home pages. In addition, entities that sponsor or maintain high-traffic Web sites or that provide an initial point of entry for Internet users, such as the Regional Bell Operating Companies or Internet Service Providers ("ISPs") such as Microsoft and AOL, currently offer and could further develop, acquire or license Internet search and navigation functions that compete with those offered by the Company and could take actions that make it more difficult for consumers to find and use Yahoo! services. For example, Microsoft recently announced that it will feature and promote Internet search engine services provided by Inktomi in the Microsoft Network and other Microsoft online properties, and offers personalized Web services through its Internet Start service. The Company expects that such search services may be tightly integrated into future versions of the Microsoft operating system, the Internet Explorer browser and other software applications, and that Microsoft will promote such services within the Microsoft Network or through other Microsoft affiliated end-user services such as MSNBC or WebTV Networks, Inc. Insofar as Microsoft's Internet navigational offerings may be more conveniently accessed by users than those of the Company, this may provide Microsoft with significant competitive advantages that could have a material adverse effect on the Company's business.

COMPETITION FOR ADVERTISING EXPENDITURES. The Company also competes with online services, other Web site operators and advertising networks, as well as traditional offline media such as television, radio and print for a share of advertisers' total advertising budgets. The Company believes that the number of companies selling Web-based advertising and the available inventory of advertising space have increased substantially during recent periods. Accordingly, the Company may face increased pricing pressure for the sale of advertisements and reductions in the Company's advertising revenues.

PRINCIPAL COMPETITIVE FACTORS. The Company believes that the principal competitive factors in its markets are brand recognition, ease of use, comprehensiveness, independence, quality and responsiveness of search results, the availability of high-quality, targeted content and focused value added products and services, quality and brand appeal, access to end users, and, with respect to advertisers and sponsors, the number of users, duration and frequency of visits and user demographics. Competition among current and

future suppliers of Internet navigational and informational services, high-traffic Web sites and ISPs, as well as competition with other media for advertising placements, could result in significant price competition and reductions in advertising revenues. Additionally, the Company has faced and expects to continue to face competition with respect to the acquisition of strategic businesses and technologies. There can be no assurance that the Company will be able to compete successfully or that the competitive pressures faced by the Company will not have a material adverse effect on the Company's business, operating results, and financial condition.

Many of the Company's existing competitors, as well as a number of potential new competitors, have significantly greater financial, technical, marketing and distribution resources. In addition, providers of Internet tools and services may be acquired by, receive investments from, or enter into other commercial relationships with larger, well-established and well-financed companies, such as Microsoft or AOL. For example, AOL is a significant shareholder of Excite, and a version of the Excite service (AOL NetFind) has been designated as the exclusive Internet search service for use by AOL's subscribers. In addition, well-established traditional media companies may acquire, invest or otherwise establish commercial relationships with the Company's competitors, such as NBC's recent investment in C--NET's Snap! Online service, and may use their substantial media resources to promote and enhance such competitor's services. Greater competition resulting from such relationships could have a material adverse effect on the Company's business, operating results and financial condition.

DEPENDENCE ON CONTINUED GROWTH IN USE OF THE INTERNET; TECHNOLOGICAL CHANGE

The Company's future success is substantially dependent upon continued growth in the use of the Internet and the Web in order to support the sale of advertising on the Company's online media properties. There can be no assurance that communication or commerce over the Internet will become more widespread or that extensive content will continue to be provided over the Internet. The Internet may not prove to be a viable commercial marketplace for a number of reasons, including lack of acceptable security technologies, potentially inadequate development of the necessary infrastructure, such as a reliable network backbone, or timely development and commercialization of performance improvements, including high speed modems. In addition, to the extent that the Internet continues to experience significant growth in the number of users and level of use, there can be no assurance that the Internet infrastructure will continue to be able to support the demands placed upon it by such potential growth or that the performance or reliability of the Web will not be adversely affected by this continued growth. If use of the Internet does not continue to grow, or if the Internet infrastructure does not effectively support growth that may occur, the Company's business, operating results, and financial condition would be materially and adversely affected. The market for Internet products and services is characterized by rapid technological developments, evolving industry standards and customer demands, and frequent new product introductions and enhancements. These market characteristics are exacerbated by the emerging nature of this market and the fact that many companies are expected to introduce new Internet products and services in the near future. Failure of the Company to effectively adapt to technological developments could adversely affect the Company's business, operating results, and financial condition.

DEVELOPING MARKET; UNPROVEN ACCEPTANCE OF THE COMPANY'S PRODUCTS AND MEDIA PROPERTIES

The markets for the Company's products and media properties have only recently begun to develop, are rapidly evolving, and are characterized by an increasing number of market entrants who have introduced or developed information navigation products and services for use on the Internet and the Web. As is typical in the case of a new and rapidly evolving industry, demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty and risk. Because the market for the Company's products and media properties is new and evolving, it is difficult to predict the future growth rate, if any, and size of this market. There can be no assurance either that the market for the Company's products and media properties will continue to develop or that demand for the Company's

products or media properties will be sustainable. If the market develops more slowly than expected or becomes saturated with competitors, or if the Company's products and media properties do not sustain market acceptance, the Company's business, operating results, and financial condition will be materially and adversely affected.

RISKS ASSOCIATED WITH BRAND DEVELOPMENT

The Company believes that establishing and maintaining the Yahoo! brand is a critical aspect of its efforts to attract and expand its user and advertiser base and that the importance of brand recognition will increase due to the growing number of Internet sites and the relatively low barriers to entry. Promotion and enhancement of the Yahoo! brand will depend largely on the Company's success in providing high-quality products and services, which success cannot be assured. In order to attract and retain Internet users and to promote and maintain the Yahoo! brand in response to competitive pressures, the Company may find it necessary to increase substantially its financial commitment to creating and maintaining a distinct brand loyalty among consumers. If the Company is unable to provide high-quality products and services or otherwise fails to promote and maintain its brand, or if the Company incurs excessive expenses in an attempt to improve its products and services or promote and maintain its brand, the Company's business, operating results, and financial condition will be materially and adversely affected.

RELIANCE ON ADVERTISING REVENUES AND UNCERTAIN ADOPTION OF THE WEB AS AN ADVERTISING MEDIUM

The Company derives substantially all of its revenues from the sale of advertisements on its Web pages under short-term contracts. Most of the Company's advertising customers have only limited experience with the Web as an advertising medium, have not devoted a significant portion of their advertising expenditures to Web-based advertising, and may not find such advertising to be effective for promoting their products and services relative to traditional print and broadcast media. The Company's ability to generate significant advertising revenues will depend upon, among other things, advertisers' acceptance of the Web as an effective and sustainable advertising medium, the development of a large base of users of the Company's services possessing demographic characteristics attractive to advertisers, and the ability of the Company to continue to develop and update effective advertising delivery and measurement systems. No standards have yet been widely accepted for the measurement of the effectiveness of Web-based advertising, and there can be no assurance that such standards will develop sufficiently to support Web-based advertising as a significant advertising medium. In addition, there can be no assurance that the advertisers will determine that banner advertising, which comprises the majority of the Company's revenues, is an effective advertising medium, and there can be no assurance that the Company will effectively transition to any other forms of Web-based advertising, should they develop. Certain advertising filter software programs are available that limit or remove advertising from an Internet user's desktop. Such software, if generally adopted by users, may have a materially adverse effect upon the viability of advertising on the Internet. There also can be no assurance that the Company's advertising customers will accept the internal and third-party measurements of impressions received by advertisements on Yahoo! and the Company's online media properties, or that such measurements will not contain errors. The Company relies primarily on its internal advertising sales force for domestic advertising sales, which involves additional risks and uncertainties, including (among others) risks associated with the recruitment, retention, management, training, and motivation of sales personnel. As a result of these factors, there can be no assurance that the Company will sustain or increase current advertising sales levels. Failure to do so will have a material adverse effect on the Company's business, operating results, and financial position.

SUBSTANTIAL DEPENDENCE UPON THIRD PARTIES

The Company depends substantially upon third parties for several critical elements of its business including, among others, technology and infrastructure, content development, and distribution activities.

TECHNOLOGY AND INFRASTRUCTURE. In May 1998, the Company and Inktomi entered into an agreement under which Inktomi will provide text-based Web search results to complement the Company's directory and navigational guide. The Inktomi service is expected to be integrated during the third quarter of 1998. The Company will depend substantially upon ongoing maintenance and technical support from Inktomi to ensure accurate and rapid presentation of such search results to the Company's customers. Any termination of the agreement with Inktomi or Inktomi's failure to renew such agreement upon expiration could result in substantial additional costs to the Company in developing or licensing replacement technology, and could result in a loss of levels of use of the Company's navigational services. The Company also relies principally on a private third-party provider, Frontier GlobalCenter, Inc. ("GlobalCenter"), for the Company's principal Internet connections. Additionally, email service Internet connections are provided by GTE. Any disruption in the Internet access provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could have a material adverse effect on the Company's business, operating results, and financial condition. The Company also licenses technology and related databases from third parties for certain elements of Yahoo! properties, including, among others, technology underlying news, stock quotes and current financial information, chat services, street mapping, telephone listings, and similar services. The Company has experienced and expects to continue to experience interruptions and delays in service and availability for such elements, such as recent interruptions in the Company's stock quote services. Any errors, failures, or delays experienced in connection with these third-party technologies and information services could negatively impact the Company's relationship with users and adversely affect the Company's brand and its business, and could expose the Company to liabilities to third parties.

CONTENT DEVELOPMENT. A key element of the Company's strategy involves the implementation of Yahoo!-branded media properties targeted for interest areas, demographic groups, and geographic areas. In these efforts, the Company has relied and will continue to rely substantially on content development and localization efforts of third parties. For example, the Company has entered into an agreement with Ziff-Davis pursuant to which Ziff-Davis publishes an online publication and a print magazine under the Yahoo! brand. The Company also expects to rely substantially on third-party affiliates, including SOFTBANK in Japan and Korea, and Rogers Communications ("Rogers") in Canada, to localize, maintain, and promote these services and to sell advertising in local markets. There can be no assurance that the Company's current or future third-party affiliates will effectively implement these properties, or that their efforts will result in significant revenue to the Company. Any failure of these parties to develop and maintain high-quality and successful media properties also could result in unfavorable dilution to the Yahoo! brand. Certain of these arrangements also require the Company to integrate third parties' content with the Company's services, which can require the dedication of resources and significant programming and design efforts to accomplish. In addition, the Company has granted exclusivity provisions to certain third parties, and may in the future grant additional exclusivity provisions. Such exclusivity provisions may have the effect of preventing the Company, for the duration of such exclusivity arrangements, from accepting advertising or sponsorship arrangements within a particular subject matter with respect to portions of the Company's network of media properties, which could have an adverse effect on the Company.

DISTRIBUTION RELATIONSHIPS. In order to create traffic for the Company's online properties and make them more attractive to advertisers and consumers, the Company has entered into certain distribution agreements and informal relationships with leading Web browser providers (Microsoft and Netscape), operators of online networks and leading Web sites, and computer manufacturers, such as Compaq Computer and Gateway 2000. The Company believes these arrangements are important to the promotion of the Company's online media properties, particularly among new Web users who may first access the Web through these browsers, services, Web sites, or computers. The Company's business relationships with these companies consist of arrangements for the positioning of access to Yahoo! properties on Web browsers and cooperative marketing programs and licenses to include Yahoo! in online networks or services offered by these parties, which are intended to increase the use and visibility of Yahoo!. These distribution arrangements typically are not exclusive, and may be terminated upon little or no notice. Third

parties that provide distribution channels for the Company may also assess fees or otherwise impose additional conditions on the listing of Yahoo! or other online properties of the Company. Any such event could have a material adverse effect on the Company's business, results of operations, and financial condition.

The Company recently announced a co-branding and distribution arrangement with MCI under which the Company will provide a Web-based online service in conjunction with dial-up Internet access provided by MCI. In this arrangement, the Company will depend substantially upon MCI for, among other things, effective marketing and promotion efforts and the provision of competitive Internet access service to customers. Any failure by MCI in these respects could materially impair the benefits received by the Company from this arrangement, and could negatively affect the Yahoo! brand.

ENHANCEMENT OF YAHOO! PROPERTIES AND DEVELOPMENT OF NEW PROPERTIES

To remain competitive, the Company must continue to enhance and improve the functionality, features, and content of the Yahoo! main site, as well as the Company's other branded media properties. There can be no assurance that the Company will be able to successfully maintain competitive user response times or implement new features and functions, such as new search capabilities, greater levels of user personalization, simplified searching from the Web browser, real-time chat and Internet paging, localized content filter and information delivery through "push" or other methods, which will involve the development of increasingly complex technologies. The Company also expects that personalized information services, such as the Company's recently launched Web-based email service, will require significantly greater expenses associated with, among other things, increased server capacity and equipment and requirements for additional customer support personnel and systems. To the extent such additional expenses are not offset by additional revenues from such personalized services, the Company's financial results will be adversely affected.

The Company's future success also depends in part upon the timely processing of Web site listings submitted by users and Web content providers, which have increased substantially in recent periods. The Company has from time to time experienced significant delays in the processing of submissions, and further delays could have a material adverse effect on the Company's goodwill among Web users and content providers, and on the Company's business.

A key element of the Company's business strategy is the development and introduction of new Yahoo!-branded online properties targeted for specific interest areas, user groups with particular demographic characteristics, and geographic areas. There can be no assurance that the Company will be successful in developing, introducing, and marketing such products or media properties or that such products and media properties will achieve market acceptance, enhance the Company's brand name recognition, or increase traffic on Yahoo!'s online properties. Furthermore, enhancements of or improvements to Yahoo! or new media properties may contain undetected errors that require significant design modifications, resulting in a loss of customer confidence and user support and a decrease in the value of the Company's brand name recognition. The Company's ability to successfully develop additional targeted media properties depends substantially on use of Yahoo! to promote such properties. If use of Yahoo! fails to continue to grow, the Company's ability to establish other targeted properties would be adversely affected. Any failure of the Company to effectively develop and introduce these properties, or failure of such properties to achieve market acceptance, could adversely affect the Company's business, results of operations, and financial condition.

INVESTMENTS IN AFFILIATES

The Company has made equity investments in affiliated companies that are involved in the commercialization of Yahoo!-branded online properties, such as versions of Yahoo! localized for foreign markets. The Company currently intends to continue to make significant additional investments in such companies

from time to time in the future, as well as other companies involved in the development of technologies or services that are complementary or related to the Company's business, such as the December 1997 investments in GeoCities and AudioNet. These affiliated companies typically are in an early stage of development and may be expected to incur substantial losses. As a result, the Company has recorded and expects to continue to record a share of the losses in such affiliates attributable to the Company's ownership, which losses have had and will continue to have an adverse effect on the Company's results of operations. Furthermore, there can be no assurance that any investments in such companies will result in any return, nor can there be any assurance as to the timing of any such return, or that the Company will not lose its entire investment.

MANAGEMENT OF POTENTIAL GROWTH AND INTEGRATION OF ACQUISITIONS

The Company's recent growth has placed, and is expected to continue to place, a significant strain on its managerial, operational, and financial resources. To manage its potential growth, the Company must continue to implement and improve its operational and financial systems and to expand, train, and manage its employee base. The process of managing advertising within large, high traffic Web sites such as those in the Yahoo! network is an increasingly important and complex task. The Company relies on both internal and licensed third-party advertising inventory management and analysis systems. To the extent that any extended failure of the Company's advertising management system results in incorrect advertising insertions, the Company may be exposed to "make good" obligations with its advertising customers, which, by displacing advertising inventory, could defer advertising revenues and thereby have a material adverse effect on the Company's business, operating results, and financial condition. Failure of the Company's advertising management systems to effectively track and provide accurate and timely reports on advertising results also could negatively affect the Company's relationships with advertisers and thereby have an adverse effect on the Company's business. There can be no assurance that the Company's systems, procedures, or controls will be adequate to support the Company's operations or that Company management will be able to achieve the rapid execution necessary to fully exploit the Company's market opportunity. Any inability to effectively manage growth, if any, could have a material adverse effect on the Company's business, operating results, and financial condition.

As part of its business strategy, the Company has completed and expects to enter into additional business combinations and acquisitions, such as the October 1997 acquisition of Four11 and the June 1998 acquisition of Viaweb. Acquisition transactions are accompanied by a number of risks, including, among other things, the difficulty of assimilating the operations and personnel of the acquired companies, the potential disruption of the Company's ongoing business, the inability of management to maximize the financial and strategic position of the Company through the successful incorporation of acquired technology or content and rights into the Company's products and media properties, expenses associated with the transactions, additional expenses associated with amortization of acquired intangible assets, the maintenance of uniform standards, controls, procedures and policies, the impairment of relationships with employees and customers as a result of any integration of new management personnel, and the potential unknown liabilities associated with acquired businesses. There can be no assurance that the Company would be successful in addressing these risks or any other problems encountered in connection with such acquisitions.

RISK OF CAPACITY CONSTRAINTS AND SYSTEMS FAILURES

The Company is dependent on its ability to effectively serve a high volume of use of its online media properties. Accordingly, the performance of the Company's online media properties is critical to the Company's reputation, its ability to attract advertisers to the Company's Web sites, and to achieve market acceptance of these products and media properties. Any system failure that causes an interruption or an increase in response time of the Company's products and media properties could result in less traffic to the Company's Web sites and, if sustained or repeated, could reduce the attractiveness of the Company's

products and media properties to advertisers and licensees. An increase in the volume of queries conducted through the Company's products and media properties could strain the capacity of the software or hardware deployed by the Company, which could lead to slower response time or system failures, and adversely affect the number of impressions received by advertisers and thus the Company's advertising revenues. In addition, as the number of Web pages and users increase, there can be no assurance that the Company's products and media properties and infrastructure will be able to scale accordingly. The Company also faces technical challenges associated with higher levels of personalization and localization of content delivered to users of its services, which adds strain to the Company's development and operational resources. For example, personalized information services, such as Web-based email services, involve increasingly complex technical and operational challenges, and there can be no assurance that the Company will successfully implement and scale such services to the extent required by any growth in the number of users of such services, or that the failure to do so will not materially and adversely affect the goodwill of users of these services, or negatively affect the Company's brand and reputation. The Company is also dependent upon Web browsers and Internet and online service providers for access to its products and media properties. In particular, a private third-party provider, GlobalCenter, provides the Company's principal Internet connections. In the past, users have occasionally experienced difficulties due to system failures, including failures unrelated to the Company's systems. Additionally, Internet connections for the Company's Web-based email services are provided by GTE. Any disruption in the Internet access provided by these third-party providers or any failure of these third-party providers to handle higher volumes of user traffic could have a material adverse effect on the Company's business, operating results, and financial condition. Furthermore, the Company is dependent on hardware suppliers for prompt delivery, installation, and service of servers and other equipment used to deliver the Company's products and services.

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

TRADEMARKS AND PROPRIETARY RIGHTS

The Company regards its copyrights, trademarks, trade dress, trade secrets, and similar intellectual property as critical to its success, and the Company relies upon trademark and copyright law, trade secret protection and confidentiality and/or license agreements with its employees, customers, partners and others to protect its proprietary rights. The Company pursues the registration of its trademarks in the United States and internationally, and has applied for and obtained the registration for certain of its trademarks, including "Yahoo!" and "Yahooligans!". Effective trademark, copyright, and trade secret protection may not be available in every country in which the Company's products and media properties are distributed or made available through the Internet. The Company has licensed in the past, and it expects that it may license in the future, elements of its distinctive trademarks, trade dress, and similar proprietary rights to third parties, including in connection with branded mirror sites of Yahoo!, and other media properties and merchandise that may be controlled operationally by third parties. While the Company attempts to ensure that the quality of its brand is maintained by such licensees, no assurances can be given that such licensees will not take actions that could materially and adversely affect the value of the Company's proprietary rights or the reputation of its products and media properties, either of which could have a material adverse effect on the Company's business. Also, the Company is 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, and there can be no assurance that the distinctive

elements of Yahoo! will be protectible under copyright law. There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate or that third parties will not infringe or misappropriate the Company's copyrights, trademarks, trade dress, and similar proprietary rights. In addition, there can be no assurance that other parties will not assert infringement claims against the Company.

Many parties are actively developing search, indexing, and related Web technologies at the present time. The Company believes that such parties have taken and will continue to take steps to protect these technologies, including seeking patent protection. As a result, the Company believes that disputes regarding the ownership of such technologies are likely to arise in the future. For example, the Company is aware that a number of patents have been issued in the areas of electronic commerce and Web-based information indexing and retrieval (including patents recently issued to one of the Company's direct competitors), and the Company anticipates that additional third-party patents will be issued in the future. There can be no assurance that the technology recently acquired through the Viaweb acquisition, or any other technology relating to the Company's business that has been or may be developed by the Company or licensed from third parties, will not be determined to infringe one or more third-party patents. In the event of such infringement, there can be no assurance that the Company will be able to license such patents on reasonable terms, if any, or that such infringement will not result in substantial monetary liability to the Company, including substantial expenses that may be incurred in defending against third-party patent claims regardless of the merit of such claims.

DEPENDENCE ON KEY PERSONNEL

The Company's performance is substantially dependent on the performance of its senior management and key technical personnel. In particular, the Company's success depends substantially on the continued efforts of its senior management team. The Company does not carry key person life insurance on any of its senior management personnel. The loss of the services of any of its executive officers or other key employees could have a material adverse effect on the business, operating results, and financial condition of the Company.

The Company's future success also depends on its continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for such personnel is intense and there can be no assurance that the Company will be able to retain its key managerial and technical employees or that it will be able to attract and retain additional highly qualified technical and managerial personnel in the future. The inability to attract and retain the necessary technical and managerial personnel could have a material and adverse effect upon the Company's business, operating results, and financial condition.

GOVERNMENT REGULATION AND LEGAL UNCERTAINTIES

There are currently few laws or regulations directly applicable to access to or commerce on the Internet. Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted with respect to the Internet, covering issues such as user privacy, defamation, pricing, taxation, content regulation, quality of products and services, and intellectual property ownership and infringement. For example, although the Communications Decency Act was held to be unconstitutional, there can be no assurance that similar legislation will not be enacted in the future, and it is possible that such legislation could expose the Company to substantial liability. Such legislation could also dampen the growth in use of the Web generally, decrease the acceptance of the Web as a communications and commercial medium and require the Company to incur expense in complying with any new regulations, and could, thereby, have a material adverse effect on the Company's business, results of operations, and financial condition. Other nations, including Germany, have taken actions to restrict the free flow of material deemed to be objectionable on the Web. In addition, several telecommunications carriers are seeking to have telecommunications over the Web regulated by the Federal Communications Commission (the "FCC") in the same manner as other telecommunications services. For example, America's Carriers

Telecommunications Association ("ACTA") has filed a petition with the FCC for this purpose. In addition, because the growing popularity and use of the Web has burdened the existing telecommunications infrastructure and many areas with high Web use have begun to experience interruptions in phone service, local telephone carriers, such as Pacific Bell, have petitioned the FCC to regulate ISPs and OSPs in a manner similar to long distance telephone carriers and to impose access fees on the ISPs and OSPs. If either of these petitions is granted, or the relief sought therein is otherwise granted, the costs of communicating on the Web could increase substantially, potentially slowing the growth in use of the Web, which could in turn decrease the demand for the Company's products and media properties. A number of proposals have been made at the federal, state and local level that would impose additional taxes on the sale of goods and services through the Internet. Such proposals, if adopted, could substantially impair the growth of electronic commerce, and could adversely affect the Company's opportunity to derive financial benefit from such activities. Also, legislation is pending in Congress that would impose liability on online service providers such as the Company for listing or linking to third-party Web sites or hosting third-party Web sites that include materials that infringe copyrights or other rights of others. In addition, a number of other countries have announced or are considering additional regulation in many of the foregoing areas. Such laws and regulations if enacted in the United States or abroad could fundamentally impair the Company's ability to provide Internet navigation services, or substantially increase the cost of doing so, which would have a material adverse effect on the Company's business, operating results, and financial condition. Moreover, the applicability to the Internet of the existing laws governing issues such as property ownership, copyright, defamation, obscenity, and personal privacy is uncertain, and the Company may be subject to claims that its services violate such laws. Any such new legislation or regulation in the United States or abroad or the application of existing laws and regulations to the Internet could have a material adverse effect on the Company's business, operating results, and financial condition.

Due to the global nature of the Web, it is possible that, although transmissions by the Company over the Internet originate primarily in the State of California, the governments of other states and foreign countries might attempt to regulate the Company's transmissions or prosecute the Company for violations of their laws. There can be no assurance that violations of local laws will not be alleged or charged by state or foreign governments, that the Company might not unintentionally violate such law or that such laws will not be modified, or new laws enacted, in the future. Any of the foregoing developments could have a material adverse effect on the Company's business, results of operations, and financial condition.

LIABILITY FOR INFORMATION SERVICES

Because materials may be downloaded by the online or Internet services operated or facilitated by the Company and may be subsequently distributed to others, there is a potential that claims will be made against the Company for defamation, negligence, copyright or trademark infringement, personal injury or other theories based on the nature and content of such materials. Such claims have been brought, and sometimes successfully pressed, against online service providers in the past. In addition, the Company could be exposed to liability with respect to the selection of listings that may be accessible through the Company's Yahoo!-branded products and media properties, or through content and materials that may be posted by users in classifieds, message board and chat room services offered by the Company. Such claims might include, among others, that by providing hypertext links to Web sites operated by third parties, the Company is liable for copyright or trademark infringement or other wrongful actions by such third parties through such Web sites, or that the Company is responsible for legal injury caused by statements made for or actions taken by participants in the Company's message board services. It is also possible that if any information provided through the Company's services, such as stock quotes, analyst estimates or other trading information, contains errors, third parties could make claims against the Company for losses incurred in reliance on such information. In connection with the acquisition of Four11 Corporation, the Company recently began offering Web-based email services, which expose the Company to potential risks, such as liabilities or claims resulting from unsolicited email (spamming), lost or misdirected messages, illegal or fraudulent use of email or interruptions or delays in email service. Even to the extent such claims

do not result in liability to the Company, the Company expects to incur significant costs in investigating and defending such claims.

