SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended April 30, 1999

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

Commission File Number 0-22846

CMGI, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	04-2921333
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Brickstone Square, First Floor Andover, Massachusetts	01810
(Address of principal executive offices)	(Zip Code)

(978) 684-3600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes X No

Number of shares outstanding of the issuer's common stock, as of June 10, 1999

Class	Number of shares outstanding
Common Stock, par value $0.01 per share	95,313,810

CMGI, INC.
FORM 10-Q

INDEX

CMGI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	April 30, 1999 (Unaudited)	July 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,758	$ 61,537
Available-for-sale securities	886,242	5,764
Accounts receivable, trade, less allowance for doubtful accounts	30,216	21,431
Inventories	9,028	8,250
Prepaid expenses	5,757	2,991
Net current assets of discontinued operations	289	482
Other current assets	22,545	2,364
Total current assets	995,835	102,819
Property and equipment, net	17,885	13,403
Investments in affiliates	58,688	82,616
Goodwill and other intangible assets, net of accumulated amortization	148,348	57,496
Net non-current assets of discontinued operations	975	1,246
Other assets	24,851	2,238
	$1,246,582	$259,818
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 20,000	$ 27,656
Current installments of long-term debt	4,849	16,594
Accounts payable	19,068	10,809
Accrued income taxes	--	10,085
Accrued expenses	31,509	18,731
Deferred revenues	5,084	4,932
Deferred income taxes	317,691	--
Other current liabilities	2,354	1,228
Total current liabilities	400,555	90,035
Long-term debt, less current installments	16,878	1,373
Long-term deferred revenues	1,856	--
Deferred income taxes	10,407	15,536
Other long-term liabilities	7,020	4,428
Minority interest	83,868	15,310
Commitments and contingencies		
Preferred stock, $.01 par value. Authorized 5,000,000 shares; issued 35,000 shares Series B convertible, redeemable preferred stock at April 30, 1999, interest at 4% per annum	35,305	--
Stockholders' equity:		
Common stock, $.01 par value. Authorized 400,000,000 shares; issued 95,302,396 shares at April 30, 1999 and 92,135,772 shares at July 31, 1998	953	921
Additional paid-in capital	205,676	90,569
Net unrealized gain (loss) on available-for-sale securities	418,432	(436)
Unearned compensation	(717)	(1,442)
Retained earnings	66,349	43,524
Total stockholders' equity	690,693	133,136
	$1,246,582	$259,818

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

CMGI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share amounts)

	Three months ended April 30, 1999	Three months ended April 30, 1998	Nine months ended April 30, 1999	Nine months ended April 30, 1998
Net revenues	$ 43,655	$ 18,145	$120,032	$ 55,970
Operating expenses:				
Cost of revenues	42,169	17,230	114,917	45,180
Research and development	5,053	3,849	15,645	14,409
In-process research and development	4,500	9,250	4,500	10,125
Selling	11,282	6,203	26,452	21,951
General and administrative	14,718	5,114	33,782	13,641
Total operating expenses	77,722	41,646	195,296	105,306
Operating loss	(34,067)	(23,501)	(75,264)	(49,336)
Other income (deductions):				
Interest income	852	573	2,159	1,712
Interest expense	(1,062)	(775)	(3,295)	(2,261)
Gain on sale of Lycos, Inc. common stock	--	24,850	45,475	41,938
Gain on sale of Premiere Technologies, Inc. common stock	--	--	--	4,174
Gain on sale of Amazon.com, Inc. common stock	--	--	7,002	--
Gain on stock issuance by Lycos, Inc.	--	24,294	20,253	24,208
Gain on stock issuance by GeoCities	859	--	29,373	--
Gain on sale of investment in Sage Enterprises, Inc.	--	--	19,057	--
Gain on sale of investment in Reel.com, Inc.	--	--	23,158	--
Equity in losses of affiliates	(3,553)	(4,247)	(13,101)	(8,763)
Minority interest	275	--	479	(28)
	(2,629)	44,695	130,560	60,980
Income (loss) from continuing operations before income taxes	(36,696)	21,194	55,296	11,644
Income tax expense (benefit)	(9,473)	13,125	30,981	11,770
Income (loss) from continuing operations	(27,223)	8,069	24,315	(126)
Discontinued operations, net of income taxes:				
Loss from operations of lists and database services segment	(527)	(147)	(806)	(79)
Gain on sale of data warehouse product rights	--	--	--	4,978
Net income (loss)	$(27,750)	$ 7,922	$ 23,509	$ 4,773
Basic earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.29)	$ 0.09	$ 0.26	$ --
Loss from discontinued operations of lists and database services segment	(0.01)	--	(0.01)	--
Gain on sale of data warehouse product rights	--	--	--	0.06
Net income (loss)	$ (0.30)	$ 0.09	$ 0.25	$0.06
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	$ (0.29)	$ 0.09	$ 0.23	$ --
Loss from discontinued operations of lists and database services segment	(0.01)	--	(0.01)	--
Gain on sale of data warehouse product rights	--	--	--	0.06
Net income (loss)	$ (0.30)	$ 0.09	$ 0.22	$0.06
Shares used in computing earnings (loss) per share:				
Basic	93,904	85,672	92,727	80,852
Diluted	93,904	92,688	101,525	80,852

