SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF

THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (date of earliest event reported): February 13, 2003

YAHOO! INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**000-28018**	**77-0398689**
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

701 First Avenue

Sunnyvale, California 94089

(Address of Principal Executive Offices) (Zip Code)

(408) 349-3300

(Registrant's telephone number including area code)

Not Applicable

(Former name or former address, if changed since last report)

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Item 2. Acquisitions and Dispositions.

On March 19, 2003, Yahoo! Inc., a Delaware corporation (the "Company") completed its acquisition of Inktomi Corporation, a Delaware corporation ("Inktomi") and provider of OEM Web search and paid inclusion services. As a result of the merger, each outstanding share of Inktomi common stock (other than shares for which appraisal is sought under Delaware law) has been converted into the right to receive $1.65 per share in cash. The acquisition reflects an aggregate purchase price of approximately $279.5million, of which the cash portion was provided from the Company's cash balance.

The foregoing description of the acquisition does not purport to be complete and is qualified in its entirety by reference to the Agreement and Plan of Merger previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on January 8, 2003.

Item 5. Other Events

On March 19, 2003, the Company issued a press release. The press release is attached as an exhibit to this Current Report on Form 8-K/A and is incorporated herein by reference.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

As discussed in Item 2 above, the Company completed the Acquisition.

(a) Pro Forma Financial Information.

The pro forma financial information required by this Item 7 is included as Exhibit 99.1.

(b) Financial Statements.

The following financial statements of Inktomi are included as Exhibits:

(i) Unaudited condensed consolidated financial statements as of December 31, 2002 and September 30, 2002, and for the three months ended December 31, 2002 and 2001 as Exhibit 99.2.

(ii) Consolidated financial statements as of September 30, 2002 and 2001, and for each of the three years in the period ended September 30, 2002 as Exhibit 99.3.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

(c) Exhibits.

2Consent of PricewaterhouseCoopers LLP, independent accountants of Inktomi Corporation.
3
.
1

9Pro Forma Financial Information.
9
.
1

9Unaudited condensed consolidated financial statements of Inktomi Corporation as of December 31, 2002 and September 30, 2002, and
9for the three months ended December 31, 2002 and 2001.
.
2

9Consolidated financial statements of Inktomi Corporation as of September 30, 2002 and 2001, and for each of the three years in the
9period ended September 30, 2002.
.
3

9Press Release dated March 19, 2003 by Yahoo! Inc.
9
.
4

Powered By EDGAR Online 2003. EDGAR Online, 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 hereunto duly authorized.

YAHOO! INC.
By: /s/ SUSAN L. DECKER
Susan L. Decker
Executive Vice President, Finance and
Administration and Chief Financial Officer

Date: March21, 2003

Powered By EDGAR Online 2003. EDGAR Online, Inc.

INDEX TO EXHIBITS

Exhibit No.	Description
23.1	Consent of PricewaterhouseCoopers LLP, independent accountants of Inktomi Corporation.
99.1	Pro Forma Financial Information.
99.2	Unaudited condensed consolidated financial statements of Inktomi Corporation as of December 31, 2002 and September 30, 2002, and for the three months ended December 31, 2002 and 2001.
99.3	Consolidated financial statements of Inktomi Corporation as of September 30, 2002 and 2001, and for each of the three years in the period ended September 30, 2002.
99.4	Press Release dated March 19, 2003 by Yahoo! Inc.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No.333-34364, No.333-46458, No.333-81644, No. 333-100298), the Registration Statements on FormS-8 (No.333-3694, No.333-39105, No.333-46492, No.333-54426, No.333-56781, No.333-60828, No.333-66067, No. 333-76995, No.333-79675, No. 333-80227, No.333-81635, No.333-83770, No. 333-89948, No.333-93497) and the Registration Statement on FormS-4 (No.333-62694) of Yahoo! Inc. of our report dated October23, 2002, except as to recently issued accounting pronouncements in Note2, discontinued operations in Note 3, and subsequent events listed in Note 1 and 19, which are as of December27, 2002 , relating to the consolidated financial statements of Inktomi Corporation, which appears in this Current Report on Form8-K/A of Yahoo! Inc.

/s/ PricewaterhouseCoopers LLP

San Jose, California

March19, 2003

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Exhibit 99.1

UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma combined condensed financial statements have been prepared to give effect to the merger of Yahoo! and Inktomi, using the purchase method of accounting and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma combined condensed financial statements. These pro forma statements were prepared as if the transaction had been completed as of January 1, 2002 for statements of operations purposes and as of December 31, 2002 for balance sheet purposes.

The unaudited pro forma combined condensed financial statements are presented for illustrative purposes only and are not necessarily indicative of the financial position or results of operations that would have actually been reported had the transaction occurred on January 1, 2002 for statements of operations purposes and as of December 31, 2002 for balance sheet purposes, nor is it necessarily indicative of the future financial position or results of operations. The pro forma combined condensed financial statements include adjustments, which are based upon preliminary estimates, to reflect the allocation of purchase price to the acquired assets and assumed liabilities of Inktomi. The final allocation of the purchase price is being determined and will be based upon actual net tangible and intangible assets acquired and liabilities assumed. The preliminary purchase price allocation for Inktomi is subject to revision as more detailed analysis is completed and additional information on the fair values of Inktomi's assets and liabilities becomes available. Any change in the fair value of the net assets of Inktomi will change the amount of the purchase price allocable to goodwill. Additionally, changes in Inktomi's working capital, including the results of operations from December 31, 2002 through the date the transaction is completed, will change the amount of goodwill recorded. Final purchase accounting adjustments may differ materially from the pro forma adjustments presented herein.

These unaudited pro forma combined condensed financial statements are based upon the respective historical consolidated financial statements of Yahoo! and Inktomi and should be read in conjunction with the historical consolidated financial statements of Yahoo! and Inktomi and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the reports and other information Yahoo! and Inktomi have on file with the SEC.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET

AS OF DECEMBER 31, 2002

(In thousands)

	Historical		Pro Forma	
	Yahoo!	Inktomi	Adjustments	Combined
ASSETS				
Current assets:				
Cash and cash equivalents	$ 310,972	$ 44,365	$ (269,800)(a)	$ 85,537
Short-term investments in marketable securities	463,204	14,695	-	477,899
Accounts receivable, net	113,612	3,301	-	116,913
Prepaid expenses and other current assets	82,216	3,715	-	85,931
Total current assets	970,004	66,076	(269,800)	766,280
Long-term investments in marketable securities	763,408	551	-	763,959
Property and equipment, net	371,272	15,642	-	386,914
Goodwill	415,225	-	199,466 (b)	614,691
Intangible assets, net	96,252	-	52,300 (b)	148,552
Other assets	174,020	9,538	-	183,558
Total assets	$ 2,790,181	$ 91,807	$ (18,034)	$ 2,863,954
LIABILITIESANDSTOCKHOLDERS'EQUITY				
Current liabilities:				
Accounts payable	$ 18,738	$ 2,423	$ -	$ 21,161
Accrued expenses and other current liabilities	257,575	32,412	17,325 (c)	307,312
Deferred revenue	135,501	15,160	(9,374)(d)	141,287
Total current liabilities	411,814	49,995	7,951	469,760
Other liabilities	84,540	10,927	-	95,467
Minority interests in consolidated subsidiaries	31,557	-	-	31,557
Stockholders' equity:				
Common stock	611	163	(163)(e)	611
Additional paid-in capital	2,430,222	951,354	(946,454)(e)	2,435,122
Treasury stock	(159,988)	-	-	(159,988)
Retained earnings (accumulated deficit)	(7,493)	(919,767)	919,767 (e)	(7,493)
Accumulated other comprehensive income (loss)	(1,082)	(865)	865 (e)	(1,082)
Total stockholders' equity	2,262,270	30,885	(25,985)	2,267,170
Total liabilities and stockholders' equity	$ 2,790,181	$ 91,807	$ (18,034)	$ 2,863,954

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2002

(In thousands, except per share amounts)

	Historical		Pro Forma	
	Yahoo!	Inktomi(2)	Adjustments	Combined
Net revenues	$ 953,067	$ 71,092	$ (419)(f)	$ 1,023,740
Costs and expenses:				
Cost of revenues	162,881	22,141	-	185,022
Sales and marketing	431,392	38,695	-	470,087
Product development	143,468	36,070	-	179,538
General and administrative	105,952	12,829	-	118,781
Amortization of intangibles	21,186	729	12,831 (g)	34,746
Restructuring costs	-	115,668	-	115,668
Impairment of goodwill and other intangibles	-	8,440	-	8,440
Impairment of property, plant and equipment	-	107,040	-	107,040
Total operating expenses	864,879	341,612	12,831	1,219,322
Income (loss) from operations	88,188	(270,520)	(13,250)	(195,582)
Other income, net	91,588	4,653	(12,681)(a)	83,560
Minority interests in operations of consolidated subsidiaries	(1,551)	-	-	(1,551)
Income (loss) before income taxes	178,225	(265,867)	(25,931)	(113,573)
Provision (benefit) for income taxes	71,290	527	(66,408)(h)	5,409
Income (loss) from continuing operations (1)	$ 106,935	$ (266,394)	$ 40,477	$ (118,982)
Income (loss) per share from continuing operations - basic (1)	$ 0.18	$ (1.79)		$ (0.20)
Income (loss) per share from continuing operations - diluted (1)	$ 0.18	$ (1.79)		$ (0.20)
Shares used in per share calculation - basic	593,838	149,099		593,838
Shares used in per share calculation - diluted	610,060	149,099		593,838

(1) Net income (loss) from continuing operations for Yahoo! is presented before cumulative effect of accounting change.

(2) Inktomi's results of operations for the twelve months ended December31, 2002 were calculated by adding the results of operations for the three months ended December31, 2002, and deducting the results of operations for the three months ended December31, 2001, to the results of operations for the twelve months ended September30, 2002. The Enterprise Search Division of Inktomi has been accounted for as a discontinued operation in the historical financial statements of Inktomi and therefore, the results of operations presented includes Inktomi's results from continuing operations.

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

1. Basis of Pro Forma Presentation

On March 19, 2003, Yahoo! acquired Inktomi for a purchase price of $1.65 per share in cash for each share of Inktomi common stock outstanding upon the effective date of the merger. Each outstanding option to purchase shares of Inktomi common stock has been assumed using an exchange ratio based on the ten day trading average of Yahoo! common stock immediately preceding and excluding the effective date of the merger using a $1.65 value. Based upon the current number of shares of Inktomi common stock and options outstanding, Yahoo! made a cash payment of approximately $269.8 million and issued options to purchase approximately 900,000 shares of Yahoo! common stock. Yahoo! will account for the merger under the purchase method of accounting.

The unaudited pro forma condensed combined balance sheet at December 31, 2002 is presented to give effect to the merger of Yahoo! and Inktomi as if the transaction had been consummated on that date. The unaudited pro forma combined condensed statement of operations of Yahoo! and Inktomi for the year ended December 31, 2002 is presented as if the transaction had been consummated on January 1, 2002. The unaudited pro forma combined statement of operations for the twelve months ended December31, 2002 combines the results of operations of Yahoo! for the fiscal year ended December31, 2002 and Inktomi's results of operations for the twelve months ended December31, 2002. Inktomi's results of operations for the twelve months ended December31, 2002 were calculated by adding the results of operations for the three months ended December31, 2002, and deducting the results of operations for the three months ended December31, 2001, to the results of operations for the twelve months ended September30, 2002. On December17, 2002, Inktomi consummated the divestiture of its Enterprise Search division to Verity Inc. in a transaction accounted for as a sale of assets. The Enterprise Search division of Inktomi has been accounted for as a discontinued operation in the historical financial statements of Inktomi and therefore, the results of operations of Inktomi included herein only reflect Inktomi's results from continuing operations for all periods presented in this document.

The unaudited pro forma combined condensed financial statements reflect an estimated purchase price of approximately $279.5 million. The cash payment was determined based on the current number of outstanding shares of Inktomi common stock. The preliminary fair value of Yahoo! options issued was determined using the Black-Scholes model and the current number of outstanding Inktomi options. The following assumptions were used to perform the calculations: expected life of 36 months, risk-free interest rate of 3.1%, expected volatility of 77% and no expected dividend yield. Using the current number of Inktomi shares and options as noted above, the estimated total purchase price of the Inktomi merger is as follows (in thousands):

Cash	$ 269,800
Fair value of Yahoo! options to be issued	6,400
Estimated direct merger costs	3,310
Total estimated purchase price	$ 279,510

Powered By EDGAR Online 2003. EDGAR Online, Inc.

The final purchase price is dependent on the actual number of options assumed and actual direct merger costs. Under the purchase method of accounting, the total estimated purchase price is allocated to Inktomi's net tangible and intangible assets based upon their estimated fair value as of the date of completion of the merger. Based upon the estimated purchase price and the preliminary independent valuation, the preliminary purchase price allocation, which is subject to change based on Yahoo!'s final analysis, is as follows (in thousands):

Tangible assets acquired	$ 91,807
Amortizable intangible assets:	
Customer contracts	26,000
Developed technology	26,300
Goodwill	199,466
Total assets acquired	343,573
Liabilities assumed	(65,563)
Deferred compensation	1,500
Net assets acquired	$ 279,510

A preliminary estimate of $52.3 million has been allocated to amortizable intangible assets consisting of customer contracts and developed technology with useful lives not exceeding five years.

A preliminary estimate of $199.5 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", goodwill will not be amortized and will be tested for impairment at least annually. The preliminary purchase price allocation for Inktomi is subject to revision as more detailed analysis is completed and additional information on the fair values of Inktomi's assets and liabilities becomes available. Any change in the fair value of the net assets of Inktomi will change the amount of the purchase price allocable to goodwill. Final purchase accounting adjustments may therefore differ materially from the pro forma adjustments presented here.

2. Pro Forma Adjustments

Certain reclassifications have been made to conform Inktomi's historical amounts to Yahoo!'s financial statement presentation.

The accompanying unaudited pro forma combined condensed balance sheet has been prepared as if the merger was completed on December31, 2002 for balance sheet purposes and as of January1, 2002 for statements of operations purposes and reflect the following pro forma adjustments:

(a) To reflect the estimated cash payment for the proposed merger of $1.65 per outstanding Inktomi share and resulting decrease in interest income.
(b) To establish amortizable intangible assets and non-amortizable goodwill resulting from the proposed merger.
(c) To record estimated direct merger costs of approximately $3.3million and restructuring charges of approximately $7.3million to be incurred by Yahoo! and $6.7million of estimated merger costs to be incurred by Inktomi directly related to the proposed acquisition by Yahoo!. Actual amounts could differ significantly upon close.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

(d) To adjust Inktomi deferred revenue, principally advanced payments for marketing services, to estimated fair value.
(e) To eliminate the historical stockholders' equity of Inktomi and record the estimated fair value of Yahoo! options to be issued in the proposed merger.
(f) To eliminate Yahoo! revenues from Inktomi, for which the related costs were eliminated through inclusion within sales and marketing expense related to the Enterprise Search Business sold to Verity,Inc.
(g) To eliminate the amortization of Inktomi historical intangibles and reflect amortization of the amortizable intangible assets and deferred compensation resulting from the proposed merger. The weighted average life of amortizable intangible assets approximates 4years and the remaining vesting period of unvested employee stock options approximates 3.5years.
(h) To adjust the provision (benefit) for taxes to reflect the impact of Inktomi's net loss and the pro forma adjustments.

3. Pro Forma Combined Net Income (Loss) Per Share

Shares used to calculate unaudited pro forma combined net income (loss) per basic and diluted share were computed using Yahoo!'s weighted average shares outstanding during the respective periods.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Exhibit 99.2

INKTOMI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended December 31, 2002	2001
	(Unaudited) (In thousands, except per share amounts)	
Revenues		
Web search services	$ 9,975	$ 10,628
Licenses	1,810	17,440
Maintenance services	1,720	2,418
Other services	350	2,564
Total revenues	13,855	33,050
Cost of Revenues		
Web search services	2,881	4,277
Licenses	585	329
Maintenance services	477	1,118
Other services	368	2,041
Total cost of revenues	4,311	7,765
Gross Profit	9,544	25,285
Operating expenses		
Sales and marketing	2,943	17,988
Research and development	5,087	12,925
General and administrative	3,127	5,182
Amortization of goodwill and other intangibles	—	539
Restructuring	18,854	2,638
Impairment of fixed assets and loss on asset sale	5,358	1,300
Impairment of goodwill and other intangibles	—	1,750
Total operating expenses	35,369	42,322
Operating loss	(25,825)	(17,037)
Other income, net	1,413	3,363
Loss before income tax provision	(24,412)	(13,674)
Income tax provision	(27)	(189)
Net loss from continuing operations	(24,439)	(13,863)
Discontinued Operations		
Income (Loss) from discontinued operations net of tax effect (Including gain on disposal of $12,396 for the three months ended December31, 2002)	7,487	(15,578)
Net Loss	$ (16,952)	$ (29,441)
Earnings per share		
Basic and diluted net loss per share		
Net loss per share from continuing operations	$ (0.15)	$ (0.10)
Net income (loss)from discontinued operations	0.05	(0.12)
Net Loss	$ (0.10)	$ (0.22)
Weighted average shares outstanding		
Shares used in calculating basic and diluted net loss per share	162,284	136,660

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

Powered By EDGAR Online 2003. EDGAR Online, Inc.

INKTOMI CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2002	September 30, 2002
	(Unaudited)	
	(In thousands, except per share amounts)	
Assets		
Current assets		
Cash and cash equivalents	$ 44,365	$ 17,292
Short-term investments	14,695	28,115
Total cash and cash equivalents and short-term investments	59,060	45,407
Accounts receivable, net	3,301	10,864
Prepaid expenses and other current assets	3,715	5,533
Total current assets	66,076	61,804
Investments in equity securities	551	331
Property and equipment, net	15,642	62,536
Goodwill, net	—	8,207
Other intangibles, net	—	1,821
Other assets	3,643	4,708
Loans to related parties	5,895	5,809
Total assets	$ 91,807	$ 145,216
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 2,423	$ 10,021
Accrued liabilities	29,025	30,180
Deferred revenue	15,160	26,767
Current portion of notes payable	2,373	30,003
Current portion of capital lease obligations	1,014	1,210
Total current liabilities	49,995	98,181
Capital lease obligations, less current portion	—	216
Other liabilities	10,927	185
Total liabilities	60,922	98,582
Commitments and contingencies (Note 6)		
Stockholders' equity		
Common Stock, $0.001 par value; 1,500,000 authorized at December31, 2002 and September30, 2002, respectively; 162,891 and 162,109 outstanding at December31, 2002 and September30, 2002, respectively	163	162
Additional paid-in capital	951,814	952,602
Deferred compensation and other	(460)	(2,039)
Accumulated other comprehensive loss	(865)	(1,276)
Accumulated deficit	(919,767)	(902,815)
Total stockholders' equity	30,885	46,634
Total liabilities and stockholders' equity	$ 91,807	$ 145,216

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

Powered By EDGAR Online 2003. EDGAR Online, Inc.

INKTOMI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Month Ended December 31,	
	2002	2001
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities from continuing operations		
Net loss from continuing operations	$ (24,439)	$ (13,863)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non cash portion of restructuring charge	16,320	215
Amortization of intangibles and other assets	—	539
Depreciation	2,445	6,866
Stock based compensation	136	1,978
Impairment of intangibles and other assets	—	1,750
Loss on sale of building	3,441	—
Impairment of property and equipment	1,917	1,300
Provision for doubtful accounts	201	710
Changes in assets and liabilities:		
Accounts receivable	4,608	95
Prepaid expenses and other assets	2,193	3,712
Accounts payable	(8,172)	(3,918)
Accrued liabilities and other	(6,569)	(14,832)
Deferred revenue	(7,019)	(3,704)
Net cash used in operating activities from continuing operations	(14,938)	(19,152)
Cash flows from investing activities from continuing operations		
Purchases of property and equipment	(2,742)	(499)
Purchases of short-term investments	(43,314)	(90,752)
Proceeds from sales and maturities of short-term investments	56,749	50,852
Purchases of investments in equity securities	—	(500)
Proceeds from sale of building	41,596	—
Proceeds from sales of investments in equity securities	—	498
Loans to related parties	(87)	(4,700)
Payments received on loans to related parties	—	2,700
Net cash provided from (used in) investing activities from continuing operations	52,202	(42,401)
Cash flows from financing activities from continuing operations		
Payments on notes payable	(27,630)	(1,106)
Payments on obligations under capital leases	(412)	(177)
Proceeds from issuance of common stock, net of issuance costs	—	52,839
Proceeds from exercises of stock options and warrants	656	7,975
Net cash provided from (used in) financing activities from continuing operations	(27,386)	59,531
Net Cash flow provided from discontinued operations	17,183	1,716
Effect of exchange rates on cash and cash equivalents	12	(86)
Increase (decrease)in cash and cash equivalents	27,073	(392)
Cash and cash equivalents at beginning of period	17,292	18,518
Cash and cash equivalents at end of period	$ 44,365	$ 18,126

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

Powered By EDGAR Online 2003. EDGAR Online, Inc.

