Chapter 1

Stanford, 1994

Key Events

- April: Jim Clark and Marc Andreessen form Mosaic Communications to market the Mosaic browser, which was released by the National Center for Supercomputing Applications in 1993 and sparked the Internet revolution.
- October: Mosaic changes its name to Netscape Communications.
- October: The first version of Netscape Navigator is launched.

Looking back on Internet mania, one company stands out: Yahoo. It's as potent a symbol as any of the late 1990s phenomenon that swept popular culture, the stock market, the entrepreneurial set, and the economy at large. This is the story of two procrastinating graduate students who turned what was a part-time project into a major media company, its starry rise in fortunes, and its equally stunning fall from grace. Yahoo's guide to the World Wide Web, a directory that simply catalogues Web sites and makes them easier to find, is the most used of its kind. More than 200 million people a month reportedly were clicking on it in late 2001, to find everything from current stock quotes and news to chat rooms about biochemical warfare and infertility—and that audience gave Yahoo a reach greater than that of most major media networks.

It was this reach—and the notion that in the future, everyone would be using the Internet for everything for which they had turned to television, radio, newspapers, and movies—that propelled Yahoo's stock to such incredible heights that at its peak, Yahoo was worth more than traditional media companies like the Walt Disney Company and News Corporation—combined. Yahoo held the promise of becoming *the* major media company of the twenty-first century.

In 1996, when Yahoo went public, investors went crazy for its stock. The stock continued to climb throughout the late 1990s and 2000, hitting a split-adjusted high of $237.50. But in March 2000, the inflated Internet bubble began to lose air. The stock market crashed in April and continued to decline throughout the rest of the year. And with that decline came the demise of many well-known dot-coms, including Pets.com, Living.com, and Value America. As the dot-coms began to fail, they stopped advertising. At one point, 47 percent of Yahoo's advertisers were dot-coms that themselves were flying high, flush with venture capital dollars to spend on marketing and gaining the greatest mind share, because at the time, the conventional wisdom said whichever company could grow the fastest, and attract the most "eyeballs," would be the one that would succeed.

Reality hit. Investors no longer were salved by talk of future profits at the expense of current growth. Investors wanted to see these companies show profits. Now.

Ironically, the demise of hundreds of dot-coms also hurt Yahoo, one of the few dot-coms that seemed to have everything going for it. And in January 2001, Yahoo lowered its future outlook for the first time and began the second of what would be five consecutive unprofitable quarters. Revenues were slipping. And someone had to accept the blame.

Yahoo's chief executive officer, 51-year-old Tim Koogle, took the fall. He resigned, and in his place as CEO, Yahoo's board hired a Hollywood veteran, Terry Semel. He, with partner Bob Daly, had headed the venerable Warner Brothers entertainment conglomerate for seven years. But was he the leader Yahoo needed to steer the ship from treacherous dot-com waters toward safer, profitable shores?

Sure, after he had left Warner and started his own investment firm, Windsor Media, he became a venture capitalist of sorts, plowing millions of dollars into Internet entertainment start-ups like the Digital Entertainment Network (DEN) and Nibblebox. But his bets don't make him look like a seer. DEN burned through more than $60 million building television-style shows that would be "netcast"—broadcast over the Net—to an audience that never materialized. A good idea, but one before its time, and a costly lesson learned.

As a vote of faith in the company, and in himself, Semel bought 1 million shares of Yahoo stock in a private placement.

When he joined Yahoo, its shares were worth $17.62. Eight months later, he had lost $6.5 million of his investment on paper.

Yahoo is struggling to transform its business to one where its users, who are accustomed to getting everything for free, are willing to pay for some services, like online personals, real-time stock quotes, and Web storage space for e-mail and photos. At Yahoo's peak, more than 90 percent of its sales came from advertisers. In November, it still was deriving 80 percent of its revenues from that stagnating source.