The Company also from time to time enters into arrangements to offer third-party products and services under the Yahoo! brand or via distribution on Yahoo! properties. For example, the Company recently announced an agreement with GeoCities under which GeoCities will offer free home page services and certain related products to Yahoo! users. The Company also recently announced an arrangement with AudioNet, an Internet-based broadcast network, whereby links to AudioNet's site and content will be distributed via Yahoo! properties. These business arrangements involve additional legal risks, such as potential liabilities for content posted by free home page users or made available by other third-party providers. The Company may be subject to claims concerning such services or content by virtue of the Company's involvement in marketing, branding or providing access to such services, even if the Company does not itself host, operate, or provide such services. While the Company's agreements with these parties often provide that the Company will be indemnified against such liabilities, there can be no assurance that such indemnification, if available, will be adequate.

POTENTIAL COMMERCE-RELATED LIABILITIES AND EXPENSES

From time to time, the Company enters into agreements with sponsors, content providers, service providers, and merchants under which the Company is entitled to receive a share of revenue from the purchase of goods and services by users of the Company's online properties. Such arrangements may expose the Company to additional legal risks and uncertainties, including (without limitation) potential liabilities to consumers of such products and services. Although the Company carries general liability insurance, the Company's insurance may not cover potential claims of this type or may not be adequate to indemnify the Company for all liability that may be imposed.

The Company recently began offering a Yahoo!-branded VISA credit card, which includes a "rewards" program entitling card users to receive points that may be redeemed for merchandise, such as books or music. This arrangement exposes the Company to certain additional risks and expenses, including, without limitation, those relating to compliance with consumer protection laws, loss of customer data, disputes over redemption procedures and rules, products liability, sales taxation and liabilities associated with any failure in performance by participating merchants.

In June 1998, the Company completed the acquisition of Viaweb, a provider of software and reporting tools for the operation of online commerce Web sites. The Company intends to use the Viaweb technology to host and promote online stores on behalf of third-party merchants, the operation and maintenance of which will be largely under the independent control of such merchants. These activities expose the Company to a number of additional risks and uncertainties, including (without limitation) potential liabilities for illegal activities that may be conducted by participating merchants; products liability or other tort claims relating to goods or services sold through hosted commerce sites; consumer fraud and false or deceptive advertising or sales practices; breach of contract claims relating to merchant transactions; claims that materials included in merchant sites or sold by merchants through these sites infringe third-party patents, copyrights, trademarks or other intellectual property rights, or are libelous, defamatory or in breach of third-party confidentiality or privacy rights; claims relating to any failure of merchants to appropriately collect and remit sales or other taxes arising from e-commerce transactions; and claims that may be brought by merchants as a result of their exclusion from the Company's commerce services or losses resulting from any downtime or other performance failures in the Company's hosting services. Although the Company maintains liability insurance, there can be no assurance that insurance will cover these claims or that such coverage, if available, will be adequate. Even to the extent such claims do not result in material liability to the Company, the Company expects to incur significant costs in investigating and defending such claims.

YEAR 2000 IMPLICATIONS

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field and cannot distinguish 21st century dates from 20th century dates. These date code fields will need to distinguish 21st century dates from 20th century dates and, as a result, many companies' software and computer systems may need to be upgraded or replaced in order to comply with such "Year 2000" requirements. Although the Company believes that its systems are Year 2000 compliant in all material respects, there can be no assurances that the Company's current systems and products do not contain undetected errors or defects with Year 2000 date functions that may result in material costs to the Company. Although the Company is not aware of any material operational issues or costs associated with preparing its internal systems for the Year 2000, there can be no assurances that the Company will not experience serious unanticipated negative consequences (such as significant downtime for one or more Yahoo! Media properties) and/or material costs caused by undetected errors or defects in the technology used in its internal systems. In addition, the Company utilizes third-party equipment, software and content that may not be Year 2000 compliant. Failure of such third-party equipment, software or content to operate properly with regard to the year 2000 and thereafter could require the Company to incur unanticipated expenses to remedy any problems, which could have a material adverse effect on the Company's business, results of operations and financial condition. Furthermore, the purchasing patterns of advertisers may be affected by Year 2000 issues as companies expend significant resources to correct their current systems for Year 2000 compliance. These expenditures may result in reduced funds available for Web advertising or sponsorship of Web services, which could have a material adverse effect on the Company's business, results of operations and financial condition.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS AND EXPANSION

A key part of the Company's strategy is to develop Yahoo!-branded online properties in international markets. The Company has developed and operates, through joint ventures with SOFTBANK and related entities, versions of Yahoo! localized for Japan, Germany, France, the United Kingdom, and Korea. The Company offers a version of Yahoo! localized for Canada under an agreement with Rogers Communications, and the Company operates localized or mirror versions of Yahoo! through wholly-owned subsidiaries in Australia, Denmark, Italy, Norway, Sweden, and Singapore. The Company also offers Yahoo! guides in Spanish and Mandarin Chinese languages.

To date, the Company has only limited experience in developing localized versions of its products and marketing and operating its products and services internationally, and the Company relies substantially on the efforts and abilities of its foreign business partners in such activities. The Company has experienced and expects to continue to experience higher costs as a percentage of revenues in connection with international online properties than domestic online properties. If the international revenues are not adequate to offset investments in such activities, the Company's business, operating results, and financial condition could be materially adversely affected. The Company may experience difficulty in managing international operations as a result of distance as well as language and cultural differences, and there can be no assurance that the Company or its partners will be able to successfully market and operate its products and services in foreign markets. The Company also believes that in light of substantial anticipated competition, it will be necessary to move quickly into international markets in order to effectively obtain market share, and there can be no assurance that the Company will be able to do so. In addition to the uncertainty as to the Company's ability to continue to generate revenues from its foreign operations and expand its international presence, there are certain risks inherent in doing business on an international level, such as unexpected changes in regulatory requirements, trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, political instability, export restrictions, export controls relating to encryption technology, seasonal reductions in business activity in certain other parts of the world, and potentially adverse tax consequences. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's

future international operations and, consequently, on the Company's business, operating results, and financial condition.

CONCENTRATION OF STOCK OWNERSHIP

As of May 31. 1998, the present directors, executive officers, and their respective affiliates beneficially owned approximately 58% of the outstanding Common Stock of the Company. As of May 31, 1998, SOFTBANK beneficially owned approximately 29% of the outstanding Common Stock of the Company. As a result of their ownership, the directors, executive officers, greater than 5% shareholders and their respective affiliates (including SOFTBANK) collectively are able to control all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company.

VOLATILITY OF STOCK PRICE

The trading price of the Company's Common Stock has been and may continue to be subject to wide fluctuations 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 the Company or its competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to the Company, and news reports relating to trends in the Company's markets. In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the trading price of the Company's Common Stock, regardless of the Company's operating performance.

LEGAL PROCEEDINGS

In July 1997, GTE New Media Services Incorporated ("GTE New Media"), an affiliate of GTE, filed suit in Dallas, Texas against Netscape and the Company, in which GTE New Media made a number of claims relating to the inclusion of certain Yellow Pages hypertext links in the Netscape Guide by Yahoo!, an online navigational property operated by the Company under an agreement with Netscape. In this lawsuit, GTE New Media has alleged, among other things, that by including such links to the Yellow Pages service operated by several Regional Bell Operating Companies (the "RBOCs") within the Guide, the Company has tortiously interfered with an alleged contractual relationship between GTE New Media and Netscape relating to placement of links by Netscape for a Yellow Pages service operated by GTE New Media. GTE New Media seeks injunctive relief as well as actual and punitive damages. In October 1997, GTE New Media brought suit in the U.S. District Court for the District of Columbia, against the RBOCs, Netscape, and the Company, in which GTE New Media has alleged, among other things, that the alleged exclusion of the GTE New Media Yellow Pages from the Netscape Guide Yellow Pages service violates federal antitrust laws, and GTE New Media seeks injunctive relief and damages (trebled under federal antitrust laws) from such alleged actions. The Company believes that the claims against the Company in these lawsuits are without merit and intends to contest them vigorously. Although the Company cannot predict with certainty the outcome of these lawsuits or the expenses that may be incurred in defending the lawsuits, the Company does not believe that the result in the lawsuits will have a material adverse effect on the Company's financial position or results of operations.

From time to time the Company has been, and expects to continue to be, subject to other legal proceedings and claims in the ordinary course of its business, including, among others, contractual disputes with advertisers and content distribution providers, claims of alleged infringement of trademarks and other intellectual property rights, and a variety of claims arising in connection with the Company's email, message boards and other communications and community features, such as claims alleging defamation

and invasion of privacy. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources. Although the Company cannot predict the outcome of any proceeding, the Company is not currently aware of any such legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's financial position or results of operations.

ANTITAKEOVER EFFECT OF CERTAIN CHARTER PROVISIONS

The Board of Directors has the authority to issue up to 10,000,000 shares of Preferred Stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders. The rights of the holders of Common Stock may be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change of control of the Company without further action by the shareholders and may adversely affect the voting and other rights of the holders of Common Stock. The Company has no present plans to issue shares of Preferred Stock. Further, certain provisions of the Company's charter documents, including provisions eliminating the ability of shareholders to take action by written consent and limiting the ability of shareholders to raise matters at a meeting of shareholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of the Company, which could have an adverse effect on the market price of the Company's Common Stock. In addition, the Company's charter documents do not permit cumulative voting and provide that, at such time as the Company has at least six directors, the Company's Board of Directors will be divided into two classes, each of which serves for a staggered two-year term, which may make it more difficult for a third-party to gain control of the Company's Board of Directors.

SHARES ELIGIBLE FOR FUTURE SALE

As of June 10, 1998, the Company had outstanding 46,836,053 shares of Common Stock, and options to purchase a total of approximately 11,664,648 shares of the Company's Common Stock under the Company's stock option plans, including shares issued and options assumed in the recent acquisition of Viaweb. Of these shares, an estimated number of 3,186,132 shares recently issued in connection with acquisitions and investments have been or will be available for resale pursuant to registration statements filed by the Company with the SEC. Sales of substantial amounts of such shares in the public market or the prospect of such sales could adversely affect the market price of the Company's Common Stock.

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

(a) FINANCIAL STATEMENTS OF BUSINESS ACQUIRED.

The audited financial statements of Viaweb (a development stage enterprise) as of and for the year ended December 31, 1997 and the unaudited interim financial statements for the period from August 31, 1995 (Inception) through March 31, 1998 and the periods ended March 31, 1998 and March 31, 1997 are attached to and filed with this report.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of Viaweb Incorporated

In our opinion, the accompanying balance sheet and the related statements of operations, of stockholders' deficit and of cash flows present fairly, in all material respects, the financial position of Viaweb Incorporated (a development stage enterprise) at December 31, 1997 and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

As discussed in Note 8, on June 10, 1998, the Company consummated an Agreement and Plan of Merger with Yahoo! Inc., a publicly held company, upon which the Company's stockholders exchanged all of their shares of Common Stock and options to purchase shares of Common Stock for shares of Yahoo! Inc. Common Stock and options to purchase shares of Yahoo! Inc. Common Stock in a business combination to be accounted for as a purchase.

/s/ PRICE WATERHOUSE LLP
San Jose, California
June 2, 1998, except as to Note 8, which
is as of June 10, 1998

VIAWEB INC.
(A DEVELOPMENT STAGE ENTERPRISE)
BALANCE SHEET

	DECEMBER 31, 1997	MARCH 31, 1998
		(UNAUDITED)
ASSETS		
Current Assets:		
Cash	$ 14,000	$ 106,000
Accounts receivable, net of allowance of $35,000 and $32,000	23,000	49,000
Note receivable from stockholder	65,000	65,000
Prepaid expenses	16,000	22,000
Total current assets	118,000	242,000
Property and equipment, net	192,000	172,000
Other assets	12,000	12,000
	$ 322,000	$ 426,000
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Notes payable to bank	$ 926,000	$ -
Notes payable to stockholders (Note 4)	-	1,228,000
Accounts payable	249,000	370,000
Accrued expenses	182,000	196,000
Total current liabilities	1,357,000	1,794,000
Commitments and contingencies (Note 5)		
Stockholders' Deficit:		
Common Stock: $0.01 par value; 2,000,000 shares authorized; 1,057,250 shares issued and outstanding	11,000	11,000
Additional paid-in capital	1,331,000	1,465,000
Deficit accumulated during the development stage	(2,242,000)	(2,709,000)
Stock subscription receivable from officer	(135,000)	(135,000)
Total stockholders' deficit	(1,035,000)	(1,368,000)
	$ 322,000	$ 426,000

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

VIAWEB INC.
(A DEVELOPMENT STAGE ENTERPRISE)
STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31, 1997	THREE MONTHS ENDED MARCH 31, 1997	THREE MONTHS ENDED MARCH 31, 1998	PERIOD FROM AUGUST 31, 1995 (INCEPTION) TO MARCH 31, 1998
		(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Net revenues	$ 343,000	$ 34,000	$ 290,000	$ 650,000
Operating expenses:				
Cost of revenues	268,000	39,000	94,000	410,000
Sales and marketing	863,000	167,000	237,000	1,329,000
Research and development	321,000	49,000	170,000	575,000
General and administrative	528,000	75,000	151,000	824,000
Total operating expenses	1,980,000	330,000	652,000	3,138,000
Loss from operations	(1,637,000)	(296,000)	(362,000)	(2,488,000)
Interest income (expense), net	(110,000)	1,000	(105,000)	(215,000)
Net loss	$(1,747,000)	$ (295,000)	$ (467,000)	$ (2,703,000)
Basic and diluted net loss per share	$ (1.78)	$ (0.31)	$ (0.44)	
Shares used in computing basic and diluted net loss per share:	982,000	955,000	1,057,000	

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

VIAWEB INC.
(A DEVELOPMENT STAGE ENTERPRISE)
STATEMENT OF STOCKHOLDERS' DEFICIT

		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL
		SHARES	AMOUNT	
Sept. 1995	Issuance of Common Stock to founders for services at $0.0001 per share	606,500	$ 6,000	$ -
Dec. 1995	Issuance of Common Stock for cash at $0.10 per share	84,500	1,000	7,000
Jan. - Mar. 1996	Issuance of Common Stock for cash at $1.00 per share, net of issuance costs of $3,000, which represented 2,500 shares of common stock	102,500	1,000	99,000
Apr. 1996	Issuance of Common Stock for services at $1.00 per share	2,000	-	2,000
June 1996	Compensation expense on option grants at $2.50 per share	-	-	88,000
July 1996	Issuance of Common Stock for cash at $3.00 per share, net of issuance costs of $9,000, which included 2,500 shares of common stock	52,500	-	149,000
Dec. 1996	Issuance of Common Stock for cash at $5.86 per share, net of issuance costs of $2,000	64,000	1,000	371,000
	Net loss for the period from August 31, 1995 (Inception) to December 31, 1996	-	-	-
	Balance at December 31, 1996	912,000	9,000	716,000
Jan. 1997	Issuance of Common Stock for cash at $5.86 per share	64,000	1,000	374,000
Nov. 1997	Issuance of Common Stock under stock option plan for cash and subscription receivable at $0.001 - $6.00 per share	81,250	1,000	141,000
July - Dec. 1997	Warrants issued in exchange for professional services	-	-	20,000
Oct. - Dec. 1997	Warrants issued in conjunction with notes payable	-	-	80,000
	Net loss	-	-	-
	Balance at December 31, 1997	1,057,250	11,000	1,331,000
Feb. 1998	Warrants issued in conjunction with notes payable (unaudited)	-	-	80,000
Jan. - Mar. 1998	Warrants issued in exchange for professional services (unaudited)	-	-	54,000
	Net loss (unaudited)	-	-	-
	Balance at March 31, 1998 (unaudited)	1,057,250	$ 11,000	$ 1,465,000

		DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	STOCK SUBSCRIPTION RECEIVABLE FROM OFFICER	TOTAL
Sept. 1995	Issuance of Common Stock to founders for services at $0.0001 per share	$ (6,000)	$ -	$ -
Dec. 1995	Issuance of Common Stock for cash at $0.10 per share	-	-	8,000
Jan. - Mar. 1996	Issuance of Common Stock for cash at $1.00 per share, net of issuance costs of $3,000, which represented 2,500 shares of common stock	-	-	100,000
Apr. 1996	Issuance of Common Stock for services at $1.00 per share	-	-	2,000
June 1996	Compensation expense on option grants at $2.50 per share	-	-	88,000
July 1996	Issuance of Common Stock for cash at $3.00 per share, net of issuance costs of $9,000, which included 2,500 shares of common stock	-	-	149,000
Dec. 1996	Issuance of Common Stock for cash at $5.86 per share, net of issuance costs of $2,000	-	-	372,000
	Net loss for the period from August 31, 1995 (Inception) to December 31, 1996	(489,000)	-	(489,000)
	Balance at December 31, 1996	(495,000)	-	230,000
Jan. 1997	Issuance of Common Stock for cash at $5.86 per share	-	-	375,000
Nov. 1997	Issuance of Common Stock under stock option plan for cash and subscription receivable at $0.001 - $6.00 per share	-	(135,000)	7,000
July - Dec. 1997	Warrants issued in exchange for professional services	-	-	20,000
Oct. - Dec. 1997	Warrants issued in conjunction with notes payable	-	-	80,000
	Net loss	(1,747,000)	-	(1,747,000)
	Balance at December 31, 1997	(2,242,000)	(135,000)	(1,035,000)

Date	Description			
Feb. 1998	Warrants issued in conjunction with notes payable (unaudited)	-	-	80,000
Jan. - Mar. 1998	Warrants issued in exchange for professional services (unaudited)	-	-	54,000
	Net loss (unaudited)	(467,000)	-	(467,000)
	Balance at March 31, 1998 (unaudited)	$ (2,709,000)	$ (135,000)	$ (1,368,000)

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

VIAWEB INC.
(A DEVELOPMENT STAGE ENTERPRISE)
STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 1997	THREE MONTHS ENDED MARCH 31, 1997	THREE MONTHS ENDED MARCH 31, 1998	PERIOD FROM AUGUST 31, 1995 (INCEPTION) TO MARCH 31, 1998
		(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Cash flows from operating activities:				
Net loss	$(1,747,000)	$(295,000)	$ (467,000)	$ (2,703,000)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	55,000	8,000	21,000	89,000
Expenses associated with the issuance of Common Stock, warrants and options	100,000	-	84,000	273,000
Changes in assets and liabilities:				
Accounts receivable, net	(13,000)	(15,000)	(26,000)	(49,000)
Note receivable from stockholder	(65,000)	-	-	(65,000)
Prepaid expenses	(7,000)	(12,000)	(6,000)	(22,000)
Accounts payable and accrued expenses	306,000	(27,000)	185,000	616,000
Net cash used in operating activities	(1,371,000)	(341,000)	(209,000)	(1,861,000)
Cash flows from investing activities:				
Purchase of property and equipment	(179,000)	(50,000)	(1,000)	(261,000)
Other assets	(4,000)	-	-	(12,000)
Net cash used in investing activities	(183,000)	(50,000)	(1,000)	(273,000)
Cash flows from financing activities:				
Proceeds from issuance of Common Stock, net	382,000	375,000	-	1,012,000
Proceeds from note payable to bank and stockholders	926,000	-	302,000	1,268,000
Principal payments on note payable to bank	(40,000)	(40,000)	-	(40,000)
Net cash provided by financing activities	1,268,000	335,000	302,000	2,240,000
Net change in cash	(286,000)	(56,000)	92,000	106,000
Cash at beginning of period	300,000	300,000	14,000	-
Cash at end of period	$ 14,000	$ 244,000	$ 106,000	$ 106,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the period for interest	$ 27,000	$ 1,000	$ 47,000	$ 74,000
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING TRANSACTIONS:				
Issuance of Common Stock for subscription receivable from officer	$ 135,000	$ -	$ -	$ 135,000
Conversion of accounts payable into Common Stock warrants	$ -	$ -	$ 50,000	$ 50,000

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

VIAWEB INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - OPERATIONS AND SIGNIFICANT POLICIES:

THE COMPANY

Viaweb Inc. (the "Company") is a provider of services and software for electronic commerce on the Internet. The Company was incorporated in Delaware on August 30, 1995 and commenced operations on that date. The Company conducts its business within one industry segment.

Since inception, the Company has been in the development stage, engaged primarily in product development, and has incurred significant losses from operations. To date, insignificant revenues have been generated from its planned product offerings and significant resources have been expended in the development of proprietary technologies. Accordingly, the accompanying financial statements are not indicative of a normal operating period.

On June 10, 1998, the Company consummated an Agreement and Plan of Merger (the "Plan") with Yahoo! Inc., a publicly-held company, upon which the Company's stockholders exchanged all of their shares of Common Stock and options to purchase Common Stock for shares of Yahoo! Inc. Common Stock and options to purchase shares of Yahoo! Inc. Common Stock in a business combination to be accounted for as a purchase (Note 8).

The Company's significant accounting policies are set forth below:

REVENUE RECOGNITION

The Company recognizes revenue in the period in which the service is provided, provided that no significant Company obligations remain and collection of the resulting receivable is probable.

USE OF ESTIMATES

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

BASIC AND DILUTED NET LOSS PER SHARE

The Company adopted SFAS 128, "Earnings per Share" during the year ended December 31, 1997 and retroactively restated all prior periods. Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares consist of the incremental common shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Common equivalent shares are excluded from the computation if their effect is anti-dilutive.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, accounts receivable, notes receivable from stockholder and stock subscription receivable from officer. Substantially all of the Company's cash is held in demand deposit accounts with two financial institutions. Accounts receivable are typically unsecured and are derived from revenues earned from customers primarily located in the United States. At December 31 ,1997, two customers accounted for 22% of the accounts receivable balance. Notes receivable from stockholder and stock subscription receivable from officer are full recourse and are secured by shares of the Company's Common Stock.

PROPERTY AND EQUIPMENT

Property and equipment are stated as cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years.

RESEARCH AND DEVELOPMENT

Costs incurred in the development of new products and enhancements to existing products are charged to expense as incurred. Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed," requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based upon the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant.

STOCK-BASED COMPENSATION

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

WARRANTS

Warrants issued under certain agreements are accounted for in accordance with SFAS 123. The costs associated with warrants granted are amortized over the period of expected benefit.

FAIR VALUE OF FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including accounts receivable, notes receivable from stockholder, stock subscription receivable, accounts payable and notes payable, the carrying amounts approximate fair value due to their relatively short maturity.

INCOME TAXES

Income taxes are accounted for using an asset and liability approach in accordance with SFAS No. 109, "Accounting for Income Taxes." The asset and liability approach requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The measurement of current and deferred tax liabilities and assets are based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. The carrying value of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

COMPREHENSIVE INCOME

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS 130, "Reporting Comprehensive Income." SFAS 130 establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income is defined as all changes in equity (net assets) during a period from non-owner sources including foreign currency translation adjustments and unrealized gains/losses on available-for-sale securities. The Company adopted the provisions of SFAS 130 effective January 1, 1998. There were no changes in equity from non-owner sources during the three months ended March 31, 1997 or 1998.

VIAWEB INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS

During June 1997, the FASB issued SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for the way companies report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company has not yet determined the impact, if any, of adopting this new standard. The disclosures prescribed by SFAS 131 will be effective for the year ending December 31, 1998 financial statements.

INTERIM FINANCIAL INFORMATION (UNAUDITED)

The accompanying balance sheet and statement of stockholders' deficit as of March 31, 1998 and the statements of operations and cash flows for the period from August 31, 1995 (Inception) through March 31, 1998 and for the three months ended March 31, 1997 and 1998 are unaudited. In the opinion of management, these statements have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of normal recurring adjustments, necessary for the fair presentation of the results of the interim periods. 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.

NOTE 2 - BALANCE SHEET COMPONENTS:

	DECEMBER 31, 1997	MARCH 31, 1998
		(UNAUDITED)
PROPERTY AND EQUIPMENT:		
Computer equipment	$ 246,000	$ 247,000
Office furniture and equipment	14,000	14,000
	260,000	261,000
Less: accumulated depreciation	(68,000)	(89,000)
	$ 192,000	$ 172,000
ACCRUED EXPENSES:		
Payroll and related amounts	$ 39,000	$ 37,000
Professional fees	123,000	129,000
Other	20,000	30,000
	$ 182,000	$ 196,000

NOTE 3 - RELATED PARTY TRANSACTIONS:

NOTE RECEIVABLE FROM STOCKHOLDER

At December 31, 1997, the Company has a $65,000 note receivable from a stockholder which bears interest at 8% commencing during February 1998. The note is full recourse, is secured by 35,000 shares of the Company's Common Stock and is due upon the earlier of September 19, 1998 or 30 days after such shares are eligible for public sale.

FACILITY LEASE

The Company maintains certain equipment at a facility leased by an officer of the Company. During 1997, total rent expense incurred under this month-to-month arrangement was approximately $17,000.

LOAN AGREEMENT

During 1997, warrants to purchase 11,740 shares of Common Stock (Note 7) were issued to certain stockholders in return for personal guarantees on the Company's line of credit. In February 1998, additional warrants to purchase 23,659 shares of Common Stock (Note 7) were issued to certain stockholders upon assumption of the line of credit (Note 4).