INKTOMI CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. The Company and Basis of Presentation

Inktomi Corporation ("Inktomi" or the "Company") was incorporated in California in February 1996 and reincorporated in Delaware in February 1998. Inktomi provides World Wide Web search services for Internet portal and search destination sites. Inktomi Web search provides a customizable, private label solution that offers portals and destination sites the ability to serve relevant search results. Inktomi Web search, through its paid inclusion services, provides content publishers greater access to end users through portal and destination site customers of our search engine services.

We have prepared the condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the condensed consolidated financial statements reflect all adjustments that are necessary for the fair presentation of results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period. These financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our annual report on Form10-K for the year ended September 30, 2002 filed with the SEC on December30, 2002.

On December17, 2002, we consummated the divestiture of our Enterprise Search division to Verity Inc. in a transaction accounted for as a sale of assets. The Enterprise Search division is accounted for as a discontinued operation and therefore, the results of operations and cash flows have been reclassified from the Company's results of and cash flow from continuing operations for all periods presented in this document.

The accompanying condensed consolidated financial statements include the accounts of Inktomi Corporation and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated. Certain prior period balances have been reclassified to conform to the current period presentation.

On December22, 2002, we entered into a definitive merger agreement with Yahoo! Inc. Under the agreement, a newly incorporated wholly-owned subsidiary of Yahoo! will merge with and into Inktomi, with Inktomi remaining as the surviving legal entity and a wholly-owned subsidiary of Yahoo! Under the terms of the merger agreement, upon completion of the merger, Yahoo! will pay to Inktomi's stockholders $1.65 per share for each share of Inktomi common stock outstanding and will assume any outstanding options to purchase Inktomi common stock.

The merger is subject to a number of conditions including, among other things, approval of Inktomi's stockholders and regulatory approvals and clearances, including under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended. On February10, 2003, the required waiting period under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, expired. We currently expect the merger to be completed in the quarter ending March31, 2003. There can be no assurance that the merger will be consummated. In the event that the proposed merger fails to close, under certain circumstances we will be required to pay Yahoo! a termination fee of $11.2million.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Note 2. Discontinued Operations

On December17, 2002, we completed the sale of our Enterprise Search division to Verity, Inc. ("Verity''). In consideration for the sale, Verity agreed to pay $25.0million in cash subject to certain adjustments, and assumed certain of our obligations under existing enterprise search business contracts, including customer support obligations. The transaction was structured as an asset sale. The gain on the sale was $12.4million. Verity acquired from us the assets relating to our enterprise search software business, which includes basic search, categorization and content refinement capabilities, as well as our XML technology assets. Of the total consideration payable by Verity, $22.0million has been paid. $3.0million plus interest will be paid to us 18months following the closing of the sale, subject to reduction for any indemnification claims made by Verity during such 18month period. The $3.0 million in contingent consideration has been excluded from the computation of the gain on the transaction. The gain on the sale is recorded in Income from Discontinued Operations in the Consolidated Statement of Operations.

The Enterprise Search division is accounted for as a discontinued operation in accordance with Statement of Financial Accounting Standard (SFAS) No.144 *Accounting for the Impairment or Disposal of Long-lived Assets* and therefore, the results of operations and cash flows have been reclassified from the Company's results of and cash flow from continuing operations for all periods presented in this document. The Enterprise Search division was part of the Company's Software Products reporting segment. The results of operations for the Enterprise Search division have been excluded from the Segment information footnote (see Note 11).

Summarized selected financial information for the discontinued operations is as follows:

	For the Three Months Ended December 31,	
	2002	2001
Revenue	$ 3,640	$ 5,934
Gross Profit	3,081	4,775
Operating Expenses	7,990	20,343
Net loss before income tax provision	(4,909)	(15,568)
Income tax provision	—	(10)
Net loss from discontinued operations	(4,909)	(15,578)
Gain on disposal	12,396	—
Income (loss)from discontinued operations	$ 7,487	$ (15,578)

The gain on disposal is calculated as follows:

Proceeds from disposal	$ 22,000
Net assets and liabilities disposed:	
Accounts receivable, net	(2,445)
Prepaid expenses and other current assets	(649)
Property and equipment, net	(237)
Goodwill and other intangibles, net	(9,896)
Deferred revenue	5,623
Disposal costs	(2,000)
Gain on disposal	$ 12,396

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Verity did not assume outstanding accrued liabilities as part of the transaction. As of December31, 2002, approximately $0.2million of accrued liabilities related to operating expenses of and disposal cost for the Enterprise Search division.

Cash flow provided by discontinued operations were $17.2million and $1.7 million for the quarter ended December31, 2002 and 2001, respectively, and is calculated as follows:

	For the Three Months Ended December 31,	
	2002	2001
Net loss from discontinued operations	$ (4,909)	$ (15,578)
Amortization	132	16,170
Change in assets and liabilities	(40)	1,124
Net cash provided from (used in) operating activities from discontinued operations	(4,817)	1,716
Proceeds from disposal	22,000	—
Net cash flow provided from discontinued operations	$ 17,183	$ 1,716

In October and November 2002, we announced certain restructuring actions related to our discontinued Enterprise Search division. The Company recorded a charge of $3.7million, net of tax, in discontinued operations associated with these restructurings in the three months ended December31, 2002.

Note 3. Restructurings

Fiscal 2003 First Quarter Restructuring

For the quarter ended December31, 2002, we accrued $18.9million for restructuring charges from continuing operations and $3.7million from discontinued operations. At December31, 2002, $17.8million for restructuring remained outstanding as an accrued liability on our balance sheet of which $10.9million is included in long-term liabilities.

In October 2002, in light of continuing economic slowdown, we announced and substantially completed a restructuring and workforce reduction of 24 employees from continuing operations to reduce our operating expenses to adjust to lower revenue levels. 61 employees from discontinued operations were also part of the workforce reduction. Headcount in all functional areas was affected by the reduction.

In November 2002, in connection with the sale of our Enterprise Search division, we announced a workforce reduction of 23 employees from continuing operations. 35 employees from discontinued operations were also part of the workforce reduction. This restructuring was completed in December 2002. Headcount was affected in the areas of corporate and business services as well as our Enterprise Search division.

As a result of the above restructurings, we incurred a charge of $18.9 million from continuing operations and $3.7million from discontinued operations comprised of cash-related severance and abandonment of underutilized space. The charges for the abandonment of underutilized space included offices in Chicago, New York, Virginia, Redwood City, San Francisco, San Diego and international offices in Tokyo and London. These offices were closed as a result of the reduction of employees at these locations and the Company's decision to abandon the leases in this quarter.

Approximately $11.6million of the charge relates to one facility in Redwood City with a remaining lease term through June 2010. Lease abandonment costs for this facility were estimated to include the

Powered By EDGAR Online 2003. EDGAR Online, Inc.

remaining lease liabilities through the term of the lease and brokerage fees offset by estimated sublease income. Estimates related to sublease costs and income are based on assumptions regarding the period required to locate sub-lessees and sublease rates which were derived from market trend information provided by commercial real estate brokers. These estimates will be reviewed on a periodic basis and to the extent hat these assumptions materially change due to changes in the market, the ultimate restructuring expense for the abandoned facility could be adjusted.

Approximately $4.8million of the above charges were paid in the quarter ended December31, 2002. Cash-related severance will be paid over the next six months. The remaining lease obligations will be paid over the next seven years.

The following table sets forth an analysis of the components of the fiscal 2003 first quarter restructuring charge and the payments made against the accrual through December31, 2002 (in thousands):

	Severance Related	Underutilized Space	Total
Restructuring provision from continuing operations:			
Severance related	$ 2,534	$ —	$ 2,534
Underutilized Space:			
Remaining lease obligations	—	19,723	19,723
Office closure and settlement costs	—	2,763	2,763
Estimated sublease income	—	(6,166)	(6,166)
Total continuing operations	2,534	16,320	18,854
Restructuring provision from discontinued operations:			
Severance related	3,730	—	3,730
Total discontinued operations	3,730	—	3,730
Total	6,264	16,320	22,584
Cash paid	(4,514)	(290)	(4,804)
Accrual balance at December31, 2002	$ 1,750	$ 16,030	$ 17,780

Fiscal 2002 Fourth Quarter Restructuring

In July 2002, we announced plans to focus our business on Web search and search software markets. As a result, we significantly scaled back the content networking products group and related corporate infrastructure and eliminated 286 positions from continuing operations and 4 positions from discontinued operations and closed several sales offices around the world. As a result of this restructuring, we incurred a charge of $15.3million from continuing operations and $0.1million from discontinued operations, made up of $11.9million of severance and related expenses and $3.5million in costs associated primarily with the consolidation of sales offices in North America and Europe. Approximately $2.9million of the charge was paid in the quarter ended December31, 2002 and the remainder will be paid over the next nine months.

The following table sets forth an analysis of the components of the fiscal 2002 fourth quarter restructuring charge and the payments made against the accrual through December31, 2002 (in thousands):

Powered By EDGAR Online 2003. EDGAR Online, Inc.

	Severance Related	Underutilized Space	Total
Restructuring provision from continuing operations:			
Severance related	$ 11,805	$ —	$ 11,805
Committed excess facilities	—	3,535	3,535
Total continuing operations	11,805	3,535	15,340
Restructuring provision from discontinued operations:			
Severance related	69	—	69
Total discontinued operations	69	—	69
Total	11,874	3,535	15,409
Cash paid	(10,080)	(1,133)	(11,213)
Accrual balance at December31, 2002	$ 1,794	$ 2,402	$ 4,196

Fiscal 2002 Third Quarter Restructuring

In April 2002, we completed a restructuring and a workforce reduction of approximately 43 employees from continuing operations and 7 employees from discontinued operations to reduce our operating expenses. All of our functional areas were affected by the reduction. As a result of this workforce reduction, we incurred a charge of $2.0million from continuing operations and $0.3 million from discontinued operations. We recorded a reduction to the fiscal 2002 third quarter restructuring provision of $0.3million in the fourth quarter of fiscal 2002, as actual costs for severance and benefits were lower than originally anticipated. Approximately $78,000 of the charge was paid in the quarter ended December31, 2002 and the remainder will be paid over the next twelve months.

The following table sets forth an analysis of the components of the fiscal 2002 third quarter restructuring charge and the payments made against the accrual through December31, 2002 (in thousands):

	Severance Related	Underutilized Space	Total
Restructuring provision from continuing operations:			
Severance related	$ 1,692	$ —	$ 1,692
Committed excess facilities	—	268	268
Total continuing operations	1,692	268	1,960
Restructuring provision from discontinued operations:			
Severance related	260	—	260
Total discontinued operations	260	—	260
Total	1,952	268	2,220
Cash paid	(1,638)	(100)	(1,738)
Release of excess accrual	(273)	—	(273)
Accrual balance at December31, 2002	$ 41	$ 168	$ 209

Fiscal 2001 Fourth Quarter Restructuring

In the quarter ended September30, 2001, we instituted a restructuring and a workforce reduction of approximately 33 employees to reduce our operating expenses. The reduction in workforce primarily affected our employees working on wireless related products, which is part of our content networking products group. As a result of this restructuring, we incurred a charge of approximately $6.5million from continuing operations and $40,000 from discontinued operations in the quarter ended September30, 2001.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

We recorded a reduction to the fiscal 2001 fourth quarter restructuring provision of $0.2million in the fourth quarter of fiscal 2002, as actual costs for under utilized space were lower than originally anticipated. This charge included costs associated with underutilized space and office consolidations related primarily to approximately eight sales offices in North America and the United Kingdom. Approximately $32,000 of the charge was paid in the quarter ended December31, 2002 and the remainder will be paid over the next 24months.

The following table sets forth an analysis of the components of the fiscal 2001 fourth quarter restructuring charge and the payments made against the accrual through December31, 2002 (in thousands):

	Severance Related	Underutilized Space	Total
Restructuring provision from continuing operations:			
Severance related	$ 2,161	$ —	$ 2,161
Committed excess facilities	—	4,375	4,375
Total continuing operations	2,161	4,375	6,536
Restructuring provision from discontinued operations:			
Severance related	40	—	40
Total discontinued operations	40	—	40
Total	2,201	4,375	6,576
Cash paid	(2,201)	(3,096)	(5,297)
Release of excess accrual	—	(200)	(200)
Accrual balance at December31, 2002	$ —	$ 1,079	$ 1,079

Note 4. Impairment of Fixed Assets and Loss on Asset Sale

During the quarter ended December31, 2002, we incurred $1.9million of asset impairment charges as a result of our restructurings (see Note 3). The downsizing in our field offices resulted in the abandonment of fixed assets. The $1.9million write-down represents $0.1million of computer equipment, $0.3million of abandoned assets, primarily computer equipment and furniture and fixtures, and leasehold improvements from our Tokyo office, $0.8million of abandoned assets, primarily computer equipment and furniture and fixtures, and leasehold improvements from our London office and $0.7million of abandoned furniture and fixtures and leasehold improvements from various offices in the U.S.

In August 2000, we entered into an operating lease agreement for the land and facilities of our corporate headquarters, known as Bayside, in Foster City, California. This operating lease was commonly referred to as a synthetic lease because it represents a form of off-balance sheet financing under which an unrelated third-party funds 100% of the costs of the acquisition of the property and leases the asset to Inktomi as lessee. Under the lease terms, we were required to pay lease payments for five years to the lessor. The payments were calculated based on a floating interest rate applied against a $114 million principal value.

In August 2002, through the execution of a Termination and Release Agreement, we exercised the purchase option under our operating lease arrangement for the Bayside corporate headquarters. Title for such facilities was transferred to Inktomi on such date. We paid $114.0million to Deutsche Bank and its affiliates, the holders of the synthetic lease, for the purchase of the Bayside corporate headquarters. At the purchase date we valued the Bayside corporate headquarters at $44.8million based on established valuation techniques.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

On December20, 2002, we completed the sale of our Bayside corporate headquarters for $41.6million which resulted in a loss of $3.4million. We also entered into a five-year lease with the facilities' new owner for the portion of the property that we occupy for an aggregate lease commitment of $9.8million net of costs.

Note 5. Calculation of Net Loss per Share

Shares of Common Stock used in computing basic and diluted net loss per share ("EPS") are based on the weighted average shares of Common Stock outstanding in each period. Basic net loss per share is calculated by dividing net loss by the average number of outstanding shares of Common Stock during the period. Diluted net loss per share is calculated by adjusting the average number of outstanding shares of Common Stock assuming conversion of all potentially dilutive stock options and warrants under the treasury stock method. Excluded from the computation of diluted earnings per share for the quarter ended December31, 2002 and December31, 2001 are options to acquire 4.7million and 26.5million shares of Common Stock, respectively as their effects would be anti-dilutive.

Note 6. Commitment and Contingencies

On August2, 2001, an amended complaint was filed by Network Caching Technology, L.L.C. in the United States District Court for the Northern District of California against Inktomi as well as other providers of caching technologies including Novell, Inc., Akamai Technologies, Inc., Volera, Inc., and Cacheflow, Inc. Plaintiff alleges that certain products marketed by Inktomi and the other defendants violate one or more patents owned by plaintiff. The complaint seeks compensatory and other damages and injunctive relief. We were served the complaint on August7, 2001. We subsequently filed a response denying the allegations and asserting a number of defenses. At this time it is too early to estimate any potential losses from this action and whether this action may have a material impact on the results of operations. We are vigorously defending against this action.

In October 2002, a complaint was served by Teknowledge Corporation in the United States District Court for Delaware against Inktomi, Akamai Technologies, Inc. and Cable & Wireless Services, Inc. The plaintiff alleges that Inktomi products, including Traffic Server, infringe a patent owned by the plaintiff. The complaint seeks compensatory and other damages and injunctive relief. In November 2002, the Judge assigned to the case in Delaware transferred jurisdiction of the case to the Northern District of California. Inktomi intends to vigorously defend the allegations made by the plaintiff.

From time to time, we are also involved in other legal actions arising in the ordinary course of business. We have incurred certain amounts associated with defending these matters. There can be no assurance the Network Caching, Teknowledge or other third party assertions will be resolved without costly litigation, in a manner that is not adverse to our financial position, results of operations or cash flows or without requiring royalty payments in the future which may adversely impact gross margins. No estimate can be made of the possible loss or possible range of loss associated with the resolution of these contingencies. As a result, no losses have been accrued in our financial statements as of December31, 2002.

Litigation Related to the Yahoo! Merger

Persons alleging to be shareholders of Inktomi have filed three lawsuits relating to our pending merger with a wholly-owned subsidiary of Yahoo!. On January22, 2003, an alleged holder of Inktomi common stock filed a purported derivative and class action lawsuit captioned *Tuttle v. Myers, et al.* , Case No.CIV 428695, in California Superior Court for the County of San Mateo. The complaint names as defendants each of our five directors and names Inktomi as a nominal defendant. The complaint alleges that, in pursuing the transaction with Yahoo! and approving the merger agreement, the directors breached their fiduciary duties to the holders of Inktomi common stock and Inktomi by, among other things, engaging in self-dealing, abusing control of the company, failing to obtain the highest price reasonably available for Inktomi and its shareholders, committing waste of corporate assets and failing to properly value Inktomi. The complaint further alleges that the merger agreement resulted from a flawed process and that the directors tailored the terms of the merger to meet the needs of two directors. The complaint also alleges that Inktomi directly breached and/or aided and abetted the directors' alleged breaches of fiduciary duties. The complaint seeks, among other things, certification of the litigation as a class action, a declaration that the merger agreement was entered into in breach of the directors' fiduciary duties, a preliminary and permanent injunction enjoining Inktomi, the directors and others from consummating the merger, a direction requiring that the directors exercise their fiduciary duties to obtain a transaction which is in the best interests of the Inktomi shareholders, rescission of the merger or any of the terms thereof to the extent implemented, an award of costs, including attorneys' and experts' fees, and other unspecified relief.

On January24, 2003, an alleged holder of Inktomi common stock filed a purported class action lawsuit captioned *Malachinski v. Peterschmidt, et al.* , Case No.CIV 428824, in the California Superior Court for the County of San Mateo. On January29, 2003 an alleged holder of Inktomi common stock filed a purported class action lawsuit captioned *Zakary v. Peterschmidt, et al.* , Case No.CIV 428898, in the same Superior Court. The complaint in the Zakary action is substantially identical to the complaint in the Malachinski action. Both complaints name as defendants three of our five current directors, two of our former directors and Inktomi.

The complaints in the Malachinski and Zakary actions allege that our directors breached their fiduciary duties in connection with the proposed

Powered By EDGAR Online 2003. EDGAR Online, Inc.

acquisition by Yahoo! by, among other things, approving a transaction in which they allegedly stand to receive financial benefits not shared by the other Inktomi shareholders, retaining a financial advisor (Thomas Weisel Partners) that has business ties to Yahoo!, failing to obtain the best offer possible for Inktomi's shareholders, agreeing to the termination fee provisions of the merger agreement, failing to adequately value Inktomi, and failing to make complete and adequate disclosure of alleged material facts regarding the transaction and the events that preceded the execution of the merger agreement. The plaintiffs seek, among other things, certification of their respective actions as class actions, a declaration that the directors have breached their fiduciary duties, an order requiring the defendants to indemnify the shareholders for the alleged breaches of fiduciary duty, an injunction enjoining the merger or rescinding it, if consummated, an order requiring defendants to make additional disclosures, an award of compensatory and/or rescissory damages, an award of interest, attorneys' fees, expert fees and other costs, and other unspecified relief.

On January29, 2003, the plaintiff in the Malachinski action filed a motion for expedited discovery and an order temporarily enjoining the merger. On January30, 2003, the Malachinski action was removed from the Superior Court to the United States District Court for the Northern District of California. On January31, 2003, the Zakary action was removed from the Superior Court to the same District Court. We filed motions to dismiss the Malachinski and Zakary actions on February5, 2003 and February6, 2003, respectively.

Based on its review of the three complaints, Inktomi believes that the allegations in the Tuttle, Malachinski and Zakary actions are without merit and intends, along with the directors, to defend the actions vigorously. In the event that holders of a majority of the outstanding shares of Inktomi common stock vote in favor of adoption of the merger agreement, in addition to any other defenses Inktomi and the directors may assert, Inktomi and the directors intend to rely upon the approval of the proposal to adopt the merger agreement in defense of the claims asserted in the actions. Specifically, Inktomi and the directors intend to argue that the approval of the proposal to adopt the merger agreement by holders of a majority of the shares of our common stock constitutes a ratification or acceptance of the conduct that is the subject of plaintiffs' complaints. Inktomi and the directors further intend to argue that such ratification or approval constitutes a complete defense to the claims asserted in the complaints or otherwise operates to protect them from liability or increase the plaintiffs' burdens of pleading and proof in the actions.

