

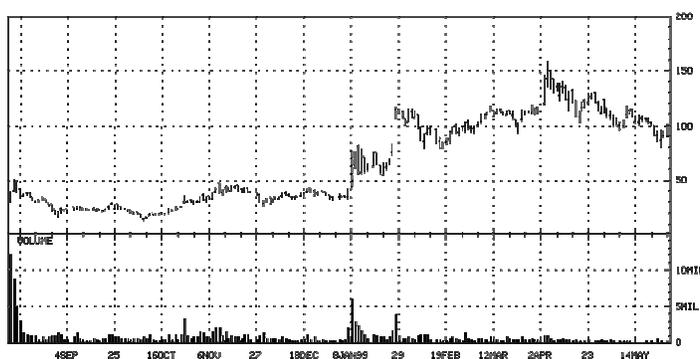
244 Fifth Ave., 2<sup>nd</sup> Fl., Ste. 2801 • New York, NY 10001 • Tel: (212) 726 1408 • Fax: (413) 215 0880**GeoCities (NASDAQ: YHOO\*) and Other Web-based Communities****Industry Sector Analysis: Web-based Communities**

July 7, 1999

**KEY CONSIDERATIONS**

- GeoCities "The Company" is still leading its competitors in terms of the volume of traffic driven to its member Web sites, thereby maintaining its dominant brand name status.
- Recent acquisition by Yahoo!, a premier search engine, gives the Company a strategic advantage over its competitors as it combines portal and e-commerce functions with the latest broadcasting technology. Yahoo! acquired Broadcast.com in April 1999.
- E-commerce capabilities will overtake content quality of member Web sites as the primary means of increasing traffic volume.
- Intense competition in the Web community industry has resulted in many mergers with larger Internet or traditional media companies. This will most likely threaten GeoCities continued dominance in its industry sector. However, we expect it to continue to be a leader.
- Although the Company is still unprofitable, we expect gross margins to increase steadily as high margin advertising revenues continue to be a substantial part of the total revenues.

Recent Price	\$100.125
52WK High	\$159.25
52WK Low	\$13.25
P/E	N/A
P/Book	25.88
P/Sales	110.89
Market Capitalization	\$2.934 Billion
Shares Outstanding	32.61 million
Float	4.80 million
<b>EPS</b>	
1995	(0.11)
1996	(1.19)
1997	(3.72)
1998	(1.42)
1999E	(0.86)
2000E	(0.38)
<b>Financials</b>	
Current Ratio	6.38
Total Debt to Equity	0.06
LT Debt	0.04

**GeoCities PRICE AND VOLUME GRAPH***Courtesy of Bloomberg, L.P.***COMPANY PROFILE**

Geocities, a California-based company, is the first to pioneer the Web-based community on a massive scale. Founded in December 1994, GeoCities is the world's largest and fastest-growing community of free personal Web sites on the Internet with more than 3.5 million registered members ("homesteaders") and an estimated 29 million pages of personalized content. Homesteaders are able to use the Company's technology to exchange interests and expertise with other Internet users through their personal Web sites. Member pages are organized into 41 themed communities based on their content. GeoCities also offers CDs, credit cards, and books on its Web sites through

various partnerships. CMG Information Services Inc. (CMGI) and Softbank Holdings previously owned 30% and 22% of the Company, respectively. In January 1999 Yahoo! Inc. announced an agreement to acquire GeoCities in a stock swap worth \$4.6 billion.

\* This report is issued at the completion of the Yahoo!-GeoCities merger and treats GeoCities on a pre-merger basis, as a separate division of Yahoo!

This report was prepared by David R. Rivas, Ph.D., and Ches Diab

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## THE WEB COMMUNITY INDUSTRY

The purpose of the Web community is to allow people with common interests to come together and interact. It is an important source of information as an increasing number of these communities also host special chats and forums. The web community industry is also a major target for advertisers as consumers are expected to spend \$26 billion on electronic commerce by the year 2002 (Information Technology Association of America).

The demand for these free personal Web communities will continue to be enormous as the number of new Internet users increases exponentially. According to the U.S. Commerce Department, Internet traffic is doubling every 100 days with an annual growth rate of more than 700 percent. Nua, a leading European online consultancy and developer, estimates the number of current Internet users worldwide to be 100.5 million. By the end of the year 2000, analysts expect the number to increase to 200 million. The Internet has continued its influence as the average age of Internet users has increased to 35.7 years (GVU's Eighth Survey). According to the Cyber Dialogue/FindSVP American Internet User Survey, 51 percent of Internet users are online daily. The time spent on the Internet for the average user is also expected to increase substantially.

Competition in the Web community industry is intense with over 166 free webspace providers from over 21 countries (The Free Webpage Provider Review 4.0, Max Lee, 1996-1999). There are many Web communities geared towards general audiences, such as GeoCities, Tripod, XOOM, and theglobe.com. There are also many specialized but much smaller web communities that target specific audiences, such as B-City for business, Crescendo for music, and Free China for politics. Although the number of start-up web communities is expected to increase, many of them will fail because they lack the loyal customer base and brand awareness that GeoCities has successfully built for the past few years.

Barriers to entry are relatively insignificant. Nevertheless, building a successful community requires a high level of business acumen. Companies seeking to create communities on the Internet need to address the following factors: critical mass, functionality, brand recognition, member affinity and loyalty, broad demographic focus, and open access for visitors. GeoCities also competes for visitors from Web directories, search engines, shareware archives, content sites, sites maintained by Internet service providers ("ISPs"), as well as other entities that attempt to establish their presence in the Web community industry either by developing their own communities or acquiring one of the Company's competitors. GeoCities also faces considerable competition in the future from offline media giants, such as Disney, CBS, NBC, AT&T, and Time Warner, which have already taken considerable steps in breaking into the Internet industry. Therefore, more traditional venues of advertisements, such as television, radio, newspapers, and magazines, are also important sources of competition for the Company.