NOTE 4 - FINANCING ARRANGEMENTS:

During 1997, the Company entered into a line of credit agreement (the "Agreement") with a bank which, as amended, provided up to $1,100,000 of borrowings with an interest rate of prime plus 2 1/2 percent (11% at December 31, 1997). Under the Agreement, all of the Company's assets are pledged as collateral and warrants to purchase 4,310 shares of Common Stock with an exercise price of $8.14 were issued to the bank (Note 7). Additionally, certain stockholders entered into an agreement to guarantee the line of credit upon the Company's default. In an event of default, the bank agreed to assign to the stockholders its rights under the Agreement. In return, the Company granted to the stockholders warrants to purchase 11,740 shares of Common Stock at an exercise price of $7.89 per share (Note 7).

During February 1998, certain stockholders assumed the bank's responsibilities under the Agreement and repaid to the bank principal and interest of $1,117,000. In connection with assuming the bank's rights under the Agreement, the Company issued to such stockholders warrants to purchase 23,659 shares of Common Stock with an exercise price of $7.89 (Note 7).

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

EMPLOYMENT AGREEMENT

The Company has a three-year employment agreement with an officer of the Company providing maximum annual aggregate compensation of $120,000, expiring in October 1999.

LITIGATION

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 and other intellectual property rights. The Company is not aware of any legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's financial position or results of operations.

NOTE 6 - INCOME TAXES:

No deferred benefit for income taxes has been recorded as the Company is in a net deferred tax asset position for which a full valuation allowance has been provided due to uncertainty of its realization. Deferred tax assets of approximately $1,100,000 at December 31, 1997 consist primarily of net operating loss carryforwards and accrued expenses not currently deductible for tax purposes.

At December 31, 1997, the Company had federal net operating loss and research and development credit carryforwards of approximately $2,500,000 and $17,000, respectively, available to reduce future taxable income, which expire through 2012.

Under the Tax Reform Act of 1986, the amount of and the benefit from net operating losses that can be carried forward may be limited in certain circumstances including, but not limited to, a cumulative stock ownership change of more than 50% over a three-year period, as defined. Upon completion of the Company's private placement in January 1997, the maximum net operating loss carryforward that may be used in any year for losses incurred prior to such date is approximately $325,000. However, use of the Company's net operating loss carryforward incurred after the completion of the private placement of approximately $1,700,000 is not limited as of December 31, 1997.

NOTE 7 - STOCKHOLDERS' EQUITY:

COMMON STOCK

The Company, prior to the issuance of any debt or equity securities, as defined, shall offer certain stockholders the right to purchase 50% of such securities. This preemptive right expires 30 days after notice is provided to such stockholders.

In connection with the stock agreements, there are certain restrictive covenants, including the payment of dividends, issuance of Preferred Stock, consolidation or sale of the Company, that require the approval of certain stockholders and/or a percentage of the Company's Board of Directors. Certain stockholders also have the right to require the Company to register its shares in the event of a public offering of the Company's Common Stock.

Common shares reserved for future issuance at December 31, 1997 consisted of 18,018 and 292,250 shares for Common Stock warrants and stock options, respectively.

SUBSCRIPTION RECEIVABLE FROM OFFICER

At December 31, 1997, the Company has received a $135,000 subscription receivable from an officer for the exercise of Common Stock options which bears interest at 8% commencing on February 14, 1998. The note is full recourse, is secured by 45,000 shares of the Company's Common Stock and is due upon the earlier of March 15, 1999 or 30 days after such shares are eligible for public sale.

COMMON STOCK WARRANTS

In connection with entering into the Agreement (Note 4) during June 1997, the Company granted warrants to a bank to purchase 4,310 shares of Common Stock at an exercise price of $8.14 per share, exercisable for a five-year period. Pursuant to SFAS No. 123, the Company valued these warrants and recorded interest expense of $22,000 during the year ended December 31, 1997.

In December 1997, the Company issued warrants to a public relations firm to purchase 1,968 shares of Common Stock at an exercise price of $12.21 per share, exercisable for a five-year period. Pursuant to SFAS No. 123, the Company valued these warrants and recorded sales and marketing expense of $20,000 as the approximate value of the services rendered during the year ended December 31, 1997.

In 1997, pursuant to receiving personal guarantees from certain shareholders for the Agreement (Note 4), the Company issued warrants to purchase 11,740 shares of Common Stock at $7.89 per share. The warrants are exercisable over a ten-year period. Pursuant to SFAS No. 123, the Company valued these warrants and recorded interest expense of $58,000 for the year ended December 31, 1997.

All of the aforementioned warrants are currently exercisable as of December 31, 1997 and have a weighted average exercise price of $8.42 per share. The Company has granted rights to certain warrant holders with respect to the registration of such shares underlying the warrants with the Securities and Exchange Commission.

During February 1998, certain stockholders repaid the Company's outstanding line of credit of $1,100,000 plus accrued interest (Note 4). In connection with this repayment, the Company issued warrants to purchase 23,659 shares of Common Stock at an exercise price of $7.89 per share. Pursuant to SFAS No. 123, the Company valued these warrants and recorded interest expense of $80,000 during the three months ended March 31, 1998.

STOCK OPTIONS

The 1997 Stock Option Plan (the "1997 Plan") authorized the Board of Directors to grant to employees, directors and consultants up to 200,000 incentive and non-qualified stock options to purchase Common Stock. Options under the 1997 Plan may be granted at prices no less than 100% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors provided, however, that the exercise price of an option granted to a 10% shareholder shall not be less than 110% of the estimated fair value on the date of grant. Options vest annually over a four year period and are exercisable for a maximum period of ten years after the date of grant. The 1997 Plan provides for acceleration of vesting upon certain events. During 1996, options to purchase 173,500 shares of Common Stock were granted prior to the commencement of the 1997 Plan with a weighted average fair value of $0.76 per share.

A summary of stock option activity is as follows:

	AVAILABLE FOR GRANT	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Balance at January 1, 1997	-	173,500	$ 2.40
Shares authorized	200,000	-	-
Options granted (weighted average fair value of $1.52 per share)	(115,800)	115,800	6.00
Options exercised	-	(81,250)	1.75
Balance at December 31, 1997	84,200	208,050	$ 4.65

The following table summarizes information concerning stock options outstanding as of December 31, 1997:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
EXERCISE PRICE PER SHARE	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
$ 3.00	93,500	3.81	$ 3.00	3,500	$ 3.00
6.00	114,550	9.44	6.00	-	-
	208,050	6.91	$ 4.65	3,500	$ 3.00

FAIR VALUE DISCLOSURES

Had compensation cost for the Company's option plan been determined based on the fair value at the grant dates, as prescribed in SFAS 123, the Company's net loss would have been as follows:

	DECEMBER 31, 1997
NET LOSS:	
Reported	$ (1,747,000)
Pro forma net loss	$ (1,763,000)

The fair value of each option is estimated on the date of grant using the minimum value method with the following assumptions used for grants during 1997: annual dividend yield of 0.0%; volatility of 0%; risk-free interest rates of 5.4% to 5.9% and a weighted average expected option term of one year.

The pro forma amounts reflect compensation expenses related to the 1997 and 1996 option grants only. In future years, the annual compensation expense will increase due to the expense associated with future grants.

NOTE 8 - SUBSEQUENT EVENTS:

MERGER WITH YAHOO! INC.

On June 10, 1998, the Company consummated an Agreement and Plan of Merger (the "Plan") with Yahoo! Inc., ("Yahoo!") a publicly-held company, upon which the Company's stockholders exchanged all of their shares of Common Stock and options to purchase Common Stock for 393,591 shares of Yahoo! Common Stock, and options to purchase 61,126 shares of Yahoo! Common Stock in a business combination to be accounted for as a purchase.

CONVERTIBLE NOTES PAYABLE

On April 14, 1998, the Company entered into an agreement with certain stockholders and a private investor to issue up to $2,000,000 of non-interest-bearing convertible secured notes due on January 14, 1999. A portion of the available borrowings was used to repay $1,328,000 of debt from certain stockholders (Note 4). On April 14, 1998, the Company issued $1,500,000 of the maximum $2,000,000 commitment. The balance of the commitment is at the Company's option. The notes are secured by a security interest in collateral as defined in the general security agreement and the property covered by the patent and security agreements. The notes are convertible at the option of the holder into Series A convertible Preferred Stock at a price of $7.61 per share (See Preferred Stock in Note 8). Each share of Series A Preferred Stock is convertible into one share of Common Stock. However, the notes will automatically convert into Common Stock upon acquisition of the Company by Yahoo!, at a price of $7.61 per share.

VENDOR PAYABLES

During April 1998, the Company agreed to convert $75,000 in accounts payable into shares of Series A Preferred Stock at a price of $7.61 per share. Additionally, certain other accounts payable and services were exchanged for warrants to purchase an aggregate of 4,998 shares of Common Stock at an exercise price of $12.21 per share.

PREFERRED STOCK

Under the Company's Amended and Restated Articles of Incorporation, the Company is authorized to issue 300,000 shares of Preferred Stock, of which 272,667 shares have been designated as Series A. At December 31, 1997, no shares were issued or outstanding. The rights, preferences and privileges with respect to the Series A Preferred Stock are as follows:

DIVIDENDS

Holders of Series A Preferred Stock are entitled to receive dividends when, as and if declared by the Board of Directors. There have been no dividends declared to date.

CONVERSION

Each share of Series A Preferred Stock is convertible at the option of the holder into one share of Common Stock subject to adjustment for dilution. Such conversion is automatic upon 1) an effective underwritten public offering where the Company's valuation is greater than $25,000,000, or 2) an acquisition or merger of the Company where the Company's valuation is greater than $15,000,000 and the selling shareholders retain less than 50% of the voting stock of the surviving entity.

LIQUIDATION

In the event of a liquidation, dissolution or winding up of the Company, excluding a merger transaction, the holders of Series A Preferred Stock are entitled to a per share distribution, in preference to holders of Common Stock, equal to the conversion price of the Company's Convertible Notes (Note 4) which is currently set at $7.61 per share. Should the Company's legally available assets be insufficient to satisfy the liquidation preference, the funds will be distributed ratably among the Series A Preferred Stockholders.

VOTING

The holders of Series A Preferred Stock have one vote per share and the right to vote on issues concerning Preferred Stock rights and issuances of superior preferred securities.

AMENDMENTS TO ARTICLES OF INCORPORATION

The Company's Amended and Restated Articles of Incorporation authorize the issuance of 2,500,000 shares of $0.01 par value Common Stock.

(b) PRO FORMA FINANCIAL INFORMATION.

UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma condensed financial statements give effect to the acquisition of Viaweb Inc. ("Viaweb") by Yahoo! Inc. ("Yahoo!") in a transaction to be accounted for as a purchase in accordance with APB Opinion No. 16 (the "Acquisition"). Under the purchase method of accounting, the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of the Acquisition. Estimates of the fair values of the assets and liabilities of Viaweb have been combined with the recorded values of the assets and liabilities of Yahoo! in the unaudited pro forma condensed financial statements. The pro forma adjustments are preliminary and based on management's estimates and preliminary third-party appraisals of the fair values of the tangible assets acquired. Changes to adjustments included in the unaudited pro forma condensed financial statements are expected as valuations and appraisals of assets and liabilities are completed and as additional information becomes available. Changes based on the final results of valuations and appraisals are not expected to be material. In addition, the results of operations of Viaweb subsequent to March 31, 1998 will affect the allocation of the purchase price. Accordingly, actual amounts will differ from those in the unaudited pro forma condensed financial statements.

The unaudited pro forma condensed balance sheet has been prepared to reflect the Acquisition as if it occurred on March 31, 1998. The unaudited pro forma condensed statements of operations reflect the results of operations of Yahoo! and Viaweb for the year ended December 31, 1997 and the three months ended March 31, 1998 as if the Acquisition occurred on January 1, 1997.

The unaudited pro forma condensed financial statements are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations in future periods or the results that actually would have been realized had Yahoo! and Viaweb been a combined company during the specified periods. The unaudited pro forma condensed financial statements, including the notes thereto, are qualified in their entirety by reference to, and should be read in conjunction with, the historical consolidated financial statements of Yahoo!, included in its Annual Report on Form 10-K for the year ended December 31, 1997 and quarterly report from Form 10-Q for the three months ended March 31, 1998 and the financial statements of Viaweb included elsewhere in this Form 8-K.

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET
AS OF MARCH 31, 1998
(IN THOUSANDS)

	HISTORICAL			
	YAHOO! MARCH 31, 1998	VIAWEB MARCH 31, 1998	PRO FORMA ADJUSTMENTS	PRO FORMA
ASSETS				
Current assets:				
Cash and cash equivalents	$ 44,977	$ 106	$ -	$ 45,083
Short-term investments in marketable securities	71,920	-	-	71,920
Accounts receivable, net	12,978	49	-	13,027
Prepaid expenses and other current assets	4,764	222	-	4,986
Total current assets	134,639	377	-	135,016
Long-term investments in marketable securities	7,647	-	-	7,647
Property and equipment, net	8,007	172	-	8,179
Other assets	10,112	12	4,264 (D)	14,388
Total	$ 160,405	$ 561	$ 4,264	$ 165,230
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Notes payable	$ -	$ 1,228	$ (1,228) (B)	$ -
Accounts payable	4,906	370	-	5,276
Accrued expenses and other current liabilities	18,238	188	1,750 (A)	20,176
Deferred revenue	10,102	8	-	10,110
Total current liabilities	33,246	1,794	522	35,562
Minority interests in consolidated subsidiaries	473	-	-	473
Shareholders' equity (deficit)	126,686	(1,233)	46,809 (A) 1,228 (B) 5 (C) (44,300) (D)	129,195
Total	$ 160,405	$ 561	$ 4,264	$ 165,230

See Accompanying Notes to Unaudited Pro Forma Condensed Financial Statements.

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	HISTORICAL			
	YAHOO! YEAR ENDED DECEMBER 31, 1997	VIAWEB YEAR ENDED DECEMBER 31, 1997	PRO FORMA ADJUSTMENTS	PRO FORMA
Net revenues	$ 67,411	$ 343	$ -	$ 67,754
Cost of revenues	9,372	268	-	9,640
Gross profit	58,039	75	-	58,114
Operating expenses:				
Sales and marketing	43,930	863	-	44,793
Product development	11,138	321	1,421 (E)	12,880
General and administrative	6,472	528	-	7,000
Other non-recurring costs	25,095	-	-	25,095
Total operating expenses	86,635	1,712	1,421	89,768
Loss from operations	(28,596)	(1,637)	(1,421)	(31,654)
Interest income (expense), net	4,982	(110)	-	4,872
Minority interests in operations of consolidated subsidiaries	727	-	-	727
Net loss	$ (22,887)	$ (1,747)	$ (1,421)	$ (26,055)
Basic and diluted net loss per share	$ (0.53)			$ (0.59) (F)
Shares used in computing basic and diluted net loss per share	43,583			43,977

See Accompanying Notes to Unaudited Pro Forma Condensed Financial Statements.

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 1998
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	HISTORICAL			
	YAHOO! THREE MONTHS ENDED MARCH, 31 1998	VIAWEB THREE MONTHS ENDED MARCH, 31 1998	PRO FORMA ADJUSTMENTS	PRO FORMA
Net revenues	$ 30,206	$ 290	$ -	$ 30,496
Cost of revenues	3,917	94	-	4,011
Gross profit	26,289	196	-	26,485
Operating expenses:				
Sales and marketing	16,096	237	-	16,333
Product development	4,534	170	355 (E)	5,059
General and administrative	1,992	151	-	2,143
Total operating expenses	22,622	558	355	23,535
Income (loss) from operations	3,667	(362)	(355)	2,950
Interest income (expense), net	1,446	(105)	-	1,341
Minority interests in operations of consolidated subsidiaries	243	-	-	243
Income (loss) before income taxes	5,356	(467)	(355)	4,534
Provision for income taxes	1,071	-	-	1,071
Net income (loss)	$ 4,285	$ (467)	$ (355)	$ 3,463
Net income per share:				
Basic	$ 0.10			$ 0.08 (F)
Diluted	$ 0.08			$ 0.06 (F)
Weighted average common shares and equivalents used in per share calculation:				
Basic	43,052			43,446
Diluted	53,374			53,814

See Accompanying Notes to Unaudited Pro Forma Condensed Financial Statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS

BASIS OF PRESENTATION:

Effective June 10, 1998, Yahoo! acquired Viaweb in exchange for acquisition consideration consisting of (i) 393,591 shares of Common Stock issued in exchange for all outstanding shares of Viaweb Common Stock, and (ii) options to purchase 61,126 shares of Yahoo! Common Stock in exchange for all outstanding options to purchase Viaweb Common Stock. The Acquisition will be accounted for as a purchase. Under the purchase method of accounting, the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values at June 5, 1998, the date of the acquisition. Estimates of the fair values of the assets and liabilities of Viaweb have been combined with the recorded values of the assets and liabilities of Yahoo! in the unaudited pro forma condensed financial statements.

PRO FORMA ADJUSTMENTS (IN THOUSANDS):

(A) To record the consideration issued by Yahoo! to consummate the Acquisition. Acquisition consideration consisted of the following:

Yahoo! Common Stock and options to purchase Yahoo! Common Stock	$ 46,809
Acquisition expenses	1,750
	$ 48,559

(B) To reflect the conversion, effective upon the Acquisition, of $1,228 of Viaweb convertible notes payable into Viaweb Common Stock. Interest associated with the convertible notes was not material for any period presented.

(C) To eliminate the historical stockholders' deficit of Viaweb.

(D) To record the excess of the acquisition price over the fair value of assets and liabilities of $48,564. The book value of tangible assets acquired and liabilities are assumed to approximate fair value.

Total purchase price	$ 48,559
Fair value of tangible assets acquired	(561)
Fair value of liabilities assumed	566
	$ 48,564

The purchase price is allocated based on preliminary estimates, as follows:

In-process research and development	$ 44,300
Acquired technology and other intangible assets (estimated useful life of three years)	4,264
	$ 48,564

NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS

Management estimates, based on preliminary third-party appraisals, that $44,300 of the purchase price represents purchased in-process research and development that has not yet reached technological feasibility and has no alternative future use. This amount will be expensed as a non-recurring charge upon consummation of the acquisition. This amount has been reflected as a reduction to shareholders' equity and has not been included in the pro forma combined statement of income due to its non-recurring nature.

(E) To record amortization of purchased technology and other intangible assets over a useful life of three years.

(F) Basic pro forma earnings per share is computed using the weighted average number of Yahoo! common shares outstanding during the period plus shares of Common Stock assumed to be issued as part of the acquisition. Diluted pro forma earnings per share is computed using the weighted average number of common and common equivalent shares outstanding during the period plus shares of Common Stock and common equivalent shares assumed to be issued as part of the acquisition. Common equivalent shares consist of the incremental common shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Common equivalent shares are excluded from the computation if their effect is antidilutive. Shares and options issued pursuant to the Acquisition are assumed outstanding at the beginning of the period.

(c) EXHIBITS.

2.1 Agreement and Plan of Merger dated June 4, 1998 by and among Yahoo! Inc., XY Acquisition Corporation, and Viaweb Inc.

SIGNATURES

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

YAHOO! INC.

Date: June 12, 1998

By: /s/GARY VALENZUELA

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

YAHOO! INC.

INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated June 4, 1998 by and among Yahoo! Inc., XY Acquisition Corporation, and Viaweb Inc.

AGREEMENT AND PLAN OF MERGER

DATED AS OF JUNE 4, 1998

AMONG

YAHOO! INC.,

XY ACQUISITION CORPORATION

AND

VIAWEB INC.

TABLE OF CONTENTS

	Page
ARTICLE I - THE MERGER	2
Section 1.1 Effective Time of the Merger	2
Section 1.2 Closing	2
Section 1.3 Effects of the Merger	2
Section 1.4 Directors and Officers	2
ARTICLE II - CONVERSION OF SECURITIES	3
Section 2.1 Conversion of Capital Stock	3
Section 2.2 Escrow Agreement	5
Section 2.3 Dissenting Shares	5
Section 2.4 Exchange of Certificates	6
Section 2.5 Distributions with Respect to Unexchanged Shares	7
Section 2.6 No Fractional Shares	7
Section 2.7 Tax Consequences	7
ARTICLE III - REPRESENTATIONS AND WARRANTIES OF TARGET	7
Section 3.1 Organization of Target	8
Section 3.2 Target Capital Structure	8
Section 3.3 Authority; No Conflict; Required Filings and Consents	10
Section 3.4 Financial Statements; Absence of Undisclosed Liabilities	11
Section 3.5 Tax Matters	11
Section 3.6 Absence of Certain Changes or Events	13
Section 3.7 Title and Related Matters	15
Section 3.8 Proprietary Rights	15
Section 3.9 Employee Benefit Plans	18
Section 3.10 Bank Accounts	20
Section 3.11 Contracts	20
Section 3.12 Orders, Commitments and Returns	22
Section 3.13 Compliance With Law	22
Section 3.14 Labor Difficulties; No Discrimination	22
Section 3.15 Trade Regulation	23
Section 3.16 Insider Transactions	23
Section 3.17 Employees, Independent Contractors and Consultants	23
Section 3.18 Insurance	23
Section 3.19 Litigation	24
Section 3.20 Governmental Authorizations and Regulations	24
Section 3.21 Subsidiaries	24
Section 3.22 Compliance with Environmental Requirements	24
Section 3.23 Corporate Documents	25
Section 3.24 No Brokers	25
Section 3.25 Advertisers, Customers and Suppliers	25
Section 3.26 Target Action	26
Section 3.27 Offers	26

TABLE OF CONTENTS
(CONTINUED)

	Page
Section 3.28 Information Statement	26
Section 3.29 Accounts Receivable	26
Section 3.30 Disclosure	26
Section 3.31 Target Disclosure Schedule	27
ARTICLE IV - REPRESENTATIONS AND WARRANTIES OF ACQUIROR AND SUB	27
Section 4.1 Organization of Acquiror and Sub	27
Section 4.2 Acquiror Capital Structure	27
Section 4.3 Authority; No Conflict; Required Filings and Consents	28
Section 4.4 Commission Filings; Financial Statements	29
Section 4.5 Absence of Certain Changes or Events	30
Section 4.6 Compliance with Laws	30
Section 4.7 Interim Operations of Sub	30
Section 4.8 Disclosure	30
Section 4.9 Shareholders Consent	30
Section 4.10 Litigation	30
Section 4.11 Investigation	31
ARTICLE V - PRECLOSING COVENANTS OF TARGET	31
Section 5.1 Approval of Target Stockholders	31
Section 5.2 Advice of Changes	32
Section 5.3 Operation of Business	32
Section 5.4 Access to Information	35
Section 5.5 Satisfaction of Conditions Precedent	35
Section 5.6 Other Negotiations	35
ARTICLE VI - PRECLOSING AND OTHER COVENANTS OF ACQUIROR AND SUB	36
Section 6.1 Advice of Changes	36
Section 6.2 Reservation of Acquiror Common Stock	36
Section 6.3 Satisfaction of Conditions Precedent	36
Section 6.4 Nasdaq National Market Listing	36
Section 6.5 Stock Options	36
Section 6.6 Registration of Shares Issued in the Merger	37
Section 6.7 Procedures for Sale of Shares Under Registration Statement	41
Section 6.8 Certain Employee Benefit Matters	42
Section 6.9 Indemnification	42
Section 6.10 Tax Treatment	42
ARTICLE VII - OTHER AGREEMENTS	43
Section 7.1 Confidentiality	43
Section 7.2 No Public Announcement	43
Section 7.3 Regulatory Filings; Consents; Reasonable Efforts	43
Section 7.4 Further Assurances	43
Section 7.5 Escrow Agreement	43

TABLE OF CONTENTS
(CONTINUED)

	Page
Section 7.6 FIRPTA	44
Section 7.7 Blue Sky Laws	44
Section 7.8 Other Filings	44
Section 7.9 Target Stock Options	44
ARTICLE VIII - CONDITIONS TO MERGER	45
Section 8.1 Conditions to Each Party's Obligation to Effect the Merger	45
Section 8.2 Additional Conditions to Obligations of Acquiror and Sub	45
Section 8.3 Additional Conditions to Obligations of Target	46
ARTICLE IX - TERMINATION AND AMENDMENT	47
Section 9.1 Termination	47
Section 9.2 Effect of Termination	48
Section 9.3 Fees and Expenses	48
ARTICLE X - ESCROW AND INDEMNIFICATION	49
Section 10.1 Indemnification	49
Section 10.2 Escrow Fund	49
Section 10.3 Damage Threshold	49
Section 10.4 Escrow Periods	50
Section 10.5 Claims Upon Escrow Fund	50
Section 10.6 Valuation	50
Section 10.7 Objections to Claims	50
Section 10.8 Resolution of Conflicts	51
Section 10.9 Stockholders' Agents	51
Section 10.10 Actions of the Stockholders' Agents	52
Section 10.11 Claims	52
ARTICLE XI - MISCELLANEOUS	53
Section 11.1 Survival of Representations and Covenants	53
Section 11.2 Notices	53
Section 11.3 Interpretation	54
Section 11.4 Counterparts	55
Section 11.5 Entire Agreement; No Third Party Beneficiaries	55
Section 11.6 Governing Law	55
Section 11.7 Assignment	55
Section 11.8 Amendment	55
Section 11.9 Extension; Waiver	55
Section 11.10 Specific Performance	55

TABLE OF CONTENTS
(CONTINUED)

EXHIBITS

EXHIBITS		
EXHIBIT A	-	VOTING AGREEMENT
EXHIBIT B-1	-	NONCOMPETITION AGREEMENT (I)
EXHIBIT B-2	-	NONCOMPETITION AGREEMENT (II)
EXHIBIT C	-	STOCKHOLDER AGREEMENT
EXHIBIT D	-	ESCROW AGREEMENT
EXHIBIT E	-	TARGET OPTION ACKNOWLEDGEMENT AGREEMENT
EXHIBIT F	-	SUBJECT MATTER OF OPINION OF COUNSEL TO TARGET
EXHIBIT G	-	SUBJECT MATTER OF OPINION OF COUNSEL TO ACQUIROR

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER dated as of June 4, 1998 (this "AGREEMENT"), is entered into by and among Yahoo! Inc., a California corporation ("ACQUIROR"), XY Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Acquiror ("SUB"), and Viaweb Inc., a Delaware corporation ("TARGET").