Sales continued to decline, and though Yahoo's cost-cutting measures were lauded by analysts, they weren't enough to bring the company back to profitability. In October, Yahoo reported its fourth consecutive quarterly loss and its lowest revenues since the third quarter of 1999.

When Semel announced the distressing news in October 2001, he did it against the backdrop of the September 2001 terrorist attacks against the United States. Though the attacks weakened an already anemic economy, Semel pointed out that in the midst of the fear and uncertainty, one thing was clear: The Internet was an invaluable tool in the time of crisis. While telephone networks around New York City and Washington, D.C., failed, millions of users communicated with friends and loved ones via Yahoo Mail and Yahoo's Internet telephony. Within three hours of the attacks, Yahoo had posted three buttons: one for the American Red Cross, one for the New York Firefighters 9-11 Disaster Relief Fund, and another for the Salvation Army. Within two weeks, Yahoo users had donated more than $30 million to the relief funds. "That's when you know you're part of something big," Semel said during the company's October 10 conference call, in his marked Brooklyn accent.

The Internet most certainly is something big. But will Yahoo remain something big, on its own?

The hobby that would become Yahoo coalesced in spring 1994. Just months away from completing their dissertations in computer-assisted design, with their Ph.D. adviser conveniently off on sabbatical for the year, Jerry Yang and David Filo were obsessively compiling a list of their favorite Web sites, among them such choice samples as Brian's Lava Lamp, Nerf: Foam Weapons Arsenal, and Quadralay's Armadillo Home Page. Soon they were spending almost all their time on the index—up to 40 hours a week—and very little on their dissertations.

The browser Mosaic, precursor to Netscape, had just been developed by Marc Andreessen and his team at the University of Illinois' National Center for Supercomputing Applications, meaning millions would soon be flocking to the Web. In 1990, the number of Web sites was all of about 12, and they belonged to universities and government. But by 1993, after Mosaic ushered in point-and-click navigation by replacing the complicated text interfaces that ruled the Web with a simple graphical browser, the number of sites rose into the thousands and was poised to leap into the millions. And Yang and Filo were ready to provide a contextual framework for this jumbled mass of content. "Two years earlier, nobody needed a Web index; two years later, someone else would have been forced to make some sort of comparable index," they write in *Yahoo! Unplugged.*[1]

Or as Yang told *Red Herring* in an interview in 1995, "We jumped on Mosaic at the beginning of 1994. We really didn't think much of it at first. Nobody did. Maybe Andreessen or somebody. I kept bugging Dave to show me the sites he had found. So he made his hot-list, and I made my hot-list, and he wrote some software to combine both our lists. It started out as a collection of computer-related sites that we were interested in—very much in the vein of what the Web was designed for: to share documents with many people. There was really no altruism involved—we were doing the work, and there was no cost to distribute it, so why not distribute it? I think the inspiration to start listing other sites came from David one day. Maybe he was bored with his thesis. Initially we collected some of the friskier, weirder sites on the Web, and it took off by word of mouth. We were in a unique situation in the summer of 1994 to be able to experience that kind of grass-roots growth, fueled by a lot of interest that was not our doing, and then just sitting back to watch the access logs go up. I don't think that could happen today."[2]

The two developed their own Web-searching software to help them find and index sites. Their grand scheme involved conquering the Web by visiting and categorizing as many sites as they could, creating subcategories when the categories grew too unwieldy, and then subcategories for the subcategories. Stanford donated a trailer to house their operation, legendarily littered with overheating terminals, pizza boxes, dirty clothing, and golf clubs. The index itself inhabited Yang's student workstation, Akebono (http://akebono.stanford.edu), named after a formidable Hawaiian sumo wrestler, while the search software was stored on Filo's workstation, Konishiki, also a sumo great. They christened the index Jerry's Guide to the World Wide Web.

"How often do you guys browse the Web, and for how long?" a questioner asked them during a BusinessWeek Online chat in July 1995.

"We live, breathe, sleep on the Web . . . just kidding," Yahoos612 (Yang) replied.