At December31, 2002, our notes payable of $2.4million consisted of an equipment loan collateralized by the underlying equipment. We have a line of credit based on the current accounts receivable balances. At December31, 2002, we had not drawn any amounts against this line of credit. Our bank loans are subject to specific financial covenants that are reported to the bank monthly. The covenants (i)require minimum unrestricted cash, cash equivalents and short term investments of $27.5million, (ii)provide that we cannot incur GAAP loss of more than $10.3million, $7.6million, $4.7million, $1.3million for the quarters ended December31, 2002, March31, 2003, June30, 2003 and September30, 2003 respectively, (iii)require that we maintain all US bank deposits at the bank, and (iv)require that we maintain at least $25.0million of tangible net worth.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Any one or more of the following events would constitute a default under the bank facility: payment default, covenant default, the occurrence of a material adverse change, default under certain other agreements, subordinated debt and judgments, misrepresentations regarding information we have disclosed to the bank, and insolvency. Upon the occurrence of a default the bank may declare all obligations due and payable immediately, settle or adjust disputes and claims directly with account debtors for amounts that the bank considers advisable, make such payments as necessary to protect its security interest in the collateral, apply company balances held by the bank to the obligations, and sell the collateral.

We violated the minimum cash balance covenants for the months ending October and November 2002. The bank waived the covenant violations in December 2002. In December 2002, the bank waived the GAAP loss covenant for the quarter ended December31, 2002. We violated the tangible net worth covenant for December 2002 and January 2003 and received a waiver from the bank. The bank also prospectively waived the tangible net worth covenant for February 2003.

We have entered into non-cancelable operating leases for office space and equipment with original terms ranging from six months to 10years. The future minimum lease payments under non-cancelable operating leases, and the future lease and sublease income under non-cancelable lease and sublease agreements at December31, 2002 are as follows (in thousands):

	Operating Leases	Lease & Sublease Income
Nine months ending September30, 2003	$ 6,131	$ 965
Year ending September30, 2004	5,749	114
Year ending September30, 2005	4,821	—
Year ending September30, 2006	3,892	—
Year ending September30, 2007	3,939	—
Thereafter	6,281	—
Total minimum lease payments	$ 30,813	$ 1,079

Our corporate headquarters consist of approximately 130,000 square feet of office space in Foster City, California. In December 2002, we sold the property and leased back the portion we now occupy. The lease is for a period of five years renewable at our election for three successive five year periods. The lease may also be terminated at our election after two years in exchange for a fee. Aggregate payments to be made under the lease are approximately $9.8 million, net of costs, over the lease term ending December19, 2007.

At September30, 2002, we had a note resulting from the lease termination agreement with the landlords of our Parkside facilities. From the note inception to January21, 2003, we applied an imputed annual interest rate of 6%. The loan was payable $5.0million on or before October1, 2002 and the remainder earlier of (i)January21, 2003 or (ii)the date of the sale of the Bayside facility. On October1, 2002, we paid the initial amount due of $5.0 million and on December20, 2002, we paid the remaining $16.5million upon the close of the Bayside facility. This loan was collateralized by our Bayside corporate headquarters facility.

Note 7. Related Party Transactions

In December 2001, our Board of Directors approved a $5million revolving line of credit to our Chief Executive Officer. As of December31, 2002, total loans outstanding and total accrued interest to our Chief Executive Officer were approximately $4.9million and $234,000, respectively. During the quarter ended December31, 2002, interest of $74,000 was accrued. These loans are unsecured and are represented by full recourse promissory notes accruing interest at the rate of 6% per annum. Each loan, plus any accrued unpaid interest, will become due the earlier of either two years from the grant date of the individual loan or the date that our Chief Executive Officer leaves the Company. All after tax proceeds of compensatory

Powered By EDGAR Online 2003. EDGAR Online, Inc.

bonuses and 50% of after tax proceeds from sales of Company stock must be used to pay down the loans outstanding. The first loans will become due in December 2003.

In January 2001, we provided a relocation loan to a management employee totaling $900,000. This notes bears interest at 5.61% per annum and is collateralized by a deed of trust in the employee's residence. The loan is due December 2003. The employee left the Company in August 2001. During the quarter ended September30, 2002, the Company accrued a valuation allowance of $200,000 against the loan based on an estimate of the current value of the collateral.

We held investments in equity securities in certain customers at December 31, 2002. These customers comprised $40,000 and $0.8million of revenue during the quarters ended December31, 2002 and 2001 respectively. These customers did not have any accounts receivable balances as of December31, 2002.

Note 8. Comprehensive Net Loss

Comprehensive loss includes foreign currency translation gains and losses and unrealized gains and losses on debt and equity securities that have been excluded from net loss and reflected instead in stockholders' equity. The components of comprehensive loss are as follows (in thousands):

	For the Three Months Ended December 31,	
	2002	2001
Net loss	$ (16,952)	$ (29,441)
Unrealized gain on available-for-sale securities, net of reclassification adjustment included in net loss	189	61
Foreign currency translation gain	152	1,037
Comprehensive net loss	$ (16,611)	$ (28,343)

Note 9. Stock Option Exchange Program

In February 2001, the Inktomi Board of Directors approved a stock option exchange program. Under this program, all employees (including executive officers and outside directors) were given the opportunity to cancel one or more stock options previously granted to them in exchange for one or more new stock options to be granted at least six months and one day from the date the old options are cancelled, provided the individual is still employed or providing service on such date. The participation deadline for the program was February28, 2001. The number of shares subject to the new options were equal to the number of shares subject to the old options, and the exercise price of the new options was the fair market value of Inktomi Common Stock on the date they were granted. The new options have the same vesting schedule as the old options and are immediately exercisable as to vested shares when granted (however, new options granted to executive officers and outside directors lost three months of vesting and were subject to a trading blackout of three months following the grant). The exchange resulted in the voluntary cancellation of options to purchase approximately 12.8million shares of Common Stock with exercise prices ranging from $12.25 to $211.00 per share. Approximately 10.6 million replacement options were granted on August29, 2001, of which 4.1 million shares are outstanding as of December31, 2002, at an exercise price of $4.21 per share of Common Stock. Accordingly, the 10.6million replacement options that were granted outside the six month period following the implementation of the option exchange program, were subject to fixed plan accounting.

Stock options granted during the six month period prior to implementation of the option exchange program that were not cancelled as part of the program are subject to variable plan accounting beginning in the fiscal quarter ended March31, 2001. During the six months prior to implementation of the program, Inktomi granted approximately 2.8million options, of which 0.6million are outstanding as of December

Powered By EDGAR Online 2003. EDGAR Online, Inc.

31, 2002, at an average price of $17.90 per option, that are subject to variable plan accounting. Also subject to variable plan accounting are 1.4 million options, of which 0.4million shares are outstanding as of December31, 2002, at an average price of $7.18 per option, that were granted to participants of the program during the six months following implementation of the program. These options are subject to variable plan accounting. Under variable plan accounting, we are required to record a non-cash compensation charge for the options until the options are exercised, forfeited or cancelled without replacement. The compensation charge will be based on any excess of the closing stock price at the end of the reporting period or date of exercise, forfeiture or cancellation without replacement, if earlier, over the fair market value of our Common Stock on the option's issuance date. The resulting compensation charge to earnings will be recorded as the underlying options vest. Depending upon movements in the market value of our Common Stock, this accounting treatment may result in significant compensation charges in future periods. As of December31, 2002, we have recorded no compensation charges related to this program.

Note 10. Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB'') issued SFAS 142, *Goodwill and Other Intangible Assets* , which is effective for fiscal years beginning after December15, 2001. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions upon adoption for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the testing for impairment of existing goodwill and other intangibles. The impairment review required under SFAS 142 will involve a two-step process as follows:

- Step 1 — we will compare the fair value of our reporting units to the carrying value, including goodwill of each of those units. For each reporting unit where the carrying value, including goodwill, exceeds the unit's fair value, we will move on to step 2. If a unit's fair value exceeds the carrying value, no further work is performed and no impairment charge is necessary.
- Step 2 — we will perform an allocation of the fair value of the reporting unit to its identifiable tangible and non-goodwill intangible assets and liabilities. This will derive an implied fair value for the reporting unit's goodwill. We will then compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment loss must be recognized for the excess.

We adopted SFAS 142 as of October1, 2002. Upon implementation we allocated the goodwill associated with the Quiver acquisition to a reporting unit consisting of the Enterprise Search division. We further concluded that since the fair value of the Enterprise Search division exceeded the carrying value, including the Goodwill from the Quiver acquisition there was no further need for an impairment assessment. As of December31, 2002 no goodwill remains on the balance sheet.

The following table presents the quarters ended December31, 2002 and 2001 results of operations reformatted to exclude goodwill amortization. These adjusted results are presented as required by SFAS 142 to allow a comparison between actual results and the adjusted results. The first table includes income from continuing operations and earnings per share from continuing operations. The second table presents the same data for the total company including both continuing operations and discontinued operations:

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Continued Operations Only	For the Three Months Ended December 31, 2002	2001
Net loss from continuing operations:		
Reported net loss from continuing operations	$ (24,439)	$ (13,863)
Add: Goodwill amortization	—	539
Adjusted net loss from continuing operations	$ (24,439)	$ (13,324)
Basic and diluted net loss per share from continuing operations:		
Reported net loss from continuing operations	$ (0.15)	$ (0.10)
Add: Goodwill amortization	—	—
Adjusted net loss from continuing operations	$ (0.15)	$ (0.10)
Weighted average shares outstanding used in per share calculation	162,284	136,660

Continued and Discontinued Operations	For the Three Months Ended December 31, 2002	2001
Net loss:		
Reported net loss	$ (16,952)	$ (29,441)
Add: Goodwill amortization	—	16,709
Adjusted net loss	$ (16,952)	$ (12,732)
Basic and diluted net loss per share from continuing operations:		
Reported net loss	$ (0.10)	$ (0.21)
Add: Goodwill amortization	—	0.12
Adjusted net loss	$ (0.10)	$ (0.09)
Weighted average shares outstanding used in per share calculation	162,284	136,660

In October 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-lived Assets* . The objectives of SFAS 144 are to address significant issues relating to the implementation of SFAS 121, *Accounting for the Impairment of Long-lived Assets to be Disposed of* , and to develop a single accounting model, based on the framework established by SFAS 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1)can be distinguished from the rest of the entity and (2)will be eliminated from the ongoing operations of the entity in a disposal transaction. Although SFAS 144 supercedes SFAS 121, it retains some fundamental provisions of SFAS 121. SFAS 144 is effective for financial statements issued for fiscal years beginning after December15, 2001, and interim periods within those fiscal years. We implemented SFAS 144 during the quarter ended December31, 2002. In accordance with the provisions of SFAS 144 we accounted for the sale of our Enterprise Search division as discontinued operations presenting the effect of the enterprise search division separately in the statements of operations and cash flow (see Note 2). Other than this, the implementation of SFAS 144 did not have a material effect on our financial statement.

In June 2002, the FASB issued SFAS 146, *Accounting for Exit or Disposal Activities* . SFAS 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for under Emerging Issues Task Force (“EITF’’) No.94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* . The scope of SFAS 146 also includes costs related to terminating a contract that is not a capital lease and termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual

Powered By EDGAR Online 2003. EDGAR Online, Inc.

deferred-compensation contract. SFAS 146 will be effective for exit or disposal activities that are initiated after December31, 2002 and early application is encouraged. The provisions of EITF No.94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF No.94-3 prior to the adoption of SFAS 146. We will adopt FSAS 146 for exit or disposal activities that are initiated after December31, 2002. The effect on adoption of SFAS 146 will change on a prospective basis the timing of when restructuring charges are recorded from a commitment date approach to when the liability is incurred.

In November 2002, the FASB issued FASB Interpretation No.45 ("FIN 45''), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 were adopted by the Company in the three months period ended December31, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December31, 2002, irrespective of a guarantor's year-end. We are currently assessing what the impact of the guidance would be on our financial statements.

In November 2002, the EITF reached a consensus on issue No.00-21 *Accounting for Revenue Arrangements with Multiple Deliverables* ("EITF 00-21'') on a model to be used to determine when a revenue arrangement with multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. The EITF also reached a consensus that this guidance should be effective for all revenue arrangements entered into in fiscal periods beginning after June15, 2003, which for the company would result in an adoption in the quarter ending September30, 2003. We are currently assessing what the impact of the guidance would be on our financial statements.

In December 2002, the FASB issued Statement of Financial Accounting Standards ("SFAS") No.148, "Accounting for Stock-Based Compensation, Transition and Disclosure." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS 148 are effective for fiscal years ended after December 15, 2002. The interim disclosure requirements are effective for interim periods beginning after December15, 2002. The company will implement the interim disclosure provisions of SFAS 148 in the three months ending March31, 2003. Except for the disclosure of the pro forma effect using the fair value method on an interim basis the company believes that the adoption of this standard will have no material impact on its financial statements.

Note 11. Segment and Geographic Information

Effective September30, 1999, we adopted SFAS No.131, *Disclosures about Segments of an Enterprise and Related Information* . SFAS No.131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also established standards for related disclosures about products and services, and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision-maker is our Chief Executive Officer. Our reportable segments are organized primarily by technology. Each of these segments is managed separately because they offer and distribute distinct technologies and services with different methods of delivery and customer bases.

We have two reportable operating segments: Software Products and Portal Services. Software Products revenues are composed of license, consulting, support and upgrade fees in connection with the Traffic Server network cache platform and its associated product family, Content Delivery Suite software

Powered By EDGAR Online 2003. EDGAR Online, Inc.

solutions, Media Products, Traffic Core, Traffic Edge, Traffic Controller and Inktomi Media Publisher. Portal Services revenues are composed of revenues generated through our Web search services.

As described in note 2 on December17, 2002 we completed the sale of our Enterprise Search division. The results of operations from the Enterprise search division have been reclassified as discontinued operations for the quarters ended December31, 2002 and December31, 2001. Enterprise search used to be part of our Software products segment. As a result of the discontinuance, the results of our Enterprise search division have been reclassified out of the result of our Software Products segment.

We evaluate performance and allocate resources to our operating segments based on a variety of factors, including revenues, operating profit, market potential, customer commitments and strategic direction.

Amortization of intangibles and other assets, impairment of intangibles and other assets, impairment of fixed assets, restructuring, and amortization of deferred compensation expense are not included in management's evaluation of performance by the operating divisions, as they are primarily organizational in nature. The accounting policies of the reportable segments are the same as those described in Note 1.

Operating results about segments (in thousands):

	For the Three Months Ended December 31, 2002					
	Portal Services	Software Products	Restructuring Charges	Impairment of Fixed Assets and Loss on Asset Sale	Amort. of Deferred Compensation	Total
Revenues	$ 9,975	$ 3,880	$ —	$ —	$ —	$ 13,855
Operating income (loss)	$ (565)	$ (912)	$ (18,854)	$ (5,358)	$ (136)	$ (25,825)

	For the Three Months Ended December 31, 2001						
	Portal Services	Software Products	Amort. & Impairment of Intangibles & Other Assets	Restructuring Charges	Impairment of Fixed Assets and Loss on Asset Sale	Amort. of Deferred Compensation	Total
Revenues	$ 10,628	$ 22,422	$ —	$ —	$ —	$ —	$ 33,050
Operating income (loss)	$ 2,231	$ (11,063)	$ (2,289)	$ (2,638)	$ (1,300)	$ (1,978)	$ (17,037)

Total assets by segments at December31, 2002 (in thousands):

	Portal Services	Software Products	Corporate	Total
Total assets	17,222	811	73,774	91,807

Total assets by segments at September30, 2002 (in thousands):

	Portal Services	Software Products	Corporate	Total
Total assets	18,867	17,633	108,716	145,216

At December31, 2002, approximately 13% of our tangible long-term assets were located outside the United States.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

The following table sets forth revenue information for geographic areas (in thousands):

	For the Three Months Ended December 31,	
	2002	2001
United States	$ 10,105	$ 28,121
Europe	1,685	1,809
Asia	2,065	3,120
Total Revenue Total	$ 13,855	$ 33,050

Note 12. Subsequent Events

On March5, 2003, 3Com Corporation filed a lawsuit alleging breach of contract against us and certain unnamed defendants in the Superior Court of California, County of Santa Clara. We do not believe, based on current knowledge, that this claim is likely to have a material adverse effect on our financial position, results of operations or cash flows.

On March19, 2003, Yahoo! Inc. completed the acquisition of Inktomi.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

EXHIBIT 99.3

INKTOMI CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page
Report of Independent Accountants	F-1
Consolidated Balance Sheets as of September30, 2002 and 2001	F-2
Consolidated Statements of Operations for the Years Ended September30, 2002, 2001, and 2000	F-3
Consolidated Statements of Changes in Stockholders' Equity	F-4
Consolidated Statements of Cash Flows for the Years Ended September30, 2002, 2001, and 2000	F-5
Notes to Consolidated Financial Statements	F-6

Powered By EDGAR Online 2003. EDGAR Online, Inc.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Inktomi Corporation:

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of operations, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Inktomi Corporation and its subsidiaries at September30, 2002 and 2001, and the results of their operations and cash flows for each of the three years in the period ended September30, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Jose, California

October 23, 2002, except as to recently

issued accounting pronouncements in Note2, discontinued operations

in Note3, and subsequent events listed in Note1 and 19, which are as of December27, 2002

Powered By EDGAR Online 2003. EDGAR Online, Inc.

INKTOMI CORPORATION

CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2002	SEPTEMBER 30, 2001
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,292	$ 18,518
Short-term investments	28,115	65,995
Total cash and cash equivalents and short-term investments	45,407	84,513
Accounts receivable, net of allowances of $1,144 and $4,910, respectively	10,864	22,449
Prepaid expenses and other current assets	5,533	5,915
Total current assets	61,804	112,877
Restricted cash	—	128,957
Investments in equity securities	331	1,381
Property, plant and equipment, net	62,536	76,101
Goodwill and other intangibles, net	10,028	253,993
Other assets	4,708	5,478
Loans to related parties	5,809	4,336
Total assets	$ 145,216	$ 583,123
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,021	$ 7,979
Accrued liabilities	30,180	58,646
Deferred revenue	26,767	34,610
Current portion of notes payable	30,003	2,500
Current portion of capital lease obligations	1,210	1,470
Total current liabilities	98,181	105,205
Notes payable, less current portion	—	4,231
Capital lease obligations, less current portion	216	1,418
Other liabilities	185	288
Total liabilities	98,582	111,142
Commitments and contingencies (Note16)		
Stockholders' equity:		
Common Stock, $0.001 par value; authorized: 1,500,000 at September30, 2002 and 2001, respectively; outstanding: 162,109 and 129,110 at September30, 2002 and 2001, respectively	162	129
Additional paid-in capital	952,602	897,241
Deferred compensation	(2,039)	(20,824)
Accumulated other comprehensive loss	(1,276)	(2,545)
Accumulated deficit	(902,815)	(402,020)
Total stockholders' equity	46,634	471,981
Total liabilities and stockholders' equity	$ 145,216	$ 583,123

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

Powered By EDGAR Online 2003. EDGAR Online, Inc.

INKTOMI CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEAR ENDED SEPTEMBER 30,		
	2002	2001	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Revenues:			
Licenses	$ 28,817	$ 88,063	$ 133,065
Web search services	47,084	51,287	52,127
Maintenance services	9,067	15,209	11,859
Other services	5,319	17,967	23,615
Total revenues	90,287	172,526	220,666
Cost of Revenues:			
Licenses	2,992	4,771	5,345
Web search services	15,264	24,655	21,774
Maintenance services	3,528	5,410	3,312
Other services	3,811	11,691	10,066
Total cost of revenues	25,595	46,527	40,497
Gross Profit	64,692	125,999	180,169
Operating expenses:			
Sales and marketing	53,740	127,872	121,071
Research and development	43,908	75,063	58,031
General and administrative	14,884	24,581	19,121
Amortization of goodwill and other intangibles	1,268	5,745	—
Impairment of goodwill and other intangibles	10,190	44,915	—
Restructuring	19,466	11,472	—
Parkside lease restructuring and termination	79,986	—	—
Impairment of property, plant and equipment	102,982	904	1,045
Purchased in-process research and development	—	430	—
Acquisition-related costs	—	19,497	3,999
Total operating expenses	326,424	310,479	203,267
Operating loss from continuing operations	(261,732)	(184,480)	(23,098)
Impairment of investments	—	(65,895)	—
Other income, net	6,603	10,340	16,951
Loss from continuing operations before income tax provision	(255,129)	(240,035)	(6,147)
Income tax provision	(689)	(922)	(1,826)
Loss from continuing operations	(255,818)	(240,957)	(7,973)
Loss from discontinued operations, net of taxes	(244,977)	(55,525)	(19,367)
Net loss	$ (500,795)	$ (296,482)	$ (27,340)
Basic and diluted net loss per share:			
Loss from continuing operations	$ (1.79)	$ (1.92)	$ (0.07)
Loss from discontinued operations	$ (1.72)	$ (0.44)	$ (0.17)
Net Loss	$ (3.51)	$ (2.36)	$ (0.24)
Weighted average shares outstanding:			
Shares used in calculating basic and diluted net loss per Share	142,693	125,608	113,030

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

Powered By EDGAR Online 2003. EDGAR Online, Inc.