RECITALS:

A. The Boards of Directors of Acquiror, Sub and Target deem it advisable and in the best interests of each corporation and the respective stockholders that Acquiror and Target combine in order to advance the long-term business interests of Acquiror and Target;

B. The combination of Acquiror and Target shall be effected by the terms of this Agreement through a transaction in which Sub will merge with and into Target, Target will become a wholly-owned subsidiary of Acquiror and the stockholders of Target will become shareholders of Acquiror (the "MERGER");

C. For Federal income tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "CODE");

D. As a condition and inducement to Acquiror's willingness to enter into this Agreement, certain Target stockholders (including Paul Graham, Trevor Blackwell, Robert Morris, Mark Nitzberg, Frederick Egan, Harris Fishman, Omar Khudari, Alan Docter, Julian Weber and Mark Kristoff) holding no less than 90% of the issued and outstanding voting stock of the Target have, concurrently with the execution of this Agreement, executed and delivered Voting Agreements in the form attached hereto as EXHIBIT A (the "VOTING AGREEMENTS"), pursuant to which such stockholders have, among other things, agreed to vote their shares of Target capital stock in favor of the Merger and to grant Acquiror irrevocable proxies to vote such shares;

E. As a further condition and inducement to Acquiror's willingness to enter into this Agreement, certain employees of Target who are also stockholders and/or optionholders of Target (including Paul Graham, Trevor Blackwell, Robert Morris, Mark Nitzberg, Frederick Egan and Harris Fishman) have, concurrently with the execution of this Agreement executed and delivered Noncompetition Agreements in the forms attached hereto as EXHIBITS B-1 AND B-2 (the "NONCOMPETITION AGREEMENTs"), which agreements shall only become effective at the Effective Time (as defined in Section 1.1 below).

F. As a further condition and inducement to Acquiror's willingness to enter into this Agreement, certain stockholders of Target have executed and delivered to Acquiror Stockholders Agreements in the form attached hereto as EXHIBIT C (the "STOCKHOLDERS AGREEMENTS").

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth below, the parties agree as follows:

ARTICLE I

THE MERGER

Section 1.1 EFFECTIVE TIME OF THE MERGER. Subject to the provisions of this Agreement, a certificate of merger (the "Certificate of Merger") in such mutually acceptable form as is required by the relevant provisions of the Delaware General Corporation Law ("Delaware Law") shall be duly executed and delivered by the parties hereto and thereafter delivered to the Secretary of State of the State of Delaware for filing on the Closing Date (as defined in Section 1.2). The Merger shall become effective upon the due and valid filing of the Certificate of Merger with the Secretary of State of the State of Delaware or at such time thereafter as is provided in the Certificate of Merger (the "EFFECTIVE TIME").

Section 1.2 CLOSING. The closing of the Merger (the "CLOSING") will take place at 10:00 a.m. EDT, on June 10, 1998 or such later date as is agreed upon by Acquiror and Target, which shall be no later than the second business day after satisfaction or waiver of the latest to occur of the conditions set forth in Article VIII (other than the delivery of the officers' certificates referred to therein) (the "Closing Date"), at the offices of Hale and Dorr LLP, 60 State Street, Boston, Massachusetts, unless another date, time or place is agreed to in writing by Acquiror and Target.

Section 1.3 EFFECTS OF THE MERGER.

(a) At the Effective Time (i) the separate existence of Sub shall cease and Sub shall be merged with and into Target (Sub and Target are sometimes referred to herein as the "CONSTITUENT CORPORATIONS" and Target following consummation of the Merger is sometimes referred to herein as the "SURVIVING CORPORATION"), (ii) the Certificate of Incorporation of Sub shall be the Certificate of Incorporation of the Surviving Corporation and (iii) the Bylaws of Sub as in effect immediately prior to the Effective Time shall be the Bylaws of the Surviving Corporation.

(b) At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of Delaware Law. Without limiting the generality of the foregoing, at and after the Effective Time, the Surviving Corporation shall possess all the rights, privileges, powers and franchises of a public as well as of a private nature, and be subject to all the restrictions, disabilities and duties of each of the Constituent Corporations.

Section 1.4 DIRECTORS AND OFFICERS. The directors of Sub immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the Certificate of Incorporation and Bylaws of the Surviving Corporation, and the officers of Sub immediately prior to the Effective Time shall be the initial officers of the

Surviving Corporation, in each case until their respective successors are duly elected or appointed.

ARTICLE II

CONVERSION OF SECURITIES

Section 2.1 CONVERSION OF CAPITAL STOCK. At the Effective Time, by virtue of the Merger and without any action on the part of the holder of any shares of Common Stock, $0.001 par value, of Target ("TARGET COMMON STOCK") or capital stock of Sub:

(a) CAPITAL STOCK OF SUB. Each issued and outstanding share of the capital stock of Sub shall be converted into and become one fully paid and nonassessable share of Common Stock, no par value, of the Surviving Corporation.

(b) CANCELLATION OF ACQUIROR-OWNED AND TARGET-OWNED STOCK. Any shares of Target Common Stock that are owned by Acquiror, Sub, Target or any other direct or indirect wholly-owned Subsidiary (as defined below) of Acquiror or Target shall be canceled and retired and shall cease to exist and no stock of Acquiror or other consideration shall be delivered in exchange. As used in this Agreement, the word "SUBSIDIARY" means, with respect to any other party, any corporation or other organization, whether incorporated or unincorporated, of which (i) such party or any other Subsidiary of such party is a general partner (excluding partnerships, the general partnership interests of which held by such party or any Subsidiary of such party do not have a majority of the voting interest in such partnership) or (ii) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other organization or a majority of the profit interests in such other organization is directly or indirectly owned or controlled by such party or by any one or more of its Subsidiaries, or by such party and one or more of its Subsidiaries.

(c) EXCHANGE RATIO.

(i) Subject to Sections 2.2 and 2.4, each issued and outstanding share of Target Common Stock (other than shares to be canceled in accordance with Section 2.1(b) and any Dissenting Shares as defined in and to the extent provided in Section 2.3) shall be converted into the right to receive a fraction of a fully paid and nonassessable share of Acquiror Common Stock (as defined in Section 4.2) equal to the "EXCHANGE RATIO" as defined in and determined in accordance with the provisions of this Section 2.1(c). All such shares of Target Common Stock, when so converted, shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a certificate representing any such shares shall cease to have any rights with respect thereto, except the right to receive the shares of Acquiror Common Stock and any cash in lieu of fractional shares of Acquiror Common Stock to be issued or paid in consideration therefor upon the surrender of such certificate in accordance with Section 2.4, without interest.

(ii) The "EXCHANGE RATIO" for the conversion of the Target Common Stock shall be determined by DIVIDING (x) 454,734 by (y) the sum of (A) the total number of shares of Target Common Stock issued and outstanding at the Effective Time, PLUS (B) the total number of shares of Target Common Stock issuable upon exercise for cash of Target Options (as defined in Section 2.1(d)) outstanding at the Effective Time, whether vested or unvested, PLUS (C) the total number of shares of Target Common Stock issuable upon exercise of the Target Warrants, PLUS (D) the total number of shares of Target Common Stock issuable upon conversion of all outstanding convertible debt of Target, PLUS (E) the total number of shares of Target Common Stock issuable upon cancellation of all outstanding Professional Obligations (as defined in Section 2.1(f)).

(iii) If, between the date of this Agreement and the Effective Time, the outstanding shares of Acquiror Common Stock shall have been changed into a different number of shares or a different class by reason of any reclassification, split-up, stock dividend or stock combination, then the Exchange Ratio shall be correspondingly adjusted. The Exchange Ratio shall not change as a result of fluctuations in the market price of Acquiror Common Stock between the date of this Agreement and the Effective Time.

(d) TARGET STOCK OPTIONS. At the Effective Time, all then outstanding options, whether vested or unvested, ("TARGET OPTIONS") to purchase Target Common Stock issued under Target's 1997 Stock Option Plan (the "TARGET OPTION PLAN") or otherwise that by their terms survive the Closing will be assumed by Acquiror in accordance with Section 6.5. All of the Target Options issued and outstanding as of the date of this Agreement are listed on Schedule 2.1(d) attached hereto. An updated Schedule 2.1(d) of Target Options shall be delivered by Target to Acquiror on the Closing Date.

(e) CONVERTIBLE NOTES. Simultaneously with the Effective Time, all then outstanding convertible notes of Target ("TARGET CONVERTIBLE NOTES") shall be converted into Target Common Stock. All of the Target Convertible Notes issued and outstanding as of the date of this Agreement are listed on Schedule 2.1(e) attached hereto. An updated Schedule 2.1(e) of Target Convertible Notes shall be delivered by Target to Acquiror on the Closing Date.

(f) PROFESSIONAL OBLIGATIONS. Simultaneously with the Effective Time, certain then outstanding obligations of Target to Harris Fishman and Hale and Dorr LLP (the "PROFESSIONAL OBLIGATIONS") shall be converted into Target Common Stock. All of the Professional Obligations issued and outstanding as of the date of this Agreement are listed on Schedule 2.1(f) attached hereto. An updated Schedule 2.1(f) of Professional Obligations shall be delivered by Target to Acquiror on the Closing Date.

(g) TARGET WARRANTS. Prior to or simultaneously with the Effective Time, all then issued and outstanding warrants to acquire shares of Target Common Stock ("TARGET WARRANTS") shall be exercised in full. All of the Target Warrants issued and outstanding as of the date of this Agreement are listed on Schedule 2.1(g) attached hereto. An updated Schedule 2.1(g) of Target Warrants shall be delivered by Target to Acquiror on the Closing Date. Any Target Warrants that remain unexercised following the Effective Time shall be cancelled.

Section 2.2 ESCROW AGREEMENT. At the Effective Time or such later time as determined in accordance with Section 2.3(b), Acquiror will, on behalf of the holders of Target Common Stock and of Target Options, deposit in escrow certificates and/or Target Options representing a total of 68,210 shares of Acquiror Common Stock and/or rights to acquire shares of Acquiror Common Stock, as the case may be. Such shares and options shall be held in escrow on behalf of the persons who are the holders of Target Common Stock and/or Target Options immediately prior to the Effective Time (collectively, the "FORMER TARGET STOCKHOLDERS"), on a pro rata basis, in accordance with each such Former Target Stockholders' percentage ownership ("PRO RATA PORTION") of Target Common Stock (or rights to acquire shares of Target Common Stock upon the exercise of Target Options) immediately prior to the Effective Time. Such shares and options (together, the "ESCROW SHARES") shall be held as security for the Former Target Stockholders' indemnification obligations under Article X and pursuant to the provisions of an escrow agreement (the "ESCROW AGREEMENT") to be executed pursuant to Section 7.5.

Section 2.3 DISSENTING SHARES.

(a) Notwithstanding any provision of this Agreement to the contrary, any shares of Target Common Stock held by a holder who has exercised such holder's dissenter's rights in accordance with Section 262 of Delaware Law and who, as of the Effective Time, has not effectively withdrawn or lost such dissenter's rights ("Dissenting Shares"), shall not be converted into or represent a right to receive Acquiror Common Stock pursuant to Section 2.1, but the holder of the Dissenting Shares shall only be entitled to such rights as are granted by Section 262 of Delaware Law.

(b) Notwithstanding the provisions of Section 2.3(a), if any holder of shares of Target Common Stock who demands his dissenter's rights with respect to such shares under Section 2.1 shall effectively withdraw or lose (through failure to perfect or otherwise) his rights to receive payment for the fair market value of such shares under Delaware Law, then, as of the later of the Effective Time or the occurrence of such event, such holder's shares shall automatically be converted into and represent only the right to receive Acquiror Common Stock and payment for fractional shares as provided in Section 2.1(c) and 2.6, without interest, upon surrender of the certificate or certificates representing such shares; PROVIDED that if such holder effectively withdraws or loses his right to receive payment for the fair market value of such shares after the Effective Time, then, at such time Acquiror will deposit in escrow certificates representing such holder's Pro Rata Portion of the Escrow Shares.

(c) Target shall give Acquiror (i) prompt notice of any written demands for payment with respect to any shares of capital stock of Target pursuant to Section 262 of Delaware Law, withdrawals of such demands, and any other instruments served pursuant to Delaware Law and received by the Target and (ii) the opportunity to participate in all negotiations and proceedings with respect to demands for dissenter's rights under Delaware Law. Target shall not, except with the prior written consent of Acquiror, voluntarily make any payment with respect to any demands for dissenter's rights with respect to Target Common Stock or offer to settle or settle any such demands.

Section 2.4 EXCHANGE OF CERTIFICATES.

(a) From and after the Effective Time, each holder of an outstanding certificate or certificates ("CERTIFICATES") which represented shares of Target Common Stock immediately prior to the Effective Time shall have the right to surrender each Certificate to Acquiror (or at Acquiror's option, an exchange agent to be appointed by Acquiror), and receive in exchange for all Certificates held by such holder a certificate representing the number of whole shares of Acquiror Common Stock (other than the Escrow Shares) into which the Target Common Stock evidenced by the Certificates so surrendered shall have been converted pursuant to the provisions of Article II of this Agreement. The surrender of Certificates shall be accompanied by duly completed and executed Letters of Transmittal in such form as may be reasonably specified by Acquiror. Until surrendered, each outstanding Certificate which prior to the Effective Time represented shares of Target Common Stock shall be deemed for all corporate purposes to evidence ownership of the number of whole shares of Acquiror Common Stock into which the shares of Target Common Stock have been converted but shall, subject to applicable dissenter's rights under Delaware Law and Section 2.3, have no other rights. Subject to dissenter's rights under Delaware Law and Section 2.3, from and after the Effective Time, the holders of shares of Target Common Stock shall cease to have any rights in respect of such shares and their rights shall be solely in respect of the Acquiror Common Stock into which such shares of Target Common Stock have been converted. From and after the Effective Time, there shall be no further registration of transfers on the records of Target of shares of Target Common Stock outstanding immediately prior to the Effective Time.

(b) If any shares of Acquiror Common Stock are to be issued in the name of a person other than the person in whose name the Certificate(s) surrendered in exchange therefor is registered, it shall be a condition to the issuance of such shares that (i) the Certificate(s) so surrendered shall be transferable, and shall be properly assigned, endorsed or accompanied by appropriate stock powers, (ii) such transfer shall otherwise be proper and (iii) the person requesting such transfer shall pay Acquiror, or its exchange agent, any transfer or other taxes payable by reason of the foregoing or establish to the satisfaction of Acquiror that such taxes have been paid or are not required to be paid. Notwithstanding the foregoing, neither Acquiror or Target shall be liable to a holder of shares of Target Common Stock for shares of Acquiror Common Stock issuable to such holder pursuant to the provisions of Article II of the Agreement that are delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(c) In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed, Acquiror shall issue in exchange for such lost, stolen or destroyed Certificate the shares of Acquiror Common Stock issuable in exchange therefor pursuant to the provisions of Article II of the Agreement. The Board of Directors of Acquiror may in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed Certificate to provide to Acquiror an indemnity agreement against any claim that may be made against Acquiror with respect to the Certificate alleged to have been lost, stolen or destroyed.

Section 2.5 DISTRIBUTIONS WITH RESPECT TO UNEXCHANGED SHARES. No dividends or other distributions declared or made after the Effective Time with respect to Acquiror Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Acquiror Common Stock represented thereby and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 2.6 below until the holder of record of such Certificate shall surrender such Certificate. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing whole shares of Acquiror Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of any cash payable in lieu of a fractional share of Acquiror Common Stock to which such holder is entitled pursuant to Section 2.6 below and the amount of dividends or other distributions with a record date after the Effective Time previously paid with respect to such whole shares of Acquiror Common Stock, and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender payable with respect to such whole shares of Acquiror Common Stock.

Section 2.6 NO FRACTIONAL SHARES. No certificate or scrip representing fractional shares of Acquiror Common Stock shall be issued upon the surrender for exchange of Certificates, and such fractional share interests will not entitle the owner thereof to vote or to any rights of a shareholder of Acquiror. Notwithstanding any other provision of this Agreement, each holder of shares of Target Common Stock exchanged pursuant to the Merger who would otherwise have been entitled to receive a fraction of a share of Acquiror Common Stock (after taking into account all Certificates delivered by such holder) shall receive, in lieu thereof, cash (without interest) in an amount equal to such fractional part of a share of Acquiror Common Stock multiplied by $104.66 (the "REFERENCE STOCK PRICE").

Section 2.7 TAX CONSEQUENCES. It is intended by the parties hereto that the Merger shall constitute a "reorganization" within the meaning of Section 368 of the Code. The parties hereto adopt this Agreement as a "plan of reorganization" within the meaning of Sections 1.368-2(g) and 1.368-3(a) of the United States Income Tax Regulations.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF TARGET

Target represents and warrants to Acquiror and Sub that the statements contained in this Article III are true and correct, except as set forth in the disclosure schedule delivered by Target to Acquiror on or before the date of this Agreement (the "TARGET DISCLOSURE SCHEDULE"). The Target Disclosure Schedule shall be arranged in paragraphs corresponding to the numbered and lettered paragraphs contained in this Article III.

Section 3.1 ORGANIZATION OF TARGET. Target is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has all requisite corporate power to own, lease and operate its property and to carry on its business as now being conducted, and is duly qualified or licensed to do business and is in good standing as a foreign corporation

in each jurisdiction in which the nature of its business or ownership or leasing of properties makes such qualification or licensing necessary and where the failure to be so qualified or licensed is reasonably likely to result in a material adverse effect on the business, as presently conducted, assets (including intangible assets), liabilities, condition (financial or otherwise), prospects, property or results of operations (a "MATERIAL ADVERSE EFFECT") of Target. The Target Disclosure Schedule contains a true and complete listing of the locations of all sales offices, manufacturing facilities, and any other offices or facilities of Target and a true and complete list of all states in which Target maintains any employees. The Target Disclosure Schedule contains a true and complete list of all states in which Target is duly qualified or licensed to transact business as a foreign corporation.

Section 3.2 TARGET CAPITAL STRUCTURE.

(a) The authorized capital stock of Target consists of 2,500,000 shares of Target Common Stock and 300,000 shares of Target Preferred Stock, of which 272,667 shares are designated as Series A Preferred Stock. As of the date of this Agreement, there are (i) 1,066,000 shares of Target Common Stock issued and outstanding, all of which are validly issued, fully paid and nonassessable; (ii) Target Warrants to purchase up to 47,248 shares of Target Common Stock; (iii) 47,248 shares of Target Common Stock reserved for future issuance upon exercise of the Target Warrants; (iv) Target Convertible Notes convertible into up to 197,108 shares of Target Common Stock upon the consummation of the Merger; (v) 197,108 shares of Target Common Stock reserved for issuance upon conversion of Target Convertible Notes; (vi) 203,050 shares of Target Common Stock reserved for future issuance pursuant to Target Options granted and outstanding under the Target Option Plan or otherwise; (vii) 9,855 shares of Common Stock reserved for issuance in cancellation of the Professional Obligations; and (viii) no shares of Target Preferred Stock are issued and outstanding. The issued and outstanding shares of Target Common Stock are held of record by the stockholders of Target as set forth and identified in the stockholder list attached as Schedule 3.2(a) to the Target Disclosure Schedule. The issued and outstanding Target Options are held of record by the option holders as set forth and identified in Schedule 2.1(d) of the Target Disclosure Schedules. The issued and outstanding Target Warrants are held of record by the warrantholders as set forth and identified in Schedule 2.1(g) of the Target Disclosure Schedule. The issued and outstanding Target Convertible Notes are held of record by the noteholders as set forth and identified in Schedule 2.1(e) of the Target Disclosure Schedule. The Professional Obligations are owed to the organizations set forth in Schedule 2.1(f) of the Target Disclosure Schedule. All shares of Target Common Stock subject to issuance as specified above, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable, shall be duly authorized, validly issued, fully paid and nonassessable. All shares of Target Common Stock subject to issuance upon the exercise of Target Options and Target Warrants or upon the conversion of Target Convertible Notes, upon issuance on the terms and conditions specified in the instrument pursuant to which they are issuable, will be duly authorized, validly issued, fully paid and nonassessable. None of the issued and outstanding shares of Target Common Stock are subject to contractual rights to repurchase upon the termination of the employment of the holder thereof with Target or its affiliates. All outstanding shares of Target Common Stock and outstanding Target Options, Target Warrants and Target Convertible Notes (collectively "TARGET

SECURITIES") were issued in compliance with applicable federal and state securities laws. Except as set forth in the Target Disclosure Schedule, there are no obligations, contingent or otherwise, of Target to repurchase, redeem or otherwise acquire any shares of Target Common Stock or make any investment (in the form of a loan, capital contribution or otherwise) in any other entity. An updated Schedule 3.2(a) reflecting changes permitted by this Agreement in the capitalization of Target between the date hereof and the Effective Time shall be delivered by Target to Acquiror on the Closing Date.

(b) Except as set forth in this Section 3.2, there are no equity securities of any class or series of Target, or any security exchangeable into or exercisable for such equity securities, issued, reserved for issuance or outstanding. Except as set forth in this Section 3.2, there are no options, warrants, equity securities, calls, rights, commitments or agreements of any character to which Target is a party or by which it is bound obligating Target to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock of Target or obligating Target to grant, extend, accelerate the vesting of or enter into any such option, warrant, equity security, call, right, commitment or agreement. Except as provided in this Agreement and the other Transaction Documents (as defined in Section 3.3(a)) or any transaction contemplated hereby or thereby, there are no voting trusts, proxies or other agreements or understandings with respect to the voting of the shares of capital stock of Target.

(c) All Target Options have been issued in accordance with the terms of the Target Option Plan and pursuant to the standard forms of option agreement previously provided to Acquiror or its representatives. Except as contemplated by this Agreement, no option will by its terms require an adjustment in connection with the Merger. Neither the consummation of transactions contemplated by this Agreement or the other Transaction Documents nor any action taken by Target in connection with such transactions will result in (i) any acceleration of vesting in favor of any optionee under any Target Option; (ii) any additional benefits for any optionee under any Target Option; or (iii) the inability of Acquiror after the Effective Date to exercise any right or benefit held by Target prior to the Effective Time with respect to any Target Option assumed by Acquiror, including, without limitation, the right to repurchase an optionee's unvested shares on termination of such optionee's employment. The assumption by Acquiror of Target Options in accordance with Section 6.5 hereunder will not (i) give the optionees additional benefits which they did not have under their options prior to such assumption (after taking into account the existing provisions of the options, such as their respective exercise prices and vesting schedules) and (ii) constitute a breach of the Target Plan or any agreement entered into pursuant to such plan.

Section 3.3 AUTHORITY; NO CONFLICT; REQUIRED FILINGS AND CONSENTS.

(a) Target has all requisite corporate power and authority to enter into this Agreement and all Transaction Documents to which it is or will become a party and to consummate the transactions contemplated by this Agreement and such Transaction Documents. The execution and delivery of this Agreement and such Transaction Documents and the consummation of the transactions contemplated by this Agreement and such Transaction Documents have been duly authorized by all necessary corporate action on the part of Target,

subject only to the approval of the Merger by Target's stockholders under the provisions of Delaware Law and Target's Certificate of Incorporation. This Agreement has been and such Transaction Documents have been or, to the extent not executed as of the date hereof, will be duly executed and delivered by Target. This Agreement and each of the Transaction Documents to which Target is a party constitutes, and each of the Transaction Documents to which Target will become a party when executed and delivered by Target will constitute, assuming the due authorization, execution and delivery by the other parties hereto and thereto, the valid and binding obligation of Target, enforceable against Target in accordance with their respective terms, except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding at law or in equity. For purposes of this Agreement, "TRANSACTION DOCUMENTS" means all documents or agreements required to be delivered by any party under this Agreement including the Certificate of Merger, the Escrow Agreement, the Voting Agreements, the Stockholders Agreements and the Noncompetition Agreements.

(b) The execution and delivery by Target of this Agreement and the Transaction Documents to which it is or will become a party does not and the consummation of the transactions contemplated by this Agreement and the Transaction Documents to which it is or will become a party will not, (i) conflict with, or result in any violation or breach of any provision of the Certificate of Incorporation or Bylaws of Target, (ii) result in any violation or breach of, or constitute (with or without notice or lapse of time, or both) a default (or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, contract or other agreement, instrument or obligation to which Target is a party or by which it or any of its properties or assets may be bound, or (iii) conflict or violate any permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Target or any of its properties or assets, except in the case of (ii) and (iii) for any such conflicts, violations, defaults, terminations, cancellations or accelerations which would not have a Material Adverse Effect on Target.

(c) No consent, approval, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality ("GOVERNMENTAL ENTITY") is required by or with respect to Target in connection with the execution and delivery of this Agreement or of any other Transaction Document to which it is or will become a party or the consummation of the transactions contemplated by this Agreement or such Transaction Document or the continuation of the business activities of Target following consummation of the Merger without a Material Adverse Change (as defined in Section 3.6(a)), except for (i) the filing of the Certificate of Merger with the Delaware Secretary of State, (ii) such consents, approvals, orders, authorizations, registrations, declarations and filings as may be required under applicable federal and state securities laws and (iii) such other consents, authorizations, filings, approvals and registrations which, if not obtained or made, could be expected to have a Material Adverse Effect on Target.

Section 3.4 FINANCIAL STATEMENTS; ABSENCE OF UNDISCLOSED LIABILITIES.