According to the December 1998 Media Metrix report, GeoCities' community of personal Web sites was the third most trafficked site on the Internet, behind only America Online and Yahoo! Inc. in terms of reach and unique visitors. "Reach," as defined by Media Metrix, is the percent of Web-active individuals that visit a site once in a given month. Individual visits are not duplicated. GeoCities' combined home/work reach increased from 32 percent in November 1998 to 33.4 percent in December 1998, with unique visitors increasing from 18.2 million to 19 million. GeoCities still obtains a comparative advantage in terms of brand name recognition and member loyalty.

The Internet has already been established as an important source of information, as well as recreation. Web communities not only incorporate these elements into their infrastructure, but they also encourage businesses to establish themselves on the Internet. In fact, the rapid growth of electronic commerce is redefining the web community as a viable place to do business. Web communities will continue to attract users because: 1) The number of people online and the amount of time they spend online will increase exponentially; 2) both users and Web communities will adapt to changing technology; and 3) Web communities are transforming themselves from mainly content-oriented communities into portals that are equipped with the latest e-commerce technology.

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## GeoCities PRODUCTS AND SERVICES

- Free e-mail accounts.
- Chat rooms and message boards. Sometimes celebrities are invited to chat rooms.
- **GeoBuilder.** An easy-to-use Web site builder is available for members without any HTML experience.
- **GeoPlus.** A premium service that provides 25 MB of disk space for \$4.95 a month. Directories of members of the standard service can be expanded from 11 MB of free disk space to 25 MB, whereas new members automatically receive 25 MB. Additional disk space can be bought in increments of 5 MB for \$2.50 per month. Other special services include enhanced publishing tools, an advertisement-free zone, and a personalized URL ([www.geocities.com/~yourname](http://www.geocities.com/~yourname)) for a small monthly fee. GeoPlus members can also obtain a virtual URL ([www.name.com](http://www.name.com)) for monthly fees payable to GeoCities and InterNIC. A CGI library is also available for those who want to build customizable surveys and forms. A user-friendly Resource Center provides all the necessary information needed to maintain the Web sites. GeoPlus pages are exclusively for non-commercial use. Therefore, members are not permitted to advertise, promote and sell products, or engage in any kind of commercial speech. For businesses that want to use the Internet to reach potential customers, GeoCities offers GeoShops, a special service designed exclusively for commercial web sites. There is currently a 30-day trial offer for the GeoPlus program.
- **GeoShops.** A special service that allows members to sell products and services on their own Web sites and provides transaction authorization and processing capabilities for a monthly fee of \$24.95.
- **GeoStore.** Official GeoCities logo merchandise, software, scanners, and modems are sold at the GeoStore.
- **GeoPoints.** Members can earn and use GeoPoints to pay for everything from merchandise at the GeoStore as well as special membership fees. GeoPoints are earned by regular members who either become Community Leaders or Banner Volunteers, as well as by GeoPlus members who have the potential of earning GeoPoints at double the rate.
- **Netopia Virtual Office.** Members can obtain pre-built Web sites with the following features: chat, intercom, conferencing, file exchange and photo gallery. This service is suited for those who want to have a virtual office on the Web so that their clients can access important information about their business, as well as engage in real-time communication with them, such as speaking over the Internet. Netopia Virtual Office costs \$49.95 and includes one year of hosting on GeoCities' server. After the first year, hosting at GeoCities will cost \$19.95 per year. This software is provided through a deal with Netopia, Inc. There is currently a 30-day trial offer for the Netopia Virtual Office software.
- **GeoCities Classic Games.** Free online games with real opponents are playable by all Internet users. Games are available in levels of varying difficulty and serve as a perfect medium for socialization. Games are provided through a deal with TEN.net, which is also the provider of online games for Yahoo!, Tripod, and Excite.

## ADVERTISING CAPABILITIES

- **Sponsorship Banners.** A sponsorship banner is any graphic image on a home page for which the Homesteader receives reimbursement, which can be in the form of money, prizes, sweepstakes entries, rewards, banner swaps, and hits. Compensation is only allowed by those companies specified by GeoCities. Graphic images that do not get compensated are perfectly acceptable. There are currently 2 types of sponsorship banner programs available:

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- **GeoGuide Banner Exchange.** Members can promote their sites through the distribution of personal banners on the Web sites of other GeoCities Homesteaders. Members organize their own banner exchanges according to their particular interest groups, displaying member banners on the home pages of fellow banner exchange members. Sweepstakes tickets, as well as GeoPoints, can be earned through increased traffic to the member's site.
  - **Link Exchange.** Members can place links on their Web sites to selected online merchants, which in turn pay commissions to those members who help generate their traffic and sales.
  - **Targeting Capabilities.** GeoCities can target audiences through various functions.
    - **By Area within GeoCities.** Advertisers can target self-selected special-interest groups. Other popular sites include the GeoCities' directory pages.
    - **By Platform.** Windows 3.1, Windows 95, Windows NT, Macintosh, NEXT, OS/2, WebTV, or Unix.
    - **By Browser.** Netscape Navigator, Microsoft Internet Explorer, IBM WebExplorer, Lynx, or NCSA Mosaic.
    - **By Geography.** Advertisers can choose to target specific countries, states, area codes, or zip codes, as well as a specific mile radius around a given zip code. (Geographical information of members must be provided during registration.)
    - **By Domain and Domain Type.** Advertisers can target .edu, .org, .mil, .com, or .net visitors, as well as specific domains, such as AOL or CompuServe. (Domain information of members must be provided during registration.)
    - **By Time of Day or Day of Week.** Advertisers can select specific hours and/or days of the week to promote their products and services.
    - **Potential Target Groups.** GeoCities expects to offer targeting capabilities **by demographic profile in the future**, i.e. age, income, gender, occupation, and marital status.
  - **Advertising Positions.** GeoCities has 2 standard advertising positions (the CASIE standard Full Banner and Half Banner), as well as custom options. Full targeting capabilities are available for all advertising positions. GeoCities accepts the latest advertising technology and is capable of running banners of many types, including static GIFs, animated GIFs, JPGs, interactive Java banners, Javascript banners, and Shockwave banners.
    - **Banner Advertising.** Banners can be targeted to specific areas, including neighborhoods, GeoGuides and GeoPops. Banners come in the standard Full Banner size (468x60 pixel banner).
    - **Neighborhood Block Icon Advertising.** Advertisements can be placed in the middle of a virtual street. Visitors can visit various neighborhoods and see ads among the houses on the block. Block ads come in customizable forms.
    - **Button Advertising.** Button advertisements can be placed on key, high-traffic pages throughout GeoCities. Button ads come in smaller sizes.
    - **GeoGuide Advertising.** GeoGuides includes a standard half Banner (234x60 pixels) equipped with navigational tools that attract people's attention to the banner.
  - **Non-Banner Promotions.** GeoCities also designs customized programs and promotions to increase community interaction. The goal of these promotions is to build brand awareness, generate leads, and drive traffic to the advertiser's site.
    - **Neighborhood Sponsorships.** A neighborhood sponsorship increases awareness and promotes product image through the association with a specific interest group.
    - **Co-Branded Content Areas.** These content areas are co-sponsored by the advertiser and features editorial content consistent with the neighborhood theme. GeoCities has already created award-winning co-branded content for a number of clients.
    - **Live Online Events.** Special online events and programs, such as music concerts, comedy showcases, cooking classes, seminars, and guest speakers, are offered on a regular basis.
    - **Newsletters/Online Magazines.** Consumers are able to subscribe to online newsletters sponsored by advertisers, allowing the Company's clients to build substantial customer bases.
    - **Contests.** GeoCities sponsors many contests, from online "scavenger hunts," where consumers search through GeoCities for clues, to other more sophisticated competitions.
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- **Real Audio Tips/Trivia/Updates.** Daily audio updates, tips of the week, and weekly trivia are offered by GeoCities. Yahoo's acquisition of Broadcast.com should have a positive impact on this form of promotion.
  - **Forums.** Homesteaders are able to participate in online discussions. The topics of these forums can be customized based on specific marketing objectives.
  - **GeoCities House-Warming Program.** Various sponsors provide virtual coupons, gift certificates, product samples, literature and software to new members through email.

## SOURCES OF REVENUE

- **Advertisements.** The sale of advertisements is the main source of the Company's revenues. GeoCities sells banner advertisements for a variety of purposes, including event sponsorships and contests. More recently, advertising revenues have also been coming from members of the GeoShop program. Advertising rates are determined by whether the impressions are for general rotation throughout the Company's Web site or for premier targeted audiences and properties within specific areas of the Company's Web site. Advertising commitments generally average from one to two months. GeoCities' obligation is to guarantee a minimum number of "impressions" or times that an advertisement appears on pages viewed by users. In December 1997, GeoCities began selling a combination of sponsorship and banner advertising campaign contracts to select premier commerce partners. In general, these premier commerce partner contracts have longer terms than standard banner advertising contracts (generally up to one year) and involve some integration with the Company's Web site. Currently, advertising by software marketer Surplus Direct/Egghead accounts for approximately 12% of sales. GeoCities currently has deals with more than 130 advertisers from 21 different industries, including entertainment, financial, and hardware/software companies.
- **GeoPlus, GeoShops, Netopia, and GeoStore.** Other sources of revenue include membership fees from the GeoPlus, GeoShops, and Netopia programs, as well as from products sold through the GeoStore.
- **Revenue-sharing arrangements.** Revenue-sharing arrangements with premier commerce partners provides GeoCities with a share of any sales resulting from direct links from the Company's Web site.

## MAIN COMPETITORS

GeoCities is the largest community in the Internet with over 3.5 million Homesteaders. Competition is fierce in this industry, for there are few barriers to entry. Direct competition is in the form of other Web site providers that offer 11 megabytes or more of free disk space. Some of the Company's major competitors include: Tripod, Inc. (subsidiary of Lycos, Inc. (LCOS)), XOOM, Inc. (XMCM), and theglobe.com (GLBC).

- **Tripod.** Tripod poses the greatest threat to GeoCities, with nearly 3 million members and growing. It is a subsidiary of Lycos, the second most popular search engine after Yahoo. Lycos has made a number of acquisitions, making it the most popular network on the Internet, after America Online, Microsoft, and Yahoo. Tripod's main advantage over GeoCities is that it provides virtually the same publishing tools and community interaction, but without the watermark. On the other hand, this can also be seen as Tripod's liability in that it may thus be harder for the company to distinguish itself from GeoCities' brand name.
- **XOOM, Inc.** XOOM is the second fastest growing community on the Web with nearly 1.5 million home page builders and a reach of over 29.5% (MediaMetrix, June 1998). XOOM is a direct marketing site that focuses on selling products to their members as the main source of revenue. XOOM provides a variety of product offerings, ranging from computer merchandise to collectibles. Members are able to purchase these products at a discount, often up to 50 percent off the retail price. For those who do not like GeoCities, XOOM is often the community they switch to because of its less intrusive form of advertising. However,

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due to its brand name recognition, GeoCities will continue to dominate the generic Internet user market, whereas XOOM will tend to attract those who are more Internet savvy.