"No, he's not," corrected Yahoo df (Filo).[3]

Despite their mutual appreciation for sumo wrestling, the pairing of Yang, then 25, and Filo, 27, was hardly intuitive. In fact, it would be difficult to find two partners with such different backgrounds and personalities, but they did share an unconventional childhood. At the age of eight, the outgoing Yang, Yahoo's goodwill ambassador-to-be, had emigrated from Taiwan with his mother, a widowed English professor, and younger brother. They settled in San Jose, California, where Yang morphed into a tennis-playing academic ace. His leadership skills surfaced early as senior class president and valedictorian at Piedmont Hills High, and he won a full undergrad scholarship to nearby Stanford University—and every other college he applied to, including Berkeley and Cal Tech. Within four years, Yang had bagged a B.S. and an M.A. in electrical engineering. Among the part-time jobs he held to help make ends meet, he worked as a book shelver and sorter in the university library, a stint he told *Fortune* taught him how to store information systematically. One of Yang's strengths is his ability to apply what he learns in daily life, according to Stanford professor John Hennessy. "Like all the best students, Jerry has channeled his everyday experiences well," Hennessy said in *Fortune*.[4]

While Yang was struggling to learn English, which he mastered well enough to move from remedial to advanced classes by his third year in San Jose, Yahoo's future head technologist was growing up in a commune in Moss Bluff, Louisiana, sharing a garden and kitchen with six other families and learning to pitch in. "I remember looking at the Erector Set catalogue and wanting the fancy pieces—the three-speed motor versus the little one we had," Filo told *Wired* in January 1999. "But we had a really big set. We could build cranes; we could build bridges. When I was in the fifth grade, my family built a house. My brother and I helped with the roofing, nailing shingles down; we held things. We put up sheet rock and did electrical stuff. I was always fascinated with tools—table saws, routers, lathes.

There are eight of us in the family, and the house originally was only about 1,400 square feet. Our bedrooms were seven by eight feet, but we each had our own. Engineering in general is about building things, solving problems. To this day there are so many problems with what we're doing at Yahoo—things still need fixing. What motivated Jerry and me all along was really simple: You try to come up with nice solutions."[5]

The commune experience, however, didn't improve his social skills. When friends and acquaintances describe Filo, the words that crop up again and again are "quiet," "reserved," and even "withdrawn." In fact, "some of Filo's friends affectionately nicknamed him the Unabomber because he was so introspective," writes David A. Kaplan in *The Silicon Boys and Their Valley of Dreams* (William Morrow, 1999).[6] But if Filo didn't often wow people on an interpersonal level, he did excel academically, landing at Tulane for college before entering Stanford, where he and Yang met in 1989.

Their friendship solidified three years later on a six-month teaching-assistant program in Japan. Another relationship Yang formed there also would play a central role in his life: He met a Stanford student named Akiko Yamazaki, a Costa Rican of Japanese parentage who would later become his wife. And in Japan, Yang's and Filo's paths crossed with that of another Stanford student, Srinija Srinivasan ("Ninj"), who was studying artificial intelligence and information organization and would later join Yahoo as Chief Ontologist. Japan itself would be home to Yahoo's first international outpost, the No. 1 site in that country.

When Yang and Filo returned to Palo Alto and Stanford, everyone was buzzing about Mosaic. In 1993, when Filo's overgrown list of Web-site bookmarks numbered 200, making it useless, they began work on their database.

Trying to pressure Filo into helping come up with a snappier name for the site, Yang briefly changed its name to David and Jerry's Guide to the World Wide Web. "I got sick of taking all the credit," Yang explained in an interview in June 1999 on "Big Thinkers," a program aired on the cable station TechTV. "David hated it. He hates to have his name associated with it. One night we locked ourselves in a room and said, 'We need to come up with something easy to remember.' We wanted to call it 'yet another something,' looked up all the words that started with y-a. Yahoo stuck out. In *Gulliver's Travels*, it means somebody who is rude, a subhuman species who were rude and uncivilized. That's us."[7] In another sign of the self-deprecating humor friends and cohorts say is typical of Yang and Filo, they decided to make Yahoo an acronym for Yet Another Hierarchical Officious Oracle.