(a) Target has delivered to Acquiror copies of Target's unaudited balance sheet as of April 30, 1998 (the "MOST RECENT BALANCE SHEET") and unaudited statements of operations, stockholders' deficit and cash flow for the four-month period then-ended and for the period from inception (August 31, 1995) to April 30, 1998 (together with the Most Recent Balance Sheet, the "TARGET INTERIM UNAUDITED FINANCIALS") and the audited balance sheets as of December 31, 1996 and 1997 and the related statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 1996 and 1997 and for the period from inception (August 31, 1995) to December 31, 1997, as audited by Arthur Andersen LLP, together with the report of Arthur Andersen LLP thereon (collectively with the Target Interim Unaudited Financials, the "TARGET FINANCIAL STATEMENTS").

(b) The Target Financial Statements are complete and in accordance with the books and records of Target and present fairly in all material respects the financial position, results of operations and cash flows of Target as of their historical dates and for the periods indicated, except that the Target Interim Unaudited Financials are subject to normal and reasonable year-end adjustments and do not include footnotes. The Target Financial Statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with prior periods (except as may be expressly indicated therein or on the face of the schedules or notes to such Target Financial Statements).

(c) Target has no material debt, liability, or obligation of any nature, whether accrued, absolute, contingent, or otherwise, and whether due or to become due, that is not reflected or reserved against in the Most Recent Balance Sheet, except for those that may have been incurred after the date of the Most Recent Balance Sheet. Except as set forth on the Target Disclosure Schedule, all debts, liabilities, and obligations incurred after the date of the Most Recent Balance Sheet were incurred in the ordinary course of business and do not exceed $10,000 on an individual basis.

Section 3.5 TAX MATTERS.

(a) For purposes of this Section 3.5 and other provisions of this Agreement relating to Taxes, the following definitions shall apply:

(i) The term "TAXES" shall mean all taxes, however denominated, including any interest, penalties or other additions to tax that may become payable in respect thereof, (A) imposed by any federal, territorial, state, local or foreign government or any agency or political subdivision of any such government, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes (including but not limited to, federal income taxes and state income taxes), payroll and employee withholding taxes, unemployment insurance, social security taxes, sales and use taxes, ad valorem taxes, excise taxes, franchise taxes, gross receipts taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, ozone depleting chemicals taxes, transfer taxes, workers' compensation, Pension Benefit Guaranty Corporation premiums and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing, which are required to be paid, withheld or collected, (B) any liability for the payment

of amounts referred to in (A) as a result of being a member of any affiliated, consolidated, combined or unitary group, or (C) any liability for amounts referred to in (A) or (B) as a result of any obligations to indemnify another person.

(ii) The term "RETURNS" shall mean all reports, estimates, declarations of estimated tax, information statements and returns relating to, or required to be filed in connection with, any Taxes, including information returns or reports with respect to backup withholding and other payments to third parties.

(b) All material Returns required to be filed by or on behalf of Target have been duly filed on a timely basis and such Returns are true, complete and correct. All Taxes shown to be payable on such Returns or on subsequent assessments with respect thereto, and all payments of estimated Taxes required to be made by or on behalf of Target under Section 6655 of the Code or comparable provisions of state, local or foreign law, have been paid in full on a timely basis or have been accrued on the Most Recent Balance Sheet, and no other Taxes are payable by Target with respect to items or periods covered by such Returns (whether or not shown on or reportable on such Returns). Target has withheld and paid over all Taxes required to have been withheld and paid over, and complied with all information reporting and backup withholding requirements, including maintenance of required records with respect thereto, in connection with amounts paid or owing to any employee, creditor, independent contractor, or other third party. There are no liens on any of the assets of Target with respect to Taxes, other than liens for Taxes not yet due and payable or for Taxes that Target is contesting in good faith through appropriate proceedings and for which appropriate reserves have been established on the Most Recent Balance Sheet or liens that are otherwise permitted by Section 3.7. Target has not at any time been (i) a member of an affiliated group of corporations filing consolidated, combined or unitary income or franchise tax returns, or (ii) a member of any partnership or joint venture for a period for which the statue of limitations for any Tax potentially applicable as a result of such membership has not expired.

(c) The amount of Target's liability for unpaid Taxes (whether actual or contingent) for all periods through the date of the Most Recent Balance Sheet does not, in the aggregate, exceed the amount of the current liability accruals for Taxes reflected on the Most Recent Balance Sheet, and the Most Recent Balance Sheet reflects proper accrual in accordance with generally accepted accounting principles applied on a basis consistent with prior periods of all liabilities for Taxes payable after the date of the Most Recent Balance Sheet attributable to transactions and events occurring prior to such date. No liability for Taxes has been incurred (or prior to Closing will be incurred) since such date other than in the ordinary course of business.

(d) Acquiror has been furnished by Target with true and complete copies of (i) relevant portions of income tax audit reports, statements of deficiencies, closing or other agreements received by or on behalf of Target relating to Taxes, and (ii) all federal and state income or franchise tax Returns and state sales and use tax Returns for or including Target for all periods since the inception of Target. Target does not do business in or derive income from any state other than states for which Returns have been duly filed and furnished to Acquiror.

(e) The Returns of or including Target have never been audited by a government or taxing authority, nor is any such audit in process, pending or, to Target's knowledge, threatened (either in writing or verbally, formally or informally). No deficiencies exist or have been asserted (either in writing or verbally, formally or informally), and Target has not received notice (either in writing or verbally, formally or informally) that it has not filed a Return or paid Taxes required to be filed or paid. Target is neither a party to any action or proceeding for assessment or collection of Taxes, nor has such event been asserted or threatened (either in writing or verbally, formally or informally) against Target or any of its assets. No waiver or extension of any statute of limitations is in effect with respect to Taxes or Returns of Target. Target has disclosed on its federal and state income and franchise tax Returns all positions taken therein that could give rise to a substantial understatement penalty within the meaning of Code Section 6662 or comparable provisions of applicable state tax laws.

(f) Target is not, nor has it ever been, a party to any tax sharing agreement.

(g) Target is not, nor has it been, a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code. Target is not a "consenting corporation" under Section 341(f) of the Code. Target has not entered into any compensatory agreements with respect to the performance of services which payment thereunder would result in a nondeductible expense to Target pursuant to Section 280G of the Code or an excise tax to the recipient of such payment pursuant to Section 4999 of the Code. Target has not agreed to, nor is it required to make any adjustment under Code Section 481(a) by reason of, a change in accounting method. Target is not, nor has it been, a "reporting corporation" subject to the information reporting and record maintenance requirements of Section 6038A and the regulations thereunder. Target is in compliance with the terms and conditions of any applicable tax exemptions, agreements or orders of any foreign government to which it may be subject or which it may have claimed, and the transactions contemplated by this Agreement will not have any adverse effect on such compliance.

Section 3.6 ABSENCE OF CERTAIN CHANGES OR EVENTS. Except as set forth in the Target Disclosure Schedule, since December 31, 1997, Target has not:

(a) suffered any material adverse change in its business, as presently conducted, assets (including intangible assets), liabilities, condition (financial or otherwise), prospects, property or results of operations ("MATERIAL ADVERSE CHANGE").

(b) suffered any damage, destruction or loss, whether covered by insurance or not, that has resulted, or could be reasonably expected to result, in a Material Adverse Effect on Target;

(c) granted or agreed to make any increase in the compensation payable or to become payable by Target to its officers or employees;

(d) declared, set aside or paid any dividend or made any other distribution on or in respect of the shares of the capital stock of Target or declared any direct or indirect redemption, retirement, purchase or other acquisition by Target of such shares;

(e) issued any shares of capital stock of Target or any warrants, rights, options or entered into any commitment relating to the shares of Target, except for the issuance of shares of Target capital stock pursuant to the exercise of Target Options and Target Warrants or the conversion of the Target Convertible Notes or the cancellation of all or a portion of the Professional Obligations listed in the Target Disclosure Schedule;

(f) made any change in the accounting methods or practices it follows, whether for general financial or tax purposes, or any change in depreciation or amortization policies or rates adopted therein;

(g) sold, leased, abandoned or otherwise disposed of any real property or any machinery, equipment or other operating property with an individual net book value of $2,500 or more;

(h) sold, assigned, transferred, licensed or otherwise disposed of any patent, trademark, trade name, brand name, copyright (or pending application for any patent, trademark or copyright) invention, work of authorship, process, know-how, formula or trade secret or interest thereunder or other intangible asset;

(i) permitted or allowed any of its property or assets to be subjected to any mortgage, deed of trust, pledge, lien, security interest or other encumbrance of any kind (except those permitted under Section 3.7);

(j) made any capital expenditure or commitment individually in excess of $10,000;

(k) paid, loaned or advanced any amount to, or sold, transferred or leased any properties or assets to, or entered into any agreement or arrangement with, any of its Affiliates (as defined in Section 3.16), officers, directors or stockholders or any affiliate or associate of any of the foregoing; or

(l) agreed to take any action described in this Section 3.6 or which would constitute a material breach of any of the representations contained in this Agreement.

Section 3.7 TITLE AND RELATED MATTERS. Target has good and marketable title to all the properties, interests in properties and assets, real and personal, used in or necessary for the operation of the business of Target, free and clear of all mortgages, liens, pledges, charges or encumbrances of any kind or character, except (i) the lien of current taxes not yet due and payable, (ii) such imperfections of title and encumbrances, if any, that are not material in character, amount or extent and that do not materially detract from the value or materially interfere with the present use of the property subject thereto or affected thereby and (iii) the security interest granted to the holders of the Target Convertible Notes, which security interest

shall be released at or prior to the Effective Time. The equipment of Target used in the operation of its business is, taken as a whole, (i) adequate for the business conducted by Target and (ii) in good operating condition and repair, ordinary wear and tear excepted. All real or personal property leases to which Target is a party are valid, binding, enforceable and effective in accordance with their respective terms. To the knowledge of Target, there is not under any of such leases any existing default or event of default or event which, with notice or lapse of time or both, would constitute a default. The Target Disclosure Schedule contains a description of all personal property with an individual net book value in excess of $6,000 as of April 30, 1998 and real property leased or owned by Target as of such date, describing its interest in said property. True and correct copies of Target's real property and personal property leases have been provided to Acquiror or its representatives.

Section 3.8 PROPRIETARY RIGHTS.

(a) Target owns all right, title and interest in and to, or otherwise has the right to use, or is licensed to use, all patents, patent rights, copyrights, technology, software, software tools, know-how, processes, inventions, ideas, algorithms, trade secrets, trademarks, service marks, trade names, Internet domain names and other proprietary rights used in or necessary for the conduct of Target's business as conducted to the date of this Agreement and proposed by Target to be conducted, including, without limitation, the technology, information, databases, data lists, data compilations, and all proprietary rights developed or discovered or used in connection with or contained in all versions and implementations of Target's World Wide Web sites or any product or technology which has been or is being distributed, licensed, used or sold by Target or currently is under development by Target (collectively, including such Web site, the "TARGET PRODUCTS"), free and clear of all liens, claims and encumbrances (including without limitation linking, licensing and distribution rights) (all of which are referred to as "TARGET PROPRIETARY RIGHTS"). The Target Products, including all software used in connection with Target's Web-based services, are free from material defects and perform in substantial accordance with all published specifications. In addition, Target is not aware of any legal restrictions or impediments that would prevent Target from incorporating those features identified on Schedule 3.8(a) of the Target Disclosure Schedule into a release version of the product. The Target Disclosure Schedule contains an accurate and complete (i) description of all patents and patent applications, trademarks (with separate listings of registered and unregistered trademarks), trade names, Internet domain names and registered copyrights in or related to the Target Products or otherwise included in the Target Proprietary Rights and all applications and registrations therefor, including the jurisdictions in which each such Target Proprietary Right has been issued or registered or in which any such application of such issuance and registration has been filed, (ii) list of all licenses and other agreements with third parties (the "THIRD PARTY LICENSES") relating to any patents, patent rights, copyrights, trade secrets, software, inventions, ideas, algorithms, technology, know-how, processes or other proprietary rights that Target is licensed or otherwise authorized by such third parties to license, use, market, distribute or incorporate in Target Products (such patents, patent rights, copyrights, trade secrets, software, inventions, ideas, algorithms, technology, know-how, processes or other proprietary rights are collectively referred to as the "THIRD PARTY TECHNOLOGY"), (iii) list of all licenses and other agreements with third parties relating to any material information, compilations, data lists or

databases that Target is licensed or otherwise authorized by such third parties to license, use, market, disseminate distribute or incorporate in Target Products. Target represents and warrants that (i) Target has provided to Acquiror copies of any and all standard forms of click-wrap agreement, merchant agreement and other customer agreements and copies of any agreements that materially deviate from such standard form agreements, (ii) all such agreements with Target customers are valid and binding obligations of the parties to such agreements, and (iii) Target has complete and accurate records indicating that all such Target customers have assented to the terms of such agreements and has provided to Acquiror evidence of such records. Target has not engaged in any distribution of any software licensed through Free Software Foundation, Inc. (or any similar organization) in a manner that would require disclosure to any third party of software source code developed or modified by Target. To the knowledge of Target, all of Target's patents, patent rights, copyrights, trademark, trade name or Internet domain name registrations related to or in the Target Products are valid and in full force and effect; and consummation of the transactions contemplated by this Agreement will not alter or impair any such rights. No claims have been asserted or, to its knowledge, threatened against Target (and Target is not aware of any claims which could be asserted or threatened against Target or which have been asserted or threatened against others relating to Target Proprietary Rights or Target Products) by any person challenging Target's use, possession, manufacture, license, sale or distribution of Target Products under any Target Proprietary Rights (including, without limitation, the Third Party Technology) or challenging or questioning the validity or effectiveness of any material license or agreement relating thereto (including, without limitation, the Third Party Licenses) or alleging a violation of any person's or entity's privacy, personal or confidentiality rights. To the knowledge of Target, there is no valid basis for any claim of the type specified in the immediately preceding sentence which could in any material way relate to or interfere with the continued enhancement, exploitation, licensing and use by Target of any of the Target Products. None of the Target Products nor the license and use or exploitation of any Target Proprietary Rights in Target's current business infringes on the rights of or constitutes misappropriation of any proprietary information or intangible property right of any third person or entity, including without limitation any patent, patent right, trade secret, copyright, trademark or trade name, and Target has not been sued or named in any suit, action or proceeding which involves a claim of such infringement, misappropriation or unfair competition; PROVIDED, HOWEVER, that the foregoing representation as to the license, use or exploitation by Target of any of the Third Party Technology licensed to Target under the Third Party Licenses identified in Section 3.8(a) of the Target Disclosure Schedule is made to the knowledge of Target only.

(b) Except as set forth in the Target Disclosure Schedule, Target has not granted any third party any right to manufacture, reproduce, license, use, distribute or market any of the Target Products or any adaptations, translations, or derivative works based on the Target Products or any portion thereof.

(c) All material designs, drawings, specifications, source code, object code, scripts, documentation, flow charts, diagrams, data lists, databases, compilations and information incorporating, embodying or reflecting any of the Target Products at any stage of their development (the "TARGET COMPONENTS") were written, developed and created solely and exclusively by employees of Target without the assistance of any third party or entity or were

created by third parties who assigned ownership of their rights to Target by means of valid and enforceable consultant confidentiality and invention assignment agreements, copies of which have been delivered to Acquiror. Target has at all times used commercially reasonable efforts customary in its industry to treat the Target Proprietary Rights related to the applicable Target Products and Target Components as containing trade secrets and has not disclosed or otherwise dealt with such items in such a manner as intended or reasonably likely to cause the loss of such trade secrets by release into the public domain.

(d) To Target's knowledge, no employee, contractor or consultant of Target is in violation in any material respect of any term of any written employment contract, patent disclosure agreement or any other written contract or agreement relating to the relationship of any such employee, consultant or contractor with Target or, to Target's knowledge, any other party because of the nature of the business conducted by Target or proposed to be conducted by Target. The Target Disclosure Schedule lists all employees, contractors and consultants who have participated in any way in the development of the Target Products or the Target Proprietary Rights.

(e) Each person presently or previously employed by Target (including independent contractors, if any) with access authorized by Target to confidential information has executed a confidentiality and non-disclosure agreement pursuant to the form of agreement previously provided to Acquiror or its representatives. To the knowledge of Target, such confidentiality and non-disclosure agreements constitute valid and binding obligations of Target and such person, enforceable in accordance with their respective terms.

(f) No product liability or warranty claims have been communicated in writing to or threatened against Target.

(g) To Target's knowledge, there is no material unauthorized use, disclosure, infringement or misappropriation of any Target Proprietary Rights, or any Third Party Technology to the extent licensed by or through Target, by any third party, including any employee or former employee of Target. Target has not entered into any agreement to indemnify any other person against any charge of infringement of any Target Proprietary Rights.

(h) All use, disclosure or appropriation of confidential information not otherwise protected by patents, patent applications or copyright ("CONFIDENTIAL INFORMATION") owned by Target by or to a third party as applicable has been pursuant to the terms of a written agreement between Target and such third party. All use, disclosure or appropriation of Confidential Information not owned by Target has been made pursuant to the terms of a written agreement between Target and the owner of such Confidential Information, or is otherwise lawful.

Section 3.9 EMPLOYEE BENEFIT PLANS.

(a) The Target Disclosure Schedule lists, with respect to Target and any trade or business (whether or not incorporated) which is treated as a single employer with Target (an "ERISA AFFILIATE") within the meaning of Section 414(b), (c), (m) or (o) of the Code, (i) all

material employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) each loan to a non-officer employee, loans to officers and directors and any stock option, stock purchase, phantom stock, stock appreciation right, supplemental retirement, severance, sabbatical, medical, dental, vision care, disability, employee relocation, cafeteria benefit (Code Section 125) or dependent care (Code Section 129), life insurance or accident insurance plans, programs or arrangements, (iii) all bonus, pension, profit sharing, savings, deferred compensation or incentive plans, programs or arrangements, (iv) other fringe or employee benefit plans, programs or arrangements that apply to senior management of Target and that do not generally apply to all employees, and (v) any current or former employment or executive compensation or severance agreements, written or otherwise, for the benefit of, or relating to, any present or former employee, consultant or director of Target as to which (with respect to any of items (i) through (v) above) any potential liability is borne by Target (together, the "TARGET EMPLOYEE PLANS").

(b) Target has delivered or made available to Acquiror or its representatives a copy of each of the Target Employee Plans which have been reduced to writing, a summary of any unwritten plan and related plan documents (including trust documents, insurance policies or contracts, employee booklets, summary plan descriptions and other authorizing documents, and, to the extent still in its possession, any material employee communications relating thereto) and has, with respect to each Target Employee Plan which is subject to ERISA reporting requirements, provided copies of any Form 5500 reports filed for the last three plan years. Any Target Employee Plan intended to be qualified under Section 401(a) of the Code has either obtained from the Internal Revenue Service a favorable determination letter as to its qualified status under the Code, including all amendments to the Code effected by the Tax Reform Act of 1986 and subsequent legislation, or has applied to the Internal Revenue Service for such a determination letter prior to the expiration of the requisite period under applicable Treasury Regulations or Internal Revenue Service pronouncements in which to apply for such determination letter and to make any amendments necessary to obtain a favorable determination. Target has also furnished Acquiror with the most recent Internal Revenue Service determination letter issued with respect to each such Target Employee Plan, and nothing has occurred since the issuance of each such letter which could reasonably be expected to cause the loss of the tax-qualified status of any Target Employee Plan subject to Code Section 401(a).

(c) (i) None of the Target Employee Plans promises or provides retiree medical or other retiree welfare benefits to any person except as required by applicable law; (ii) there has been no "prohibited transaction," as such term is defined in Section 406 of ERISA and Section 4975 of the Code, with respect to any Target Employee Plan; which could reasonably be expected to have, in the aggregate, a Material Adverse Effect on Target, (iii) each Target Employee Plan has been administered in accordance with its terms and in compliance with the requirements prescribed by any and all statutes, rules and regulations (including ERISA and the Code), except as would not have, in the aggregate, a Material Adverse Effect on Target, and Target and each subsidiary or ERISA Affiliate have performed all material obligations required to be performed by them under, are not in any material respect in default, under or violation of, and have no knowledge of any material default or violation by any other party to, any of the Target Employee Plans; (iv) neither Target nor any subsidiary or ERISA Affiliate is subject to

any material liability or penalty under Sections 4976 through 4980 of the Code or Title I of ERISA with respect to any of the Target Employee Plans; (v) all material contributions required to be made by Target or any subsidiary or ERISA Affiliate to any Target Employee Plan have been made on or before their due dates and a reasonable amount has been accrued for contributions to each Target Employee Plan for the current plan years; (vi) with respect to each Target Employee Plan, no "reportable event" within the meaning of Section 4043 of ERISA (excluding any such event for which the thirty (30) day notice requirement has been waived under the regulations to Section 4043 of ERISA) nor any event described in Section 4062, 4063 or 4041 of ERISA has occurred; and (vii) no Target Employee Plan is covered by, and neither Target nor any subsidiary or ERISA Affiliate has incurred or expects to incur any material liability under Title IV of ERISA or Section 412 of the Code. With respect to each Target Employee Plan subject to ERISA as either an employee pension plan within the meaning of Section 3(2) of ERISA or an employee welfare benefit plan within the meaning of Section 3(1) of ERISA, Target has prepared in good faith and timely filed all requisite governmental reports (which were true and correct as of the date filed) and has properly and timely filed and distributed or posted all notices and reports to employees required to be filed, distributed or posted with respect to each such Target Employee Plan except as would not give rise, in the aggregate, to a Material Adverse Effect on Target. No suit, administrative proceeding, action or other litigation has been brought, or to the best knowledge of Target is threatened, against or with respect to any such Target Employee Plan, including any audit or inquiry by the IRS or United States Department of Labor. Neither Target nor any ERISA Affiliate is a party to, or has made any contribution to or otherwise incurred any obligation under, any "multi-employer plan" as defined in Section 3(37) of ERISA.

(d) With respect to each Target Employee Plan, Target has complied with (i) the applicable health care continuation and notice provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") and the proposed regulations thereunder and (ii) the applicable requirements of the Family Leave Act of 1993 and the regulations thereunder, except with respect to both clauses (i) and (ii) to the extent that such failure to comply would not, in the aggregate, have a Material Adverse Effect on Target.

(e) Except as set forth in the Target Disclosure Schedule, the consummation of the transactions contemplated by this Agreement will not (i) entitle any current or former employee or other service provider of Target or any other ERISA Affiliate to severance benefits or any other payment (including, without limitation, unemployment compensation, golden parachute or bonus), except as expressly provided in this Agreement, or (ii) accelerate the time of payment or vesting of any such benefits, or (iii) increase or accelerate any benefits or the amount of compensation due any such employee or service provider.

(f) There has been no amendment to, written interpretation or announcement (whether or not written) by Target or other ERISA Affiliate relating to, or change in participation or coverage under, any Target Employee Plan which would materially increase the expense of maintaining such Plan above the level of expense incurred with respect to that Plan for the most recent fiscal year included in the Target Financial Statements.

Section 3.10 BANK ACCOUNTS. The Target Disclosure Schedule sets forth the names and locations of all banks, trusts, companies, savings and loan associations, and other financial institutions at which Target maintains accounts of any nature and the names of all persons authorized to draw thereon or make withdrawals therefrom.

Section 3.11 CONTRACTS.

(a) Except as set forth on the Target Disclosure Schedule:

(i) Target has no agreements, contracts or commitments that provide for the sale, licensing, distribution, marketing, promotion or resale by Target of any Target Products or Target Proprietary Rights. The description included in the Target Disclosure Schedule for each of Target's merchant agreements shall include the name of the merchant party, the date of the agreement and a brief description of the version of Target's standard merchant agreement into which such merchant party shall have entered, if any. Without limiting the foregoing, Target has not granted to any third party (including, without limitation, OEMs and site-license customers) any rights to reproduce, manufacture or distribute any of the Target Products, nor has Target granted to any third party any exclusive rights of any kind (including, without limitation, exclusivity with regard to categories of advertisers on Target's World Wide Web site, territorial exclusivity or exclusivity with respect to particular versions, implementations or translations of any of the Target Products), nor has Target granted any third party any right to market any of the Target Products under any private label or "OEM" arrangements, nor has Target granted any license of any Target trademarks or servicemarks.

(ii) Target has no Third Party Licenses.

(iii) Target has no agreements, contracts or commitments that provide for fixed and/or contingent payments or expenditures by or to Target (including, without limitation, any advertising or revenue sharing arrangement) in excess of $15,000 over the term of such agreement, contract or commitment.

(iv) Target has no outstanding sales or advertising contract, commitment or proposal (including, without limitation, insertion orders, slotting agreements or other agreements under which Target has allowed third parties to advertise on or otherwise be included in Target's World Wide Web sites) that Target currently expects to result in any loss to Target in excess of $15,000 upon completion or performance thereof.

(v) Target has no currently effective collective bargaining or union agreements, contracts or commitments.

(vi) Target is not restricted by agreement from competing with any person or from carrying on its business anywhere in the world.

(vii) Target has not guaranteed any obligations of other persons or made any agreements to acquire or guarantee any obligations of other persons.

(viii) Target has no outstanding loan or advance to any person; nor is it party to any line of credit, standby financing, revolving credit or other similar financing arrangement of any sort which would permit the borrowing by Target of any sum.

(ix) Target has no agreements pursuant to which Target has agreed to manufacture for, supply to or distribute to any third party any Target Products or Target Components.

True and correct copies of each document or instrument listed on the Target Disclosure Schedule pursuant to this Section 3.11(a) (the "MATERIAL CONTRACTS") have been provided to Acquiror or its representatives.

(b) All of the Material Contracts listed on the Target Disclosure Schedule are valid, binding, in full force and effect, and enforceable by Target in accordance with their respective terms. No Material Contract contains any liquidated damages, penalty or similar provision. To the knowledge of Target, no party to any such Material Contract intends to cancel, withdraw, modify or amend such contract, agreement or arrangement.

(c) Target is not in material default under or in material breach or violation of, nor, to Target's knowledge, is there any valid basis for any claim of material default by Target under, or material breach or violation by Target of, any Material Contract. To Target's knowledge, no other party is in default under or in breach or violation of, nor is there any valid basis for any claim of default by any other party under or any breach or violation by any other party of, any Material Contract.