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

CMGI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands)

	Nine months ended April 30, 1999	Nine months ended April 30, 1998
Cash flows from operating activities:		
Income (loss) from continuing operations	$ 24,315	$ (126)
Adjustments to reconcile income (loss) from continuing operations to net cash used for continuing operations:		
Depreciation and amortization	12,047	4,481
Deferred income taxes	18,810	6,680
Non-operating gains, net	(144,318)	(70,320)
Equity in losses of affiliates	13,101	8,763
Minority interest	(479)	28
In-process research and development	4,500	10,125
Changes in operating assets and liabilities, excluding effects from acquisition and deconsolidation of subsidiaries:		
Trade accounts receivable	(6,016)	(4,256)
Inventories	(778)	(4,947)
Prepaid expenses	(2,470)	(2,263)
Accounts payable and accrued expenses	13,834	3,387
Deferred revenues	4,947	2,619
Refundable and accrued income taxes, net	1,042	8,539
Other assets and liabilities	(704)	(235)
Net cash used for operating activities of continuing operations	(62,169)	(37,525)
Net cash used for operating activities of discontinued operations	(280)	(2,675)
Net cash used for operating activities	(62,449)	(40,200)
Cash flows from investing activities:		
Additions to property and equipment continuing operations	(7,760)	(4,103)
Additions to property and equipment discontinued operations	(63)	(114)
Purchase of available-for-sale securities	(31,123)	--
Proceeds from sale of Lycos, Inc. common stock	53,106	46,344
Proceeds from sale of Amazon.com, Inc. common stock	27,177	--
Proceeds from sale of Premiere Technologies, Inc. common stock	--	7,555
Proceeds from sale of data warehouse product rights discontinued operations	--	9,543
Investments in affiliates and acquisitions of subsidiaries, net of cash acquired	(49,383)	(13,913)
Reduction in cash due to deconsolidation of Lycos, Inc.	--	(41,017)
Other	1,600	217
Net cash provided by (used for) investing activities	(6,446)	4,512
Cash flows from financing activities:		
Net proceeds from (repayments of) notes payable	(6,656)	706
Repayments of long-term debt	(4,904)	(2,377)
Net proceeds from issuance of Series B convertible preferred stock	49,805	--
Net proceeds from issuance of common stock	5,655	23,095
Net proceeds from issuance of stock by subsidiaries	5,925	477
Other	(709)	2,695
Net cash provided by financing activities	49,116	24,596
Net increase (decrease) in cash and cash equivalents	(19,779)	(11,092)
Cash and cash equivalents at beginning of period	61,537	59,762
Cash and cash equivalents at end of period	$ 41,758	$ 48,670

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

A. Basis of Presentation

The accompanying consolidated financial statements have been prepared by CMGI, Inc. ("CMGI" or "the Company") in accordance with generally accepted accounting principles. In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of the Company's financial position, results of operations and cash flows at the dates and for the periods indicated. While the Company believes that the disclosures presented are adequate to make the information not misleading, these consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 1998 which are contained in the Company's Annual Report on Form 10-K/A filed with the Securities and Exchange Commission ("the SEC") on May 26, 1999. The results for the three and nine month periods ended April 30, 1999 are not necessarily indicative of the results to be expected for the full fiscal year. Certain prior year amounts in the consolidated financial statements have been reclassified in accordance with generally accepted accounting principles to conform with current year presentation.

Financial information related to the Company's former lists and database services segment has been presented as discontinued operations (see Note B). Certain prior period amounts in the consolidated financial statements have been reclassified in accordance with generally accepted accounting principles to reflect the Company's lists and database services segment as discontinued operations.