In May 1999, XOOM.com announced its merger with many of NBC's key Internet divisions, as well as CNET's Snap.com, to form the seventh-largest Internet site, which will be known as NBC Internet (NBCi). The new company will integrate broadcast, portal, and e-commerce functions, forming a major new all-purpose site for millions of users. The deal is expected to close by year-end 1999.

- **Theglobe.com.** Theglobe.com has over 2 million members. It is setting the standard for information services with famous content providers such as Reuters, E! Online, Thomson Investors Network, SonicNet, UPI, and CNET. Theglobe.com has been described as an "interactive Nightline" by the New York Times and it is steadily increasing its presence worldwide with 40% of its users from abroad.

## **SIMILARITIES**

### **Tripod**

#### **Communities and Members.**

- Themed Web communities and interest groups.
- Visitors can browse through member sites by specific neighborhood or by category of interest.
- Adult content on member pages is forbidden.

#### **Products and Services.**

- 11 MB of free disk space.
- Homepage builders for beginners and pros.
- Chat rooms.
- Message boards.
- Free and premium memberships.
- Cash-earning affiliate programs with online retailers.
- Online games.
- Provides FTP and direct browser file uploading capabilities.

#### **Advertising Regulations.**

- Provides the same targeting capabilities for advertising as GeoCities.

### **XOOM**

#### **Communities and Members.**

- Themed Web communities and interest groups.
- Adult content on member pages is forbidden.

#### **Products and Services.**

- Free web-based e-mail.
- Home page building tools.
- Chat rooms.
- Cash-earning affiliate programs with online retailers.

#### **Advertising Regulations.**

- Members are required to provide a link back to XOOM's home page.

### **Theglobe.com**

#### **Communities and Members.**

- Themed Web communities and interest groups.
- Visitors can browse through member sites by specific neighborhood or by category of interest.
- Adult content on member pages is forbidden.

#### **Products and Services.**

- Free email.
- Home page building tools for beginners and pros.
- Chat rooms.
- Message boards.
- Free membership and 2 levels of premium service.

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- Provides FTP and direct browser file uploading capabilities.
  - An extensive shopping center.

**Advertising Regulations.**

- Mandatory banner ads on member pages, although they are removed upon registration with the premium services.

## DIFFERENCES

### Tripod

**Communities and Members.**

- 3.5 million homepage builders.
- 70+ Pod communities. (GeoCities has 41 themed communities. This may be the result of Tripod's automatic personalized URL, thus allowing more diversification as compared to GeoCities.)
- Concentrates on attracting members from the 18-34 age group (Generation Xers).
- 72 percent of members are male and 28 percent are female.
- Limited individualized promotion of specific neighborhoods on the company's home page. (GeoCities aggressively promotes a different neighborhood or interest group on the Company's main Web site on a daily basis. This individualized promotion attracts visitors to communities that may not otherwise interest them at first.)
- Members must update pages at least once per month otherwise they will be deleted. However, Tripod does allow members to reserve their pages for 6 months without being penalized.

**Products and Services.**

- Tripod doesn't provide actual e-mail services. All e-mail sent to members at the @tripod.net e-mail address are forwarded to the actual e-mail address that is registered with Tripod.
- Part of the Lycos Network, with links to some of Lycos' most popular Web sites: Lycos.com, Angelfire.com (another popular web community), HotBot.com (search engine), MailCity.com (free web-based email), and Hotwired.com (daily chronicle of the latest in Web technology).
- Premium membership provides 22 MB of disk space for a monthly fee.
- Fewer publishing tools for web page designing, although these are not significant enough to undercut Tripod's competitiveness.
- Automatic personalized URL. (Personalized URLs through GeoCities requires enrollment in its premium service.)
- Fewer complaints from members about browser crashes and caching errors caused by pop-up ads, mainly due to effective testing.

**Advertising Regulations.**

- Due to extensive feedback from members and advertisers, Tripod has decided to implement pop-ups as the only form of advertisement on member pages.
- Premium service members can remove popup ads from their pages by paying an additional fee of \$3 per month.
- No watermark on member pages.

### XOOM

**Communities and Members.**

- 1.5 million homepage builders.
- 53 percent of members are male and 47 percent are female.
- The majority of members are between the ages of 25 and 54.
- Does not permit children under the age of 13 to become members, build home pages, or obtain chat rooms and email accounts.
- 17 major communities that are further subdivided into different categories of interest.
- Limited individualized promotion of specific neighborhoods on the company's home page.

**Products and Services.**

- Unlimited free disk space.
- Only offers free membership.
- Members must write their own HTML, although tutorials and help forums are provided.

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- Fewer publishing tools for web page designing.
  - Provides the best Java-enabled chat.
  - One of the first to pioneer a big clip art library.
  - A collection of free electronic greeting cards customized for various occasions and holidays.
  - Sells a variety of Web-publishing utilities packages.
  - Includes a specific page with links to free download sites for games and software.
  - No online games.
  - No message boards.
  - Files can only be uploaded via FTP (file transfer protocol). FTP allows users to transfer files between the computer and the Internet.
  - Special affiliate program with Musicstrip.com compensates members when they adopt the advertiser's banner on their Web sites. This deal is not conditional on executed sales, which is unique among GeoCities' major competitors.

**Advertising Regulations.**

- Email newsletter advertising allows advertisers to send special product offerings or messages to membership database. Members are allowed to unsubscribe from the mailing list. However, XOOM reserves the right to delete the pages of members who have unsubscribed themselves from the list.
- Does not use Pop-up ads, although the new XOOMbar banner is mandatory. The XOOMbar is a thin banner on the top of member Web sites, which offers navigational tools in addition to commercial advertisements. It is different from traditional banners in the sense that they go across the entire width of a page, and thus may be seen as more compatible with the design of the page.
- No watermark on member pages.