In any case, that playful, irreverent name change provided Yahoo with the ammunition to become a top Internet brand. As early as 1998, market-research firm IntelliQuest reported that 44 percent of Internet users were familiar with Yahoo, and only America Online (AOL) and Netscape had greater name-brand recognition. "The Yahoo brand contains the promise of the product: that the Internet will be a liberating and exhilarating experience," says Owen Shapiro, senior analyst at market and brand-research firm Leo J. Shapiro & Associates.

"When we started the business, our VCs [venture capitalists] said we absolutely need to keep the name," Yang told "Big Thinkers." "I'd be lying to say we knew what branding meant in 1994. David and I were tech people, but we knew how creating something that's easy to remember, that's easy to use—that's the key ingredient to a brand."[8]

Yang and Filo organized Yahoo into a hierarchy of 19 categories (later pared down to 14), such as Art, Business, Computers, Economy, Education—but emphatically not Erotica, an area they would later add and then restrict—generating cries of censorship—after some users complained. Every click on a heading gave way to a pageful of links, and clicking on those yielded still more. The user could click through several levels before hitting bottom—an impossibility today, given the millions of sites Yahoo has indexed. To narrow the field and produce more targeted results, Yang and Filo created a search engine that returned a list of Web sites based on keywords entered by the user.

The ability to track where on Yahoo their users went, and where on the Web they had come from, was "built into the bones of the system," Tim Koogle told Charles S. Sigismund, author of *Champions of Silicon Valley* (John Wiley & Sons, 2000). The goal: "We can use that as a true, real-time measure of what is most popular and most needed—and use it as a road sign to guide us toward deeper and deeper levels of content that we ought to aggregate around."[9] And of course, they could use it to sell targeted advertising.

The index was, and still is, assembled by humans, in contrast to the mechanical Web-searching "spider" technology, or 'bots, Yahoo's competitors used. And Yahoo never claimed to be comprehensive, like the other indexes: Its goal was to offer the best of the Web and to reflect the Zeitgeist. "One of the reasons Yahoo is successful today is it's pretty human—it's more of a social-engineering product than software," Yang said. "We're a reflection of the community, and the more socially aware we are, the better the community we'll build. I don't think that technology-driven companies are going to be able to do this as well as we can, although it will take more time and resources on our part. The way we gather information lets us stay close to what's on the Web—we have a good sense of what people are putting up, and can stay with the trends. Over time, we'll build nifty features and will stay on top of the technology."[10]

On top of other people's technology, that is, since Yahoo lacked proprietary search technology. So Yahoo's strength was also one of its biggest weaknesses—that its prime capital was human, and the fruits of those humans' labor were eminently reproducible.

Yang was well aware of that vulnerability but also had an answer to it. "We can't protect the links we list, and there are people out there copying it," he said. "There are a lot of Yahoo-like things out there. We don't go after them because it's not worth our time and money. Someday that may be an issue, but we're not really worried now because we have a critical mass."[11]

As Yahoo grew, so did the number of people accessing it, from a trickle to a stream to a deluge in a matter of months. In April 1994, Yang and Filo had compiled a hundred sites and were getting a thousand hits a week. Five months later, in September, the numbers had grown to 2,000 sites and 50,000 hits a day. Netscape introduced its beta browser the next month and decided to link the directory button on its corporate Web site to Yahoo (the search button linked to a competing site, Infoseek). "We simply wanted to make the browser easy for people to use, and Yahoo was the best directory available at the time," explains Mike Homer, then Netscape's vice president of marketing.