B. Discontinued Operations

On March 11, 1999, the Company announced the signing of a binding agreement to sell its wholly owned subsidiary, CMG Direct Corporation (CMG Direct) to Marketing Services Group, Inc. (MSGI). At the time, CMG Direct comprised the Company's entire lists and database services segment. As a result, the operations of the Company's lists and database services segment have been reflected as income (loss) from discontinued operations. The gain on sale of certain data warehouse product rights by the Company's subsidiary, Engage Technologies, Inc. (Engage) in the first quarter of fiscal 1998 has also been reflected as discontinued operations. These data warehouse products were developed by Engage during fiscal 1996 and 1997, when Engage was included in the Company's lists and database services segment. CMG Direct's net assets, which included accounts receivable, prepaid expenses, net property and equipment, net goodwill, other assets, accounts payable, accrued expenses and other liabilities are reported as net current and non-current assets of discontinued operations at April 30, 1999.

C. Deconsolidation of Vicinity

Beginning in November 1998, CMGI's ownership interest in Vicinity was reduced to below 50% as a result of employee stock option exercises. As such, beginning in November 1998, the Company began to account for its remaining investment in Vicinity under the equity method of accounting, rather than the consolidation method. Prior to these events, the operating results of Vicinity were consolidated within the operating results of the Company's investment and development segment, and the assets and liabilities of Vicinity were consolidated with those of CMGI's other majority owned subsidiaries in the Company's consolidated balance sheets. The Company's historical quarterly consolidated operating results for the fiscal quarter ended October 31, 1998 included Vicinity net revenues of $1,454,000 and operating losses of $621,000.

D. Deconsolidation of Lycos, Inc.

During the first quarter of fiscal year 1998, the Company owned in excess of 50% of Lycos and accounted for its investment under the consolidation method. Through the subsequent sale and distribution of Lycos shares, the Company's ownership percentage in Lycos was reduced to below 50% beginning in November 1997. As such, beginning in November 1997, the Company began accounting for its remaining investment in Lycos under the equity method of accounting, rather than the consolidation method. Prior to these events, the operating results of Lycos were consolidated within the operating results of the Company's investment and development segment, and the assets and liabilities of Lycos were consolidated with those of CMGI's other majority owned subsidiaries in the Company's consolidated balance sheets. The Company's historical quarterly consolidated operating results for the fiscal quarter ended October 31, 1997 included Lycos net revenues of $9,303,000 and operating losses of $433,000. As a result of additional Lycos stock sales, beginning in January 1999, CMGI's ownership in Lycos was further reduced below 20%. Accordingly, CMGI began accounting for its investment in Lycos (net of shares attributable to CMG@Ventures I, LLC's profit members and shares which may be required to be sold to Lycos pursuant to employee stock option exercises) as available-for-sale securities, carried at fair value (see Note J.)

The following table contains summarized financial information for Lycos for the quarters ended October 31, 1998 and January 31, 1999, the periods under which the Company accounted for its investment under the equity method of accounting:

(in thousands)
Condensed Statement of Operations:

	Quarter Ended October 31, 1998	Quarter Ended January 31, 1999
Net revenues	$ 24,784	$ 30,552
Operating loss	$(15,612)	$(15,368)
Net loss	$ (3,596)	$(13,753)

	October 31, 1998	January 31, 1999
Current assets	$203,041	$198,209
Noncurrent assets	272,991	266,706
Total assets	$476,032	$464,915
Current liabilities	$ 53,694	$ 50,612
Noncurrent liabilities	29,873	29,087
Stockholders' equity	392,465	385,216
Total liabilities and stockholders' equity	$476,032	$464,915

E. Two-For-One Common Stock Splits

On January 11, 1999 and May 27, 1999, respectively, the Company effected two-for-one common stock splits in the form of stock dividends. Accordingly, the consolidated financial statements have been retroactively adjusted for all periods presented to reflect these events.

F. Sale of CMG@Ventures Investments and Investment in Hollywood Entertainment

In August, 1998, the Company's subsidiary, CMG@Ventures II, LLC (CMG@Ventures II) converted its holdings in Sage Enterprises, Inc. (Sage Enterprises) into 225,558 shares of Amazon.com, Inc. (Amazon.com) common stock as part of a merger wherein Amazon.com acquired Sage Enterprises. CMG@Ventures II invested $4.5 million in Sage Enterprises beginning in June, 1997. The Company recorded a pre-tax gain of $19,057,000 on the conversion of its investment in Sage Enterprises during the fiscal quarter ended October 31, 1998. Such gain was recorded net of the 20% interest attributable to CMG@Ventures II's profit members.