**Theglobe.com**

**Communities and Members.**

- 2 million homepage builders.
- 10 cities that are further subdivided into more than 20 interest groups.

**Products and Services.**

- 12 MB of free disk space. (GeoCities provides 11 MB of free disk space.)
- Places stronger emphasis on providing news and information to users. Special page provides important headlines in national, foreign, and financial news.
- Fewer publishing tools for web page designing.
- Fewer online games to choose from.
- Extensive shopping site.

**Advertising Regulations.**

- Limited individualized promotion of specific neighborhoods on the company's main web site.
- Members enrolled in their Gold and Platinum memberships are enrolled in the Instant Cash Program which allows members to earn money once their referrals also become Gold or Platinum annual subscribers.
- No watermark on member pages.

<b>Table 1 GeoCities versus Its Main Competitors 6/5/99</b>				
<b>Web Community</b>	<b>GeoCities</b>	<b>Tripod</b>	<b>XOOM</b>	<b>Theglobe.com</b>
<b>Ticker</b>	GCTY	(LCOS)	XMCM	TGLO
<b>Parent company</b>	Yahoo!	Lycos	NBC (GE)	None
<b>Estimated number of homepage builders As of 12/98</b>	3.5 million	3 million	1.5 million	2 million
<b>Amount of free disk space</b>	11 MB	11 MB	Unlimited	12 MB
<b>Message boards</b>	Yes	Yes	No	Yes
<b>chat rooms</b>	Yes	Yes	Yes	Yes
<b>free email</b>	Yes	Yes	Yes	Yes
<b>online games</b>	Yes	Yes	No	No
<b>cash-earning affiliate programs</b>	Yes	Yes	Yes	No
<b>Homepage building tools</b>	HTML template or write own HTML	HTML template or write own HTML	Write own HTML	HTML template or write own HTML
<b>Levels of membership available</b>	Free and premium	Free and premium	Free only	Free and 2 levels of premium service
<b>Advertising format(s) on member pages</b>	Banners, pop-ups, and watermark	Pop-ups	Banner in the form of the XOOMbar	Pop-ups
<b>Advertisement Targeting Capabilities</b>	Area, Platform, Browser, Geography, Domain, Time	Area, Platform, Browser, Geography, Domain, Time	Direct Marketing	Area, Platform, Browser, Geography, Domain, Time
<b>Method of file transfer</b>	FTP and direct uploading	FTP and direct uploading	FTP only	FTP and direct uploading
<b>Type of Web address given</b>	Personalized URL only through premium service; virtual URL with fee	Automatic personalized URL	Automatic personalized URL	Automatic personalized URL
<b>Strengths</b>	<ul style="list-style-type: none"> <li>▪ Largest web community</li> <li>▪ Merger with Yahoo!</li> <li>▪ Brand awareness</li> <li>▪ Aggressive promotion of specific neighborhood</li> <li>▪ Caters to generic user</li> <li>▪ Most user friendly</li> </ul>	<ul style="list-style-type: none"> <li>▪ Subsidiary of Lycos</li> <li>▪ Very similar to Geocities in terms of community design</li> </ul>	<ul style="list-style-type: none"> <li>▪ Second fastest-growing community</li> <li>▪ Less intrusive form of advertising</li> <li>▪ Caters to more Internet savvy customers</li> <li>▪ Free advertising by users in the form of counters, chat rooms, and guest-books that are usable on competitor Web sites</li> <li>▪ Merger with NBC and Snap.com</li> </ul>	<ul style="list-style-type: none"> <li>▪ Great presence worldwide</li> <li>▪ Strong emphasis on delivery of news and information</li> <li>▪ Extensive shopping site</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>▪ Unprofitable</li> <li>▪ Advertising style may be considered intrusive by some</li> </ul>	<ul style="list-style-type: none"> <li>▪ Unprofitable</li> <li>▪ Not as aggressive in promotional efforts</li> <li>▪ May be harder to distinguish itself</li> </ul>	<ul style="list-style-type: none"> <li>▪ Unprofitable</li> <li>▪ Children under age of 13 not allowed to register</li> </ul>	<ul style="list-style-type: none"> <li>▪ Unprofitable</li> <li>▪ No acquisition by major Internet company</li> <li>▪ Not very user</li> </ul>

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## KEY RISK FACTORS

- The Company has a limited operating history and is in an early stage of development.
- The Company currently has no profits and anticipates continued losses in the near future.
- The level of traffic on the Company's Web sites is unpredictable.
- There is a level of uncertainty as to the amount of revenues generated from revenue-sharing relationships.
- The possibility of future government regulation may impede the growth of the industry.
- The Company's Web-based community business model is still unproven.
- Substantial reliance on advertising revenues may backfire due to potential fluctuations in the use of the Web as an advertising medium.
- The reliance on member-generated content to attract visitors may backfire for the number of visits to the Company's Web sites may decrease if the quality of member pages become substandard.
- There may be some risks associated with integration and acquisitions.
- Filter software programs that limit or remove advertisements from the user's desktop are available. Widespread use of such software could have an adverse effect on the Company's business.
- There is intense competition from other Web communities and businesses.
- Increased competition may result in increased pricing pressures on its advertising rates, which could in turn have an adverse effect on the Company's business.