INKTOMI CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	DEFERRED COMPENSATION &OTHER EQUITY	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ACCUMULATED DEFICIT	TOTAL
	SHARES	AMOUNT					
				(IN THOUSANDS)			
Balances, September30, 1999	116,136	$ 116	$ 424,193	$ (3,691)	$ 1,447	$ (78,198)	$ 343,867
Foreign currency translation					189		189
Unrealized gain on short-term investments					58,507		58,507
Net loss						(27,340)	(27,340)
Total comprehensive income							31,356
Issuance of Common Stock for acquisition of Ultraseek	2,513	3	319,745				319,748
Issuance of Common Stock for cash, including for exercise of options and warrants, net of issuance costs of $71	8,000	8	99,234				99,242
Stock compensation in connection with issuance of stock options to non-employees			1,265				1,265
Stock compensation in connection with issuance of stock options to employees			50,407	(43,066)			7,341
Repayment of stockholder loans				243			243
Balances, September30, 2000	126,649	$ 127	$ 894,844	$ (46,514)	$ 60,143	$ (105,538)	$ 803,062
Foreign currency translation					(1,066)		(1,066)
Unrealized loss on short-term investments					(86,720)		(86,720)
Reclassification adjustment for realized losses included in net income					25,098		25,098
Net loss						(296,482)	(296,482)
Total comprehensive loss							(359,170)
Issuance of Common Stock for acquisition of eScene	935	1	8,813				8,814
Issuance of Common Stock for cash, including for exercise of options and warrants,	1,526	1	8,545				8,546
Stock compensation in connection with issuance of stock options to non-employees			877				877
Stock compensation in connection with issuance of stock options to employees			4,198	5,570			9,768
Reversal of unamortized stock compensation for terminated employees			(20,036)	20,036			—
Repayment of stockholder loans				84			84
Balances, September30, 2001	129,110	$ 129	$ 897,241	$ (20,824)	$ (2,545)	$ (402,020)	$ 471,981
Foreign currency translation					(152)		(152)
Unrealized gain on short-term investments					685		685
Reclassification adjustment for realized losses included in net income					736		736
Net loss						(500,795)	(500,795)
Total comprehensive loss							(499,526)
Issuance of Common Stock for cash, including for exercise of options, warrants, and employee stock purchase plan	4,186	4	9,004				9,008
Issuance of Common Stock for acquisition of Quiver	10,638	11	4,958				4,969
Issuance of Common Stock for termination of Parkside lease	5,000	5	2,250				2,255
Public offering, net of issuance costs of $361	13,175	13	52,826				52,839
Reversal of unamortized stock compensation for terminated employees			(13,677)	13,677			—
Stock compensation in connection with issuance of stock options to employees				5,108			5,108
Balances, September30, 2002	162,109	$ 162	$ 952,602	$ (2,039)	$ (1,276)	$ (902,815)	$ 46,634

Powered By EDGAR Online 2003. EDGAR Online, Inc.

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

Powered By EDGAR Online 2003. EDGAR Online, Inc.

INKTOMI CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED SEPTEMBER 30,		
	2002	2001	2000
	(IN THOUSANDS)		
Cash flows from operating activities of continuing operations:			
Net loss	$ (500,795)	$ (296,482)	$ (27,340)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities of continuing operations:			
Loss from discontinued operations	244,977	55,525	19,367
Parkside lease termination — non-cash asset impairments	12,315	—	—
Parkside lease termination — common stock issued to landlords	2,255	—	—
Purchased in-process research and development	—	430	—
Amortization of goodwill and other intangibles	1,268	5,745	
Non-cash intangible amortization in cost of Revenues	1,250	—	—
Depreciation	24,653	32,096	22,091
Provision for (recovery of) doubtful accounts	(341)	10,308	6,366
Valuation allowance for related party loans	200	—	—
Non-cash stock compensation for stock options issued to non-employees	—	—	1,265
Non-cash stock compensation for stock options issued to employees	5,108	10,645	7,341
Amortization of warrants issued in connection with note payable	—	—	17
Impairment of property, plant and equipment	102,982	904	1,045
Impairment of goodwill and other intangibles	10,190	44,915	—
Loss on sale of Commerce Division	—	934	—
Loss on disposal of property and equipment	937	—	—
Loss on residual value guarantee	2,225	—	—
Realized (gains) losses on sale of investments, Net	736	2,925	(1,930)
Impairment of investments	—	65,895	—
Changes in operating assets and liabilities:			
Accounts receivable	11,400	18,000	(33,434)
Prepaid expenses and other assets	(1,241)	(6,477)	(8,117)
Accounts payable	2,283	(2,807)	3,030
Accrued liabilities and other liabilities	(27,475)	(8,213)	21,943
Deferred revenue	(8,684)	(19,454)	48,803
Net cash provided by (used in) operating activities of continuing operations	(115,757)	(85,111)	60,447
Cash flows from investing activities of continuing operations:			
Purchases of short-term investments	(197,351)	(566,318)	(1,193,720)
Proceeds from the sale and maturity of short-term Investments	234,953	682,993	1,229,930
Release (restriction) of cash for lease agreements	128,957	(9,341)	(119,616)
Purchases of investments in equity securities	(500)	(16,815)	(61,844)
Proceeds from the sale of investments in equity Securities	2,514	15,179	7,911
Purchases of property and equipment	(16,588)	(30,995)	(67,538)
Purchase of Bayside corporate headquarters	(114,000)	—	—
Acquisition of companies, net of acquired cash	(4,879)	(23,500)	(3,500)
Loans to related parties	(5,284)	(2,836)	(1,950)
Payments received on loans to related parties	3,611	—	2,200
Deposits on subleased property	(93)	288	—
Proceeds from sale of property and equipment	1,352	—	3,431
Net cash provided by (used in) investing activities of continuing operations	32,692	48,655	(204,696)
Cash flows from financing activities of continuing operations:			
Proceeds from notes payable	32,253	7,500	2,718
Repayments on notes payable	(8,981)	(7,337)	(6,303)
Proceeds from sales leaseback transactions accounted for as capital leases	—	995	958
Payments on obligations under capital leases	(1,462)	(5,302)	(946)
Proceeds from loans issued to stockholders	—	84	243

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Proceeds from issuance of Common Stock for cash, exercise of stock options and warrants, net of issuance costs	9,008	8,546	99,242
Proceeds from issuance of Common Stock, net of issuance Costs	52,839	—	—
Net cash provided by financing activities of continuing operations	83,657	4,486	95,912
Net cash provided by (used in) discontinued operations	(1,815)	9,338	2,703
Effect of exchange rates on cash and cash equivalents of continuing operations	(3)	(729)	189
Decrease in cash and cash equivalents	(1,226)	(23,361)	(45,445)
Cash and cash equivalents at beginning of period	18,518	41,879	87,324
Cash and cash equivalents at end of period	$ 17,292	$ 18,518	$ 41,879
Supplemental disclosures of cash flow information:			
Assets acquired under capital lease	$ —	$ 995	$ 4,338
Goodwill related to purchase of acquired company	$ 8,033	$ 10,658	$ 319,436
Common stock issued for acquisitions accounted for as a Purchase	$ 4,969	$ 8,814	$ 319,478
Common stock issued for termination of Parkside Lease	$ 2,255	$ —	$ —
Stock received for Commerce sale	$ —	$ 18,791	$ —
Cash paid for taxes	$ 152	$ 570	$ 2,054
Cash paid for interest	$ 934	$ 1,076	$ 2,233

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

Powered By EDGAR Online 2003. EDGAR Online, Inc.

(1) BASIS OF PRESENTATION

NATURE OF THE BUSINESS

Inktomi Corporation ("Inktomi" or the "Company") was incorporated in California in February 1996 and reincorporated in Delaware in February 1998. Inktomi provides World Wide Web search services for Internet portal and search destination sites. Inktomi Web Search provides a customizable, private label solution that offers portals and destination sites the ability to serve relevant search results. Inktomi Web Search, through its paid inclusion services, provides content publishers greater access to end users through portal and destination site customers of our search engine services. During fiscal year 2002, we also had a licensed software and support business comprised of our content networking products, included in Software Products segment, comprised of a portfolio of software products designed to address the content and information management and distribution requirements of large enterprises.

In July 2002, we announced we would be reducing our investment in our content networking products group. As a result, we significantly scaled back the content networking products group and related corporate infrastructure and closed several sales offices around the world.

In November 2002, we signed an agreement with Satyam Computer Services Ltd. to assign, and in some cases subcontract for the remaining content networking software customers (see Note20).

On December17, 2002 to further focus our business on Web search services and to improve company cash flow, we completed the sale of our Enterprise Search division to Verity, Inc. ("Verity"). In consideration for the sale, Verity agreed to pay $25.0 million in cash and assumed certain of our obligations under existing enterprise search business contracts, including customer support obligations. Of the consideration payable by Verity, $22.0 million has been paid. $3.0 million plus interest will be paid 18 months following the closing of the sale, subject to reduction for any indemnification claims made by Verity during such 18 month period. The Enterprise Search division is accounted for as a discontinued operation in accordance with Statement of Financial Accounting Standard (SFAS) No. 144 Accounting for the Impairment or Disposal of Long-lived Assets and therefore, the results of operations and cash flows have been reclassified from the Company's results of operations and cash flows from continuing operations for all periods presented in this document and presented separately as results of discontinued operations. The Enterprise Search division was part of the Company's Software Products reporting segment. Unless otherwise indicated, the Notes to the Consolidated Financial Statements relate to the discussion of the Company's continuing operations.

On December22, 2002, we entered into a definitive merger agreement with Yahoo! Inc. Under the agreement, a newly incorporated wholly-owned subsidiary of Yahoo! will merge with and into Inktomi, with Inktomi remaining as the surviving legal entity and a wholly-owned subsidiary of Yahoo! Under the terms of the merger agreement, upon completion of the merger, Yahoo! will pay to Inktomi's stockholders $1.65 per share of Inktomi common stock outstanding and will assume any options to purchase Inktomi common stock outstanding (see Note20).

FORMATION AND BASIS OF PRESENTATION

In October 1999, we acquired WebSpective Software, Inc. ("WebSpective"), a developer of software solutions for content and application distribution, delivery and management. Under the terms of the merger agreement, we acquired all outstanding shares of capital stock and assumed all outstanding warrants, stock options and stock purchase rights of WebSpective in exchange for 1,655,048 shares of our Common Stock. We accounted for the acquisition as a pooling of interests and accordingly, all prior financial statements have been restated. No significant adjustments were required to conform the accounting policies of the acquired company. We recorded acquisition-related costs of approximately $4.0 million in fiscal 2000, primarily for investment banking fees, accounting, legal and other expenses. WebSpective revenues from inception through September30, 1999 were $3.2 million. WebSpective raised $12.4 million through various stock issuances since its inception in March 1997, and had net losses from inception to September30, 1999 of $13.5 million.

In July 2000, we acquired Ultraseek, Inc. ("Ultraseek"), a provider of scalable and customizable search and navigation software solutions to businesses for their corporate intranet and extranet sites. Under the terms of the purchase agreement, we acquired all outstanding shares of capital stock and assumed all outstanding warrants, stock options and stock purchase rights of Ultraseek in

Powered By EDGAR Online 2003. EDGAR Online, Inc.

exchange for $3.5 million in cash and 2,512,880 shares of our Common Stock valued at $337.7 million. The transaction was accounted for under the purchase method of accounting and the results of operations are included as part of discontinued operations in our consolidated financial statements beginning on the acquisition date. As a part of our Ultraseek acquisition, we recorded goodwill of $319.4 million under intangibles and other assets. We began amortizing this balance in July 2000. At June 30, 2002, due primarily to the sustained decrease in our market value below net assets as well as other factors, we recorded a charge of $192.4 million to reflect the impairment of goodwill from our acquisition of Ultraseek (see Note13). The Ultraseek business was disposed of as part of the Enterprise Search division and as a result amortization for goodwill and other intangibles and all other revenues and expenses related to the Ultraseek business have been classified as discontinued operations.

A portion of the purchase price we paid for Ultraseek was allocated to developed technology and in-process research and development ("IPRD"). Inktomi identified and valued the developed technology and IPRD by conducting extensive interviews, analyzing data provided by Ultraseek concerning developmental products, considering the stage of development of such products and the time and resources needed to complete them, and assessing the expected cash flow generating ability, target markets and associated risks. The income approach, which includes an analysis of the markets, cash flows, and risks associated with achieving such cash flows, was the primary technique utilized in valuing the developed technology and IPRD. In the estimate, we used a discount rate of 25% representing the cost of capital as related to the estimated time to complete the projects and the level of risk involved. There were three separate projects identified that were at 80%, 60% and 30% of completion. The expected cost to complete these projects were $230,000, $322,000 and $153,000, respectively, and were all expected to be completed by the end of calendar 2000. Based on the analysis of these variables, we recorded a one-time purchased IPRD charge of $4.4 million, which is now included in results of discontinued operations for fiscal 2000, upon our acquisition of Ultraseek because technological feasibility had not been established and no future alternative uses existed.

In October 2000, we acquired FastForward Networks, Inc. ("FastForward"), a developer of software solutions for efficiently enabling streaming media over networks, in exchange for approximately 12.0 million shares of our Common Stock. The transaction was accounted for as a pooling of interests. Accordingly, all prior year financial information included herein has been restated to reflect the combined operations of FastForward and Inktomi. No significant adjustments were required to conform the accounting policies of the acquired company. FastForward had $0.7 million in revenues and raised $88.9 million through various stock issuances from its inception in May 1998 through September30, 2000. We recorded acquisition-related costs of approximately $19.5 million in the three months ended December31, 2000, primarily for investment banking fees, accounting, legal and other expenses.

In December2000, we acquired various business assets of Adero, Inc. ("Adero") relating to billing, settlement and traffic reporting and licensed other related technologies from Adero. The total purchase price was approximately $39.5 million, comprised of $23.5 million in cash, $15.0 million in assumed liabilities and $1.0 million incurred in transaction costs. With this transaction, we assumed the operator role for Content Bridge alliance services. Content Bridge is an alliance of technology and network service providers formed to enable cross-network content distribution and speed the delivery of content from the point of origin to end users. We accounted for the transaction under the purchase method of accounting and the results of operations are included in our consolidated financial statements beginning on the acquisition date. We recorded goodwill of $35.9 million under intangibles and other assets and recorded a one-time charge of $0.4 million upon acquisition to write-off in-process research and development, because technological feasibility had not been established and no future alternative uses existed. We identified and valued the IPRD consistent with the methodology discussed in the Ultraseek acquisition discussion above. In June 2001, we ceased acting in the operator role for Content Bridge alliance services and assigned the operator role to a third party. Included in our fiscal 2001 revenues is installment basis revenue from Adero on an agreement consummated in December1999.

In March 2001, we consummated the divestiture of our Commerce Division to e-centives, Inc. ("e-centives"). As part of the divestiture, we sold various business assets to e-centives consisting primarily of computer equipment, software, intellectual property and contracts, and e-centives hired certain employees of the Commerce Division. In exchange for the assets, we received 2,551,700 shares of Common Stock of e-centives, of which 382,755 shares are held in escrow pending satisfaction of certain performance criteria, and 637,925 shares are held in escrow subject to claims for indemnity by e-centives. The 637,925 shares were released to Inktomi from the escrow in the quarter ending September30, 2002 and were initially recorded at fair value in March 2001. We also received a warrant to purchase up to 1,860,577 shares of e-centives on or after March 28, 2006, which will become exercisable, if at all, upon the achievement of certain performance criteria by the Commerce Division. No value was assigned to these warrants initially and, as of September30, 2002, the performance criteria related to the shares in escrow and the warrant have not been achieved. Financial results herein include revenues and expenses generated and incurred by our Commerce Division through the closing of the transaction.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

In June 2001, we acquired eScene Networks, Inc. ("eScene"), a developer of advanced streaming media applications and services. The total purchase price was approximately $10.6 million, comprised of approximately 866,000 shares of our Common Stock valued at $8.8 million and net liabilities assumed of $1.8 million. We accounted for the transaction under the purchase method of accounting and recorded goodwill and other intangibles of approximately $10.6 million under intangibles and other assets. At June 30, 2002, due primarily to the sustained decrease in our market value below net assets as well as other factors, we recorded a charge of $8.5 million to reflect the impairment of goodwill which was created from our purchase of eScene. See Note13 for further information.

In August 2002, we acquired all of the outstanding shares and assets of Quiver, Inc. ("Quiver"), a developer of enterprise categorization and taxonomy software. Our primary reason for acquiring Quiver, Inc. was to expand our product offerings. We paid $6.5 million in cash and issued approximately 10.6 million shares of our common stock with a value of approximately $5 million in exchange for all of the outstanding shares of Quiver. The common stock issued was valued in accordance with EITF 99-12, "Determination of the Measurement Date for the Market Price of Acquiror Securities Issued in a Purchase Business Combination," using the average of market values of Inktomi's common stock in the period from two days prior to two days after the date the number of shares issued to shareholders of Quiver was finalized. We incurred $0.4 million in professional fees, including legal, valuation and accounting fees, related to the acquisition, which were included as part of the purchase price of the transaction. The business acquired from Quiver was integrated into our Enterprise Search division. The Quiver business was disposed of as part of the Enterprise Search division and as a result the results of operations, including the amortization expense related to the acquired intangibles from the acquired Quiver operation for the period from acquisition and onwards have been classified as part of discontinued operations.

We accounted for the acquisition of Quiver, Inc. using the purchase method of accounting. The allocation of the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed is summarized below. The amount allocated to intangibles was determined based on management's estimates using established valuation techniques.

	(IN THOUSANDS)
Current assets	$ 2,167
Property and equipment	63
Purchased technology	1,900
Goodwill	8,033
Total assets acquired	12,163
Current liabilities	(307)
Net assets acquired	$ 11,856

The purchased technology will be amortized on a straight-line basis over their estimated useful lives of three years. SFAS 141 requires the discontinuance of goodwill amortization for all business combinations initiated after June 30, 2001. In accordance with SFAS 141, goodwill will not be amortized but will be tested annually for impairment. The goodwill is not tax deductible.

UNAUDITED PRO FORMA RESULTS

The following unaudited pro forma information reflects the results of continuing operations for the year ended September30, 2001 as if the acquisition of eScene had occurred on October 1, 2000 after giving effect to purchase accounting adjustments, principally amortization of goodwill and other intangibles. The unaudited pro forma results for the year ended September30, 2001 combine Inktomi's historical statement of operations for the year ended September30, 2001 and the consolidated statement of operations for eScene for the period from October 1, 2000 to June 15, 2001.

In addition, the following unaudited pro forma information reflects the results of continuing operations for the year ended September30, 2000 as if the acquisition of eScene had occurred on October 1, 1999 after giving effect to purchase accounting adjustments, principally amortization of goodwill and other intangibles. The unaudited pro forma results for the year ended September30, 2000 combine Inktomi's historical statement of operations for year ended September30, 2000 and the consolidated statement of operations of eScene for the year ended September30, 2000.

We have not presented the pro forma financial information for the Adero acquisition required under APB No. 16 Business Combinations, since we have effectively ceased the assumed operator role of the acquired Adero division, Content Bridge, and have recognized the related full impairment of goodwill and other assets.

We have not presented the pro forma financial information for the Quiver and Ultraseek acquisitions as the results of the acquired Company from the date of acquisition have been included in discontinued operations in the Consolidated Statement of Operations.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

These unaudited pro forma results have been prepared for comparative purposes only and may not be indicative of future operating results (in thousands, except per share data).

	FOR THE YEAR ENDED SEPTEMBER30,	
	2001	2000
Pro forma revenues	$172,955	$220,667
Pro forma loss from continuing operations	$(248,663)	$(11,194)
Pro forma basic and diluted loss per share	$(1.97)	$(0.10)
Weighted averages shares used in the calculation of basic and diluted pro forma loss per share	113,896	126,220

STOCK SPLITS

In December1998, and again in December1999, our Board of Directors approved a two-for-one stock split (in the form of a 100% stock dividend) of our Common Stock. These stock splits have been retroactively reflected in our consolidated financial statements.

Historical weighted average shares outstanding and loss per share amounts have been restated to reflect all stock splits and acquisitions accounted for as pooling of interests.

LIQUIDITY

For the years ended September30, 2002, 2001 and 2000, we have incurred losses from continuing operations of $255.8 million, $241.0 million and $8.0 million, respectively, and negative cash flows from operations of continuing operations for the years ended September30, 2002 and 2001 of $115.8 million and $85.1 million, respectively. We have historically relied upon proceeds from equity offerings to fund operations. During 2002, we undertook restructurings to reduce costs and to reduce cash outflows from operations. As described in Note20 we implemented subsequent to September30, 2002 a restructuring plan in order to reduce the operating expenses on an ongoing basis and inject cash. These activities generated cash flows needed for our operations. Management believes it has adequate cash resources to fund operations for at least until December2003 with these additional subsequent cash flows, maintaining its existing customer relationships, continued efforts on pursuing increased revenues and monitoring expenses.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, which are all wholly owned. All inter-company balances and transactions have been eliminated in the consolidated financial statements.

FOREIGN CURRENCY TRANSLATION

We translate into U.S. Dollars the accounts of our foreign subsidiaries using the local currency as the functional currency. The balance sheets of our subsidiaries are translated into U.S. dollars at period end rates of exchange. Revenues and expenses are translated at average rates for the period. The resulting translation adjustments are included in other comprehensive income (loss). Exchange gains and losses arising from transactions denominated in a foreign currency other than the functional currency of the entity involved are included in other income, net.