In October 1998, CMG@Ventures II's holdings in Reel.com, Inc. (Reel.com) were converted into 1,943,783 restricted common and 485,946 restricted, convertible preferred shares of Hollywood Entertainment Corporation (Hollywood Entertainment) as part of a merger wherein Hollywood Entertainment acquired Reel.com. CMG@Ventures II invested $6.9 million in Reel.com beginning in July 1997. The Company recorded a pre-tax gain of $23,158,000 on the conversion of its investment in Reel.com during the fiscal quarter ended October 31, 1998. The gain was reported net of the 20% interest attributable to CMG@Ventures II's profit members. Also in October 1998, in a separate transaction, the Company purchased 1,524,644 restricted common and 803,290 restricted, convertible preferred shares of Hollywood Entertainment for a total cash purchase price of $31.1 million. In December 1998, CMGI's and CMG@Ventures II's entire holdings in Hollywood Entertainment preferred stock were converted into common shares on a 1-for-1 basis.

G. Gain on Stock Issuances by Lycos, Inc. and GeoCities

In August 1998, the Company's affiliate, GeoCities, completed its initial public offering of common stock, issuing approximately 5.5 million shares at a price of $17.00 per share, which raised $84.5 million in net proceeds for GeoCities. As a result of the initial public offering, the Company's ownership interest in GeoCities was reduced from approximately 34% to approximately 28%. The Company, through its subsidiaries, CMG@Ventures I, LLC (CMG@Ventures I) and CMG@Ventures II, has invested a total of $5.9 million in GeoCities beginning in January 1996. In December 1998, GeoCities issued additional stock in conjunction with its acquisition of Starseed, Inc. (known as WebRing) and in March 1999, issued additional stock in its acquisition of Futuretouch. CMGI recorded pre-tax gains of $24,132,000, $4,382,000, and $859,000 on the issuances of stock by GeoCities during the first, second and third quarters of fiscal year 1999, respectively. These pre-tax gains represent the increase in the book value of the Company's net equity in GeoCities, primarily as a result of the initial public offering and acquisitions. The gains were recorded net of the interests attributable to CMG@Ventures I's and II's profit members.

The Company recorded a pre-tax gain of $20,374,000 in the first quarter of fiscal 1999 resulting from the issuance of stock by Lycos. The gain for the quarter was primarily related to the issuance of 4.1 million shares by Lycos during August 1998 in its acquisition of WhoWhere? Inc. As a result of the issuance of stock by Lycos for the acquisition of WhoWhere? Inc., the Company's ownership interest in Lycos was reduced from approximately 24% to approximately 22%. The gain was recorded net of the interest attributable to CMG@Ventures I's profit members.

H. Commitment to Fund CMG@Ventures III, LLC

In December 1998, CMGI announced the close of the @Ventures III venture capital fund. This fund has secured $212 million in capital commitments from outside investors, which will be invested in emerging Internet service and technology companies through two newly formed entities, @Ventures III L.P. and @Ventures III Foreign Fund, L.P. CMGI does not have a direct ownership interest in either of these newly created entities, but is entitled to 2% of the net capital gains realized by both entities. Management of these entities, including investment and sale decisions, is the responsibility of @Ventures Partners III, LLC, whose members include David S. Wetherell, CMGI's President and Chief Executive Officer, and Andrew J. Hajducky III, CMGI's Chief Financial Officer. The Company has committed to contribute $54 million to its newly formed limited liability company subsidiary, CMG@Ventures III, LLC, of which approximately $10 million has been funded as of April 30, 1999. CMG@Ventures III, LLC will take strategic positions side by side with @Ventures III L.P. CMGI owns 100% of the capital and is entitled to 80% of the net capital gains realized by CMG@Ventures III, LLC. @Ventures Partners III, LLC is entitled to the remaining 20% of the net capital gains realized by CMG@Ventures III, LLC.