The Netscape link sent Yahoo's user numbers through the roof, giving Yang and Filo strong evidence they had the makings of a business. By January, they had 10,000 sites and 1 million hits a day (at least according to their own promotional materials) and were stressing Stanford's limited hardware capacity to the max. Since the university couldn't afford to buy more servers, it asked Yang and Filo to find another host. Meanwhile, as word about Yahoo spread, venture capitalists and execs from companies like MCI and AOL came knocking on their trailer door.

"We didn't think about turning commercial until late summer of last year, when we realized that the site was using too many resources to remain at Stanford as a grad-student project," Yang said in 1995. "So we had to find somewhere off campus to host it. Though we didn't realize it then, that was fundamentally a decision to turn it commercial."[12]

Marc Andreessen finally rode to the rescue with an e-mail inviting Yang and Filo to avail themselves of Netscape's resources. "Marc contacted me and said, 'These guys are good guys—would you be willing to help them out?' " Homer recounts. "We went out and bought an SGI [Silicon Graphics Inc.] server for several thousand dollars, and that was what we used to run the Yahoo directory."

Now Yang and Filo had solved one problem, but like other Internet entrepreneurs of the time, they still had no idea how to cash in on their creation. "We all knew the Internet was going to change things," says Larry Augustin, a classmate of theirs at Stanford and the founder of VA Linux, which makes computers that run on the operating system Linux and set a record in 1999 for the biggest first-day gain ever, 708 percent, for an initial public offering (IPO). "We'd all been using the Internet for 10 years, and it was nothing special to us. Nobody outside of this academic community was able to access it or understand it. Then the browser made it easy for people to use. We could see the user base growing at a huge rate, but none of us knew how we'd end up having businesses or making money."

Yang admitted as much to *Fortune*: "David had it in his gut very early on that Yahoo could ultimately be a consumer interface to the Web rather than simply a search engine or piece of technology. We weren't really sure you could make a business out of it though."[13] In fact, Yang wasn't even sure he *wanted* to make a business out of it, according to Dave Zinman, founder of Focalink, one of the first online-ad servers, who heard Yang speak to his Stanford M.B.A. class in 1994. At the time, Zinman was in the process of writing a business plan for Focalink based on the assumption that sites would make money selling ads. Zinman says, "I wanted to know, 'Are you going to place advertising on the site?' He said, 'No, we don't want to commercialize Yahoo. We want to keep it a grass-roots site.' " Yang didn't stick to that position for long, though.

While at Stanford, Yang, Filo, and Augustin had written a business plan for a giant online shopping mall they called The Galleria, thinking it would offer a more explicit route to revenues. "They had Yahoo going and I had VA Linux going, but neither of us had funding," Augustin says. "We decided to set aside what we were doing and come up with a business plan that made sense, but none of us was really excited about dropping what we were doing."

Instead of dropping Yahoo, Yang and Filo enlisted their future head of production, Tim Brady, then a second-year M.B.A. student at Harvard and Yang's former roommate as an undergrad at Stanford, to write a business plan for them. Gil Margalit, a Stanford M.B.A. who was looking to wring opportunity out of the Internet in 1994, heard about Yahoo while networking and called Yang and Filo. The three met at Cafe Verona on Hamilton Street in Palo Alto, where Jim Clark and Marc Andreessen had met a year earlier to hatch Netscape.

"Their eyes were really red from sleep deprivation, especially David Filo, who was almost falling asleep every few minutes," remembers Margalit, who founded Rainfinity, an

Internet-infrastructure builder, in 1998. "They questioned me to see if I knew what the Internet was all about, do we share the same views."

The pair had just fielded a $2 million buyout offer from Steve Case of AOL, who had informed them that if they declined, AOL would create its own Yahoo. "At the time of funding, we figured we had a three-month lead over our competitors," Yang said the next fall. "As of today, there is no one out there competing with us directly, but there are a lot of people working on it. We talked to AOL in March. They tried to buy us, and we said no, and they said, 'We'll crush you in two months.' They haven't yet, but they certainly own the browsers and you have to be aware of that. I'm certainly aware of what the competition can do. There's very little resting on any laurels. We're a zero-revenue company right now, so I don't think we're in a position to be comfortable about anything."[14]

Margalit, who thought the quiet Filo and charismatic Yang made an odd couple, remembers them asking, " 'Should we sell or not?' These guys were very smart—when they ask a question, it's not because they don't have a strong indication of what their answer is. They could tell if it's worth at least $2 million to AOL, they could get at least as much later selling to someone else."