RECLASSIFICATIONS

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

Powered By EDGAR Online 2003. EDGAR Online, Inc.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments, including cash and cash equivalents, restricted cash, short-term investments, accounts receivable, and accounts payable are carried at cost, which approximates fair value due to the relatively short maturity of those instruments. The market rate structure of interest rates on notes payable approximates fair value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are stated at cost, which approximates fair value. Cash equivalents consist of highly liquid investments that mature within three months of their purchase date. Cash equivalents consist primarily of money market funds.

SHORT-TERM INVESTMENTS

Short-term investments are comprised primarily of high-grade commercial paper and debt instruments and are classified as available-for-sale investments. The carrying value of the short-term investments is adjusted to fair value with a resulting adjustment to stockholders' equity. The amortized cost of debt securities are adjusted for amortization of premiums and accretion of discounts to maturity, both of which are included in interest income. Realized gains and losses are recorded using the specific identification method and have been minimal through September30, 2002.

RESTRICTED CASH

Restricted cash was a cash collateral account maintained under the terms of Parkside lease agreement amounting to $9.3 million (see Note15) and an operating lease agreement for the land and facilities of our corporate headquarters, Bayside, amounting to $119.6 million (see Note12). In accordance with these agreements, we had created and had maintained a cash collateral account that limited the liquidity of $129.0 million of our cash prior to August 2002, at which time the related lease agreements were terminated.

INVESTMENTS IN EQUITY SECURITIES

Investments in equity securities include equity investments in both publicly traded and privately held technology companies. For companies where we do not have the ability to exercise significant influence over any of these companies, investments in publicly held companies are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity and investments in privately held companies are accounted for under the cost method of accounting. For companies where we are able to exercise significant influence investments are accounted for under the equity method.

We perform periodic reviews of our investments for impairment. Our investments in publicly held companies are generally considered impaired when a decline in the fair value of an investment as measured by quoted market prices is less than its carrying value and such a decline is not considered temporary. Our investments in privately held companies are considered impaired when a review of the investee's operations and other indicators of impairment indicate that the carrying value of the investment is not likely to be recoverable. Such indicators include, but are not limited to, limited capital resources, limited prospects of receiving additional financing, and prospects for liquidity of the related securities. Impaired investments in privately held companies are written down to estimated fair value, which is the amount we believe is recoverable from our investment.

PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the related assets, generally three years for computer equipment, five years for furniture and fixtures and twenty years for buildings. Any gains or losses on the disposal of property and equipment are recorded in the period of disposition. Assets held under capital lease and leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or remaining lease term (up to fifteen years). Major additions and improvements are capitalized, while replacements, maintenance and repairs that do not improve or extend the life of the assets are charged to expense.

We record impairments or write-downs of property, plant and equipment when events and circumstances indicate that an impairment assessment should be performed and that assessment indicates that there is an impairment. Events and circumstances that would trigger an impairment assessment include, but are not limited to, a significant decrease in the market value of an asset, a significant change in the manner or extent that an asset is used including a decision to abandon the asset, a significant adverse change in operations or business climate affecting the asset not considered temporary, and historical operating or cash flow losses expected to

Powered By EDGAR Online 2003. EDGAR Online, Inc.

continue for the foreseeable future associated with the asset. An asset is considered impaired when the undiscounted cash flows projected to be generated from the asset over its remaining useful life is less than the recorded amount of that asset. Impairments are performed at the lowest level where we have distinguishable cash flows for all assets at that level grouped together. Impairment losses are measured based on the difference between the asset's estimated fair value and carrying amount and are recorded as impairment write-downs in the consolidated statements of operations in the period that an indicator of impairment arises.

GOODWILL AND OTHER INTANGIBLES, NET

Goodwill and other intangibles, net relates to our acquisitions accounted for under the purchase method. For acquisitions prior to June 30, 2001, goodwill has been amortized using the straight-line method over a period of five years, based on the period of expected benefit. The goodwill from our acquisition of Quiver in August 2002 is not amortized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141 Business Combinations.

We assess the impairment of goodwill and other intangibles periodically in accordance with the provisions of SFAS No. 121, Accounting for the Impairment of Long Lived Assets. We also assess the impairment of enterprise level goodwill periodically in accordance with the provision of Accounting Principles Board (APB) Opinion No. 17, Intangible Assets. The goodwill associated with the acquisitions has been considered by Inktomi as enterprise goodwill as Inktomi historically has not had distinguishable cash flows for any of its divisions. Therefore impairment assessments are performed at the Inktomi level. An impairment review is performed whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important which could trigger an impairment review include, but are not limited to, significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends and a significant decline in stock price resulting in Inktomi's market capitalization falling below Inktomi's shareholders equity for a sustained period. When it is determined that the carrying value of goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, measurement of any impairment are based on a projected discounted cash flow method using a discount rate commensurate with the risk inherent in the current business model.

SOFTWARE DEVELOPMENT COSTS

Software development costs have been accounted for in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed. Under the standard, capitalization of software development costs begins upon the establishment of technological feasibility that, for us, is upon completion of a working model and ends upon release of the product. To date, such amounts have been insignificant, and accordingly, we have charged all software development costs to research and development expense.

REVENUE RECOGNITION

LICENCES

We recognize revenues from software licenses and services when the licensed product or service is delivered, collection is reasonably assured, the fee for each element of the transaction is fixed or determinable, persuasive evidence of an arrangement exists, and vendor-specific objective evidence exists to allocate the total fee to any undelivered elements of the arrangement.

For software resellers, we generally recognize revenue upon selling into the channel, provided that persuasive evidence of an arrangement exists, fees are fixed or determinable, collectibility is probable, no contingencies exist and delivery has occurred. Reseller license revenue as a percentage of total revenue was 3%, 7% and 9% for fiscal 2002, 2001 and 2000, respectively. We do not offer a right of return and fees under these arrangements are non-refundable.

For software original equipment manufacturers ("OEMs"), where there is a non-refundable prepayment, generally we recognize revenue upon completion and delivery of any required modifications for the OEM, provided that persuasive evidence of an arrangement exists, fees are fixed or determinable, collectibility is probable and no contingencies exist. We do not offer a right of return and fees are nonrefundable. In other cases, where there is no up-front payment, Inktomi recognizes revenue when the OEM notifies Inktomi of the royalties payable to Inktomi as a result of selling through the product. OEM license revenue from continuing operations as a percentage of total revenue was 3%, 7% and 1% for fiscal year ended September30, 2002, 2001 and 2000, respectively. We do not offer a right of return.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

We estimate whether collection is reasonably assured based on our knowledge of the customers payment history with us and other sources that may include use of third-party credit rating agencies. Actual collection of amounts from customers will depend on customer specific circumstances and therefore amounts, which we have determined that collection is assured, may ultimately not be collected.

We estimate whether fees are fixed and determinable based on contractual terms of the arrangement. We generally do not offer rights of refund or acceptance provisions. We do not record revenue until the lapse of these provisions, if provided. We assess whether there is sufficient history of collection for any payment terms provided to customers which are longer than what we provide the majority of our customers. We recognize revenue when amounts become due for any amounts considered to be extended payments.

Fees from licenses sold together with consulting and implementation services are generally recognized upon delivery provided that the above criteria have been met, payment of the license fees is not dependent upon the performance of the services and the services are not essential to the functionality of the licensed software.

In instances where the aforementioned criteria have not been met, both the licenses and consulting fees, excluding the upgrade and support elements, are recognized using contract accounting. Where reliable estimates can be made by management with respect to the extent of consulting or implementation services required for full functionality, the license and service revenue, excluding the upgrade and support element, is recognized on a percentage-of-completion method. Management estimates the percentage of completion for contracts based on the labor hours incurred compared to total estimated hours for the full implementation or completion of consulting services as well as contract milestones completed. We classify revenue from these arrangements as licenses, maintenance, and other services revenues, respectively, based upon the estimated fair value of each element.

We assess numerous factors of services provided with licenses sold in order to determine whether they are essential to the functionality of the software including, but not limited to, our history of providing similar services, whether other vendors can provide similar services, whether core software is being changed and whether customer collection of license fees are contingent upon completion of services. Our assessment of these factors is based on our knowledge of the service market, the software functionality which the customer is purchasing and the contractual terms of the arrangement.

Revenue on upgrade rights is recognized ratably over the term of the agreement and included in licences revenue.

WEB SEARCH SERVICES

Web search services revenues are generated through a variety of contractual arrangements, which include general service fees, per-query search fees, database inclusion fees, maintenance fees and search service hosting fees.

General services fees and per-query search fees are based, and recognized, on the query volume in the period or the minimum payments of the respective contract. Database inclusion fees are generated from customers who pay on a click-through basis and customers who pay a flat rate per universal resource locator (“URL”) to be included in the Inktomi database. Fees based on click-throughs are recognized based on the activity for that period. Fees based on a flat rate per URL are recognized ratably over the term of the contract.

Maintenance fees and search services hosting fees are recognized ratably over the term of the contract. For all Web search services, revenue is recognized when persuasive evidence of an arrangement exists, the services have been delivered, performance obligations have been satisfied, no refund obligations exist and collection is reasonably assured.

MAINTENANCE SERVICES

Maintenance services revenues are generated through the sale of support services in connection with initial licence sales and renewals of support services after the initial service period. Support services generally have a term of one-year and are recognized over the term of the support agreement.

OTHER SERVICES

Other services revenues are generated from consulting services and Commerce revenues, prior to the divestiture of our Commerce Division in March 2001 (see Note1). Revenue from consulting services is recognized as services are performed or upon acceptance. We generated commerce revenues through a variety of contractual arrangements, consisting of annual infrastructure service fees,

Powered By EDGAR Online 2003. EDGAR Online, Inc.

transaction fees from participating online merchants and per-query search fees and advertising revenues and general service fees from Internet portals and other Web site customers. Annual infrastructure service fees and general service fees are recognized ratably over the contract period. Transaction and per-query fees are recognized based on the activity in the period and advertising revenues are recognized in the period that the advertisement is displayed. Commerce revenues are included in other service revenue.

ADVERTISING COSTS

We expense advertising costs as they are incurred. Advertising expense from continuing operations was approximately $8.2 million, $18.7 million, and $18.8 million in the years ended September30, 2002, 2001, and 2000, respectively.

401(k) PLAN

In May 1996, we established a 401(k) Plan which covers substantially all employees. Under the 401(k) Plan, employees are permitted to contribute up to 25% of gross compensation not to exceed the annual 402(g) limitation for any plan year. We may make discretionary contributions, but have not made any contributions to the 401(k) Plan since inception.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company uses the fixed intrinsic value method to record stock-based compensation for employees provided the stock options terms meet the requirements for fixed accounting. The fixed intrinsic value method requires that deferred stock compensation is recorded for the difference between the exercise price and fair value of the underlying common stock on the grant date of the stock option. Compensation expense resulting from employee stock options is amortized to expense ratably over the vesting period. Pro forma net loss disclosures are presented in Note17, assuming all employee stock options were valued using the Black-Scholes model and the resulting stock-based compensation is amortized ratably over the vesting term. Stock-based compensation to non-employees is based on the fair value of the stock option estimated using the Black-Scholes model on the date of grant and re-measured until vested.

ACQUISITION-RELATED COSTS

As a result of our FastForward acquisition in October 2000 and our WebSpective acquisition in October 1999, we recorded acquisition-related costs of $19.5 million and $4.0 million in fiscal 2001 and 2000, respectively, primarily for investment banking fees, accounting, legal and other professional expenses.

OTHER INCOME, NET

Other income, net includes gains on sales of investments, interest income and expense, foreign exchange gains and losses and losses on asset dispositions. Other income for the years ended September30, 2002, 2001 and 2000 consists of (in thousands):

	SEPTEMBER 30,		
	2002	2001	2000
Interest expense	$ (934)	$ (1,107)	$ (2,192)
Interest income	4,799	15,375	15,917
Foreign exchange gain (loss)	(160)	(567)	118
Realized gain (loss) on sale of investments, net	(736)	(2,925)	1,930
Loss on disposition	(937)	(934)	—
Reversal of accruals associated with previous one time charges	2,755	—	—
Other	1,816	498	1,178
Other income, net	$ 6,603	$ 10,340	$ 16,951

INCOME TAXES

Income taxes are accounted for in accordance with SFAS No. 109, Accounting for Income Taxes, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

COMPREHENSIVE INCOME (LOSS)

SFAS No. 130, Reporting Comprehensive Income, requires companies to report foreign currency translation gains and losses and unrealized gains and losses on equity securities that have been previously excluded from net income and reflected instead in stockholders' equity. Comprehensive income (loss) for the periods ended September30, 2002, 2001 and 2000 have been included in our Consolidated Statements of Changes in Stockholders' Equity.

NET LOSS PER SHARE

We compute net loss per share in accordance with SFAS No. 128, Earnings per Share, and SAB No. 98. Under the provisions of SFAS No. 128 and SAB No. 98, basic and diluted net loss per share are based on the weighted average shares outstanding in each period. Basic net loss per share is calculated by dividing net loss by the weighted average number of outstanding shares during the period. Diluted net loss per share is calculated by adjusting the average number of outstanding shares assuming conversion of all potentially dilutive stock options and warrants under the treasury stock method. For all fiscal years presented, potentially dilutive stock options and warrants were excluded from the calculation of diluted net loss per share, as their effect would have been anti-dilutive.

The following is a reconciliation of the numerator and denominator used to determine basic and diluted earnings per share ("EPS") (in thousands, except per share amounts):

	FOR THE YEARS ENDED SEPTEMBER30,		
	2002	2001	2000
Numerator			
Loss from continuing operations	(255,818)	(240,957)	(7,973)
Loss from discontinued operations	(244,977)	(55,525)	(19,367)
Net loss	$ (500,795)	$ (296,482)	$ (27,340)
Denominator— Basic and diluted EPS weighted average Common Stock outstanding	144,168	127,361	124,068
Less weighted average Common Stock subject to repurchase	(1,475)	(1,753)	(11,038)
Weighted average Common Stock used to calculate basic and diluted net loss per Common Share	142,693	125,608	113,030
Basic and diluted net loss per Common share:			
Loss from continuing operations	$ (1.79)	$ (1.92)	$ (0.07)
Loss from discontinued operations	(1.72)	(0.44)	(0.17)
Net loss	$ (3.51)	$ (2.36)	$ (0.24)
Dilutive securities outstanding that are not included as their effect would be anti-dilutive	26,469	28,629	23,759

BUSINESS RISK AND CONCENTRATION OF CREDIT RISK

We operate in the internet and software industry, which is rapidly evolving and intensely competitive.

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of temporary cash investments (including money market accounts), short-term investments, and accounts receivable. We place our cash, cash equivalents, short-term investments and restricted cash with major financial institutions and such deposits exceed federally insured limits.

We do not require collateral, and maintain allowances for potential credit losses on customer accounts when deemed necessary. For the year ended September30, 2002, two customers accounted for 11% and 27% of all revenue generated. For the year ended September30, 2001 one customer accounted for 10% of all revenue generated. In 2000, no customer accounted for 10% of revenue generated. At September30, 2002, one customer accounted for 24% of gross accounts receivable, at September30, 2001, no customer accounted for 10% of gross accounts receivable and at September30, 2000, one customer accounted for 14% of gross accounts receivable.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 2001, the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue 01-09, Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products, which is a codification of EITF 00-14, 00-22 and 00-25. This issue presumes that consideration from a vendor to a customer or reseller of the vendor's products to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement and could lead to negative revenue under certain circumstances. Revenue reduction is required unless consideration relates to a separate identifiable benefit and the benefit's fair value can be established. We implemented EITF 01-09 during the fiscal year ended September30, 2002. The adoption of EITF 01-09 did not have a significant impact on the financial position or results of operations for the fiscal 2001 and 2000.

In July 2001, the FASB issued SFAS 142, Goodwill and Other Intangible Assets, which is effective for fiscal years beginning after December15, 2001. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions upon adoption for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the testing for impairment of existing goodwill and other intangibles. The impairment review required under SFAS 142 will involve a two-step process as follows:

• Step 1 — we will compare the fair value of our reporting units to the carrying value, including goodwill of each of those units. For each reporting unit where the carrying value, including goodwill, exceeds the unit's fair value, we will move on to step 2. If a unit's fair value exceeds the carrying value, no further work is performed and no impairment charge is necessary.

• Step 2 — we will perform an allocation of the fair value of the reporting unit to its identifiable tangible and non-goodwill intangible assets and liabilities. This will derive an implied fair value for the reporting unit's goodwill. We will then compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment loss must be recognized for the excess.

We will adopt SFAS 142 as of October1, 2002 and expect to complete the initial review during our second quarter ending March31, 2003.

In October 2001, the FASB issued SFAS144, Accounting for the Impairment or Disposal of Long-lived Assets. The objectives of SFAS144 are to address significant issues relating to the implementation of SFAS121, Accounting for the Impairment of Long-lived Assets to be Disposed of, and to develop a single accounting model, based on the framework established by SFAS 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1)can be distinguished from the rest of the entity and (2)will be eliminated from the ongoing operations of the entity in a disposal transaction. Although SFAS144 supercedes SFAS121, it retains some fundamental provisions of SFAS121. SFAS144 is effective for financial statements issued for fiscal years beginning after December15, 2001, and interim periods within those fiscal years. We will adopt SFAS144 as of October1, 2002 and do not expect that the implementation will have a significant effect on our financial statements, except for our expected discontinued operations treatment of the sale of our enterprise search division to Verity, Inc. (see Note20).

In June 2002, the FASB issued SFAS 146, Accounting for Exit or Disposal Activities. SFAS 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for under EITF No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The scope of SFAS 146 also includes costs related to terminating a contract that is not a capital lease and termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS 146 will be effective for exit or disposal activities that are initiated after December31, 2002 and early application is encouraged. The provisions of EITF No. 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF No. 94-3 prior to the adoption of SFAS 146. We will adopt FSAS 146 for exit or disposal activities that are initiated after December31, 2002. The effect on adoption of SFAS 146 will change on a prospective basis the timing of when restructuring charges are recorded from a commitment date approach to when the liability is incurred.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods that end after December15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December31, 2002, irrespective of a guarantor's year-end. We are currently assessing what the impact of the guidance would be on our financial statements.

In November 2002, the EITF reached a consensus on issue No. 00-21 Accounting for Revenue Arrangements with Multiple Deliverables ("EITF 00-21") on a model to be used to determine when a revenue arrangement with multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. The EITF also reached a consensus that this guidance should be effective all revenue arrangements entered into in fiscal periods beginning after June 15, 2003, which for the company would be the quarter ending September30, 2003. We are currently assessing what the impact of the guidance would be on our financial statements.

(3) DISCONTINUED OPERATIONS

On December17, 2002 to further focus our business on Web search services and to improve company cash flow, we completed the sale of our Enterprise Search division to Verity, Inc. ("Verity") (See note 1). In consideration for the sale, Verity agreed to pay $25.0 million in cash and assumed certain of our obligations under existing enterprise search business contracts, including customer support obligations. Of the consideration payable by Verity, $22.0 million has been paid. $3.0 million plus interest will be paid 18 months following the closing of the sale, subject to reduction for any indemnification claims made by Verity during such 18 month period. The transaction was structured as an asset sale. The gain on the sale of $12.4 million was recorded in December2002. Verity acquired from us the assets relating to our enterprise search software business, which includes basic search, categorization and content refinement capabilities, as well as our XML technology assets.

The Enterprise Search division is accounted for as a discontinued operation in accordance with Statement of Financial Accounting Standard (SFAS) No. 144 Accounting for the Impairment or Disposal of Long-lived Assets and therefore, the results of operations and cash flows have been reclassified from the Company's results of operations and cash flows from continuing operations for all periods presented in the consolidated financial statements and presented separately as discontinued operations. The Enterprise Search division was part of the Company's Software Products reporting segment.

Revenues and the components of Loss from discontinued operations were as follows (in thousands):

	FOR THE YEAR ENDED SEPTEMBER 30,		
	2002(a)	2001(b)	2000(c)
Revenue	$ 22,418	$ 26,036	$ 3,551
Cost of Revenue	(2,894)	(2,650)	(1,678)
Gross Profit	19,524	23,386	1,873
Operating Expenses	(264,431)	(78,895)	(21,240)
Loss before income tax provision	(244,907)	(55,509)	(19,367)
Income tax provision	(70)	(16)	—
Loss from discontinued operations	(244,977)	(55,525)	(19,367)

(a) Fiscal 2002 includes the following items in operating expenses: $48.9 million related to amortization of goodwill and other intangibles; $192.4 million related to impairment of goodwill and other intangibles (see Note13).

(b) Fiscal 2001 includes the following items in operating expenses: $64.7 million related to amortization of goodwill and other intangibles.

(c) Fiscal 2000 includes the following items in operating expenses: $13.2 million related to amortization of goodwill and other intangibles. $4.4 million for write off of in-process research and development (see Note2).

Powered By EDGAR Online 2003. EDGAR Online, Inc.

The components of net assets related to the discontinued operations were as follows (in thousands):

	SEPTEMBER 30, 2002
Current Assets	$ 3,051
Property and equipment, net of accumulated depreciation of $1,171	1,265
Goodwill and other intangibles, net and other long-term assets	10,422
Current liabilities	(8,737)
Net assets of discontinued operations	$ 6,001

Verity did not assume any outstanding accrued liabilities or other debt as part of the transaction, except for certain customer support obligations. These customer support obligations are associated with the Enterprise Search division's deferred revenue.