I. Acquisitions and Investments

During the first nine months of fiscal year 1999, through CMG@Ventures III, LLC, CMGI acquired minority ownership interests in thirteen Internet companies, including Raging Bull, Asimba, Virtual Ink, Ancestry.com, Furniture.com, HotLinks, Medical Village, NextMonet.com, ONElist, OneCore.com, eCircles.com, advoco.com, and Carparts.com, for an aggregate total of approximately $10 million. Raging Bull is a financial Web message board service that offers the ability to filter content and tailor personally relevant financial information to meet users' needs. Asimba is creating a content rich, personalized, online community for the competitive and recreational sports market. Virtual Ink is a newly launched company focused on the development of Digital Meeting Assistant TM (DMA) technologies. Ancestry.com is a provider of community, content and commerce resources for families via the Internet, including the Web's largest repository of searchable genealogy data. Furniture.com is an e-commerce provider of a broad selection of furniture and home furnishing accessories. HotLinks operates a service that allows users to create personal Web directories. Medical Village is an Internet community of medical professionals offering members a variety of services including access to a searchable, comprehensive healthcare industry database, communication with other members, ordering from online medical product catalogs and access to current healthcare industry news. NextMonet is developing an ecommerce site for purchasers of art, in the form of an on-line art gallery. ONElist provides free e-mail communities via the Internet, allowing users to search for or subscribe to tens of thousands of communities on different topics or create their own community. OneCore.com offers an integrated set of Web-based financial applications targeted at small businesses. eCircles.com provides a free service that allows for friends and family to share information and coordinate events on the World Wide Web. Advoco provides an electronic marketplace for interactive advice servicing a wide range of categories. Carparts.com operates the only Website that provides consumers with a search capability to locate and order online certain auto parts. The Company anticipates synergies between these strategic positions and CMGI's core businesses, including speeding technological innovation and access to markets. Each of the thirteen new investments made by CMG@Ventures III, LLC during the first nine months of fiscal year 1999 are carried at cost in CMGI's consolidated financial statements.

During the first nine months of fiscal year 1999 through CMG@Ventures II, LLC, CMGI made follow-on investments in Chemdex, Critical Path, KOZ, MotherNature.com, Silknet, Softway Systems and ThingWorld.com, for an aggregate total of approximately $11 million.

During the third fiscal quarter of 1999, CMGI exercised its right to invest an additional $22 million to increase its ownership in Magnitude Network (Magnitude) from 23% to 92%. CMGI had previously invested a total of $2.5 million in Magnitude in July and October 1998. Accordingly, beginning in February 1999, CMGI began accounting for its investment in Magnitude under the consolidation method of accounting, rather than the equity method.

I. Acquisitions and Investments (continued)

On March 11, 1999, CMGI completed the acquisition of 2CAN Media, Inc. (2CAN) for initial consideration of approximately $27,493,000. Immediately following the completion of the acquisition, on March 11, 1999, 2CAN was merged with and into Adsmart Corporation (Adsmart), a majority-owned subsidiary of CMGI, with Adsmart becoming the surviving corporation. 2CAN was a Los Angeles, California-based full-service interactive media company serving the entire online advertising community with site-focused sales and advertising representation and was comprised of five distinct sales channels: WebRep, Pinnacle Interactive, ECG, MediaPlus and Grupo NetFuerza. As the primary component of the initial consideration paid for 2CAN, CMGI and Adsmart jointly issued convertible promissory notes (the "Promissory Notes") in the aggregate principal amount of $26,983,000. The Promissory Notes bear interest at an annual rate of 6.5% and are due and payable in full, with accrued interest, on March 11, 2004. The holders of the Promissory Notes can elect at any time prior to March 11, 2004, to convert all or a portion of the outstanding principal and accrued interest (the "Conversion Amount") into the following: 14.66% of the Conversion Amount will be paid in cash, 14.66% of the Conversion Amount will be paid in shares of CMGI common stock and 70.68% of the Conversion Amount will be paid in either shares of CMGI common stock or Adsmart common shares based on the election of the Promissory Note holders. As of April 30, 1999, Promissory Notes in the principal amount of $23,333,000 had been converted into $3,433,000 in cash and 304,210 shares of CMGI common stock. The principal amounts payable under the Promissory Notes are subject to a $1 for $1 reduction if certain revenue amounts are not achieved by Adsmart during the period from March 11, 1999 to December 31, 1999. Additionally, the initial consideration is subject to an increase of $0.83 for each $1 of calendar year 1999 revenues achieved by Adsmart and 2CAN in excess of $28 million. The additional consideration is payable in shares of CMGI common stock. The shares of CMGI common stock issued in the 2CAN acquisition are not registered under the Securities Act of 1933, as amended, and are subject to a Lockup Agreement. The Lockup Agreement prohibits transfer of the shares of CMGI common stock, without the permission of the Company, for a period of twelve months following the date of the issuance.

On April 4, 1999, CMGI completed its acquisition of Activerse, Inc. (Activerse), a provider of open standard Internet messaging technologies, for 198,536 shares of the Company's common stock. The shares issued by the Company under the Activerse acquisition are not registered under the Securities Act of 1933 and are subject to restrictions on transferability for a period of one year from the date of issuance. The total purchase price for Activerse was valued at approximately $13,800,000, including costs of acquisition of $100,000. The value of the Company's shares included in the purchase price was recorded net of a weighted average 12% market value discount to reflect the restrictions on transferability.