Though Yang and Filo were palpably bright, neither one had held a real day job before, meaning they were also extremely green. They hadn't set out to create a business, Margalit notes, but rather were driven to it "by all this buzz around them." The buzz only intensified, with more VCs coming around and a feature story in *Newsweek* in March singling out Yahoo as the one to watch—and coining the expression "did a Yahoo," later reconstituted for the company's famous slogan, "Do you Yahoo!?"

In March 1995, Yang and Filo, with the help of Tim Brady, had their business plan, and they asked Margalit to critique it. The business plan set forth Yahoo's ambition to become the *TV Guide* of the Internet. The plan clearly called for an advertising-based model that, in some ways, was remarkably similar to Yahoo as it exists today. To attract advertisers and build market share, Yahoo would add content such as "newsfeeds" and create a sense of community through bulletin boards and chat groups. Personalization, as it would later appear in My Yahoo, was already part of the package, and one the company's founders were considering a potential source of subscription revenue.

The business plan also emphasized the benefits of Yahoo's "first mover advantage"—and put the number of its "daily accesses" at 2 million, though in the *Newsweek* article the same month, the figure cited, and attributed to Yang, was 200,000. In *Yahoo! Unplugged*, Yang and Filo peg the number of daily hits at 10,000 to 15,000 just a couple of months earlier. These discrepancies highlight the difficulty in getting accurate online-user figures and the slipperiness of the results, both then and now.

The plan stressed the importance of Yahoo's independence, editorial impartiality, and brand equity—all major themes for Yahoo later. And the plan maintained that the service would be free to the end user, a pledge Yahoo has largely kept, perhaps to its detriment.

There were, of course, also major differences. In a passage consistent with the Net's staunchly anticommercial mind-set in its early history, the company stated it would "sell advertising space on the five most frequently accessed Yahoo index pages"—only. The founders envisioned a poll of eight advertisers rotated "through the five pages over a 3-month period." The truth, of course, is today there's no part of Yahoo that isn't for sale—even its once-sacrosanct search listings.

Yahoo listed its second-biggest source of income as licensing deals, a revenue stream that thus far hasn't materialized for the company. And the company wildly underestimated its revenues for 1996 by 380 percent, predicting $4.15 million while the real figure would approach $20 million.

Ironically, the business plan lists the unprepossessing Filo as president and CEO while Yang appears as chairman and chief financial officer (CFO), but, Margalit says, that was just a stroke of convention. "Right from the beginning, they were very modest and expected to hire someone to run the company." And of course, the fuzzy title they both eventually assumed, Chief Yahoo, supports the notion that they wanted to remain in the background. In another interesting note, the founders apparently foresaw that porn would be a controversial area for them, since they stated that they planned to create a "censored version of Yahoo" that was "free from pornographic listings" for licensees.

On March 5, Yahoo was incorporated, and in April, it landed $1 million in venture funding from Sequoia Capital, in its first investment in a dot-com. Yahoo got Sequoia's attention because Randy Adams, founder of the Internet Shopping Network (ISN), which he claims is the first online retailer, owed Sequoia General Partner Mike Moritz a favor. Prior to ISN, Adams had started four software companies in Silicon Valley, built them up, and sold them. Of those, only one, AppSoft, developed for Steve Jobs' NeXT computer platform and funded by Sequoia, was a failure. When Jobs stopped producing NeXT machines, Adams had to shut AppSoft down. "I felt I had a debt to pay off to Moritz," Adams says. "AppSoft was the only one of my companies that didn't pay off for investors, and it was the only company that had been funded by Sequoia and Moritz."