The gain on disposal recorded in December2002 is calculated as follows:

Proceeds from disposal	$ 22,000
Net assets and liabilities disposed:	
Accounts receivable, net	(2,445)
Prepaid expenses and other current assets	(649)
Property and equipment, net	(237)
Goodwill and other intangibles, net	(9,896)
Deferred revenue	5,623
Disposal costs	(2,000)
Gain on disposal	$ 12,396

(4) PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of (in thousands):

	SEPTEMBER 30, 2002	2001
Computer equipment	$ 15,885	$ 83,140
Furniture and fixtures	311	10,030
Leasehold improvements	3,157	35,306
Building	24,950	—
Land	19,850	—
	64,153	128,476
Less accumulated depreciation and amortization	(1,617)	(52,375)
Property, plant and equipment, net	$ 62,536	$ 76,101

Net assets acquired under capitalized lease obligations are included in furniture and fixtures and totaled $0.3 million at September30, 2002. Net assets acquired under capitalized lease obligations are included in computer equipment and furniture and fixtures and totaled $18.9 million at September30, 2001. Depreciation expense for the year ended September30, 2002, 2001, and 2000 was approximately $24.7 million, $32.1 million, and $22.1 million, respectively.

As described in Note12, building and land consist of our Bayside corporate headquarters. We purchased this facility for $114 million in August 2002. As of the purchase date we completed an impairment assessment of our corporate headquarter and related leasehold improvements in August 2002 resulting in a write down of the assets to the estimated fair value. This represents the new cost basis for the building and leasehold improvements. The building will be depreciated over the expected remaining economic life. As described in Note20 the Company completed the sale of its corporate headquarters on December20, 2002.

Further as described in Note12 the company completed an impairment assessment of its computer equipment and furniture and fixtures

Powered By EDGAR Online 2003. EDGAR Online, Inc.

resulting in a write down of the assets to the estimated fair value. This represents the new cost basis for the assets and will be amortized over the expected remaining economic life.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

(5) INVESTMENTS

The following table summarizes the Company's investment in available-for-sale securities (in thousands):

	SEPTEMBER 30, 2002			
	GROSS AMORTIZED COSTS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Certificates of Deposits, Money Market Funds, Mutual Funds and Auction Rate Securities	$ 353	$ —	$ —	$ 353
United States Government and Agencies	999	1	—	1,000
Municipal Bonds	9,751	—	—	9,751
Corporate Debt Securities	16,907	105	(1)	17,011
Investment in Equity Securities	331	—	—	331
	$ 28,341	$ 106	$ (1)	$ 28,446

	SEPTEMBER 30, 2001			
	GROSS AMORTIZED COSTS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Certificates of Deposits, Money Market Funds, Mutual Funds and Auction Rate Securities	$ 34,309	$ —	$ (1)	$ 34,308
United States Government and Agencies	1,008	172	(14)	1,166
Municipal Bonds	5,910	—	—	5,910
Corporate Debt Securities	24,417	205	(11)	24,611
Investment in Equity Securities	3,222	37	(1,878)	1,381
	$ 68,866	$ 414	$ (1,904)	$ 67,376

The contractual maturities of available-for-sale debt securities are as follows (in thousands):

	SEPTEMBER 30,	
	2002	2001
Due within one year	$ 24,944	$ 49,644
Due over one year	3,171	16,351
	$ 28,115	$ 65,995

The Company's investment in available-for-sale securities are classified as short term assets as we expect to sell the assets within one year.

(6) INCOME TAXES

	FOR THE YEAR ENDED SEPTEMBER30,		
	2002	2001	2000
Current:			
Federal	$ —	$ —	$ 741
State	81	236	225
Foreign	608	686	860
	689	922	1,826
Deferred	—	—	—
Income tax provision continuing operations	$ 689	$ 922	$ 1,826
Current:			
Federal	$ —	$ —	$ —
State	—	—	—
Foreign	70	16	—
	70	16	—
Deferred	—	—	—
Income tax provision discontinued operations	$ 70	$ 16	$ —

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

The principal items accounting for the difference between the income tax benefits computed using the United States statutory rate and the provision for income taxes from continuing operations are as follows (in thousands):

	FOR THE YEAR ENDED SEPTEMBER 30,		
	2002	2001	2000
Federal tax benefit at statutory rate .	$ (68,075)	$ (77,710)	$ (2,044)
State tax benefit of federal tax effect	(8,048)	(12,172)	(124)
Research and experimentation credits	(2,955)	(1,000)	(808)
Acquisition-related costs	204	937	(136)
Goodwill and other intangibles	3,419	—	—
Amortization of deferred compensation .	1,736	3,853	2,410
Foreign taxes	608	686	860
Other	(1,800)	(441)	(274)
Net operating losses not benefited	75,600	86,769	1,942
	$ 689	$ 922	$ 1,826

For the year ended September30, 2002, income (loss) before income tax provision for our United States entities was $(253.8) million and for our foreign entities was $(1.3) million. For the year ended September30, 2001, income (loss) before income tax provision for our United States entities was $(241.0) million and for our foreign entities was $1.0 million. For the year ended September30, 2000, income (loss) before income tax provision for our United States entities was $(8.4) million and for our foreign entities was $2.3 million.

Net deferred tax assets (liabilities) comprise (in thousands):

	SEPTEMBER 30,	
	2002	2001
Net operating loss carryforwards — federal and state	$ 126,456	$ 56,440
Research credit and other credit carryforwards	9,373	5,179
Capital loss carryforward	10,073	2,858
Other liabilities and reserves	4,496	11,676
Deferred revenue	2,865	3,127
Property and equipment	11,500	6,833
Goodwill and other intangibles	147,335	35,206
Loss from equity investment	33,628	30,308
Other	60	106
Valuation allowance	(345,786)	(151,733)
Net deferred tax assets	$ —	$ —

Due to the uncertainty surrounding the realization of the favorable tax attributes in future tax returns, we have recognized a valuation allowance against our otherwise recognizable net deferred tax assets.

At September30, 2002, we had the following carryforwards available to reduce future taxable income and income taxes (in thousands):

	SEPTEMBER 30, 2002	
	FEDERAL	STATE
Net operating loss carryforwards (excluding stock compensation)	$ 338,910	$ 199,799
Net operating loss carryforwards (including stock compensation)	641,263	450,628
Research and experimentation credit carryforwards	5,913	5,242

The federal and state net operating loss carryforwards expire through 2022 and 2009, respectively, and the research and experimentation credits

Powered By EDGAR Online 2003. EDGAR Online, Inc.

expire through 2022.

For federal and state tax purposes, our net operating loss and research and experimentation credit carryforwards could be subject to certain limitations on annual utilization if certain changes in ownership have occurred, as defined by federal and state tax laws.

The tax benefit related to the exercise of stock compensation is recorded in the Additional Paid-in-Capital account.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

(7) NOTES PAYABLE AND EQUIPMENT LINE

Notes payable and line of credit comprise (in thousands):

	SEPTEMBER 30, 2002	SEPTEMBER 30, 2001
Notes payable(1)	$ 21,500	$ —
Imputed interest(1)	(247)	—
Notes payable(2)	3,611	—
Notes payable(3)	1,389	
Equipment notes(4)	3,750	6,250
Equipment line(5)	—	481
	30,003	6,731
Current portion	(30,003)	(2,500)
Notes payable, less current portion	$ —	$ 4,231

(1) At September30, 2002, we had a note bearing interest at 0% until January 21, 2003 and 6% per annum thereafter resulting from the lease termination agreement with the landlords of our Parkside facilities. From the note inception to January 21, 2003, we applied an imputed annual interest rate of 6%. The loan is payable $5.0 million on or before October 1, 2002 and the remainder earlier of (i) January 21, 2003 or (ii) the date of the sale of the Bayside facility. On October 1, 2002, we paid the initial amount due of $5.0 million and on December20, 2002, we paid the remaining $16.5 million upon the close of the Bayside facility (see Note20). This loan was secured by our Bayside corporate headquarters facility.

(2) At September30, 2002, we had a line of credit with a banking institution that was primarily collateralized by our accounts receivable. Interest rate is prime plus 3% per annum. The loan is repayable one year from September30, 2002.

(3) At September30, 2002, we had a secured promissory note with a banking institution that was secured by all pledges and security interests previously, now or hereafter granted by Inktomi to the bank. Interest rate is prime plus 3% per annum. The note is repayable on October 5, 2002.

(4) At September30, 2002 and 2001, the equipment note consisted of one loan which has equal monthly payments of $208,000 plus interest at prime (4.75% at September30, 2002). The note is collateralized by the underlying equipment.

(5) At September30, 2001, we had an equipment line with a leasing company for $481. The monthly payment on the equipment line was $30,000 as of September30, 2001. The equipment line was collateralized by the underlying equipment. The interest rate was approximately 7%.

The carrying value of notes payable approximated fair value as the related interest rates approximate market rates.

On September30, 2002, we entered into a new Loan Modification Agreement with our bank as a result of our failure to comply with certain covenants under our existing loan arrangements. The Loan Modification Agreement provides a waiver of existing breaches and the revised covenants under this agreement require, among other things, (i) that we maintain monthly unrestricted cash balances of not less than $27.5 million, (ii) that we maintain a tangible net worth of not less than $25 million at the end of each month until March 2003, and of not less than $13 million as of the end of each month from April 2003 to September2003, and (iii) that we do not incur a net loss of more than $137 million for the quarter ended September30, 2002, $10.3 million for the quarter ended December31, 2002, $7.6 million for the quarter ended March 31, 2003, $4.7 million for the quarter ended June 30, 2003 and $1.3 million for the quarter ended September30, 2003. The covenants also prohibit us from paying cash dividends.

The Loan Modification Agreement also contains a material adverse change clause. As a result of this provision, we will be in default under the loan facility if any of the following conditions exist: payment default, covenant default, the occurrence of a material adverse change, default under certain other agreements, subordinated debt and judgments, misrepresentations regarding information we have disclosed to the bank, and insolvency. Upon the occurrence of a default the bank may declare all obligations due and payable immediately, settle or adjust disputes and claims directly with account debtors for amounts that the bank considers advisable, make such payments as necessary to protect its security interest in the collateral, apply company balances held by the bank to the obligations, and sell the collateral.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

We violated the minimum cash balance convents for the months ending October and November 2002. The bank waived the covenant violations on December27, 2002. The Company is currently negotiating to restructure its loan covenants, as it is probable that it will be in violation of the maximum GAAP loss covenants for the quarter ended December31, 2002. In December2002, the bank prospectively waived the maximum GAAP loss covenant for the quarter ended December31, 2002. Accordingly, we have classified all amounts due as current under this facility at September30, 2002. If we were required to repay the amounts borrowed under these loan arrangements, it would reduce the amount of cash we have available for our operations (see Note20).

(8) ACCRUED LIABILITIES

Accrued liabilities comprise (in thousands):

	SEPTEMBER 30,	
	2002	2001
Accrued compensation	$ 7,866	$ 21,831
Accrued royalties	2,140	9,020
Accrued consulting	1,203	5,301
Accrued marketing	1,392	4,496
Accrued for restructuring (Note14)	8,522	4,375
Accrued legal costs	727	2,021
Accrued taxes	1,737	1,481
Other accrued liabilities	6,593	10,121
Total accrued liabilities	$ 30,180	$ 58,646

(9) GOODWILL AND OTHER INTANGIBLES, NET

Goodwill and Other Intangibles, net consist of (in thousands):

	SEPTEMBER 30,	
	2002	2001
Goodwill (5 year life for acquisitions before July2001)	$ 8,207	$ 374,125
Purchased technology (3 year life)	1,900	—
Accumulated amortization	(79)	(120,132)
Total Goodwill and Other Intangibles, net	$ 10,028	$ 253,993

The following table presents the years ended September30, 2002, 2001, and 2000 results of operations reformatted to exclude goodwill amortization. These adjusted results are presented as required by SFAS 142 to allow a comparison between actual results and the adjusted results. The first table includes income from continuing operations and earnings per share from continuing operations. The second table presents the same data for the total company including both continuing operations and discontinued operations:

	FOR THE YEAR ENDED SEPTEMBER 30,		
CONTINUED OPERATIONS ONLY	2002	2001	2000
Loss from continuing operations:			
Reported loss from continuing operations	$ (255,818)	$ (240,957)	$ (7,973)
Add: Goodwill amortization	1,268	5,745	—
Adjusted loss from continuing operations	$ (254,550)	$ (235,212)	$ (7,973)
Basic and diluted loss per share from Continuing operations:			
Reported loss from continuing operations	$ (1.79)	$ (1.92)	$ (0.07)
Add: Goodwill amortization	$ 0.01	$ 0.05	$ —
Adjusted loss from continuing operations	$ (1.78)	$ (1.87)	$ (0.07)
Weighted average shares outstanding used in per share calculation	142,693	125,608	113,030

	FOR THE YEAR ENDED SEPTEMBER 30,		
CONTINUED AND DISCONTINUED OPERATIONS	2002	2001	2000
Net loss:			

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Reported net loss	$ (500,795)	$ (296,482)	$ (27,340)
Add: Goodwill amortization	50,127	70,426	13,182
Adjusted net loss	$ (450,668)	$ (226,056)	$ (14,158)
Basic and diluted net loss per share from continuing operations:			
Reported net loss	$ (3.51)	$ (2.36)	$ (0.24)
Add: Goodwill amortization	$ 0.35	$ 0.56	$ 0.12
Adjusted net loss	$ (3.16)	$ (1.80)	$ (0.12)
Weighted average shares outstanding used in per share calculation	142,693	125,608	113,030

Powered By EDGAR Online 2003. EDGAR Online, Inc.

(10) OTHER ASSETS

Other assets consist of (in thousands):

	SEPTEMBER 30,	
	2002	2001
Security deposits	$ 3,321	$ 4,747
Other assets	1,387	731
Total Other Assets	$ 4,708	$ 5,478

(11) IMPAIRMENT OF INVESTMENTS

In late 1999 and early 2000, we made numerous equity investments in both public and private companies for strategic purposes. Our approach was to invest in companies that were working to expand the markets that we believed to be strategically beneficial to us. Market conditions for technology companies began to deteriorate in late 2000 and this deterioration continued during the first half of 2001. During our quarter ended June 30, 2001 we determined that there was an other-than-temporary decline, or impairment, in value of most of our strategic investments in the amount of $65.9 million. The $65.9 million impairment charge consists of $39.7 million related to four public company investments and $26.2 million related to nine private company investments. We considered the prolonged decline in overall technology market conditions as well as factors such as liquidity and market acceptance on a company specific basis.

(12) IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

FISCAL 2002

In August 2000, we entered into an operating lease agreement for the land and facilities of our corporate headquarters, known as Bayside, in Foster City, California. This operating lease is commonly referred to as a synthetic lease because it represents a form of off-balance sheet financing under which an unrelated third-party funds 100% of the costs of the acquisition of the property and leases the asset to Inktomi as lessee. Under the lease terms, we were required to pay lease payments for five years to the lessor. The payments were calculated based on a floating interest rate applied against a $114 million principal value. The agreement was assigned to a third party lessor under the terms of a lease finance structure. This structure also required the creation and maintenance of a cash collateral account that limited the liquidity of $119.6 million of our cash, which was classified as long-term on our balance sheet. During the term of the lease, we had a purchase option to buy the building for $114 million plus breakup fees or to extend the lease. If we elected not to purchase the building or extend the lease term, we had guaranteed to compensate the lessor for the difference between the market value of the building and $114 million, limited upwards to a maximum amount of $101 million (residual value guarantee).

In our third quarter of 2002, due to the declining commercial real estate market in the Bay Area, we believed that it was probable at the end of the lease term by August 2005 that the market value of our Bayside corporate headquarters would be less than the $114 million guaranteed. Therefore, we accrued for this loss on a straight-line basis from April 1, 2002 to the end of the lease term. Accordingly, we had recorded $2.2 million in fiscal 2002 as the total estimated future probable loss amounted to $18.8 million. This loss was based on the difference between the residual value guarantee amount and the estimated value of our Bayside corporate headquarters at the end of the lease term determined through the use of estimated future sublease income provided by commercial real estate brokers.

In August 2002, through the execution of a Termination and Release Agreement, we exercised the purchase option under our operating lease arrangement for the Bayside corporate headquarters. Title for such facilities was transferred to Inktomi on such date. We paid $114.0 million to Deutsche Bank and its affiliates, the holders of the synthetic lease, for the purchase of the Bayside corporate headquarters.

At the purchase date we valued the Bayside corporate headquarters at $44.8 million based on established valuation techniques. As a result of this valuation, we incurred a charge of $67.0 million in the quarter ended September30, 2002. We also wrote down to zero the net book value of the Bayside leasehold improvements which totaled $15.5 million during the quarter ended September30, 2002.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

In September2002, we incurred $10.5 million non-cash corporate asset impairment primarily related to computer equipment and furniture and fixtures held in use as the expected cash flows were less than the carrying value of these assets. Factors which triggered our assessment for impairment included continued negative cash flows from operations, continued operating losses and carrying values which exceeded market values. These assets were written down to their estimated fair value based on information obtained from recent sales of similar assets. After the asset write-offs, we expect depreciation expenses to reduce by $2.1 million per quarter beginning in the quarter following the impairment.

Primarily as a result of our July 2002 restructuring (see Note14), we incurred an $8.7 million non-cash asset impairment charge related to abandoned assets of the web search group and content networking products group equipment.

As a result of our December2001 restructuring (see Note14), we incurred a $1.3 million asset impairment charge. The $1.3 million write-down represents computer equipment consisting of $0.5 million of abandoned assets in the London office that was downsized in the restructuring and $0.8 million of abandoned assets related to Content Bridge services that were discontinued as a product line in the quarter.

FISCAL 2001

As a result of our September2001 restructuring (see Note14), we incurred a $0.7 million asset impairment charge related to abandoned fixed assets.

As a result of our June 2001 restructuring (see Note14), we incurred a $0.2 million asset impairment charge related to abandoned fixed assets.

(13) IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLES

FISCAL 2002

On June 30, 2002, we recorded a charge of $200.9 million to reflect the impairment of goodwill and other intangibles created from the purchase of Ultraseek ($192.4 million) and eScene ($8.5 million). In fiscal 2000, we integrated Ultraseek's product offerings and operations into our entire organization and, therefore, the associated goodwill from this purchase transaction was accounted for as enterprise goodwill. In the quarter ended June 30, 2002, we experienced a sustained decline in our market capitalization to amounts well below our net book value. In addition, other factors occurred in the quarter ended June 30, 2002 that led us to assess whether an enterprise goodwill impairment charge was appropriate. In particular, America Online, one of our largest customers announced in April 2002, that it would not renew its web search contract with us upon expiration in August 2002. In addition, we were experiencing continued negative cash flows during the third quarter ended June 30, 2002. These factors affected our overall enterprise value leading to further decreases in the market capitalization. Because of these factors we conducted an enterprise goodwill impairment analysis under APB. 17 and recorded a charge at June 30, 2002 related to the goodwill created from the purchase of Ultraseek and eScene. As a result of the sale of the Enterprise Search Division to Verity as described in Note3 the impairment charges related to the Ultraseek acquisition have been classified as part of discontinued operations in the Company's Consolidated Statement of Operations.

In December2001, we evaluated the remaining intangible assets associated with our asset purchase from Adero and recorded a $1.8 million charge to write-off the remaining net book value as there will be no further revenue streams related to these assets.

Due to the sale of the Enterprise search division to Verity as described in Note3 the impairment charges related to goodwill and other intangible from the Ultraseek acquisition have been classified as part of discontinued operations in the Company's Consolidated Statement of Operations. As a result total impairment charges for continuing operations were $10.2 million and total impairment charges for discontinuing operations were $192.4 million.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

FISCAL 2001

During fiscal 2001, we recorded a charge of $44.9 million to reflect the impairment of goodwill and other intangibles, primarily related to our goodwill associated with our investment in AirFlash and with the assets acquired from Adero. Our private equity investment in AirFlash was determined to be impaired due to continuing sustained operating losses and no success by AirFlash of obtaining additional funding. No cash flows were anticipated from our investment in AirFlash therefore the associated goodwill was fully impaired. Our goodwill related to the assets acquired from Adero was determined to be impaired as we licensed the remaining technology to a third party during 2001 and estimated discounted cashflows were below the carrying value of the goodwill. An impairment was recorded to adjust the carrying value of the Adero goodwill down to the estimated fair value, which was based on the estimated discounted cash flows.

(14) RESTRUCTURING

FISCAL 2002

For fiscal 2002, we incurred $20.1 million in restructuring charges less $0.2 million release of excess accrual that related to a fiscal 2001 restructuring of the total charges $19.7 million related to continuing operations and $0.4 million related to discontinued operations. At September30, 2002, $7.4 million for restructuring remained outstanding as an accrued liability on our balance sheet. The restructuring for fiscal 2002 consisted of:

Fiscal 2002 Fourth Quarter Restructuring:

In July 2002, we announced plans to focus our business on web search and enterprise retrieval markets. As a result, we significantly scaled back the content networking products group and related corporate infrastructure and eliminated 286 positions from continuing operations and 4 positions from discontinued operations and closed several sales offices around the world. As a result of this restructuring, we incurred a total charge of $15.4 million made up of $11.9 million of severance and related expenses and $3.5 million in costs associated primarily with the consolidation of sales offices in North America and Europe. Approximately $8.3 million of the charge was paid in the quarter ended September30, 2002 and the remainder will be paid over the next twelve months.