In April 1999, the Company's subsidiary, Engage, acquired Internet Profiles Corporation (I/PRO), which provides Web site traffic measurement and audit services, for approximately $30.6 million, consisting of $1.6 million in net cash, $20.9 million in CMGI shares and $7.8 million in Engage shares and options. Engage has recorded an expense of $4.5 million in the third quarter of fiscal 1999 representing acquired in-process research and development that had not yet reached technological feasibility and had no alternative future use. In addition, CMGI must pay up to $3.0 million to I/PRO stockholders if performance goals are met relating to the gross revenue of I/PRO for the year ended March 31, 2000; data contributed to the Engage knowledge database as of March 31, 2000; and various employees of I/PRO continuing employment with Engage. Engage must reimburse CMGI for any such payments, at CMGI's election, in cash or by issuance of shares of Engage common stock at its then fair market value. Any additional payment will be treated as additional purchase price and amortized over the balance of the two or five year period. The shares of CMGI common stock are not registered under the Securities Act of 1933, as amended, and are subject to a Lockup Agreement. The Lockup Agreement prohibits transfer of the CMGI Shares, without the permission of the Company, for periods of up to twelve months following the date of the issuance of the shares of CMGI common stock.

I. Acquisitions and Investments (continued)

The acquisitions during the third quarter of fiscal 1999 have been accounted for using the purchase method, and, accordingly, the purchase prices have been allocated to the assets purchased and liabilities assumed based upon their fair values at the date of acquisition. Goodwill and other intangibles, totaling $96.9 million, were recorded related to acquisition, and are being amortized on a straight-line basis over two or five years, depending on the asset class. The acquired companies are included in the Company's consolidated financial statements from the dates of acquisition. The final acquisition accounting and valuation for the Company's total investment of approximately $66 million in 2CAN, Activerse, and Magnitude is expected to result in a portion of the purchase price being identified as in-process research and development, in accordance with valuation methodologies provided by the Securities and Exchange Commission which will be charged to operating results in the fourth quarter when the amount is determined.

The purchase price for each of the above acquisitions was allocated as follows:

	Activerse	Magnitude Network	2CAN Media	I/PRO	Total
Working capital, including cash (cash overdraft) acquired	$(3,896,000)	$ 1,209,000	$(4,446,000)	$ (150,000)	$(7,283,000)
Property, plant and equipment	170,000	363,000	114,000	1,676,000	2,323,000
Other assets (liabilities), net	--	(69,000)	25,000	(235,000)	(279,000)
In-process research and development	--	--	--	4,500,000	--
Goodwill	17,543,000	22,713,000	31,800,000	19,900,000	91,956,000
Developed technology	--	--	--	3,000,000	3,000,000
Other identifiable intangible assets	--	--	--	1,920,000	1,920,000
Minority interest	--	(119,000)	--	--	(119,000)
Losses recorded under equity method	--	388,000	--	--	388,000
Purchase price	$13,817,000	$24,485,000	$27,493,000	$30,611,000	$96,406,000

J. Sales of Lycos and Amazon.com stock

During the first quarter of fiscal year 1999, CMG@Ventures I distributed 3,585,207 of its shares of Lycos common stock to the Company, and 558,317 shares to CMG@Ventures I's profit members. During the first quarter of fiscal 1999 the Company sold 70,000 of its Lycos shares on the open market. As a result of the sale, the Company received proceeds of $2.5 million, and recognized a pre-tax gain of $1,879,000, reported net of the associated interest attributed to CMG@Ventures I's profit members. During the second quarter of fiscal 1999 the Company sold 748,000 of its Lycos shares on the open market. As a result of second quarter Lycos sales, the Company received proceeds of $50.6 million, and recognized a pre-tax gain of $43,596,000, reported net of the associated interest attributed to CMG@Ventures I's profit members. As a result of the Company's sale of Lycos shares, during January, 1999, the Company's ownership interest in Lycos fell below 20% of Lycos' outstanding shares. With this decline in ownership below 20%, CMGI began accounting for its investment in Lycos (net of shares attributable to CMG@Ventures I's profit members and shares which may be required to be sold to Lycos pursuant to employee stock option exercises) as available-for-sale securities, carried at fair value, rather than under the equity method.

In November, 1998, CMGI received a distribution of 169,538 shares of Amazon.com stock from CMG@Ventures II LLC. The Company sold these shares for total proceeds of $27.2 million in November 1998, and recognized a pre-tax gain of $7,002,000, reported net of the associated interest attributed to CMG@Ventures II's profit members.