## STRATEGIES FOR GROWTH

- **Strategic Alliances and Acquisitions.**

**Yahoo! and GeoCities.** The acquisition of GeoCities by Yahoo! unites two of the largest Internet networks. This strategic alliance enhances Yahoo!'s position as one of the world's leading Web networks, as well as strengthens GeoCities presence on the Internet. With 74 percent more reach than its next closest competitor (MediaMetrix, December 1998), GeoCities' popular home page building services have made it one of the top three individual sites on the Web. GeoCities combined home/work reach of 33.4 percent (MediaMetrix, December 1998) is indicative of its brand strength and broad appeal to users all over the world. With the addition of GeoCities to the Yahoo! network, the two companies expect their combined unduplicated home/work reach to exceed 58 percent, which amounts to about 60 million users. This would make the Yahoo/GeoCities network second only to the combined America Online and Netscape web properties. ("Properties", as defined by MediaMetrix, refer to the largest single Web site brands as well as consolidations of multiple domains that fall under one brand or common ownership.)

Furthermore, GeoCities is a powerful platform for distributing Yahoo!'s various products and services to GeoCities' members. The integration of GeoCities into Yahoo! will facilitate commerce at Yahoo! by generating leads to Yahoo!'s partnered stores. In the future, Yahoo! is expected to take advantage of its huge traffic volume by concentrating on targeted commerce offerings through direct marketing. Yahoo!'s targeted commerce will be made easier through GeoCities' themed communities. Under the terms of the agreement, Yahoo! will issue 0.3384 shares of Yahoo! common stock for each share of GeoCities common stock. In addition, all outstanding options of GeoCities will be converted into Yahoo! Options.

The acquisition of Broadcast.com by Yahoo! in April 1999 will give GeoCities an additional strategic advantage over its major competitors, as the strength of the Yahoo! network increases.

**GeoCities and Starseed, Inc.** GeoCities' 1998 acquisition of Starseed, Inc., a leading provider of ring technology (WebRing) on the Internet, enabled the Company to increase its traffic as well as enhance member sites. WebRing is currently the leading provider of ring technology on the Internet. Ring

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technology makes affinity-based communities possible by linking Web sites of common interests. The WebRing technology allows individuals to invite others to join their ring communities. The WebRing system can support a nearly unlimited number of separate and distinct rings across the Internet. This unique structure allows for the creation and evolution of tens of thousands of different "Web communities." Through navigation links found on ring member's pages, visitors can travel all or any of the sites in a ring, moving to the next previous sites in the ring. WebRing's online directory allows users to search their entire system with keywords or categories. Due to ease of use and high interest, WebRing has experienced an average monthly growth rate of over 8.5 percent during 1998. Daily page requests from visitors exceeded 1.6 million and member sites total over 900,000.

**GeoCities and Inktomi Corp.** GeoCities' deal with Inktomi Corp. (INKT) in 1998 to incorporate the Inktomi Search Engine into its Web sites has increased the accessibility of member pages as well as the ease of navigation through the member Web sites. Advertisers also benefited through the increase in traffic to member pages. The Inktomi search technology offers both basic and advanced searches on GeoCities' sites, which are accessible throughout GeoCities and from the GeoCities search page, respectively. Users are able to receive a list of member pages that are ranked in relevancy with respect to the search request, by simply typing in a word or phrase. Inktomi also works with America Online, @Home Network, CNET, Intel, Microsoft, RealNetworks, Sun Microsystems, and Yahoo!.

**GeoCities and Softbank Corp.** GeoCities has increased its international presence through joint ventures with major foreign companies, such as SoftBank Corp., a leading software company in Japan. Together they form Geocities Japan Corp. Currently, GeoCities Japan is one of the top-ranked Web sites in Japan. GeoCities has also opened its European Headquarters in London.

- **Advertising and Revenue-sharing Programs.** The continuation and expansion of its advertising and revenue-sharing programs is key to making GeoCities a profitable company. Currently, the Company's biggest client is Egghead, Inc./Surplus Direct. GeoCities also has revenue-sharing relationships with Amazon, CDNow, and FirstUSA. Advertising rates in general are steadily decreasing, however, those of popular networks, such as Yahoo! and America Online, are actually increasing. This is a potential problem for those competitors of GeoCities that are not backed by either major Internet portals or big media companies.
- **Research and Development.** The availability of user-friendly tools is crucial to building brand loyalty, which will increase the quality of member web sites and encourage member participation. GeoCities recently launched a new feature in January 1999, the Universal Login, which provided its members with a single key to all of the GeoCities publishing tools (such as the Profile Editor, File Manager, GeoGuide Manager and GeoBuilder). Timely upgrades in server capacity is crucial in decreasing system crashes, which can deter new members from joining and old members from staying.
- **Stronger Content on Member Web Sites.** According to the January 1999 report by Forrester Research, strong content on a site is necessary in building and maintaining a loyal audience. This suggests that the quality of member pages is extremely important in attracting visitors and increasing the number of page views. Whereas competitor Tripod is now requiring members to make regular updates on their Web sites, GeoCities continues to encourage member participation through frequent contests and prizes.
- **Development of the Web Community as an E-Commerce Platform.** Offline media and entertainment giants are creating "destination" sites that offer exclusive content to create Web communities. Whether upstart Web communities can compete with the brand recognition, marketing capital, and opportunities for cross-production of these media conglomerates remains to be seen. The traditional Web community that is primarily focused on creating home pages with strong content will need to incorporate more e-commerce capabilities in order to attract a broader range of users. So far, entertainment giants, such as Disney and Time Warner, have not been able to replicate the rapid membership growth as evidenced in traditional Web communities, such as GeoCities. Creating a thriving Web community depends on more than just offering users the latest technology; often times, it is the platform for social expression that determines whether a member would stay.