The following table sets forth an analysis of the components of the fiscal 2002 fourth quarter restructuring charge and the payments made against the accrual through September30, 2002 (in thousands):

	SEVERANCE RELATED	UNDERUTILIZED SPACE	TOTAL
Restructuring provision from continuing operations:			
Severance related	$ 11,805	$ —	$ 11,805
Committed excess facilities	—	3,535	3,535
Total continuing operations	11,805	3,535	15,340
Restructuring provision from discontinued operations:			
Severance related	69	—	69
Total discontinued operations	69	—	69
Total	11,874	3,535	15,409
Cash paid	(7,922)	(363)	(8,285)
Accrual balance at September30, 2002	$ 3,952	$ 3,172	$ 7,124

Fiscal 2002 Third Quarter Restructuring:

In April 2002, we completed a restructuring and a workforce reduction of approximately 43 employees from continuing operations and 7 employees from discontinued operations to reduce our operating expenses. All of our functional areas were affected by the reduction. As a result of this workforce reduction, we incurred a total charge of $2.2 million. During the quarter ended September30, 2002, a $0.3 million adjustment was made to reduce the charge for severance and related expenses. As of September30, 2002, approximately $0.3 million of this restructuring accrual remained outstanding as an accrued liability on our balance sheet. The remaining payments will be made over the next six months.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

The following table sets forth an analysis of the components of the fiscal 2002 third quarter restructuring charge and the payments made against the accrual through September30, 2002 (in thousands):

	SEVERANCE RELATED	UNDERUTILIZED SPACE	TOTAL
Restructuring provision from continuing operations:			
Severance related	$ 1,692	$ —	$ 1,692
Committed excess facilities	—	268	268
Total continuing operations	1,692	268	1,960
Restructuring provision from discontinued operations:			
Severance related	260	—	260
Total discontinued operations	260	—	260
Total	1,952	268	2,220
Cash paid	(1,610)	(50)	(1,660)
Release of excess accrual	(273)	—	(273)
Accrual balance at September30, 2002	$ 69	$ 218	$ 287

Fiscal 2002 First Quarter Restructuring:

In the quarter ended December31, 2001, we announced and substantially completed a restructuring and a workforce reduction of approximately 110 employees from continuing operations and 5 employees from discontinued operations to reduce our operating expenses. All of our functional areas were affected by the reduction. As a result of this workforce reduction, we incurred a total charge of $2.7 million. As of September30, 2002, none of this restructuring accrual remained outstanding as an accrued liability on our balance sheet.

The following table sets forth an analysis of the components of the fiscal 2002 first quarter restructuring charge and the payments made against the accrual through September30, 2002 (in thousands):

	SEVERANCE RELATED	UNDERUTILIZED SPACE	TOTAL
Restructuring provision from continuing operations:			
Severance related	$ 2,423	$ —	$ 2,423
Committed excess facilities	—	215	215
Total continuing operations	2,423	215	2,638
Restructuring provision from discontinued operations:			
Severance related	74	—	74
Total discontinued operations	74	—	74
Total	2,497	215	2,712
Cash paid	(2,497)	(215)	(2,712)
Accrual balance at September30, 2002	$ —	$ —	$ —

FISCAL 2001

For fiscal 2001, we accrued $11.6 million for restructuring charges of the total charges $11.5 million related to continuing operations and $0.1 million related to discontinued operations. At September30, 2002, $1.1 million for restructuring remained outstanding as an accrued liability on our balance sheet. The restructuring for fiscal 2001 consisted of:

Fiscal 2001 Fourth Quarter Restructuring:

In the quarter ended September30, 2001, we instituted a restructuring and a workforce reduction of approximately 33 employees from continuing operations and 2 employees from discontinued operations to reduce our operating expenses. The reduction in workforce primarily affected our employees working on wireless related products, which is part of our content networking products group. As a result of this restructuring, we incurred a total charge of approximately $6.6 million in the quarter ended September30, 2001. This charge included costs associated with underutilized space and office consolidations related primarily to approximately eight sales offices in North America and the

Powered By EDGAR Online 2003. EDGAR Online, Inc.

United Kingdom. During the quarter ended September30, 2002, a $0.2 million adjustment was made to reduce the charge for severance and related expenses. As of September30, 2002, approximately $1.1 million of this restructuring accrual remained outstanding as an accrued liability on our balance sheet, which will be paid over the next twelve months.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

The following table sets forth an analysis of the components of the fiscal 2001 fourth quarter restructuring charge and the payments made against the accrual through September30, 2002 (in thousands):

	SEVERANCE RELATED	UNDERUTILIZED SPACE	TOTAL
Restructuring provision from continuing operations:			
Severance related	$ 2,161	$ —	$ 2,161
Committed excess facilities	—	4,375	4,375
Total continuing operations	2,161	4,375	6,536
Restructuring provision from discontinued operations:			
Severance related	40	—	40
Total discontinued operations	40	—	40
Total	2,201	4,375	6,576
Cash paid	(2,201)	(3,064)	(5,265)
Release of excess accrual	—	(200)	(200)
Accrual balance at September30, 2002	$ —	$ 1,111	$ 1,111

Fiscal 2001 Third Quarter Restructuring:

In the quarter ended June 30, 2001, we announced and substantially completed a restructuring and a workforce reduction of approximately 194 employees from continuing operations and 6 employees from discontinued operations to reduce our operating expenses. All of our functional areas were affected by the reduction. Included in the restructuring charge was $0.6 million for professional fees related primarily to job consultation services for displaced employees. As a result of this workforce reduction, we incurred a total charge of $5.0 million. As of September30, 2002, no amount remained outstanding as an accrued liability on our balance sheet.

The following table sets forth an analysis of the components of the fiscal 2001 third quarter restructuring charge and the payments made against the accrual through September30, 2002 (in thousands):

	SEVERANCE RELATED	UNDERUTILIZED SPACE	TOTAL
Restructuring provision from continuing operations:			
Severance related	$ 3,919	$ —	$ 3,919
Committed excess facilities	—	1,017	1,017
Total continuing operations	3,919	1,017	4,936
Restructuring provision from discontinued operations:			
Severance related	80	—	80
Total discontinued operations	80	—	80
Total	3,999	1,017	5,016
Cash paid	(3,999)	(1,017)	(5,016)
Accrual balance at September30, 2002	$ —	$ —	$ —

(15) PARKSIDE LEASE RESTRUCTURING AND TERMINATION

In April 2000, we entered into a lease agreement commencing January 1, 2002 for 381,050 square feet of office space in two mid-rise office buildings in Foster City, California, known as Parkside Towers. Payments under the lease commenced on January 1, 2002, when the property was delivered to Inktomi by the developer and continue over the lease term ending October 31, 2014 for one building and October 31, 2016 for the second building.

In the quarter ending March 31, 2002, we completed our assessment of our current and future anticipated needs for operating facilities and adopted a plan to consolidate our operating facilities. In accordance with this plan, we recorded a lease termination charge of $74.6 million during the quarter ended March 31, 2002 related to the abandonment of our lease for 381,050 square feet of office space described above. Of the $74.6 million charge, $62.3 related to the expected loss on future subleases and $12.3 related to asset write-offs. Lease abandonment costs for this facility were estimated to include the remaining lease liabilities through the term of the lease, impairment of leasehold improvements,

Powered By EDGAR Online 2003. EDGAR Online, Inc.

estimated future leasehold improvements and brokerage fees offset by estimated sublease income. Estimates related to sublease costs and income are based on assumptions regarding the period required to locate sub-lessees and sublease rates which were derived from market trend information provided by commercial real estate brokers.

The following table sets forth an analysis of the components of the Parkside lease restructuring and termination charge. As of September30, 2002, all payments have been made.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

	ABANDONED SPACE	ASSET WRITE-OFFS	TOTAL
Parkside lease termination charges:			
Remaining lease liabilities	$ 284,615	$ —	$ 284,615
Estimated future leasehold improvements	3,781	—	3,781
Brokerage fees	3,792	—	3,792
Estimated sublease income	(229,895)	—	(229,895)
Leasehold improvement impairment	—	12,315	12,315
Total restructuring charge prior to lease termination agreement	62,293	12,315	74,608
Additional charges for lease termination	5,378	—	5,378
Total Parkside lease restructuring and termination charge	67,671	12,315	79,986
Cash paid	(67,671)	—	(67,671)
Non-cash charges	—	(12,315)	(12,315)
Accrual balance at September30, 2002	$ —	$ —	$ —

On September5, 2002, we executed a Lease Termination Agreement providing for the termination of Parkside Towers. In exchange for the termination of the lease, we agreed to pay the landlords certain consideration including the following: (i) immediate surrender of the cash security deposit of approximately $1.5 million, (ii) consent for the landlords to immediately draw on a letter of credit with Silicon Valley Bank in the amount of approximately $16.5 million, (iii) immediate cash payment of $12.0 million, a portion of which covered August rent and the pro-rated rent for the month of Septemberthrough the effective date of the Lease Termination Agreement, (iv) issuance of a $21.5 million promissory note, including $0.2 million of imputed interest, of which $5 million is payable on October 1, 2002 and $16.5 million is paid the earlier of the sale of the Bayside facilities or January 21, 2003, (v) payment of 50% of any amounts in excess of $50 million that Inktomi realize upon the sale of the Bayside facilities, (vi) issuance of five million shares of our common stock valued at $2.3 million, (vii) the transfer of two HVAC chillers, (viii) the relinquishment of Inktomi's claim to undisbursed portions of the landlords' obligations to contribute funds for tenant improvements in the amount of $441,223, (ix) the granting of registration rights related to the 5 million shares of common stock issued to the Parkside landlords, and (x) the granting of deeds of trust for the Bayside facilities to the landlords to secure the $21.5 million promissory note.

Total value of the lease termination, including cash and non-cash items, was $54.0 million. We recorded a charge of $5.4 million in the fiscal 2002 fourth quarter representing the cost in excess of the remaining lease restructuring accrual initially recorded in the quarter ended March 31, 2002.

As part of the lease termination transaction, the landlords of the Parkside facility (and their affiliates) agreed, at Inktomi's election, to purchase the Bayside facilities (see Note12 to the Financial Statements) for $37.5 million. Inktomi's right to require the landlords to purchase the Bayside facilities commenced on November1, 2002 and ended on January21, 2003. In December2002, we sold the building to a third party for $41.6 million (see Note20).

(16) COMMITMENTS AND CONTINGENCIES

We have entered into non-cancelable operating leases for office space and equipment and capital leases for equipment with original terms ranging from six months to 15 years. The capital leases are collateralized by their respective underlying assets. The future minimum lease payments under capital leases and non-cancelable operating leases, and the future lease and sublease income under non-cancelable lease and sublease agreements at September30, 2002 are as follows (in thousands):

	OPERATING LEASES	LEASE & SUBLEASE INCOME	CAPITAL LEASES
Years ending September30:			
2003	$ 7,382	$ 6,270	$ 1,271
2004	4,952	4,471	219
2005	4,024	2,466	—
2006	3,095	2,539	—
2006	3,141	644	—
Thereafter	15,100	—	—
Total minimum lease payments	$ 37,694	$ 16,390	$ 1,490
Amount representing interest			(64)
Present value of minimum lease payments			1,426

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Current portion	(1,210)
Capital lease obligations, less current portion	$ 216

On December20, 2002, we entered into a five year lease commitment amounting to approximately $9.8 million commitment net of costs (see Note20).

Powered By EDGAR Online 2003. EDGAR Online, Inc.

In connection with our acquisition of FastForward, we assumed operating leases on certain facilities and equipment under non-cancelable operating leases, some of which provide for periodic rent increases based on the general rate of inflation.

Rent expense was approximately $19.5 million, $16.1 million, and $10.0 million for the years ended September30, 2002, 2001, and 2000, respectively.

On August 2, 2001, an amended complaint was filed by Network Caching Technology, L.L.C. in the United States District Court for the Northern District of California against Inktomi as well as other providers of caching technologies including Novell, Inc., Akamai Technologies, Inc., Volera, Inc., and Cacheflow, Inc. Plaintiff alleges that certain products marketed by Inktomi and the other defendants violate one or more patents owned by plaintiff. The complaint seeks compensatory and other damages and injunctive relief. We were served the complaint on August 7, 2001. We subsequently filed a response denying the allegations and asserting a number of defenses. At this time it is too early to estimate any potential losses from this action and whether this action may have a material impact on the results of operations. We are vigorously defending against this action.

In October 2002 a complaint was served by Teknowledge Corporation (see Note20).

From time to time, we are also involved in other legal actions arising in the ordinary course of business. We have incurred certain amounts associated with defending these matters. There can be no assurance the Network Caching, Teknowledge Corporation or other third party assertions will be resolved without costly litigation, in a manner that is not adverse to our financial position, results of operations or cash flows or without requiring royalty payments in the future which may adversely impact gross margins. No estimate can be made of the possible loss or possible range of loss associated with the resolution of these contingencies. As a result, no losses have been accrued in our financial statements as of September30, 2002.

(17) STOCKHOLDERS' EQUITY

In November 2001, we completed a public offering of our Common Stock in which we sold approximately 13.2 million shares raising $52.8 million, net of issuance costs and underwriters' discounts.

On June 30, 2000, our Board of Directors adopted a Shareholders' Rights Plan. Under the plan, we issued a dividend of one right for each share of our Common Stock held by stockholders of record as of the close of business on August 21, 2000. The plan was designed to assure stockholders fair value in the event of a future unsolicited business combination or similar transaction we could become involved in. Each right entitles stockholders to purchase a fractional share of our Preferred Stock for $1,000. The rights are not immediately exercisable and become exercisable only upon the occurrence of certain events. Upon certain other events, unless redeemed for $0.001 per right, the rights will become exercisable by holders, other than rights held by an unsolicited third party acquirer, for shares of Inktomi or of the third party acquirer having a value of twice the right's then-current exercise price.

In fiscal 2002, we raised $5.8 million in cash from issuance of approximately 3.6 million shares of Common Stock associated with option and warrant exercises. In fiscal 2001, we raised $3.9 million in cash from the issuance of approximately 1.2 million shares of Common Stock associated with option and warrant exercises.

We have authorized 10,000,000 shares of Preferred Stock with none outstanding as of September30, 2002 and 2001.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

EMPLOYEE STOCK PURCHASE PLAN

The Employee Stock Purchase Plan (the "ESPP") has reserved for issuance 2.0 million shares of Common Stock plus an annual increase to be added on each anniversary date of the adoption of the ESPP equal to the lesser of (i) the number of shares needed to restore the maximum aggregate number of shares available for purchase under the ESPP to 2.0 million shares or (ii) a lesser amount determined by the Board. The ESPP is administered over offering periods of 24 months each, with each offering period divided into four consecutive six month purchase periods beginning November 1 and May 1 of each year. Eligible employees may designate not more than 15 percent of their cash compensation to be deducted each pay period for the purchase of Common Stock under the ESPP, and participants may not purchase more than $25,000 worth of stock in any one calendar year. Shares of Common Stock are purchased with the employee's payroll deductions accumulated during the six months, generally at a price per share of 85% of the market price of the Common Stock on the employee's entry date into the applicable offering period or the last day of the applicable purchase period, whichever is lower. As of September30, 2002, there were 2.0 million shares of Common Stock reserved for future issuance under the ESPP. Shares purchased under the ESPP plan by employees were approximately 0.6 million, 0.2 million and 0.7 million at a weighted average price of $2.50, $23.97 and $7.78 for fiscal 2002, 2001 and 2000, respectively.

STOCK OPTION PLANS

We have adopted various stock option plans and assumed other stock option plans in connection with our acquisitions (the "Stock Option Plans"). These Stock Option Plans generally provide for the grant of stock options to our employees, directors and consultants. Certain options granted to our employees may qualify as "incentive stock options" under applicable tax regulations. Options granted under our Stock Option Plans are generally immediately exercisable, provided however that the shares are subject to repurchase at cost in the event the option ceases to be an employee or provide service, as the case may be. The repurchase right generally lapses over 36 to 50 months. For options that are not exercisable immediately, they generally vest over 36 to 50 months. All options generally have a term of ten years. At September30, 2002, 32,141,595 shares of Common Stock were reserved for issuance under our primary on-going Stock Option Plans.

A summary of the activity under the Stock Option Plans is set forth below (in thousands, except per share amounts):

	SHARES	EXERCISE PRICE PER SHARE	AGGREGATE EXERCISE PRICE	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at September30, 1999	16,422	$0.03 — $63.96	264,024	$ 16.08
Granted	13,567	$0.17 — $211.00	1,139,103	$ 83.96
Exercised	(6,177)	$0.03 — $115.06	(65,952)	$ 10.68
Canceled	(1,826)	$0.11 — $211.00	(63,042)	$ 34.52
Outstanding at September30, 2000	21,986	$0.03 — $211.00	1,274,133	$ 57.95
Granted	25,534	$0.001 — $106.69	240,463	$ 9.43
Exercised	(1,172)	$2.45 — $106.69	(3,854)	$ 3.25
Canceled	(19,390)	$0.11 — $211.00	(1,348,329)	$ 68.71
Outstanding at September30, 2001	26,958	$0.001 — $137.13	162,413	$ 6.06
Granted	12,382	$0.36 — $7.17	18,306	$ 1.48
Exercised	(1,883)	$0.001 — $6.43	(5,719)	$ 3.04
Canceled	(10,988)	$0.001 — $137.13	(67,670)	$ 6.19
Outstanding at September30, 2002	26,469	$0.11 — $107.94	$ 107,330	$ 4.09

Utilizing the Black-Scholes Option Pricing Model, the weighted average fair value of employee stock options granted under the Stock Option Plans was $1.39, $9.00, and $88.70 per share, respectively, and the weighted average fair value shares purchased under the ESPP during fiscal 2002, 2001, and 2000 was $2.93, $12.75, and $7.82 per share, respectively.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

The following table summarizes information with respect to stock options outstanding at September30, 2002 (in thousands):

	OPTIONS OUTSTANDING			OPTIONS ON SHARES EXERCISABLE AND NOT SUBJECT TO REPURCHASE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 0.11—$0.43	5,209	7.57	$ 0.28	2,067	$ 0.12
$ 0.45—$1.41	4,538	9.73	$ 0.67	956	$ 0.54
$ 1.47—$2.25	4,903	9.25	$ 2.24	2,084	$ 2.25
$ 2.58—$3.71	614	8.78	$ 3.06	243	$ 3.17
$ 3.79—$4.21	6,281	8.93	$ 4.20	4,206	$ 4.21
$ 4.25—$107.94	4,924	7.74	$ 13.06	3,104	$ 13.27
$ 0.11—$107.94	26,469	8.63	$ 4.09	12,660	$ 5.14

The options exercisable in the table above are only those options that if exercised, the shares would not be subject to repurchase. Options to purchase approximately 12.6 million shares, 8.2 million shares, and 5.5 million shares were exercisable as of September30, 2002, 2001 and 2000, respectively. The weighted average exercise prices per share for options exercisable as of September30, 2002, 2001 and 2000 were $5.14, $5.37, and $22.06, respectively.

At September30, 2002, 2001, and 2000 there were 251,602, 586,960 and 3,043,061 shares of outstanding Common Stock that were subject to repurchase. The weighted average exercise price of shares subject to repurchase was $0.53, $0.53, and $0.39 per share as of September30, 2002, 2001 and 2000, respectively.

In connection with the completion of our public offerings, stock option grants, Stock Exchange Program, and certain prior acquisitions, certain options granted in 2002, 2001, and 2000 have been considered to be compensatory. Compensation expense was $5.1 million, $10.6 million and $7.3 million in 2002, 2001 and 2000, respectively. The expected future annual amortization for stock options granted through September30, 2002, (assuming no cancellations) is as follows:

2003	$ (1,397)
2004	(642)
Total deferred compensation	$ (2,039)

STOCK OPTION EXCHANGE PROGRAM

In February 2001, the Inktomi Board of Directors approved a stock option exchange program. Under this program, all employees (including executive officers and outside directors) were given the opportunity to cancel one or more stock options previously granted to them in exchange for one or more new stock options to be granted at least six months and one day from the date the old options are cancelled, provided the individual is still employed or providing service on such date. The participation deadline for the program was February 28, 2001. The number of shares subject to the new options were equal to the number of shares subject to the old options, and the exercise price of the new options was the fair market value of Inktomi Common Stock on the date they were granted. The new options have the same vesting schedule as the old options and will be immediately exercisable as to vested shares when granted (however, new options granted to executive officers and outside directors will lose three months of vesting and be subject to a trading blackout of three months following the grant). The exchange resulted in the voluntary cancellation of options to purchase approximately 12.8 million shares of Common Stock with exercise prices ranging from $12.25 to $211.0 per share in exchange for the same number of replacement options. Approximately 10.6 million replacement options were granted on August 29, 2001 at an exercise price of $4.21 per share of Common Stock. Under SFAS Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, stock options granted to participants of the option exchange program during the six month period prior to implementation of the option exchange program that were not cancelled as part of the program, and during the six month period following implementation of the option exchange program, are subject to variable plan accounting beginning in the fiscal quarter when the grant occurred. Accordingly, the 10.6 million replacement options that were granted outside the six month period following the implementation of the option exchange program, were subject to fixed plan accounting.