K. Segment Information

The Company's continuing operations are classified in two primary business segments: (i) investment and development and (ii) fulfillment services. The Company's lists and database services segment is reported as discontinued operations (see Note C.) During the three and nine months ended April 30, 1999, respectively, non-consolidated related parties accounted for approximately 10% and 10% of net revenues, respectively, in the investment and development segment. Additionally, during the quarter ended April 30, 1999, one customer contract accounted for 22% of the net revenues of the investment and development business segment. Summarized financial information by business segment for continuing operations is as follows:

	Three months ended April 30,		Nine months ended April 30,	
	1999	1998	1999	1998
Net revenues:				
Investment and development	$ 10,610,000	$ 2,208,000	$ 20,424,000	$ 14,539,000
Fulfillment services	33,045,000	15,937,000	99,608,000	41,431,000
	$ 43,655,000	$ 18,145,000	$120,032,000	$ 55,970,000
Operating income (loss):				
Investment and development	$(35,632,000)	$(25,048,000)	$(77,991,000)	$(53,093,000)
Fulfillment services	1,565,000	1,547,000	2,727,000	3,757,000
	$(34,067,000)	$(23,501,000)	$(75,264,000)	$(49,336,000)

Operating income in the fulfillment services segment was adjusted during the fourth quarter of fiscal year 1998 to correct prior quarters' understatements of cost of sales by SalesLink's subsidiary company, Pacific Link. The cost of sales understatement was caused by estimates used in determining the material content in cost of sales. As a result, previous quarterly results had understated cost of sales and overstated inventory. Had such adjustments been recorded in the period in which they occurred, quarterly fulfillment services segment operating income (loss) would have been as follows:

	Three Months Ended				
	October 31, 1997	January 31, 1998	April 30, 1998	July 31, 1998	Total
As Reported	$ 1,061,000	$ 1,149,000	$ 1,547,000	$(2,313,000)	$ 1,444,000
As Restated	$ 279,000	$ 335,000	$ 656,000	$ 174,000	$ 1,444,000

L. Borrowing Arrangements

The Company's $20 million collateralized corporate borrowing facility became payable in full on January 20, 1999. Upon its maturity, CMGI renewed this $20 million facility for another one-year period, with similar terms as the expiring facility. This borrowing is now secured by 762,465 of CMGI's shares of Lycos common stock. Under this agreement, CMGI could become subject to additional collateral requirements under certain circumstances. The Company expects to again seek the renewal of this facility upon its next maturity on January 20, 2000. The Company's subsidiary, SalesLink, had a $14.7 million bank term note outstanding at April 30, 1999, which provides for repayment in quarterly installments through November 2002. Additionally, SalesLink's credit agreement includes a $9 million revolving line of credit, of which $1.1 million has been reserved in support of outstanding letters of credit for operating leases as of April 30, 1999, and $7.9 million is available for future borrowings. The obligations of SalesLink under its bank line of credit and bank term loans have been guaranteed by CMGI. Such obligations had been classified as current liabilities in the Company's July 31, 1998 and January 31, 1999 balance sheets since, at those dates, SalesLink was not in compliance with certain covenants of its borrowing arrangements. In connection with the investment by CMGI of a $10 million original principal amount of subordinated convertible notes and warrants to purchase SalesLink Series A Convertible Preferred Stock, the bank has since waived all covenant defaults and amended certain financial and operating covenants contained in the SalesLink bank facility. There are no current defaults. As such, $12,400,000 owed by SalesLink under its borrowing arrangements which are payable after April 30, 2000 have been classified as long-term liabilities as of April 30,1999. In addition, On-Demand Solutions, Inc., a subsidiary of CMGI, was added to the SalesLink credit facility as an additional borrower.

M. Issuance of Series B Convertible Redeemable Preferred Stock

On December 22, 1998, CMGI completed a $50 million private placement of 50,000 shares of newly issued Series B convertible preferred stock. Each preferred share has a stated value of $1,000 per share, and accretes an incremental conversion premium at a rate of 4% per year. Subject to certain limitations, the Series B convertible preferred stock plus accreted conversion premium may be converted into shares of the Company's common stock at a fixed price of $26 per common share for one year or until the earlier occurrence of certain specified events. Under certain circumstances, the Company has the option to redeem the Series B convertible preferred stock; and under certain circumstances the Company may be required to redeem the Series B convertible preferred stock. After one year or the earlier occurrence of certain specified events, if the Series B convertible preferred stock has not been redeemed, the conversion price is based upon a formula which is tied to the undiscounted market price of the Company's common stock. Subject to waiver by the Company, the maximum number of shares of the Company's common stock into which the Series B convertible preferred stock may convert is 4,166,668. The Series B convertible preferred stock automatically converts into common stock on December 22, 2000. Preferred stockholders have preference over common stockholders in dividends and liquidation rights. Proceeds of the private placement were raised to be used for acquisitions of controlling positions in companies and working capital purposes. In April, 1999, 15,000 shares of Series B convertible preferred stock, with a face amount of $15,000,000 and accumulated conversion premium of $184,000, were converted into 584,004 shares of the Company's common stock.