Marc Andreessen—with whom Adams had "a close e-mail correspondence"—had told him about Yahoo. Adams checked out the site, was impressed, and invited Yang and Filo to lunch. "They wanted to buy, and they couldn't afford much, so we ate at Fresh Choice salad bar in Menlo Park," Adams recalls. "They'd had an offer from AOL, but they were more interested in building the business. I thought if I could put them in touch with the right people and they could get some money, they could build it. Coincidentally, Mike Moritz called about the same week Jerry had said they were looking for some venture money, so it clicked I owed Mike, and I gave him their name."

Moritz visited Yang and Filo in their infamous trailer, talked to them for about an hour, and was treated to a demo of Yahoo. "So, how much are you going to charge subscribers?" Moritz asked.[15]

"Dave and I looked at each other and said, 'Well, it's going to be a long conversation,' " Yang recalled—because of course, the two were planning to keep their service free. "But two hours later, we convinced them that Yahoo should be free, and I think we're the only company Sequoia's funding that has a free product."[16]

While Yahoo's proposed business model may have been uncharted territory, it had a few things—*millions* of things, actually—going for it. "We have a successful product with millions of users, which is pretty rare for a company seeking venture financing," Tim Brady pointed out.[17]

The discussions continued for about six weeks afterward, while Yang and Filo were fielding offers from AOL and other companies. "We finally decided in April on VC funding over corporate funding because we wanted to be an independent voice, and I think going with a corporate sponsorship would have tainted the site," Yang explained to *Red Herring*. "We had an ideal start as part of an educational institution, being a noncommercial, free service. We thought that VC money would buy us time for the environment to work itself out and for our business model to get clearer. In retrospect, I think we got a late start, getting funding in April."[18]

Yang and Filo had talked to about a dozen VCs—many of whom had never even seen an e-mail—but decided on Moritz, Yang told *Fortune*, "because he seemed to have more soul, and he shared our values. Like us he's cheap, and he's not a big believer that technology solves everything. But he does believe in the human element and in the art of what we were doing as well as the science."[19] In turn, Moritz said, "Jerry would be considered an unusual entrepreneur today because he actually wanted to build a company that is really lasting. He's not yet another grotesque Doonesbury caricature of an entrepreneur."[20]

In April, Sequoia—which had funded Apple Computer, Cisco Systems, and Oracle Corporation—handed $1 million over to Yahoo in return for a quarter share in the company, thus valuing the company at $4 million. "It would prove to be the best $1 million ever invested in Silicon Valley," Kaplan trumpets in *The Silicon Boys and Their Valley of Dreams*.[21] In early 1999, the value of that initial investment rose to $8 billion; in January 2000, at Yahoo's apex, it shot to more than $30 billion. Ironically, Yang and Filo, who also each received 25 percent stakes in the company, ended up with the same value they would have had they accepted Steve Case's $2 million.

Contrary to published reports, Mike Homer says, Netscape never made Yang and Filo an offer: Many of Netscape's software clients were competitors of Yahoo's, so teaming up would have created a conflict of interest. Nor, Homer says, did Netscape kick Yahoo's server out of its offices after the company accepted Sequoia's money, as some accounts have held. Instead, the decision to relocate the server was made by Yahoo, "on their own," he maintains.

"I give Mike [Moritz] credit for his good sense of smell and his willingness to jump into the water and buy a seat for the Internet play at a time when most other VCs were watching from the sidelines, waiting for someone else to show them how you can make money from an Internet service company," Margalit says. "It was a service, and the service was free, and that didn't make sense to a lot of these people." Of course, that still doesn't make sense to a lot of people, including Yahoo itself, which is trying to charge for more and more services. Giving services away free may have worked during the Net's early boom years, when dot-coms were plentiful and flush with cash to spend on advertising, but in today's harsh climate, it's no longer an option.