(d) Except as specifically indicated on the Target Disclosure Schedule, none of the Material Contracts provides for indemnification by Target of any third party. No claims have been made or threatened that would require indemnification by Target, and Target has not paid any amounts to indemnify any third party as a result of indemnification requirements of any kind.

Section 3.12 ORDERS, COMMITMENTS AND RETURNS. All accepted advertising arrangements for Target Products entered into by Target for, and all material agreements, contracts, or commitments for the purchase of supplies by Target, were made in the ordinary course of business. To the knowledge of Target, no outstanding purchase or outstanding lease commitment of Target is in excess of the normal, ordinary and usual requirements of the business. There are no oral contracts or arrangements for the sale of advertising or any other product or service by Target.

Section 3.13 COMPLIANCE WITH LAW. Target and the operation of its business are in compliance in all material respects with all applicable laws and regulations. Neither Target nor, to Target's knowledge, any of its employees has directly or indirectly paid or delivered any fee, commission or other sum of money or item of property, however characterized, to any finder, agent, government official or other party in the United States or any other country, that was or is in violation of any federal, state, or local statute or law or of any statute or law of any other country having jurisdiction. Target has not participated directly or indirectly in any boycotts or

other similar practices affecting any of its customers. Target has complied in all material respects at all times with any and all applicable federal, state and foreign laws, rules, regulations, proclamations and orders relating to the importation or exportation of its products.

Section 3.14 LABOR DIFFICULTIES; NO DISCRIMINATION.

(a) Target is not engaged in any unfair labor practice and is not in material violation of any applicable laws respecting employment and employment practices, terms and conditions of employment, and wages and hours. There is no unfair labor practice complaint against Target actually pending or, to the knowledge of Target, threatened before the National Labor Relations Board. There is no strike, labor dispute, slowdown, or stoppage actually pending or, to the knowledge of Target, threatened against Target. To the knowledge of Target, no union organizing activities are taking place with respect to the business of Target. No grievance, nor any arbitration proceeding arising out of or under any collective bargaining agreement is pending and, to the knowledge of Target, no claims therefor exist. No collective bargaining agreement that is binding on Target restricts it from relocating or closing any of its operations. Target has not experienced any material work stoppage or other material labor difficulty.

(b) There is and has not been any claim against Target, or to Target's knowledge, threatened against Target, based on actual or alleged race, age, sex, disability or other harassment or discrimination, or similar tortuous conduct, nor to the knowledge of Target, is there any valid basis for any such claim.

(c) There are no pending claims against Target or any of its Subsidiaries under any workers compensation plan or policy or for long term disability. Neither Target nor any of its subsidiaries has any material obligations under COBRA with respect to any former employees or qualifying beneficiaries thereunder. There are no proceedings pending or, to the knowledge of Target, threatened, between Target and any of their respective employees, which proceedings have or could reasonably be expected to have a Material Adverse Effect on Target.

Section 3.15 TRADE REGULATION. All of the prices charged by Target in connection with the marketing or sale of any products or services have been in compliance with all applicable laws and regulations. No claims have been communicated or threatened in writing against Target with respect to wrongful termination of any dealer, distributor or any other marketing entity, discriminatory pricing, price fixing, unfair competition, false advertising, or any other violation of any laws or regulations relating to anti-competitive practices or unfair trade practices of any kind, and to Target's knowledge, no specific situation, set of facts, or occurrence provides any basis for any such claim.

Section 3.16 INSIDER TRANSACTIONS. To the knowledge of Target, no affiliate ("AFFILIATE") as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), of Target has any interest in any equipment or other property, real or personal, tangible or intangible, including, without limitation, any Target Proprietary Rights or any creditor, supplier, customer, manufacturer, agent, representative, or distributor of Target Products; PROVIDED, HOWEVER, that no such Affiliate or other person shall be deemed to have such an interest solely by virtue of the ownership of less than 1% of the outstanding stock or debt

securities of any publicly-held company, the stock or debt securities of which are traded on a recognized stock exchange or quoted on the Nasdaq National Market.

Section 3.17 EMPLOYEES, INDEPENDENT CONTRACTORS AND CONSULTANTS. The Target Disclosure Schedule lists and describes all past and all currently effective written or, to Target's knowledge, oral: (i) employment agreements and other material agreements concluded with individual employees to which Target is a party; and (ii) independent contractor or consulting agreements with independent contractors or consultants performing services in connection with the development of Target Products or Target Proprietary Rights. True and correct copies of all such written agreements have been provided to Acquiror or its representatives. All independent contractors have been properly classified as independent contractors for the purposes of federal and applicable state tax laws, laws applicable to employee benefits and other applicable law. All salaries and wages paid by Target are in compliance in all material respects with applicable federal, state and local laws. Also shown on the Target Disclosure Schedule are the names, positions and salaries or rates of pay, including bonuses, of all persons presently employed by Target.

Section 3.18 INSURANCE. The Target Disclosure Schedule contains a list of the principal policies of fire, liability and other forms of insurance currently held by Target, which policies or their predecessors have been in effect since 1997, and all claims made by Target under such policies. To the knowledge of Target, Target has not done anything, either by way of action or inaction, that might invalidate such policies in whole or in part. There is no claim pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds. All premiums due and payable under all such policies and bonds have been paid and Target is otherwise in compliance with the terms of such policies and bonds in all material respects. Target has no knowledge of any threatened termination of, or material premium increase with respect to, any of such policies.

Section 3.19 LITIGATION. There is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any agency, court or tribunal, foreign or domestic, or, to the knowledge of Target, threatened against Target or any of its properties or any of its officers or directors (in their capacities as such). There is no judgment, decree or order against Target, or, to the knowledge of Target, any of its respective directors or officers (in their capacities as such) relating to the business of Target. To Target's knowledge, no circumstances exist that could reasonably be expected to result in a claim against Target as a result of the conduct of Target's business (including, without limitation, any claim of infringement of any intellectual property right).

Section 3.20 GOVERNMENTAL AUTHORIZATIONS AND REGULATIONS. Target has obtained each federal, state, county, local or foreign governmental consent, license, permit, grant, or other authorization of a Governmental Entity (i) pursuant to which Target currently operates or holds any interest in any of its properties or (ii) that is required for the operation of Target's business or the holding of any such interest, and all of such authorizations are in full force and effect, except where the failure to obtain or have any such Target authorizations could not reasonably be expected to have a Material Adverse Effect on Target.

Section 3.21 SUBSIDIARIES. Target has no Subsidiaries. Target does not own or control (directly or indirectly) any capital stock, bonds or other securities of, and does not have any proprietary interest in, any other corporation, general or limited partnership, firm, association or business organization, entity or enterprise, and Target does not control (directly or indirectly) the management or policies of any other corporation, partnership, firm, association or business organization, entity or enterprise.

Section 3.22 COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS. To the knowledge of Target, no permits, licenses or other authorizations are required for the conduct of its business as currently conducted under federal, state or local laws applicable to Target and relating to pollution or protection of the environment, including laws or provisions relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, or hazardous or toxic materials, substances, or wastes into air, surface water, groundwater, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants or hazardous or toxic materials, substances, or wastes or which are intended to assure the safety of employees, workers or other persons. Target is not aware of, nor has Target received written notice of, any conditions, circumstances, activities, practices, incidents, or actions which may form the basis of any claim, action, suit, proceeding, hearing, or investigation of, by, against or relating to Target, based on or related to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling, or the emission, discharge, release or threatened release into the environment, of any pollutant, contaminant, or hazardous or toxic substance, material or waste, or relating to the safety of employees, workers or other persons.

Section 3.23 CORPORATE DOCUMENTS. Target has furnished to Acquiror or its representatives: (a) copies of its Certificate of Incorporation and Bylaws, as amended to date; (b) its minute book containing all records required to be set forth of all proceedings, consents, actions, and meetings of the stockholders, the board of directors and any committees thereof; (c) all material permits, orders, and consents issued by any regulatory agency with respect to Target, or any securities of Target, and all applications for such permits, orders, and consents; and (d) the stock transfer books of Target setting forth all transfers of any capital stock. The corporate minute books, stock certificate books, stock registers and other corporate records of Target are complete and accurate in all material respects, and the signatures appearing on all documents contained therein are the true signatures of the persons purporting to have signed the same. All actions reflected in such books and records were duly and validly taken in compliance with the laws of the applicable jurisdiction.

Section 3.24 NO BROKERS. Except for the fees of Broadview Associates, neither Target nor, to Target's knowledge, any Target stockholder is obligated for the payment of fees or expenses of any broker or finder in connection with the origin, negotiation or execution of this Agreement or the other Transaction Documents or in connection with any transaction contemplated hereby or thereby. Target has provided to Acquiror or its representatives a true and complete copy of its engagement letter, and all other agreements relating to the Merger, with Broadview Associates.

Section 3.25 ADVERTISERS, CUSTOMERS AND SUPPLIERS. As of the date hereof, no advertiser or other customer which individually accounted for more than 5% of Target's gross revenues during the 1997 fiscal year, and no supplier of Target, has canceled or otherwise terminated, or made any written threat to Target to cancel or otherwise terminate its relationship with Target, or has at any time on or after December 31, 1997 decreased materially its services or supplies to Target in the case of any such supplier, or its usage of the services or products of Target in the case of such customer, and to Target's knowledge, no such supplier or customer intends to cancel or otherwise terminate its relationship with Target or to decrease materially its services or supplies to Target or its usage of the services or products of Target, as the case may be. From and after the date hereof, no customer which individually accounted for more than 5% of Target's gross revenues during the 1997 fiscal year, has canceled or otherwise terminated, or made any written threat to Target to cancel or otherwise terminate, for any reason, including without limitation the consummation of the transactions contemplated hereby, its relationship with Target, and to Target's knowledge, no such customer intends to cancel or otherwise terminate its relationship with Target or to decrease materially its usage of the services or products of Target. Target has not knowingly breached, so as to provide a benefit to Target that was not intended by the parties, any agreement with, or engaged in any fraudulent conduct with respect to, any customer or supplier or Target.

Section 3.26 TARGET ACTION. The Board of Directors of Target, by unanimous written consent or at a meeting duly called and held, has by the unanimous vote of all directors (i) determined that the Merger is fair and in the best interests of Target and its stockholders, (ii) approved the Merger and this Agreement in accordance with the provisions of Delaware Law, and (iii) directed that this Agreement and the Merger be submitted to Target stockholders for their approval and resolved to recommend that Target stockholders vote in favor of the approval of this Agreement and the Merger.

Section 3.27 OFFERS. Target has suspended or terminated, and has the legal right to terminate or suspend, all negotiations and discussions of Acquisition Transactions (as defined in Section 5.6) with parties other than Acquiror.

Section 3.28 INFORMATION STATEMENT. The information supplied by Target for inclusion in the information statement to be sent to the stockholders of Target in connection with the meeting of Target stockholders to consider the Merger (the "TARGET STOCKHOLDERS MEETING") or in connection with any written consent of stockholders of Target (such information statement as amended or supplemented is referred to herein as the "INFORMATION STATEMENT") shall not, on the date the Information Statement is first mailed to Target stockholders, at the time of the Target Stockholders Meeting, or written consent of stockholders and at the Effective Time, contain any statement which is false or misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they are made, not false or misleading. If at any time prior to the Effective Time any event or information should be discovered by Target which should be set forth in an amendment to the Information Statement, Target shall promptly inform Acquiror and Sub and shall communicate such information to the Target stockholders in an appropriate manner. Notwithstanding the foregoing, Target makes no representation, warranty or covenant

with respect to any information supplied by Acquiror or Sub which is contained in any of the foregoing documents.

Section 3.29 ACCOUNTS RECEIVABLE. Subject to any reserves set forth in the Most Recent Balance Sheet, the accounts receivable shown on the Most Recent Balance Sheet represent and will represent bona fide claims against debtors for sales and other charges, and are not subject to discount except for normal cash and immaterial trade discounts. The amount carried for doubtful accounts and allowances in the Most Recent Balance Sheet is sufficient to provide for any losses which may be sustained on realization of the receivables.

Section 3.30 DISCLOSURE. No statements by Target contained in this Agreement, its exhibits and schedules nor in any of the certificates or documents, including any of the Transaction Documents, delivered or required to be delivered by Target to Acquiror or Sub under Section 8.2 of this Agreement contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made.

Section 3.31 TARGET DISCLOSURE SCHEDULE. Notwithstanding anything to the contrary contained in this Agreement, any information disclosed in one section of the Target Disclosure Schedule shall, should the existence of the information be relevant to any other section of the Target Disclosure Schedule and should such relevancy be reasonably apparent on the face of such disclosure without reference to extrinsic documentation to an objective third party reviewing such disclosure, be deemed to be disclosed in all sections of the Target Disclosure Schedule where such information shall be relevant. The disclosure of any required information shall not be deemed to constitute an acknowledgment that such information is required to be disclosed in connection with the representations and warranties made by Target in this Agreement or that it is material, nor shall such information be deemed to establish a standard of materiality for purposes of this Agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF ACQUIROR AND SUB

Acquiror and Sub represent and warrant to Target that the statements contained in this Article IV are true and correct.

Section 4.1 ORGANIZATION OF ACQUIROR AND SUB. Each of Acquiror and its Subsidiaries, including Sub, is a corporation duly organized, validly existing and in good standing under the laws of its respective jurisdiction of incorporation and has all requisite corporate power to own, lease and operate its property and to carry on its business as now being conducted and is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the failure to be so qualified or licensed would have a Material Adverse Effect on Acquiror.

Section 4.2 ACQUIROR CAPITAL STRUCTURE. The authorized capital stock of Acquiror consists of 225,000,000 shares of Common Stock, par value of $0.00067 per share ("ACQUIROR COMMON STOCK"), and 10,000,000 shares of Preferred Stock, par value $0.00067 per share

("ACQUIROR PREFERRED STOCK"), of which there were issued and outstanding as of the close of business on June 1, 1998, 46,376,329 shares of Acquiror Common Stock and no shares of Acquiror Preferred Stock. There are no other outstanding shares of capital stock or voting securities of Acquiror other than shares of Acquiror Common Stock issued after June 1, 1998 under the Yahoo! Inc. 1996 Employee Stock Purchase Plan (the "ESPP") or upon the exercise of options issued under the Yahoo! Inc. 1995 Stock Plan and the Yahoo! Inc. 1996 Director Stock Option Plan. The authorized capital stock of Sub consists of 1,000 shares of Common Stock, all of which are issued and outstanding and are held by Acquiror. All outstanding shares of Acquiror and Sub have been duly authorized, validly issued, fully paid and are nonassessable and free of any liens or encumbrances other than any liens or encumbrances created by or imposed upon the holders thereof. As of the close of business on June 1, 1998, Acquiror has reserved an aggregate of 11,603,522 shares of Common Stock for issuance to employees, directors and independent contractors upon exercise of outstanding options to acquire shares of Acquiror Common Stock issued under the Acquiror stock option plans and no shares of Common Stock for issuance upon exercise of outstanding warrants. Other than as contemplated by this Agreement or under the ESPP, and except as described in this Section 4.2, there are no other options, warrants, calls, rights, commitments or agreements to which Acquiror or Sub is a party or by which either of them is bound obligating Acquiror or Sub to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of the capital stock of Acquiror or Sub or obligating Acquiror or Sub to grant, extend or enter into any such option, warrant, call, right, commitment or agreement. The shares of Acquiror Common Stock to be issued pursuant to the Merger (including shares of Acquiror Common Stock issued upon exercise of Target Options and Target Warrants assumed by Acquiror) have been reserved for issuance and will be duly authorized, validly issued, fully paid, and non-assessable and issued in compliance with all applicable federal or state securities laws.

Section 4.3 AUTHORITY; NO CONFLICT; REQUIRED FILINGS AND CONSENTS.

(a) Each of Acquiror and Sub has all requisite corporate power and authority to enter into this Agreement and the other Transaction Documents to which it is or will become a party and to consummate the transactions contemplated by this Agreement and such Transaction Documents. The execution and delivery of this Agreement and such Transaction Documents and the consummation of the transactions contemplated by this Agreement and such Transaction Documents have been duly authorized by all necessary corporate action on the part of Acquiror and Sub. This Agreement has been and such Transaction Documents have been or, to the extent not executed as of the date hereof, will be duly executed and delivered by Acquiror and Sub. This Agreement and each of the Transaction Documents to which Acquiror or Sub is a party constitutes, and each of the Transaction Documents to which Acquiror or Sub will become a party when executed and delivered by Acquiror or Sub will constitute, the valid and binding obligation of Acquiror or Sub, enforceable in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding at law or in equity.

(b) The execution and delivery by Acquiror or Sub of this Agreement and the Transaction Documents to which it is or will become a party does not, and consummation of the transactions contemplated by this Agreement or the Transaction Documents to which it is or will become a party will not, (i) conflict with, or result in any violation or breach of any provision of the Articles of Incorporation or Bylaws of Acquiror or Sub, (ii) result in any violation or breach of, or constitute (with or without notice or lapse of time, or both) a default (or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any material benefit) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, contract or other agreement, instrument or obligation to which Acquiror or Sub is a party or by which either of them or any of their properties or assets may be bound, or (iii) conflict or violate any permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Acquiror or Sub or any of their properties or assets, except in the case of (ii) and (iii) for any such conflicts, violations, defaults, terminations, cancellations or accelerations which would not have a Material Adverse Effect on Acquiror and its Subsidiaries, taken as a whole.

(c) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to Acquiror or Sub in connection with the execution and delivery of this Agreement or the Transaction Documents to which it is or will become a party or the consummation of the transactions contemplated hereby or thereby, except for (i) the filing of the Certificate of Merger with the Delaware Secretary of State, (ii) such consents, approvals, orders, authorizations, registrations, declarations and filings as may be required under applicable federal and state securities laws and the laws of any foreign country, and (iii) such other consents, authorizations, filings, approvals and registrations which, if not obtained or made, could be expected to have a Material Adverse Effect on Acquiror and its Subsidiaries, taken as a whole.

Section 4.4 COMMISSION FILINGS; FINANCIAL STATEMENTS.

(a) Acquiror has filed with the Commission and made available to Target or its representatives all forms, reports and documents required to be filed by Acquiror with the Securities and Exchange Commission (the "Commission") since December 31, 1997 (collectively, the "ACQUIROR COMMISSION REPORTS"). The Acquiror Commission Reports constitute all of the documents required to be filed by the Acquiror under Section 13 of the Exchange Act with the Commission since December 31, 1997. The Acquiror Commission Reports (i) at the time filed, complied in all material respects with the applicable requirements of the Securities Act of 1933, as amended, (the "SECURITIES ACT"), and the Exchange Act, as the case may be, and (ii) did not at the time they were filed (or if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing) contain any untrue statement of a material fact or omit to state a material fact required to be stated in such Acquiror Commission Reports or necessary in order to make the statements in such Acquiror Commission Reports, in the light of the circumstances under which they were made, not misleading.

(b) Each of the financial statements (including, in each case, any related notes) contained in the Acquiror Commission Reports, including any Acquiror Commission

Reports filed after the date of this Agreement until the Closing, complied or will comply as to form in all material respects with the applicable published rules and regulations of the Commission with respect thereto, was prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods involved (except as may be indicated in the notes to such financial statements or, in the case of unaudited statements, as permitted by Form 10-Q of the Commission) and fairly presented the consolidated financial position of Acquiror and its Subsidiaries as at the respective dates and the consolidated results of its operations and cash flows for the periods indicated, except that the unaudited interim financial statements were or are subject to normal and recurring year-end adjustments which were not or are not expected to be material in amount.

Section 4.5 ABSENCE OF CERTAIN CHANGES OR EVENTS. Since December 31, 1997, Acquiror and its Subsidiaries have conducted their business in the ordinary course and, since such date, there has not been (i) any Material Adverse Change with respect to Acquiror and any of its Subsidiaries, taken as a whole; or (ii) any damage, destruction or loss (whether or not covered by insurance) with respect to Acquiror or any of its Subsidiaries having a Material Adverse Effect on Acquiror and its Subsidiaries, taken as a whole.

Section 4.6 COMPLIANCE WITH LAWS. Acquiror has complied with, is not in violation of, and has not received any notices of violation with respect to, any federal, state or local statute, law or regulation with respect to the conduct of its business, or the ownership or operation of its business, except for failures to comply or violations which would not have a Material Adverse Effect on Acquiror and its Subsidiaries, taken as a whole.

Section 4.7 INTERIM OPERATIONS OF SUB. Sub was formed solely for the purpose of engaging in the transactions contemplated by this Agreement, has engaged in no other business activities and has conducted its operations only as contemplated by this Agreement.

Section 4.8 DISCLOSURE. No statements by Acquiror contained in this Agreement, its exhibits and schedules, or any of the certificates or documents, including any of the Transaction Documents, required to be delivered by Acquiror or Sub to Target under this Agreement contain any untrue statement of material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made.

Section 4.9 SHAREHOLDERS CONSENT. No consent or approval of the shareholders of Acquiror is required or necessary for Acquiror to enter into this Agreement or the Transaction Documents or to consummate the transactions contemplated hereby and thereby.

Section 4.10 LITIGATION. Except as otherwise disclosed in the Acquiror Commission Reports, (i) there is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any agency, court or tribunal, foreign or domestic, or, to the knowledge of Acquiror or any of its subsidiaries, threatened against Acquiror or any of its properties or any of its officers or directors (in their capacities as such), which, if determined adversely to Acquiror, would have a Material Adverse Effect on Acquiror and its Subsidiaries, taken as a whole, and (ii) there is no judgment, decree or order against Acquiror, or, to the

knowledge of Acquiror, any of its respective directors or officers (in their capacities as such) relating to the business of Acquiror, the presence of which would have Material Adverse Effect with respect Acquiror and its Subsidiaries, taken as a whole. To Acquiror's knowledge, no circumstances exist that could reasonably be expected to result in a claim against Acquiror as a result of the conduct of Acquiror's business (including, without limitation, any claim of infringement of any intellectual property right) that would have a Material Adverse Effect with respect to Acquiror.

Section 4.11 INVESTIGATION. Acquiror is knowledgeable about the industry in which the Target operates and is experienced in the acquisition and management of businesses. Acquiror has conducted a full due diligence investigation of the Target and has received answers to all inquiries it has made respecting the Target; PROVIDED that the foregoing shall in no way restrict or qualify the indemnification rights of Acquiror pursuant to Article X hereof , except with respect to the Target Financial Statements to the extent described in Article X. To the knowledge of Acquiror, none of the representations or warranties in Article III, as qualified by the appropriate Target Disclosure Schedule, is untrue or incorrect in any material respect. Target acknowledges that it shall bear the burden of proof in connection with any assertion that Acquiror shall have had knowledge prior to the date hereof of any untruthfulness or inaccuracy of any of Target's representations and warranties set forth herein.

ARTICLE V

PRECLOSING COVENANTS OF TARGET

During the period from the date of this Agreement until the Effective Time, Target covenant and agree as follows:

Section 5.1 APPROVAL OF TARGET STOCKHOLDERS. Prior to the Closing Date and at the earliest practicable date following the date hereof, Target will solicit written consents from its stockholders seeking, or hold a stockholders' meeting (the "TARGET STOCKHOLDERS' MEETING") for the purpose of seeking, approval of this Agreement, the Merger and related matters. If Target holds a stockholders' meeting, the Board of Directors will solicit proxies from Target's stockholders to vote such stockholders' shares at the Target Stockholders' Meeting. In soliciting such written consent or proxies, the Board of Directors of Target will recommend to the stockholders of Target that they approve this Agreement and the Merger and shall use its reasonable efforts to obtain the approval of the stockholders of Target entitled to vote on or consent to this Agreement and the Merger in accordance with Delaware Law and Target's Certificate of Incorporation. Target will prepare as soon as reasonably practicable the Information Statement in form and substance reasonably acceptable to Acquiror, with respect to the solicitation of written consents and/or proxies from the stockholders of Target to approve this Agreement, the Merger and related matters. The Information Statement shall be in such form and contain such information so as to permit compliance by Acquiror with the requirements of Section 4(2) and/or Regulation D under the Securities Act in connection with the issuance of shares of Acquiror Common Stock in the Merger and will comply in all material respects with all applicable requirements of law and the rules and regulations promulgated thereunder. Within

two business days after the execution of this Agreement, Target will distribute the Information Statement to the stockholders of Target. Whenever any event occurs which is required to be set forth in an amendment or supplement to the Information Statement, Target will promptly inform the Acquiror of such occurrence and cooperate in making any appropriate amendment or supplement, and/or mailing to stockholders of Target, such amendment or supplement. The Information Statement will include the recommendation of the Board of Directors of Target in favor of adoption and approval of this Agreement and approval of the Merger.

Section 5.2 ADVICE OF CHANGES. Target will promptly advise Acquiror in writing of any event occurring subsequent to the date of this Agreement which would render any representation or warranty of Target contained in this Agreement, if made on or as of the date of such event or the Closing Date, untrue or inaccurate in any material respect.