Stock options granted during the six month period prior to implementation of the option exchange program that are not canceled as part of the program are subject to variable plan accounting beginning in the fiscal quarter ended March 31, 2001. During the six months prior to implementation of the program, Inktomi granted approximately 2.8 million options, of which 0.9 million are outstanding as of September30,

Powered By EDGAR Online 2003. EDGAR Online, Inc.

2002 at an average price of $17.95 per option, that are subject to variable plan accounting. Other stock options that are granted to participants of the program in the six months following implementation of the program will also be accounted for in this manner. 1.4 million such options were granted during the six months following implementation of the program,

Powered By EDGAR Online 2003. EDGAR Online, Inc.

of which 0.6 million are outstanding as of September30, 2002, and an average price of $7.18 per option, and are subject to variable plan accounting. Under variable plan accounting, we are required to record a non-cash compensation charge for the options until the options are exercised, forfeited or cancelled without replacement. The compensation charge will be based on any excess of the closing stock price at the end of the reporting period or date of exercise, forfeiture or cancellation without replacement, if earlier, over the fair market value of our Common Stock on the option's issuance date. The resulting compensation charge to earnings will be recorded as the underlying options vest. Depending upon movements in the market value of our Common Stock, this accounting treatment may result in significant compensation charges in future periods. As of September30, 2002, we have recorded no compensation charges related to this program.

WARRANTS

At September30, 2001 the following warrant was outstanding:

	COMMON STOCK	AGGREGATE EXERCISE PRICE	EXPIRATION DATE
Common Stock	1,670,804	$137,841	April 2002

At September30, 2001, the outstanding warrant was exercisable. We issued this warrant in April 1997 in connection with the forgiveness of a note payable to certain founders who provided the initial technology to our company. The warrant for common stock was recorded at fair value of $68,000. The Black-Scholes method of valuation was used to determine fair value of the warrants using the following assumptions: 50% volatility, no dividends, 5% risk free rate of interest, contractual term of five years and an $0.08 (adjusted for splits) per share value of the underlying common stock. The warrant provided no rights to the holder as a shareholder of the Company prior to exercise. This warrant was cash-less exercised on a net issuance basis in January 2002, accordingly, there are no warrants outstanding at September30, 2002.

FAIR VALUE DISCLOSURES

The following information concerning both the Stock Option Plans and the ESPP (together, "The Plans") is provided in accordance with SFAS No. 123. We account for all Plans in accordance with APB No. 25 and related interpretations; accordingly, compensation expense is recorded for options awarded to employees and directors to the extent that the exercise prices are less than the Common Stock's fair market value on the date of grant, where the number of options and exercise price are fixed. The difference between the fair value of our Common Stock and the exercise price of the stock option is recorded as deferred stock compensation, and is amortized to compensation expense over the vesting period of the underlying stock option.

The fair value of each employee and director stock option grant and shares purchased under the ESPP have been estimated using the Black-Scholes Option Pricing Model. The Black-Scholes Option Pricing Model was developed for use in estimating the fair value of traded options and warrants that have no vesting restrictions and are fully transferable in addition to shares purchased under the ESPP. In addition, valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Our options and shares purchased under the ESPP have characteristics significantly different from those of traded options and shares, and changes in the subjective input assumptions can materially affect the fair value estimate. The following assumptions were used in determining the fair value of options granted under the Stock Option Plans:

	SEPTEMBER 30,		
	2002	2001	2000
Risk-free interest rates	3.28-4.49%	4.57-5.69%	5.85-6.83%
Expected life	5 years	5 years	5 years
Dividends	0%	0%	0%
Volatility	139%	140%	104%

The following assumptions were used in determining the fair value of shares purchased under the ESPP:

	SEPTEMBER 30,		
	2002	2001	2000
Risk-free interest rates	3.66-4.53%	4.83-5.73%	4.83-6.56%
Expected life	5 years	5 years	5 years
Dividends	0%	0%	0%
Volatility	139%	140%	104%

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

The following comprises the pro forma information pursuant to the provisions of SFAS No. 123 (in thousands):

	SEPTEMBER 30,		
	2002	2001	2000
Net loss — historical	$ (500,795)	$ (296,482)	$ (27,340)
Net loss — pro forma	$ (564,728)	$ (624,976)	$ (275,163)
Basic and diluted net loss per share — historical	$ (3.51)	$ (2.36)	$ (0.24)
Basic and diluted net loss per share — pro forma	$ (3.96)	$ (4.98)	$ (2.43)

These pro forma amounts may not be representative of the effects on pro forma net loss for future years as options vest over several years and additional awards are generally made each year.

(18) RELATED PARTY TRANSACTIONS

In August and October 1999, we provided a relocation loan to a management employee totaling $2.2 million. The loan was repaid in full in September2000.

In March 2000, we provided a relocation loan to an officer of the Company totaling $1.5 million. The officer left the Company in June 2001 and the loan was repaid in full in March 2002. This note bore interest of 6.8% per annum.

In April 2001, we provided a relocation loan to an officer of the Company totaling $1.7 million. The note had an interest rate of 4.94% per annum. In March 2002 we began separation and severance discussions with this officer. As of March 31, 2002, we had accrued $3.1 million related to this severance as a general and administrative expense. The severance agreement totaling $3.1 million, which was executed by the parties in April 2002, provides for a general release of the Company in exchange for, among other things, the release of the officer's loan obligation of $1.7 million. Any proceeds, up to $1.0 million, from the sale of Company stock by the officer in calendar year 2002 will offset the final amount owed to the officer.

In December2001, our Board of Directors approved a $5 million revolving line of credit to our Chief Executive Office. In December2001, we provided loans to our Chief Executive Officer totaling $4.7 million of which $2.7 million was repaid prior to December31, 2001. During the quarter ended March 31, 2002, we provided loans to our Chief Executive Officer totaling $0.9 million of which $0.1 was repaid prior to March 31, 2002. During the quarter ended June 30, 2002, we provided loans to our Chief Executive Officer totaling $2.1 million. As of September30, 2002, total loans outstanding and total accrued interest to our Chief Executive Officer were approximately $4.9 million and $160,000, respectively. These loans are unsecured and are represented by full recourse promissory notes accruing interest at the rate of 6% per annum. Each loan, plus any accrued unpaid interest, will become due the earlier of either two years from the grant date of the individual loan or the date that our Chief Executive Officer leaves the Company. All after tax proceeds of compensatory bonuses and 50% of after tax proceeds from sales of Company stock must be used to pay down the loans outstanding. The first loans will become due in December2003.

In January 2001, we provided a relocation loan to a management employee totaling $900,000. This notes bears interest at 5.61% per annum and is secured by a deed of trust in the employee's residence. The loan is due December2003. The employee left the Company in August 2001. The company have accrued a valuation allowance of $200,000 against the loan based on an estimate of the current value of the security interest.

We held investments in equity securities in certain customers at September30, 2002, 2001 and 2000. These customers comprised $4.3 million, $29.4 million, and $31.3 million of revenue from continuing operations, respectively. These customers also accounted for $0.2 million, $4.0 million and $13.5 million of accounts receivable as of 2002, 2001 and 2000, respectively.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

(19) SEGMENT AND GEOGRAPHIC INFORMATION

Effective September30, 1999, we adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. SFAS No. 131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also established standards for related disclosures about products and services, and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision-maker is our Chief Executive Officer. Our reportable segments are organized primarily by technology. Each of these segments is managed separately because they offer and distribute distinct technologies and services with different methods of delivery and customer bases.

We have two reportable operating segments: Software Products and Portal Services. Software Products revenues are composed of license, consulting, support and upgrade fees in connection with the Traffic Server network cache platform and its associated product family, Content Delivery Suite software solutions, Media Products, Traffic Core, Traffic Edge, Traffic Controller and Inktomi Media Publisher. Portal Services revenues are composed of revenues generated through our Web search services and Commerce Engine. We completed the sale of our Commerce Division in March 2001 and therefore, Portal Services revenues for fiscal 2002 consisted of only Web search services revenues.

As described in note 3 on December17, 2002 we completed the sale of our Enterprise Search division. The results of operations from the Enterprise search division have been reclassified as discontinued operations for the years ended September30, 2002, 2001 and 2000. The Enterprise search division was formerly a part of our Software products segment. The results of our Enterprise search division are not included in the financial information of our Software Products segment.

As a result the Software Products segment consist only of one product group, the content networking products. In July 2002, we announced we would be reducing our investment in our content networking products group included our Software Products segment

We evaluate performance and allocate resources to our operating segments based on a variety of factors, including revenues, operating profit, market potential, customer commitments and strategic direction.

Acquisition-related costs, purchased in-process research and development, amortization of intangibles and other assets, impairment of intangibles and other assets, restructuring, impairment of investments and amortization of deferred compensation expense are not included in management's evaluation of performance by the operating divisions, as they are primarily organizational in nature. The accounting policies of the reportable segments are the same as those described in Note2. We do not track assets by operating segments.

Financial information about segments (in thousands):

	FOR THE YEAR ENDED SEPTEMBER 30, 2002					
	SOFTWARE PRODUCTS	PORTAL SERVICES	AMORT. & IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLES	PARKSIDE LEASE TERMINATION	IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT	AMORT. OF DEFERRED COMPENSATION
Revenues	$ 43,203	$ 47,084	$ —	$ —	$ —	$ —
Operating income (loss)	$ (53,532)	$ 13,025	$ (11,458)	$ (79,986)	$ (102,982)	$ (5,108)

	FOR THE YEAR ENDED SEPTEMBER 30, 2002		
	RESTRUCTURING CHARGES	LOSS ON RESIDUAL VALUE GUARANTEE	TOTAL
Revenues	$ —	$ —	$ 90,287
Operating income (loss)	$ (19,466)	$ (2,225)	$ (261,732)

Powered By EDGAR Online 2003. EDGAR Online, Inc.

	FOR THE YEAR ENDED SEPTEMBER 30, 2001						
	SOFTWARE PRODUCTS	PORTAL SERVICES	AMORT. & IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLES	IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT	AMORT. OF DEFERRED COMPENSATION	RESTRUCTURING CHARGES	TOTAL
Revenues	$ 114,177	$ 58,349	$ —	$ —	$ —	$ —	$ 172,526
Operating loss	$ (95,387)	$ (15,412)	$ (50,660)	$ (904)	$ (10,645)	$ (11,472)	$ (184,480)

	FOR THE YEAR ENDED SEPTEMBER 30, 2000				
	SOFTWARE PRODUCTS	PORTAL SERVICES	AMORT. OF DEFERRED COMPENSATION	IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT	TOTAL
Revenues	$ 152,896	$ 67,770	$ —	$ —	$ 220,666
Operating income (loss)	$ 12,114	$ (25,561)	$ (8,606)	$ (1,045)	$ (23,098)

For the year ended September30, 2002, two customers represented 21% and 18% of all Portal Services revenue, and one customer represented 38% of all Software Products revenue generated. For the year ended September30, 2001, one customer represented 23% of all Portal Services revenue generated, and no customers represented over 10% of all Software Products revenue generated. For the year ended September30, 2000, no customers represented over 10% of all Portal Services or Software Products revenue generated.

At September30, 2002 and 2001, less than 10% of our tangible long-term assets were located outside the United States.

The following table sets forth revenue information from continuing operations by geographic areas: (in thousands):

	SEPTEMBER 30,		
	2002	2001	2000
United States	$ 76,155	$ 140,238	$ 170,150
Europe	6,069	20,127	40,944
Asia	8,063	12,161	9,572
Total Revenue	$ 90,287	$ 172,526	$ 220,666

(20) SUBSEQUENT EVENTS

On October 1, 2002, we paid $5 million for the note payable payment due associated with our Parkside lease termination.

In October 2002, in light of continuing economic slowdown, we announced and substantially completed a restructuring and workforce reduction of approximately 85 employees to reduce our operating expenses to adjust to lower revenue levels. Headcount in all functional area were affected by the reduction. As a result of the reduction, we incurred a charge of $9.0 million of which $7.3 million related to continuing operations and $1.7 million related to discontinued operations, which comprised of cash-related severance and abandonment of underutilized space. As of December27, 2002, $2.5 million of cash-related charges have been paid, with the remaining $6.5 million to be paid over the next six to nine months.

In October 2002, a complaint was served by Teknowledge Corporation in the United States District Court for Delaware against Inktomi, Akamai Technologies, Inc. and Cable & Wireless Services, Inc. The plaintiff alleges that Inktomi products, including Traffic Server, infringe a patent owned by the plaintiff. The complaint seeks compensatory and other damages and injunctive relief. In November 2002, the Judge assigned to the case in Delaware transferred jurisdiction of the case to the Northern District of California. Inktomi intends to vigorously defend the against the allegations made by the plaintiff.

In November 2002, in connection with the sale of our Enterprise Search division, we announced a workforce reduction of approximately 58 employees. This restructuring was substantially completed in December2002. Headcount was mainly effected in the areas of corporate and business services, and our Enterprise Search Division. As a result of the reduction, we expect to incur a charge of approximately $14.5 million of which $12.5 million related to continuing operations and $2.0 million related to discontinued operations, comprised of cash-related severance, long-lived asset impairment and underutilized space. As of December2002, $0.7 million of cash-related charges have been paid,

Powered By EDGAR Online 2003. EDGAR Online, Inc.

$0.8 million are non-cash related charges, and the remaining $13.0 million is expected to be paid over the next six to nine months. As a result of the restructuring, we expect to reduce compensation related expenses from continuing operations by approximately $2.5 million per quarter. We also expect to reduce facility related operating expenses from continuing operations by approximately $1.6 million per quarter through the end of the lease terms, and other costs from continuing operations by approximately $0.8 million per quarter through June of 2003, and approximately $0.1 million per quarter thereafter.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

In November 2002, we signed an agreement with Satyam Computer Services Ltd. ("Satyam") to assign and, in some cases, subcontract the support for the remaining content networking software customers. Satyam is a provider of professional services employees in offices worldwide. In exchange, we pay Satyam a one time fee of $1 million, provide initial training and transfer certain computer infrastructure components to allow for customer support.

On December17, 2002, we completed the sale of our Enterprise Search Division to Verity, Inc. ("Verity"), which has been accounted for as discontinued operations in these consolidated financial statements (See Note3). As part of the sale Verity will pay $25.0 million in cash subject to certain adjustments, and the assumption of certain of our obligations under existing enterprise search business contracts, including customer support obligations. The transaction is structured as an asset sale. Verity acquired from us the assets relating to our enterprise search software business, which includes basic search, categorization and content refinement capabilities, as well as our XML technology assets. Of the consideration payable by Verity, $22.0 million has been paid. $3.0 million plus interest will be paid 18 months following the closing of the sale, subject to reduction for any indemnification claims made by Verity during such 18 month period. In connection with the transaction, Verity extended offers of employment to approximately 40 of our enterprise search software business employees. The employees of our enterprise search business who are not offered or who do not accept employment by Verity will be terminated. We have also agreed not to compete with Verity in the enterprise search software business for a period of up to three years.

On December20, 2002, we completed the sale of our Bayside corporate headquarters for $41.5 million of cash which is expected to result in a loss of approximately $3.0 million to $4.0 million. As stipulated on our note payable in connection with the Parkside lease termination on December20, 2002, we paid the remaining $16.5 million due on the note upon closing of the sale of our Bayside corporate headquarters. We also entered into a five-year lease with the facilities' new owner for the portion of the property that we occupy for an aggregate lease commitment of $9.8 million net costs.

On December22, 2002, we entered into a definitive merger agreement with Yahoo! Inc. Under the agreement, a newly incorporated wholly-owned subsidiary of Yahoo! will merge with and into Inktomi, with Inktomi remaining as the surviving legal entity and a wholly-owned subsidiary of Yahoo! Under the terms of the merger agreement, upon completion of the merger, Yahoo! will pay to Inktomi's stockholders $1.65 per share of Inktomi common stock outstanding and will assume any options to purchase Inktomi common stock outstanding. These consolidated financial statements do not include any adjustments from the proposed merger agreement.

The merger is subject to a number of conditions including, among other things, approval of Inktomi's stockholders and regulatory approvals and clearances, including under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended. We currently expect the merger to be completed in the quarter ending March 31, 2003. There can be no assurance that the merger will be consummated. In the event that the proposed merger fails to close, under certain circumstances we will be required to pay Yahoo! a termination fee of $11.2 million.

We violated the minimum cash balance convents for the months ending October and November 2002. The bank waived the covenant violations on December27, 2002. The Company is currently negotiating to restructure its loan covenants, as it is probable that it will be in violation of the maximum GAAP loss covenants for the quarter ended December31, 2002. In December2002, the bank prospectively waived the maximum GAAP loss covenant for the quarter ended December31, 2002. Accordingly, we have classified all amounts due as current under this facility at September30, 2002. If we were required to repay the amounts borrowed under these loan arrangements, it would reduce the amount of cash we have available for our operations.

Powered By EDGAR Online 2003. EDGAR Online, Inc.

Exhibit 99.4

YAHOO! AND INKTOMI ANNOUNCE COMPLETION OF ACQUISITION

Inktomi a Wholly-Owned Subsidiary of Yahoo!

SUNNYVALE & FOSTER CITY, Calif. – March 19, 2003 – Yahoo! Inc. (Nasdaq: YHOO), a leading global Internet company, and Inktomi Corp. (Nasdaq: INKT), a leading Web search provider, today announced the completion of Yahoo!'s acquisition of Inktomi.

"Bringing together a powerful combination of Yahoo!'s global audience and unmatched breadth and depth of services with Inktomi's leading search technology, will allow us to create one of the most relevant, comprehensive and highest quality search offerings on the Web for both our affiliate partners and Yahoo!," said Terry Semel, Yahoo! chairman and CEO.

"The acquisition enables Yahoo! to integrate Inktomi's world-class technology throughout the network as well as offer more value to consumers and businesses through programs such as paid inclusion, which provide higher-quality commercial search results," Semel added.

"We are very excited about gaining direct access to the end-product so that we can continue to improve and innovate Yahoo!'s leading search platform based on a clear understanding of consumer needs," said Vishal Makhijani, Inktomi vice president and general manager of Web search. "**Results of a recent consumer blind test we conducted have already shown that Inktomi's search relevancy rates among the highest in the industry."**

As a result of the merger, which was completed on March 19, 2003, each outstanding share of Inktomi common stock (other than shares for which appraisal is sought under Delaware law) has been converted into the right to receive $1.65 per share in cash. Wells Fargo Bank Minnesota, the Paying Agent for the merger, will within the coming week mail transmittal materials to Inktomi stockholders as of the merger date. Inktomi stockholders should not submit stock certificates unless accompanied by these transmittal materials.

About Inktomi

Based in Foster City, Calif., Inktomi is the leading provider of OEM Web search and paid inclusion services. A pioneer in Web search technology, Inktomi provides millions of users worldwide with the freshest and most relevant search experience, and ensures that thousands of online retailers have their content constantly represented. The company's customers and partners include Amazon.com, eBay, Lycos/HotBot, MSN, Overture and WalMart.com.

-more-

Powered By EDGAR Online 2003. EDGAR Online, Inc.

About Yahoo!

Yahoo! Inc. is a leading provider of comprehensive online products and services to consumers and businesses worldwide and is the No. 1 Internet brand globally. Headquartered in Sunnyvale, Calif., Yahoo!'s global network includes 25 World properties and is available in 13 languages.

This press release contains forward-looking statements that involve risks and uncertainties concerning Yahoo!'s acquisition of Inktomi, Yahoo!'s expected financial performance (as described without limitation in the quotations from management in this press release) as well as Yahoo!'s strategic and operational plans. Actual events or results may differ materially from those described in this press release due to a number of risks and uncertainties. The potential risks and uncertainties include, among others, the reaction of customers of Yahoo! and Inktomi to the acquisition; Yahoo!'s ability to successfully integrate Inktomi's operations and employees; and general economic conditions. More information about potential factors that could affect Yahoo!'s business and financial results is included in Yahoo!'s Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002, including (without limitation) under the captions, "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are on file with the Securities and Exchange Commission (the "SEC") and available at the SEC's website at www.sec.gov. Additional information will also be set forth in those sections in Yahoo!'s Annual Report on Form 10-K for the year ended December 31, 2002, which will be filed with the SEC in the first quarter of 2003.

Yahoo! and the Yahoo! logo are registered trademarks of Yahoo! Inc. Inktomi and the tri-colored cube logo are trademarks or registered trademarks of Inktomi Corp. in the United States and other countries. All other names are trademarks, registered trademarks or service marks of their respective owners.

# # #

Media Contacts:

Yahoo!

Diana Lee, Yahoo! Inc. (408) 349-6501, dianalee@yahoo-inc.com

Suzanne Skyvara, Fleishman Hillard PR (415) 318-4112, skyvaras@fleishman.com

Powered By EDGAR Online 2003. EDGAR Online, Inc.

End of Filing

Powered By EDGAR Online 2003. EDGAR Online, Inc.