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- **Improved Customer Support.** According to Jupiter Communications, 42 percent of leading Web sites have poor customer service. This in turn destroys brand loyalty. Many of the top-ranked sites take many days to reply to customer email. Customer service emails are expected to increase dramatically over the next few years. In order to increase its credibility, competitiveness, and brand loyalty, we believe that GeoCities should continue to prioritize their customer service, which in turn will give them an advantage over their competitors.
  - **Recognition and Targeting of Different Consumer Groups.** Two-thirds of the users polled in a study conducted by Forrester Research could not remember the contents of the last banner advertisement they had seen. This is mostly due to the fact that the majority of Internet marketers target the generic Internet user, not realizing that there are different consumer groups. Forrester recommends Web communities to focus on the needs of the first-time user since they represent the largest share of the market. GeoCities currently has a variety of communities targeted towards different interest groups. The key to membership growth is to continue to promote and diversify these neighborhoods. First-time users are also given incentives to join by GeoCities' various advertising partners.
  - **Acknowledgment of Increasing Anti-GeoCities Sentiment.** Despite the continued growth in its memberships, GeoCities faces increasing negative sentiment from many Homesteaders. This is mostly due to the mandatory placement of ads on member pages. Advertisements come in the form of the watermark and a choice of either Geoguides or pop-ups. Unfortunately, they also cause a number of inconveniences for the webmaster. Most of the free Web space providers require mandatory advertisements on member pages. Geocities, for instance, allows members to choose between pop-up or banner advertisements. Pop-up windows exhaust system resources, resulting in more frequent crashes of the browser. Advertisements, whether they be pop-ups or banners, may also disrupt the design of the page. Recent marketing campaigns by GeoCities have resulted in the introduction of the Geocities logo, the watermark, on member pages.

Mandatory advertising has always been a source of conflict between GeoCities and those Homesteaders who believe that they should have control over the content on their Web sites. These Homesteaders demand less intrusive methods of advertising and more room for their personal expression. As a result, many former GeoCities members have boycotted the Geocities community, joining other free Web communities such as XOOM, which supports a direct-marketing approach to advertising. However, in addition to its frequent email solicitations, XOOM has recently adopted a new feature, called the XOOMbar, which is a thin banner located at the top of member pages. It provides navigational tools as well as limited advertisement. In apparent contradiction to its former no-ad policy, XOOM has decided to provide members with unlimited disk space to compensate for its change in policy. The effect of XOOM's new strategy on GeoCities is unknown at this point.

There is no available data on the growth of the anti-GeoCities group. However, it is most likely negligible in comparison to GeoCities growth in new membership and its strong brand loyalty. GeoCities is already taking measures to prevent this problem from exacerbating by welcoming any comments or suggestions from members and visitors alike.

## EXPLANATION OF FINANCIALS

- **Net Revenue.** Net revenue is expected to continue its up trend due to increases in the number of advertisers, premiere commerce partners, Web site traffic, and expansion of premium memberships. We believe advertising revenues will continue to be a substantial component of net revenues for the foreseeable future, however, the e-commerce component should increase in relative importance.
- **Gross Margin.** We expect gross margins to continue to increase as high margin advertising revenues continue to be a substantial part of the total revenues.

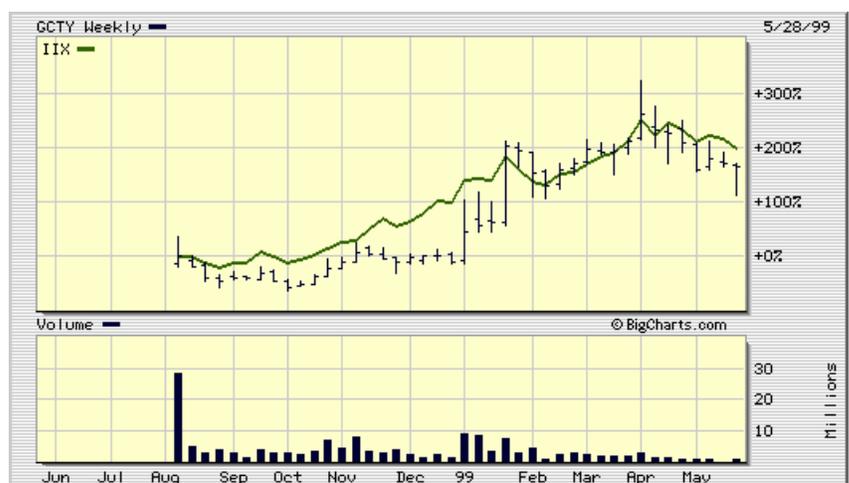
- **Sales and Marketing Margin.** Sales and marketing expenses are expected to grow significantly in absolute terms for the foreseeable future due to an aggressive branding strategy and the hiring of additional sales and marketing personnel. However, due to its acquisition by Yahoo!, we expect margins to steadily decrease through fiscal year 2000, as the parent company's brand name should partially offset some of the expenses.
- **General and Administrative Margin.** General and administrative expenses decreased as a percentage of net revenue due to the growth in net revenues. We expect this trend to continue as GeoCities successfully integrates into Yahoo!, resulting in the elimination of extra expenses.
- **Product Development Margin.** Significant investments in personnel and software are crucial in maintaining GeoCities leadership. Thus, we expect the product development margin to continue to approximate 20 percent.
- **Operating Expenses.** Total operating expenses should rise in absolute terms through fiscal year 2000. However, as a result of its merger with Yahoo!, GeoCities is expected to realize a more efficient infrastructure, which should cause operating expenses to fall in marginal terms.
- **Tax Rates.** Taxes should not be incurred due to continuing losses in the foreseeable future.
- **Net Income.** We expect GeoCities will maintain a net loss through 2000, but that it should decrease in marginal terms due to the Company's merger with Yahoo!.

## A Relative Approach to Valuation

All of the web-based communities are still unprofitable to date and their future performance largely relies on any alliances with larger Internet companies. As a result, we believe that a reliance on price to earnings ratios and discounted cash flow models will not accurately assess valuations. However, other ratios such as price to sales can be used to compare these companies. Other pertinent factors, such as revenues, margins, sector leadership, and strategic alliances are crucial in the assessment of the relative value of a web-based community. We believe that an emphasis on the aforementioned factors can provide a fair valuation of a company.