Section 5.3 OPERATION OF BUSINESS. During the period from the date of this Agreement and continuing until the earlier of the termination of the Agreement or the Effective Time, Target agrees (except to the extent that Acquiror shall otherwise consent in writing), to carry on its business in the usual, regular and ordinary course in substantially the same manner as previously conducted, to pay its debts and taxes when due, subject to good faith disputes over such debts or taxes, to pay or perform other obligations when due, and, to the extent consistent with such business, use all reasonable efforts consistent with past practices and policies to preserve intact its present business organization, keep available the services of its present officers and key employees and preserve its relationships with customers, suppliers, distributors, licensors, licensees, and others having business dealings with it, to the end that its goodwill and ongoing businesses shall be unimpaired at the Effective Time. Target shall promptly notify Acquiror of any event or occurrence not in the ordinary course of business of Target. Except as expressly contemplated by this Agreement, Target shall not, without the prior written consent of Acquiror:

(a) Accelerate, amend or change the period of exercisability or the vesting schedule of options granted under any employee stock plan or agreements or authorize cash payments in exchange for any Target Option or any options granted under any of such plans except as specifically required by the terms of such plans or any related agreements or any such agreements in effect as of the date of this Agreement and disclosed in the Target Disclosure Schedule;

(b) Declare or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any of its capital stock, or split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of capital stock of such party, or purchase or otherwise acquire, directly or indirectly, any shares of its capital stock except from former employees, directors and consultants in accordance with agreements providing for the repurchase of shares in connection with any termination of service by such party;

(c) Issue, deliver or sell or authorize or propose the issuance, delivery or sale of, or purchase or propose the purchase of, any shares of its capital stock or securities convertible into shares of its capital stock, or subscriptions, rights, warrants or options to acquire, or other

agreements or commitments of any character obligating it to issue any such shares or other convertible securities, other than (i) the issuance of (A) shares of Target Common Stock issuable upon exercise of Target Options or Target Warrants, which are outstanding on the date of this Agreement, (B) shares of Target Common Stock issuable upon conversion of Target Convertible Notes or (C) shares of Target Common Stock issuable upon cancellation of outstanding Professional Obligations, or (ii) the repurchase of shares of Common Stock from terminated employees pursuant to the terms of outstanding stock restriction or similar agreements;

(d) Acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or substantial portion of the assets of, or by any other manner, any business or any corporation, partnership or other business organization or division, or otherwise acquire or agree to acquire any assets;

(e) Sell, lease, license or otherwise dispose of any of its properties or assets which are material, individually or in the aggregate, to the business of Target, except in the ordinary course of business;

(f) (i) Increase or agree to increase the compensation payable or to become payable to its officers or employees, except for increases in salary or wages of non-officer employees in accordance with past practices, (ii) grant any additional severance or termination pay to, or enter into any employment or severance agreements with, officers, (iii) grant any severance or termination pay to, or enter into any employment or severance agreement, with any non-officer employee, except in accordance with past practices, (iv) enter into any collective bargaining agreement, or (v) establish, adopt, enter into or amend in any material respect any bonus, profit sharing, thrift, compensation, stock option, restricted stock, pension, retirement, deferred compensation, employment, termination, severance or other plan, trust, fund, policy or arrangement for the benefit of any directors, officers or employees;

(g) Revalue any of its assets, including writing down the value of inventory or writing off notes or accounts receivable;

(h) Incur any indebtedness for borrowed money or guarantee any such indebtedness or issue or sell any debt securities or warrants or rights to acquire any debt securities or guarantee any debt securities of others;

(i) Amend or propose to amend its Certificate of Incorporation or Bylaws;

(j) Incur or commit to incur any capital expenditures in excess of $25,000 in the aggregate or in excess of $5,000 as to any individual matter;

(k) Lease, license, sell, transfer or encumber or permit to be encumbered any asset, Target Proprietary Right or other property associated with the business of Target (including sales or transfers to Affiliates of Target);

(l) Enter into any lease or contract for the purchase or sale of any property, real or personal except in the ordinary course of business;

(m) Fail to maintain its equipment and other assets in good working condition and repair according to the standards it has maintained up to the date of this Agreement, subject only to ordinary wear and tear;

(n) Change accounting methods;

(o) Amend or terminate any material contract, agreement or license to which it is a party except in the ordinary course of business;

(p) Loan any amount to any person or entity, or guaranty or act as a surety for any obligation;

(q) Waive or release any material right or claim, except in the ordinary course of business;

(r) Make or change any Tax or accounting election, change any annual accounting period, adopt or change any accounting method, file any amended Return, enter into any closing agreement, settle any Tax claim or assessment relating to Target, surrender any right to claim refund of Taxes, consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment relating to Target, or take any other action or omit to take any action, if any such action or omission would have the effect of increasing the Tax liability of Target or Acquiror;

(s) take any action, or fail to take any action, would cause there to be a Material Adverse Change with respect to Target;

(t) Enter into any agreement in which the obligation of Target exceeds $25,000 or shall not terminate or be subject to termination for convenience within 180 days following execution;

(u) Enter into any agreement not in the ordinary course of business (including without limitation any material licenses to information or databases, any OEM agreements, any exclusive agreements of any kind, or any agreements providing for obligations that would extend beyond six months of the date of this Agreement); or

(v) Take, or agree in writing or otherwise to take, any of the actions described in Sections (a) through (u) above, or any action which is reasonably likely to make any of Target's representations or warranties contained in this Agreement untrue or incorrect in any material respect on the date made (to the extent so limited) or as of the Effective Time.

In the event that the Closing Date shall not occur on or before June 12, 1998, Acquiror agrees that it will consider in good faith reasonable increases in or deviations from the limitations set forth in this Section 5.3 in order to permit the business of Target to continue in its ordinary course consistent with past practice, and specifically will agree to modifications to subsection (h) to permit the issuance of Target Convertible Notes in a principal amount not to exceed $100,000

and an increase in the capital expenditure limits contemplated by subsection (j) to $50,000 in the aggregate and $15,000 in any individual case.

Section 5.4 ACCESS TO INFORMATION. Until the Closing, Target shall allow Acquiror and its agents reasonable free access during normal business hours upon reasonable notice to its files, books, records, and offices, including, without limitation, any and all information relating to taxes, commitments, contracts, leases, licenses, and personal property and financial condition. Until the Closing, Target shall cause its accountants to cooperate with Acquiror and its agents in making available all financial information requested, including without limitation the right to examine all working papers pertaining to all financial statements prepared or audited by such accountants. No information or knowledge obtained in any investigation pursuant to this Section shall effect or be deemed to modify any representation or warranty contained in this Agreement or its exhibits and schedules. All such access shall be subject to the terms of the Confidentiality Agreement (as defined in Section 7.1).

Section 5.5 SATISFACTION OF CONDITIONS PRECEDENT. Target will use its best efforts to satisfy or cause to be satisfied all the conditions precedent which are set forth in Sections 8.1 and 8.2, and Target will use its best efforts to cause the transactions contemplated by this Agreement to be consummated, and, without limiting the generality of the foregoing, to obtain all consents and authorizations of third parties and to make all filings with, and give all notices to, third parties which may be necessary or reasonably required on its part in order to effect the transactions contemplated by this Agreement. Target shall use its best efforts to obtain any and all consents necessary with respect to those Material Contracts listed on Schedule 5.5 of the Target Disclosure Schedule in connection with the Merger (the "MATERIAL CONSENTS").

Section 5.6 OTHER NEGOTIATIONS. Target will not, directly or indirectly, through any of its officers, directors, employees, agents and Affiliates take any action to solicit, initiate, seek, encourage or support any inquiry, proposal or offer from, furnish any information to, or participate in any negotiations with, any corporation, partnership, person or other entity or group (other than Acquiror) regarding any acquisition of Target, any merger or consolidation with or involving Target, or any acquisition of any material portion of the stock or assets of Target or any material license of Target Proprietary Rights (any of the foregoing being referred to in this Agreement as an "ACQUISITION TRANSACTION") or enter into an agreement concerning any Acquisition Transaction with any party other than Acquiror. If between the date of this Agreement and the termination of this Agreement pursuant to Section 9.1, Target receives from a third party any offer or indication of interest regarding any Acquisition Transaction, or any request for information regarding any Acquisition Transaction, Target shall (i) notify Acquiror immediately (orally and in writing) of such offer, indication of interest or request, including the identity of such party and the full terms of any proposal therein, and (ii) notify such third party of Target's obligations under this Agreement.

ARTICLE VI

PRECLOSING AND OTHER COVENANTS OF ACQUIROR AND SUB

Section 6.1 ADVICE OF CHANGES. Acquiror and Sub will promptly advise Target in writing of any event occurring subsequent to the date of this Agreement which would render any representation or warranty of Acquiror or Sub contained in this Agreement, if made on or as of the date of such event or the Closing Date, untrue or inaccurate in any material respect.

Section 6.2 RESERVATION OF ACQUIROR COMMON STOCK. Acquiror shall reserve for issuance, out of its authorized but unissued capital stock, the maximum number of shares of Acquiror Common Stock as may be issuable upon consummation of the Merger, including shares of Acquiror Common Stock that will be issued upon exercise of Target Options assumed by Acquiror.

Section 6.3 SATISFACTION OF CONDITIONS PRECEDENT. Acquiror and Sub will use their best efforts to satisfy or cause to be satisfied all the conditions precedent which are set forth in Sections 8.1 and 8.3, and Acquiror and Sub will use their best efforts to cause the transactions contemplated by this Agreement to be consummated, and, without limiting the generality of the foregoing, to obtain all consents and authorizations of third parties and to make all filings with, and give all notices to, third parties which may be necessary or reasonably required on its part in order to effect the transactions contemplated hereby.

Section 6.4 NASDAQ NATIONAL MARKET LISTING. Acquiror shall cause the shares of Acquiror Common Stock issuable to the stockholders of Target in the Merger, including shares of Acquiror Common Stock issuable upon exercise of Acquiror Options, to be authorized for listing on the Nasdaq National Market.

Section 6.5 STOCK OPTIONS.

(a) At the Effective Time, each outstanding Target Option under the Target Option Plan or otherwise, whether vested or unvested, shall be assumed by Acquiror and deemed to constitute an option (a "ACQUIROR OPTION") to acquire, on the same terms and conditions as were applicable under the Target Option, the same number of shares of Acquiror Common Stock as the holder of such Target Option would have been entitled to receive pursuant to the Merger had such holder exercised such option in full immediately prior to the Effective Time (rounded down to the nearest whole number), at a price per share (rounded up to the nearest whole cent) equal to (i) the aggregate exercise price for the shares of Target Common Stock otherwise purchasable pursuant to such Target Option divided by (ii) the number of full shares of Acquiror Common Stock deemed purchasable pursuant to such Acquiror Option in accordance with the foregoing; PROVIDED, HOWEVER, that, in the case of any Target Option to which Section 422 of the Code applies ("INCENTIVE STOCK OPTIONS"), the option price, the number of shares purchasable pursuant to such option and the terms and conditions of exercise of such option shall be determined in order to comply with Section 424(a) of the Code. The term, exercisability, vesting schedule, acceleration events, status as an "incentive stock option" under Section 422 of the Code, if applicable, and all of the other terms of the option shall otherwise remain unchanged.

(b) As soon as practicable after the Effective Time, Acquiror shall deliver to the participants in the Target Option Plan and other option holders appropriate notice setting forth such participants' rights pursuant thereto and stating that the grants pursuant to the Target Option Plan or otherwise shall continue in effect on the same terms and conditions (subject to the adjustments required by this Section 6.5 after giving effect to the Merger). Acquiror shall comply with the terms of the Target Option Plan and use best efforts to ensure, to the extent required by, and subject to the provisions of, such Target Option Plan and Sections 422 and 424(a) of the Code, that Target Options which qualified as incentive stock options prior the Effective Time continue to qualify as incentive stock options after the Effective Time.

(c) Acquiror shall on or prior to the Effective Time take all corporate action necessary to reserve for issuance a sufficient number of shares of Acquiror Common Stock for delivery upon exercise of Target Options assumed in accordance with this Section 6.5. Acquiror shall use its best efforts to file a registration statement on Form S-8 (or any successor or other appropriate forms that Acquiror is eligible to use) under the Securities Act or another appropriate form with respect to the shares of Acquiror Common Stock subject to such options within two (2) business days following the Closing Date and shall use its best efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such options remain outstanding.

Section 6.6 REGISTRATION OF SHARES ISSUED IN THE MERGER.

(a) REGISTRABLE SHARES. For purposes of this Agreement, "REGISTRABLE SHARES" shall mean the shares of Acquiror Common Stock issued in the Merger, including any and all Escrow Shares, but excluding shares of Acquiror Common Stock issued in the Merger that have been sold or otherwise transferred by the stockholders of Target who initially received such shares in the Merger or by the holder of the Target Warrants prior to the effective date of the Registration Statement (as defined below) (collectively, the "HOLDERS") and excluding shares of Acquiror Common Stock issuable upon exercise of Target Options (the issuance of which will be registered on Form S-8); PROVIDED, HOWEVER, that a distribution of shares of Acquiror Common Stock issued in the Merger without additional consideration, to underlying beneficial owners (such as the general and limited partners, stockholders or trust beneficiaries of a Holder) shall not be deemed such a sale or transfer for purposes of this Section 6.6 and such underlying beneficial owners shall be entitled to the same rights under this Section 6.6 as the initial Holder from which the Registrable Shares were received and shall be deemed Holders for the purposes of this Section 6.6.

(b) REQUIRED REGISTRATION. Acquiror shall use its best efforts to prepare and file with the Commission a registration statement on Form S-3 (or such successor or other appropriate form that Acquiror is eligible to use) under the Securities Act with respect to the Registrable Shares (the "Registration Statement") within two (2) business days following the Closing Date and to effect all such registrations, qualifications and compliances (including, without limitation, obtaining appropriate qualifications under applicable state securities or "blue sky" laws and compliance with any other applicable governmental requirements or regulations)

as any selling Holder may reasonably request and that would permit or facilitate the sale of Registrable Shares (provided however that Acquiror shall not be required in connection therewith to qualify to do business or to file a general consent to service of process in any such state or jurisdiction), in each case so that such Registration Statement and all other such registrations, qualifications and compliances may become effective no later than 10 days after the Closing Date, or as soon as practicable thereafter in the event such Registration Statement becomes subject to review by the Commission Staff. The Acquiror does not have any knowledge of any reason, event or state of facts which would prevent it from filing such Registration Statement within two (2) business days after the Closing Date or which would prevent the Commission from declaring such Registration Statement effective in the ordinary course thereafter.

(c) EFFECTIVENESS.

(i) Acquiror will use its best efforts to maintain the effectiveness of the Registration Statement and other applicable registrations, qualifications and compliances for up to the later to occur of (A) one (1) year from the Closing Date or (B) such time as each Holder shall be permitted to sell all of the remaining Registrable Shares in one three-month period under Rule 144 or (C) such time as all of the Registrable Shares shall have been sold or otherwise disposed of by the Holders (the "REGISTRATION EFFECTIVE PERIOD"), and from time to time will amend or supplement the Registration Statement and the prospectus contained therein as and to the extent necessary to comply with the Securities Act, the Exchange Act and any applicable state securities statute or regulation, subject to the following limitations and qualifications.

(ii) Following the date on which the Registration Statement is first declared effective, the Holders will be permitted (subject in all cases to Section 6.7 below) to offer and sell Registrable Shares during the Registration Effective Period in the manner described in the Registration Statement provided that the Registration Statement remains effective and has not been suspended.

(iii) Notwithstanding any other provision of this Section 6.6 but subject to Section 6.7, Acquiror shall have the right at any time to require that all Holders suspend further open market offers and sales of Registrable Shares whenever, and for so long as, in the reasonable judgment of Acquiror after consultation with counsel there is or may be in existence material undisclosed information or events with respect to Acquiror (the "SUSPENSION RIGHT"). In the event Acquiror exercises the Suspension Right, such suspension will continue for the period of time reasonably necessary for disclosure to occur at a time that is not detrimental to Acquiror and its stockholders or until such time as the information or event is no longer material, each as determined in good faith by Acquiror after consultation with counsel (the "SUSPENSION PERIOD"). Acquiror will use all reasonable efforts to minimize the length of the Suspension Period and cause the termination of the Suspension Period to occur as quickly as reasonably practicable. The parties agree that the one-year component of the Registration Effective Period contemplated by subparagraph (c)(i)(A) above shall be extended for a period of time equal to the Suspension Period, PROVIDED that in no case will the one-year component be extended to a date later than 18 months following the Closing Date and PROVIDED FURTHER that in no event will the Registration Effective Period be extended for any reason beyond the time at which each Holder

shall be permitted to sell all of such Holder's remaining Registrable Shares in one three-month period under Rule 144.

(d) EXPENSES. The Acquiror shall bear all costs and expenses for purposes of complying with this Section 6.6 including, without limitation, printing expenses (including a reasonable number of prospectuses for circulation by the selling Holders), legal fees and disbursements of counsel for Acquiror, "blue sky" expenses, accounting fees and filing fees, but shall not include underwriting commissions or similar charges, legal fees and disbursements of counsel for the selling Holders.

(e) INDEMNIFICATION.

(i) To the extent permitted by law, Acquiror will indemnify and hold harmless each Holder, any underwriter (as defined in the Securities Act) for such Holder, its officers, directors, stockholders or partners and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (A) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (B) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (C) any violation or alleged violation by Acquiror of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law; and Acquiror will pay to each such Holder (and its officers, directors, stockholders or partners), underwriter or controlling person, any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 6.6(e)(i) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of Acquiror; nor shall Acquiror be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon (a) a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in the Registration Statement by any such Holder, or (b) a Violation that would not have occurred if such Holder had delivered to the purchaser the version of the Prospectus most recently provided by Acquiror to the Holder as of the date of such sale.

(ii) To the extent permitted by law, each selling Holder will indemnify and hold harmless Acquiror, each of its directors, each of its officers who has signed the Registration Statement, each person, if any, who controls Acquiror within the meaning of the Securities Act, any underwriter, any other Holder selling securities pursuant to the Registration Statement and any controlling person of any such underwriter or other Holder, against any losses, claims, damages, or liabilities (joint or several) to which any of the foregoing persons may

become subject, under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation (which includes without limitation the failure of the Holder to comply with the prospectus delivery requirements under the Securities Act, and the failure of the Holder to deliver the most current prospectus provided by Acquiror prior to such sale), in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in the Registration Statement or such Violation is caused by the Holder's failure to deliver to the purchaser of the Holder's Registrable Shares a prospectus (or amendment or supplement thereto) that had been made available to the Holder by Acquiror; and each such Holder will pay any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this Section 6.6(e)(ii) in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 6.6(e)(ii) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld. The aggregate indemnification and contribution liability of each Holder under this Section 6.6(e)(ii) shall not exceed the net proceeds received by such Holder in connection with sale of shares pursuant to the Registration Statement.

(iii) Each person entitled to indemnification under this Section 6.6(e) (the "INDEMNIFIED PARTY") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought and shall permit the Indemnifying Party to assume the defense of any such claim and any litigation resulting therefrom, PROVIDED that counsel for the Indemnifying Party who conducts the defense of such claim or any litigation resulting therefrom shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense, and PROVIDED FURTHER that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 6.6 unless the Indemnifying Party is materially prejudiced thereby. No Indemnifying Party, in the defense of any such claim or litigation, shall (except with the consent of each Indemnified Party) consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with the defense of such claim and litigation resulting therefrom.

(iv) To the extent that the indemnification provided for in this Section 6.6(e) is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any loss, liability, claim, damage or expense referred to herein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the statements or

omissions which resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(f) CURRENT PUBLIC INFORMATION. Until the earlier of the second anniversary of the Closing Date (or, if any Holder is an affiliate of Acquiror, the third anniversary of the Closing Date) or the date all shares of Acquiror Common Stock subject to this Section 6.6 have been sold, Acquiror will timely file all reports required to be filed by it under the Exchange Act, and the rules and regulations adopted by the Commission thereunder, all to the extent required to enable such Holders to sell their shares pursuant to Rule 144 and the Registration Statement. Upon written request, Acquiror will deliver to such holders a written statement as to whether it has compiled with such requirements.

Section 6.7 PROCEDURES FOR SALE OF SHARES UNDER REGISTRATION STATEMENT.

(a) NOTICE AND APPROVAL. If any Holder shall propose to sell any Registrable Shares pursuant to the Registration Statement, it shall notify Acquiror of its intent to do so (including the proposed manner and timing of all sales) at least two (2) full trading days prior to such sale, and the provision of such notice to Acquiror shall conclusively be deemed to reestablish and reconfirm an agreement by such Holder to comply with the registration provisions set forth in this Agreement. Unless otherwise specified in such notice, such notice shall be deemed to constitute a representation that any information previously supplied by such Holder expressly for inclusion in the Registration Statement (as the same may have been superseded by subsequent such information) is accurate as of the date of such notice. At any time within such two (2) trading-day period, Acquiror may refuse to permit the Holder to resell any Registrable Shares pursuant to the Registration Statement; provided, however, that in order to exercise this right, Acquiror must deliver a certificate in writing to the Holder to the effect that a delay in such sale is necessary because a sale pursuant to the Registration Statement in its then-current form without the addition of material, non-public information about Acquiror, could constitute a violation of the federal securities laws. Notwithstanding the foregoing, Acquiror will ensure that in any event the Holders shall have at least twenty (20) trading days (prorated for partial quarters) available to sell Registrable Shares during each calendar quarter (or portion thereof) during the Registration Effective Period.

(b) DELIVERY OF PROSPECTUS. For any offer or sale of any of the Registrable Shares by a Holder in a transaction that is not exempt under the Securities Act, the Holder, in addition to complying with any other federal securities laws, shall deliver a copy of the final prospectus (or amendment of or supplement to such prospectus) of Acquiror covering the Registrable Shares in the form furnished to the Holder by Acquiror to the purchaser of any of the Registrable Shares on or before the settlement date for the purchase of such Registrable Shares.

(c) COPIES OF PROSPECTUSES. Subject to the provisions of this Section 6.7, when a Holder entitled to sell gives notice of its intent to sell Registrable Shares pursuant to the Registration Statement, Acquiror shall, within two (2) trading days following a request from such Holder, furnish to such Holder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Shares, such prospectus shall not as of the date of delivery to the Holder include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or incomplete in the light of the circumstances then existing.

Section 6.8 CERTAIN EMPLOYEE BENEFIT MATTERS. From and after the Effective Time, employees of Target at the Effective Time will be provided with employee benefits by the Surviving Corporation or Acquiror which in the aggregate are no less favorable to such employees than those provided from time to time by Acquiror to similarly situated employees. If any employee of Target becomes a participant in any employee benefit plan, program, policy or arrangement of Acquiror, such employee shall be given credit for all service prior to the Effective Time with Target to the extent permissible under such plan, program, policy or arrangement. All Target Options assumed by Acquiror at the Effective Time pursuant to the terms of Section 6.5(a) shall remain outstanding following the Effective on the same terms and conditions as prior to the Effective Time, subject to the adjustments contemplated by such Section 6.5. Employees of Target as of the Effective Time shall be permitted to participate in the ESPP commencing on the first enrollment date following the Effective Time, subject to compliance with the eligibility and other provisions of such plan.

Section 6.9 INDEMNIFICATION. The Acquiror shall not, for a period of six years after the Effective Time, take any action to alter or impair any exculpatory or indemnification provisions now existing in the Certificate of Incorporation or By-laws of Target for the benefit of any individual who served as a director or officer of Target at any time prior to the Effective Time, except for any changes which may be required to conform with changes in applicable law and any changes which do not affect the application of such provisions to acts or omissions of such individuals prior to the Effective Time.

Section 6.10 TAX TREATMENT. Acquiror and its Subsidiaries will not take, or cause Target to take, any action after the Effective Time which reasonably could be expected to cause the Merger to fail to qualify as a reorganization under the provisions of Section 368(a) of the Code.

ARTICLE VII

OTHER AGREEMENTS

Section 7.1 CONFIDENTIALITY. Each party acknowledges Acquiror and Target have previously executed a Mutual Non-Disclosure Agreement dated February 19, 1998 (the "CONFIDENTIALITY AGREEMENT"), which agreement shall continue in full force and effect in accordance with its terms.

Section 7.2 NO PUBLIC ANNOUNCEMENT. The parties have agreed upon the form and substances of a joint press release announcing the consummation of the Merger, which shall be issued at a time and in a manner mutually agreed upon. Other than such joint press release, the parties shall make no public announcement concerning this Agreement, their discussions or any other memoranda, letters or agreements between the parties relating to the Merger; PROVIDED, HOWEVER, that either of the parties, but only after reasonable consultation with the other, may make disclosure if required under applicable law.

Section 7.3 REGULATORY FILINGS; CONSENTS; REASONABLE EFFORTS. Subject to the terms and conditions of this Agreement, Target and Acquiror shall use their respective best efforts to (i) make all necessary filings with respect to the Merger and this Agreement under the Exchange Act and applicable blue sky or similar securities laws and obtain required approvals and clearances with respect thereto and supply all additional information requested in connection therewith; (ii) make merger notification or other appropriate filings with federal, state or local governmental bodies or applicable foreign governmental agencies and obtain required approvals and clearances with respect thereto and supply all additional information requested in connection therewith; (iii) obtain all consents, waivers, approvals, authorizations and orders required in connection with the authorization, execution and delivery of this Agreement and the consummation of the Merger; and (iv) take, or cause to be taken, all appropriate action, and do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement as promptly as practicable, but no later than June 11, 1998.

Section 7.4 FURTHER ASSURANCES. Prior to and following the Closing, each party agrees to cooperate fully with the other parties and to execute such further instruments, documents and agreements and to give such further written assurances, as may be reasonably requested by any other party to better evidence and reflect the transactions described herein and contemplated hereby and to carry into effect the intents and purposes of this Agreement.

Section 7.5 ESCROW AGREEMENT. On or before the Effective Date, Acquiror shall, and the parties hereto shall exercise their best efforts to cause the Escrow Agent (as defined in Section 10.2) and the Stockholders' Agents (as defined in Section 10.9) to enter into an Escrow Agreement in the form attached hereto as EXHIBIT D.

Section 7.6 FIRPTA. Target shall, prior to the Closing Date, provide Acquiror with a properly executed Foreign Investment and Real Property Tax Act of 1980 ("FIRPTA") FIRPTA Notification Letter which states that shares of capital stock of Target do not constitute "United States real property interests" under Section 897(c) of the Code, for purposes of satisfying Acquiror's obligations under Treasury Regulation Section 1.1445-2(c)(3). In addition, simultaneously with delivery of such FIRPTA Notification Letter, Target shall provide to Acquiror, as agent for Target, a form of notice to the Internal Revenue Service in accordance with the requirements of Treasury Regulation Section 1.897-2(h)(2), along with written authorization for Acquiror to deliver such notice form to the Internal Revenue Service on behalf of Target upon the Closing of the Merger.

Section 7.7 BLUE SKY LAWS. Acquiror shall take such steps as may be necessary to comply with the securities and blue sky laws of all jurisdictions which are applicable to the issuance of the Acquiror Common Stock in connection with the Merger. Target shall use its best efforts to assist Acquiror as may be necessary to comply with the securities and blue sky laws of all jurisdictions which are applicable in connection with the issuance of Acquiror Common Stock in connection with the Merger.

Section 7.8 OTHER FILINGS. As promptly as practicable after the date of this Agreement, Target and Acquiror will prepare and file any other filings required under the Exchange Act, the Securities Act or any other Federal, foreign or state securities or blue sky laws relating to the Merger and the transactions contemplated by this Agreement (the "OTHER FILINGS"). The Other Filings will comply in all material respects with all applicable requirements of law and the rules and regulations promulgated thereunder. Whenever any event occurs which is required to be set forth in an amendment or supplement to the Other Filing, Target or Acquiror, as the case may be, will promptly inform the other of such occurrence and cooperate in making any appropriate amendment or supplement, and/or mailing to stockholders of Target, such amendment or supplement.

Section 7.9 TARGET STOCK OPTIONS. Target and Acquiror agree that prior to the Closing Date, Target shall cause all of the holders of Target Options to enter into an acknowledgement in the form attached hereto as EXHIBIT E (the "TARGET OPTION ACKNOWLEDGEMENT AGREEMENT") to provide that the holder of the Target Option shall acknowledge such holder's obligations under this Agreement and the Escrow Agreement and shall authorize Acquiror to place the portion of such options into the Escrow Fund (as defined in Section 10.2) in the manner contemplated by Sections 2.2 and 10.2 and shall further authorize the Stockholders' Agents to administer the Escrow Fund on such holders' behalf.

ARTICLE VIII

CONDITIONS TO MERGER

Section 8.1 CONDITIONS TO EACH PARTY'S OBLIGATION TO EFFECT THE MERGER. The respective obligations of each party to this Agreement to effect the Merger shall be subject to the satisfaction prior to the Closing Date of the following conditions:

(a) STOCKHOLDER APPROVAL. The stockholders of Target entitled to vote on or consent to this Agreement and the Merger in accordance with the Delaware Law and Target's Certificate of Incorporation shall have approved this Agreement and the Merger.

(b) NO INJUNCTIONS OR RESTRAINTS; ILLEGALITY. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the Merger or limiting or restricting conduct or operation of the business of Acquiror after the Merger shall have been issued, nor shall any proceeding brought by a domestic administrative agency or commission or other domestic Governmental Entity or other third party, seeking any of the foregoing be pending; nor shall there be any action taken, or any statute, rule, regulation or order

enacted, entered, enforced or deemed applicable to the Merger which makes the consummation of the Merger illegal.

(c) TAX OPINION. Target shall have received the opinion dated the Closing Date of Hale and Dorr LLP, counsel to Target, to the effect that the Merger will be treated for federal income tax purposes as a tax-free reorganization within the meaning of Section 368(a) of the Code. In rendering such opinion, counsel shall be entitled to rely upon, among other things, reasonable assumptions as well as representations of Acquiror, Sub and Target.

Section 8.2 ADDITIONAL CONDITIONS TO OBLIGATIONS OF ACQUIROR AND SUB. The obligations of Acquiror and Sub to effect the Merger are subject to the satisfaction of each of the following conditions, any of which may be waived in writing exclusively by Acquiror and Sub:

(a) REPRESENTATIONS AND WARRANTIES. The representations and warranties of Target set forth in this Agreement shall be true and correct in all material respects as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date, except for changes contemplated by this Agreement; and Acquiror shall have received a certificate signed on behalf of Target by the chief executive officer and the chief financial officer of Target to such effect.

(b) PERFORMANCE OF OBLIGATIONS OF TARGET. Target shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date; and Acquiror shall have received a certificate signed on behalf of Target by the chief executive officer and the chief financial officer of Target to such effect.

(c) ESCROW AGREEMENT. The Escrow Agent and Stockholders' Agents shall have executed and delivered to Acquiror the Escrow Agreement and such agreement shall remain in full force and effect.

(d) STOCKHOLDER'S AGREEMENTS. Each stockholder of Target who is receiving shares of Acquiror Common Stock in the Merger shall have executed and delivered to Acquiror the Stockholders Agreement, and such agreements shall remain in full force and effect.

(e) OPTION ACKNOWLEDGEMENT AGREEMENT. Each holder of a Target Option on the Closing Date shall have executed and delivered to Acquiror the Target Option Acknowledgement Agreement, and such acknowledgement shall remain in full force and effect.

(f) ANCILLARY AGREEMENTS. Each of the Noncompetition Agreements executed and delivered concurrently with the execution of this Agreement shall remain in full force and effect.

(g) OPINION OF TARGET'S COUNSEL. Acquiror shall have received an opinion dated the Closing Date of Hale and Dorr LLP, counsel to Target, as to the matters in the form attached hereto as EXHIBIT F.

(h) BOARD RESIGNATIONS. Target shall have received written letters of resignation from each of the current members of the Target Board of Directors and from each of the officers of Target.

(i) CONVERSION OF CONVERTIBLE NOTES. The holders of each of the issued and outstanding Target Convertible Notes and Target shall have taken all necessary action to convert all of such indebtedness into shares of Target Common Stock, and the security interest on the assets of Target relating to such indebtedness shall have been terminated and released in full.

(j) EXERCISE OF TARGET WARRANTS. The holders of each of the issued and outstanding Target Warrants shall have taken all necessary action to cause the exercise of all of such warrants in full and Target shall have caused the issuance of all of the shares of Target Common Stock underlying such warrants.

(k) AMENDMENTS TO PROMISSORY NOTES. Each of Mssrs. Egan, Blackwell and Nitzberg shall executed amendments in the form previously agreed to by the parties to their respective secured promissory notes evidencing indebtedness to Target.

Section 8.3 ADDITIONAL CONDITIONS TO OBLIGATIONS OF TARGET. The obligation of Target to effect the Merger is subject to the satisfaction of each of the following conditions, any of which may be waived, in writing, exclusively by Target:

(a) REPRESENTATIONS AND WARRANTIES. The representations and warranties of Acquiror and Sub set forth in this Agreement shall be true and correct in all material respects as of the date of this Agreement and (except to the extent such representations speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date, and Target shall have received a certificate signed on behalf of Acquiror by the chief executive officer and the chief financial officer of Acquiror to such effect.

(b) PERFORMANCE OF OBLIGATIONS OF ACQUIROR AND SUB. Acquiror and Sub shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date; and Target shall have received a certificate signed on behalf of Acquiror by the chief executive officer and the chief financial officer of Acquiror to such effect.

(c) OPINION OF ACQUIROR'S COUNSEL. Target shall have received an opinion dated the Closing Date of Venture Law Group, A Professional Corporation, counsel to Acquiror, as to the matters attached hereto as EXHIBIT G.

(d) PAYMENT OF CERTAIN EXPENSES. Acquiror shall have agreed to pay on behalf of Target the accrued fees of Arthur Andersen LLP in an amount not to exceed $30,000.

ARTICLE IX

TERMINATION AND AMENDMENT

Section 9.1 TERMINATION. This Agreement may be terminated at any time prior to the Effective Time:

(a) by mutual written consent of Acquiror and Target;

(b) by either Acquiror or Target, by giving written notice to the other party, if a court of competent jurisdiction or other Governmental Entity shall have issued a nonappealable final order, decree or ruling or taken any other action, in each case having the effect of permanently restraining, enjoining or otherwise prohibiting the Merger, except, if such party relying on such order, decree or ruling or other action shall not have complied with its respective obligations under Sections 5.5 or 6.3 of this Agreement, as the case may be;

(c) by Acquiror or Target, by giving written notice to the other party, if the other party is in material breach of any representation, warranty, or covenant of such other party contained in this Agreement, which breach shall not have been cured, if subject to cure, within 10 business days following receipt by the breaching party of written notice of such breach by the other party;

(d) by Acquiror, by giving written notice to Target, if the Closing shall not have occurred on or before June 26, 1998 by reason of the failure of any condition precedent under Section 8.1 or 8.2 (unless the failure results primarily from a breach by Acquiror of any representation, warranty, or covenant of Acquiror contained in this Agreement or Acquiror's failure to fulfill a condition precedent to closing or other default);

(e) by Target, by giving written notice to Acquiror, if the Closing shall not have occurred on or before June 26, 1998 by reason of the failure of any condition precedent under Section 8.1 or 8.3 (unless the failure results primarily from a breach by Target of any representation, warranty, or covenant of Target contained in this Agreement or Target's failure to fulfill a condition precedent to closing or other default); or

(f) by Acquiror, by giving written notice to Target, if the required approvals of the stockholders of Target contemplated by this Agreement shall not have been obtained by reason of the failure to obtain the required consents or votes upon a vote taken by written consent or at a meeting of stockholders, duly convened therefor or at any adjournment thereof.

Section 9.2 EFFECT OF TERMINATION. In the event of termination of this Agreement as provided in Section 9.1, this Agreement shall immediately become void and there shall be no liability or obligation on the part of Acquiror, Target, Sub or their respective officers, directors, stockholders or Affiliates, except as set forth in Section 9.3 and further except to the extent that such termination results from the willful breach by any such party of any of its representations, warranties or covenants set forth in this Agreement.

Section 9.3 FEES AND EXPENSES.

(a) Except as set forth in this Section 9.3, all fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses, whether or not the Merger is consummated. Target has submitted a budget to Acquiror for completion of the Merger. Target shall use its best efforts to consummate the Merger within such budget and shall not enter into any agreement inconsistent with such budget.

(b) If the Merger is consummated, all legal, accounting, investment banking, broker's and finder's fees and expenses incurred by Target or its stockholders in connection with the Merger shall be deemed expenses of the stockholders of Target to the extent such fees and expenses exceed $150,000 (excluding fees payable to Broadview Associates, which amount is set forth on Schedule 9.3(b) hereto and which shall be paid by the Acquiror) and shall be borne by the stockholders of Target to such extent and will not become obligations of Target. Except as otherwise contemplated by Section 8.3(d), Target will make arrangements for the payments of such fees acceptable to Acquiror. Any such fees and expenses in excess of $150,000 incurred by Target shall be recoverable from the Escrow Fund (as defined in Section 10.2) as Damages (as defined in Section 10.1) without regard to the damage threshold as contemplated by Section 10.3. The payment by Acquiror of certain of such fees in the manner contemplated by Section 8.3(d) shall in no way increase or otherwise affect the $150,000 expense limitation provided for in this Section.

ARTICLE X

ESCROW AND INDEMNIFICATION

Section 10.1 INDEMNIFICATION. From and after the Effective Time and subject to the limitations contained in Section 10.2, the Former Target Stockholders will, severally and pro rata, in accordance with their Pro Rata Portion, indemnify and hold Acquiror harmless against any loss, expense, liability or other damage, including attorneys' fees, to the extent of the amount of such loss, expense, liability or other damage (collectively "DAMAGES") that Acquiror has incurred by reason of the breach or alleged breach by Target of any representation, warranty, covenant or agreement of Target contained in this Agreement that occurs or becomes known to Acquiror during the Escrow Period (as defined in Section 10.4 below). Such indemnification shall be the Acquiror's sole and exclusive remedy for any such breach by Target, except for cases fraud on the part of Target. Acquiror acknowledges that, with respect to the evaluation of the Target Financial Statements for purposes of making any claim under this Section 10.1 for a breach of the representations set forth in Section 3.4(b), Acquiror and its independent public accountants, Price Waterhouse, have had the opportunity to review Target's accounting policies and methods and underlying assumptions inherent in the Target Financial Statements and, accordingly, Acquiror shall be required to consistently apply the accounting policies, methods and assumptions in the audited Target Financial Statements.

Section 10.2 ESCROW FUND. As security for the indemnities in Section 10.1, as soon as practicable after the Effective Date, the Escrow Shares shall be deposited with Chase Trust

Company of California (or such other institution selected by Acquiror with the reasonable consent of Target) as escrow agent (the "ESCROW AGENT"), such deposit to constitute the Escrow Fund (the "ESCROW FUND") and to be governed by the terms set forth in this Article X and in the Escrow Agreement. Notwithstanding the foregoing, the indemnification obligations of each Former Target Stockholder pursuant to this Article X shall be limited to the amount and assets deposited by such Former Target Stockholder and present in the Escrow Fund and Acquiror shall not be entitled to pursue any claims for indemnification under this Article X or otherwise against any Former Target Stockholder directly or personally and the sole recourse of Acquiror shall be to make claims against the Escrow Fund in accordance with the terms of the Escrow Agreement (except for cases involving fraud on the part of Target).

Section 10.3 DAMAGE THRESHOLD. Notwithstanding the foregoing, the Former Target Stockholders shall have no liability under Section 10.1 and Acquiror may not receive any shares from the Escrow Fund unless and until an Officer's Certificate or Certificates (as defined in Section 10.5 below) for an aggregate amount of Acquiror's Damages in excess of $125,000 has been delivered to the Stockholders' Agents and to the Escrow Agent; PROVIDED, HOWEVER, that after an Officer's Certificate or Certificates for an aggregate of $125,000 in Damages has been delivered, Acquiror shall be entitled to receive Escrow Shares equal in value to the full amount of Damages identified in such Officer's Certificate or Certificates.

Section 10.4 ESCROW PERIODS. The Escrow Fund shall commence on the Closing Date and terminate eighteen (18) months from the Closing Date (the period from the Closing to such date referred to as the "ESCROW PERIOD"), PROVIDED, HOWEVER, that the number of Escrow Shares, which, in the reasonable judgment of Acquiror, subject to the objection of the Stockholders' Agents (as defined in Section 10.8) and the subsequent resolution of the matter in the manner provided in Section 10.8, are necessary to satisfy any unsatisfied claims specified in any Officer's Certificate theretofore delivered to the Escrow Agent and the Stockholders' Agents prior to termination of the Escrow Period with respect to Damages incurred or litigation pending prior to expiration of the Escrow Period, shall remain in the Escrow Fund until such claims have been finally resolved.

Section 10.5 CLAIMS UPON ESCROW FUND. Upon receipt by the Escrow Agent on or before the last day of the Escrow Period of a certificate signed by any appropriately authorized officer of Acquiror (an "OFFICER'S CERTIFICATE"):

(i) Stating the aggregate amount of Acquiror's Damages or an estimate thereof, in each case to the extent known or determinable at such time, and,

(ii) Specifying in reasonable detail the individual items of such Damages included in the amount so stated, the date each such item was paid or properly accrued or arose, and the nature of the misrepresentation, breach or claim to which such item is related, the Escrow Agent shall, subject to the provisions of Sections 10.3, 10.7 and 10.8 hereof, deliver to Acquiror out of the Escrow Fund, as promptly as practicable, Escrow Shares having a value equal to such Damages all in accordance with the Escrow Agreement and Section 10.6 below. Amounts paid or distributed from the Escrow Fund shall be paid or distributed pro rata among

the Holders (as defined in the Escrow Agreement) based upon their respective percentage interests therein at the time in the form (Acquiror Common Stock or options to acquire Acquiror Common Stock or cash) contributed by each such Holder.

Section 10.6 VALUATION. For the purpose of compensating Acquiror for its Damages pursuant to this Agreement, the value per share of the Escrow Shares shall be the Reference Stock Price.

Section 10.7 OBJECTIONS TO CLAIMS. At the time of delivery of any Officer's Certificate to the Escrow Agent, a duplicate copy of such Officer's Certificate shall be delivered to the Stockholders' Agents (as defined in Section 10.9 below) and for a period of thirty (30) days after such delivery, the Escrow Agent shall make no delivery of Escrow Shares pursuant to Section 10.4 unless the Escrow Agent shall have received written authorization from the Stockholders' Agents to make such delivery. After the expiration of such thirty (30) day period, the Escrow Agent shall make delivery of the Escrow Shares in the Escrow Fund in accordance with Section 10.5, PROVIDED that no such delivery may be made if the Stockholders' Agents shall object in a written statement to the claim made in the Officer's Certificate, and such statement shall have been delivered to the Escrow Agent and to Acquiror prior to the expiration of such thirty (30) day period.

Section 10.8 RESOLUTION OF CONFLICTS.

(a) In case the Stockholders' Agents shall so object in writing to any claim or claims by Acquiror made in any Officer's Certificate, Acquiror shall have thirty (30) days to respond in a written statement to the objection of the Stockholders' Agents. If after such thirty (30) day period there remains a dispute as to any claims, the Stockholders' Agents and Acquiror shall attempt in good faith for thirty (30) days to agree upon the rights of the respective parties with respect to each of such claims. If the Stockholders' Agents and Acquiror should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties and shall be furnished to the Escrow Agent. The Escrow Agent shall be entitled to rely on any such memorandum and shall distribute the Escrow Shares from the Escrow Fund in accordance with the terms of the memorandum.

(b) If no such agreement can be reached after good faith negotiation, either Acquiror or the Stockholders' Agents may, by written notice to the other, demand arbitration of the matter unless the amount of the damage or loss is at issue in pending litigation with a third party, in which event arbitration shall not be commenced until such amount is ascertained or both parties agree to arbitration; and in either such event the matter shall be settled by arbitration conducted by three arbitrators. Within fifteen (15) days after such written notice is sent, Acquiror (on the one hand) and the Stockholders' Agents (on the other hand) shall each select one arbitrator, and the two arbitrators so selected shall select a third arbitrator. The decision of the arbitrators as to the validity and amount of any claim in such Officer's Certificate shall be binding and conclusive upon the parties to this Agreement, and notwithstanding anything in Section 10.8, the Escrow Agent shall be entitled to act in accordance with such decision and make or withhold payments out of the Escrow Fund in accordance with such decision.

(c) Judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction. Any such arbitration shall be held in Santa Clara or San Mateo County, California under the commercial rules then in effect of the American Arbitration Association.

Section 10.9 STOCKHOLDERS' AGENTS.

(a) Omar Khudari and Alan Docter shall be constituted and appointed as agents (the "STOCKHOLDERS' AGENTS") for and on behalf of the Former Target Stockholders to give and receive notices and communications, to authorize delivery to Acquiror of the Escrow Shares or other property from the Escrow Fund in satisfaction of claims by Acquiror, to object to such deliveries, to agree to, negotiate, enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to such claims, and to take all actions necessary or appropriate in the judgment of the Stockholders' Agents for the accomplishment of the foregoing. All actions of the Stockholders' Agents shall be taken jointly, not individually. Such agency may be changed by the holders of a majority in interest of the Escrow Shares from time to time upon not less than ten (10) days' prior written notice to Acquiror. No bond shall be required of the Stockholders' Agents, and the Stockholders' Agents shall receive no compensation for services. Notices or communications to or from the Stockholders' Agents shall constitute notice to or from each of the Former Target Stockholders.

(b) The Stockholders' Agents shall not be liable for any act done or omitted hereunder as Stockholders' Agent while acting in good faith and in the exercise of reasonable judgment, and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence of such good faith. The Former Target Stockholders shall severally and pro rata, in accordance with their Pro Rata Portion, indemnify the Stockholders' Agents and hold them harmless against any loss, liability or expense incurred without gross negligence or bad faith on the part of the Stockholders' Agents and arising out of or in connection with the acceptance or administration of their duties hereunder under this Agreement or the Escrow Agreement.

(c) The Stockholders' Agents shall have reasonable access to information about Target and Acquiror and the reasonable assistance of Target's and Acquiror's officers and employees for purposes of performing their duties and exercising their rights under this Article X, PROVIDED that the Stockholders' Agents shall treat confidentially and not disclose any nonpublic information from or about Target or Acquiror to anyone (except on a need to know basis to individuals who agree to treat such information confidentially).

Section 10.10 ACTIONS OF THE STOCKHOLDERS' AGENTS. A decision, act, consent or instruction of the Stockholders' Agents shall constitute a decision of all of the Former Target Stockholders for whom shares of Acquiror Common Stock otherwise issuable to them are deposited in the Escrow Fund and shall be final, binding and conclusive upon each such Former Target Stockholder, and the Escrow Agent and Acquiror may rely upon any decision, act, consent or instruction of the Stockholders' Agents as being the decision, act, consent or instruction of each and every such Former Target Stockholder. The Escrow Agent and Acquiror

are hereby relieved from any liability to any person for any acts done by them in accordance with such decision, act, consent or instruction of the Stockholders' Agents.

Section 10.11 CLAIMS. In the event Acquiror becomes aware of a third-party claim which Acquiror believes may result in a demand against the Escrow Fund, Acquiror shall notify the Stockholders' Agents of such claim, and the Stockholders' Agents and the Former Target Stockholders for whom shares of Acquiror Common Stock otherwise issuable to them are deposited in the Escrow Fund shall be entitled, at their expense, to participate in any defense of such claim. Acquiror shall have the right to settle any such claim; PROVIDED, HOWEVER, that Acquiror may not affect the settlement of any such claim without the consent of the Stockholders' Agents, which consent shall not be unreasonably withheld. In the event that the Stockholders' Agents have consented to any such settlement, the Stockholders' Agents shall have no power or authority to object to the amount of any claim by Acquiror against the Escrow Fund for indemnity with respect to such settlement, unless such claim is in an amount in excess of any amount consented to by the Stockholders' Agents.

ARTICLE XI

MISCELLANEOUS

Section 11.1 SURVIVAL OF REPRESENTATIONS AND COVENANTS. All representations, warranties, covenants and agreements of Target contained in this Agreement shall survive the Closing and any investigation at any time made by or on behalf of Acquiror until the end of the Escrow Period. If Escrow Shares or other assets are retained in the Escrow Fund beyond expiration of the period specified in the Escrow Agreement, then (notwithstanding the expiration of such time period) the representation, warranty, covenant or agreement applicable to such claim shall survive until, but only for purposes of, the resolution of the claim to which such retained Escrow Shares or other assets relate. All representations, warranties, covenants and agreements of Acquiror contained in this Agreement shall terminate as of the Effective Time, provided that the covenants and agreements contained in Sections 6.5, 6.6, 6.7 and 9.3 and Article X shall survive the Closing and shall continue in full force and effect.

Section 11.2 NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed) or two business days after being mailed by registered or certified mail (return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Acquiror or Sub:

Yahoo! Inc.
3420 Central Expressway
Santa Clara, CA 95051
Attention: Chief Executive Officer
Fax No: (408) 731-3510
Telephone No: (408) 731-3300

with a copy at the same address to the attention of the General Counsel and Secretary and with a copy to:

Venture Law Group
A Professional Corporation
2800 Sand Hill Road
Menlo Park, California 94025
Attention: Steven Tonsfeldt
Fax No: (650) 233-8386
Telephone No: (650) 854-4488

(b) if to Target, to:

Viaweb Inc.
56 John F. Kennedy Street
Cambridge, MA 02138
Attention: President
Fax No: (617) 354-2624
Telephone No: (617) 876-2692

with copies to:

Hale and Dorr LLP
60 State Street
Boston, MA 02109
Attention: Paul V. Rogers
Fax No: (617) 526-5000
Telephone No: (617) 526-6000

Omar Khudari
16 Belfry Terrace
Lexington, MA 02421
Fax No: (781) 862-8809
Telephone No: (617) 747-3982

Alan Docter
100 Worth Avenue
Suite 715
Palm Beach, FL 33480
Fax No: (561) 659-5643
Telephone No: (561) 832-7515

Section 11.3 INTERPRETATION. When a reference is made in this Agreement to Sections, such reference shall be to a Section of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation." The phrase "made available" in this Agreement shall mean that the information referred to has been made available if requested by the party to whom such information is to be made available. References to the "knowledge of Target" or "Target's knowledge" or any similar expression shall mean the actual knowledge, after reasonable inquiry, of Omar Khudari, Frederick Egan, Harris Fishman, Paul Graham, Edward L. Steinart, David Parker and Mark Nitzberg and any other individual who is an executive officer or director of Target.

Section 11.4 COUNTERPARTS. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when two or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

Section 11.5 ENTIRE AGREEMENT; NO THIRD PARTY BENEFICIARIES. This Agreement (including the documents and the instruments referred to herein), the Confidentiality Agreement, and the Transaction Documents (a) constitute the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, and (b) are not intended to confer upon any person other than the parties hereto (including without limitation any Target employees) any rights or remedies hereunder.

Section 11.6 GOVERNING LAW. This Agreement shall be governed and construed in accordance with the laws of the State of California without regard to any applicable conflicts of law.

Section 11.7 ASSIGNMENT. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 11.8 AMENDMENT. This Agreement may be amended by the parties hereto, at any time before or after approval of matters presented in connection with the Merger by the stockholders of Target, but after any such stockholder approval, no amendment shall be made which by law requires the further approval of stockholders without obtaining such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

Section 11.9 EXTENSION; WAIVER. At any time prior to the Effective Time, the parties hereto may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or the other acts of the other parties hereto, (ii) waive any inaccuracies in the representations or warranties contained herein or in any document delivered pursuant hereto and

(iii) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party.

Section 11.10 SPECIFIC PERFORMANCE. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to injunctive relief to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Acquiror, Sub and Target have caused this Agreement and Plan of Reorganization to be signed by their respective officers thereunto duly authorized as of the date first written above.

YAHOO! INC.

By: /s/ Timothy Koogle

Name: Timothy Koogle
Title: President & CEO

XY ACQUISITION CORPORATION

By: /s/ Timothy Koogle

Name: Timothy Koogle
Title: President & CEO

VIAWEB INC.

By: /s/ Paul Graham

Name: Paul Graham
Title: President