**Internet Sector.** Internet companies are typically characterized by extremely volatile price movements. A historical price comparison between GeoCities and the AMEX Internet Index (IIX) reveals that the former has generally underperformed relative to the other Internet stocks since its IPO in August 1998. However, ever since January 1999 GeoCities has enjoyed a price run of up to \$159, primarily due to the acquisition of the company by

*Courtesy of Bigcharts*



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the Internet bellweather, Yahoo!.

Due to the general instability of the Internet sector, the price of GeoCities has come down considerably from its April high. There are signs that the sector itself may be overvalued. Nevertheless, GeoCities remains in the forefront of its industry and we believe that it is fairly valued relative to the Internet Sector.

**Price-to-Sales.** We believe the price to sales ratio is the key valuation to consider when comparing web communities, primarily because these companies have yet to report any positive earnings. The share price of GeoCities is \$100.13. The stock is currently trading around 111X 1998 revenues. The multiple, compared to those of its main competitors is much greater. As a result of the merger with Yahoo!, GeoCities is trading at Yahoo's mercy. Although the price to sales ratio of GeoCities is much higher in comparison to those of its competitors, this really reflects the greater potential that GeoCities has in expanding its business as a member of the highly successful Yahoo! network. Furthermore, the comparison with Tripod is more complex because the ratios reflect the performance of the Lycos network, rather than that of Tripod itself. GeoCities is currently trading at a premium because of two main reasons: 1) The exchange rate for the merger with Yahoo! is 0.3384 shares of Yahoo! common stock for each share of GeoCities common stock; and 2) the future of GeoCities is very promising for it is likely to become a powerful platform for distributing the products and services of Yahoo! and Broadcast.com, the latter which has also been recently acquired by Yahoo!.

	\$ Price	Market Cap in Millions	Trailing 12 Month Sales in Millions	P/S	Gross Margin % (TTM)
GeoCities	100.13	3,265	0.81	110.89	45.04
Lycos (Tripod)	91.00	3,930	*2.67	*34.05	77.93
XOOM.com	42.00	673	1.25	33.69	55.10
theglobe.com	16.19	427	0.77	20.91	59.69

\* For the 3 months ended 04/30/99, revenues for Lycos were 35,082; after tax earnings were -13.302. (Thousands)

**Gross Margins.** Gross margins for GeoCities has been around 45 percent and are expected to increase moderately over the next couple of years. These margins are slightly lower than those of competitors, XOOM.com and theglobe.com. However, a true comparison cannot be made between GeoCities and Tripod because the figures are representative of the entire Lycos network and not just of Tripod itself.

## Investment Opinion

We believe that GeoCities is currently fairly valued and that is well positioned to remain at the forefront of the Web-based communities sector. In particular, its merger with Yahoo! and Broadcast.com should result in essential synergies that should produce a leading portal destination. We therefore believe that GeoCities contribution to Yahoo! will be a very positive one. We will give details of our investment opinion on Yahoo! in our Yahoo! report.

## GeoCities Statement of Income (\$000, except per share data)

Year Ending December 31,

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999E</u>	<u>2000E</u>
<b>Net Revenues</b>	46	314	4,582	18,359	28,000	45,000
<b>Cost of Revenues</b>	103	788	3,789	9,696	12,000	15,000
<b>Gross Profit (Loss)</b>	(57)	(474)	793	8,663	16,000	30,000
<b>Operating Expenses:</b>						
Sales and Marketing	117	764	5,837	17,486	20,953	30,000
General and Administrative	233	1,252	2,930	9,156	12,000	18,000
Product Development	72	475	1,045	4,093	6,500	10,000
<b>Total Operating Expenses</b>	422	2,491	9,812	30,735	39,453	58,000
<b>Income (loss) from operations</b>	(479)	(2,965)	(9,019)	(22,072)	(23,453)	(28,000)
<b>Interest and Other Income (Expense), net</b>	(2)	(40)	117	2,314	(16,065)	1,501
<b>Income (loss) before income taxes</b>	(481)	(3,005)	(8,902)	(19,758)	(39,518)	(26,499)
<b>(Provision) benefit from income taxes</b>	(1)	(1)	(1)	(1)	(1)	(1)
<b>Net Income (loss)</b>	(482)	(3,006)	(8,903)	(19,759)	(13,800)	(6,500)
<b>Fully Diluted EPS</b>	(0.11)	(1.19)	(3.72)	(1.42)	(0.86)	(0.38)
<b>Shares Outstanding</b>	4,431	2,617	2,620	15,001	16,000	17,000

**Margin Analysis (%age of revenue)**

Gross Margin	-123.91%	-150.96%	17.31%	47.19%	57.14%	66.67%
Sales & Marketing	254.35%	243.31%	127.39%	95.24%	74.83%	66.67%
General & Administrative	506.52%	398.73%	63.95%	49.87%	42.86%	40.00%
Product Development	156.52%	151.27%	22.81%	22.29%	23.21%	22.22%
Operating Margin	917.39%	793.31%	214.14%	167.41%	140.90%	128.89%
Net Margin	-1047.83%	-957.32%	-194.30%	-107.63%	-49.29%	-14.44%

**Growth**

Net Revenue	N/A	582.61%	1359.24%	300.68%	52.51%	60.71%
Gross Profit	N/A	731.58%	-267.30%	992.43%	84.69%	87.50%
Sales & Marketing	N/A	552.99%	664.01%	199.57%	19.83%	43.18%
General & Administrative	N/A	437.34%	134.03%	212.49%	31.06%	50.00%
Product Development	N/A	559.72%	120.00%	291.67%	58.81%	53.85%