N. Earnings Per Share

The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share". Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common stock equivalents and convertible preferred stock are included in the calculation of diluted earnings per share only when the effect of their inclusion would be dilutive. The effect of convertible preferred stock using the "if-converted" method was anti-dilutive for the three and nine month periods ended April 30, 1999 and, therefore, has been excluded from the calculation of diluted earnings per share.

If a subsidiary has dilutive stock options or warrants outstanding, diluted earnings per share is computed by first deducting from income (loss) from continuing operations, the income attributable to the potential exercise of the dilutive stock options or warrants of the subsidiary. The effect of income attributable to dilutive subsidiary stock equivalents was immaterial for the three and nine months ended April 30, 1999 and 1998.

The following table sets forth the reconciliation of the numerators and denominators for the earnings per share calculations per SFAS No. 128:

(in thousands)	Three months ended April 30,		Nine months ended April 30,	
	1999	1998	1999	1998
Basic and diluted earnings per share:				
Income (loss) from continuing operations	$(27,223)	$ 8,069	$ 24,315	$ (126)
Less: Convertible preferred stock accretion	(459)	--	(684)	--
Income (loss) from continuing operations available to common stockholders	(27,682)	8,069	23,631	(126)
Loss from discontinued operations of lists and database services segment	(527)	(147)	(806)	(79)
Gain on sale of data warehouse product rights	--	--	--	4,978
Net income (loss) available to common stockholders	$(28,209)	$ 7,922	$ 22,825	$ 4,773
Weighted average common shares outstanding - basic	93,904	85,672	92,727	80,852
Effect of dilutive stock options	--	7,016	8,798	--
Weighted average common shares outstanding diluted	93,904	92,688	101,525	80,852

O. Comprehensive Income

As of August 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components; however, it has no impact on the Company's net income or stockholders' equity. SFAS No. 130 requires all changes in equity from non-owner sources to be included in the determination of comprehensive income.

The components of comprehensive income (loss), net of income taxes, are as follows:

(in thousands)	Three months ended April 30,		Nine months ended April 30,	
	1999	1998	1999	1998
Net income (loss)	$(27,750)	$7,922	$ 23,509	$ 4,773
Net unrealized holding gain (loss) arising during period	(60,543)	--	422,987	1,603
Less: reclassification adjustment for gain realized in net income (loss)	--	--	(4,119)	(2,445)
Comprehensive income (loss)	$(88,293)	$7,922	$442,377	$ 3,931

P. Consolidated Statements of Cash Flows Supplemental Information

(in thousands)	Nine months ended April 30,	
	1999	1998
Cash paid during the period for:		
Interest	$ 2,857	$2,034
Income taxes	$10,615	$ 517

During the nine months ended April 30, 1999, significant non-cash investing activities included the sale of the Company's equity interest in Reel.com in exchange for Hollywood Entertainment available-for-sale securities valued at $32,801,000, the sale of the Company's minority investment in Sage Enterprises in exchange for Amazon.com available-for-sale securities valued at $26,519,000, and the issuance of CMGI stock, Engage stock and convertible notes for acquisitions (See Notes F and I.)

Q. Available-for-Sale Securities

At April 30, 1999, available-for-sale securities include 296,594 shares of Lycos common stock and 130,167 shares of USWeb Corporation common stock held by CMG@Ventures I. Available-for-sale securities at April 30, 1999 also include the following securities held by CMG@Ventures II: 67,668 shares of Amazon.com common stock (as adjusted for Amazon.com's 3-for-1 stock split in December 1998) and 2,429,729 shares of Hollywood Entertainment common stock and 1,737,752 shares of Critical Path, Inc. common stock. Subject to the terms of CMG@Ventures I and II's operating agreements, certain of the shares held by these entities may be allocated to CMG@Ventures I and II's profit members in the future.

Additionally, available-for-sale securities at April 30, 1999 include the following securities held by CMGI, Inc. directly or through its other subsidiaries: 5,523,845 shares of Lycos, Inc. common stock; 142,896 shares of Informix Corporation (formerly Red Brick Systems) common stock; 386,473 shares of Open Market, Inc. common stock; 2,327,934 shares of Hollywood Entertainment common stock,

Q. Available-for-Sale Securities (continued)

Available-for-sale securities are carried at fair value as of April 30, 1999, based on quoted market prices, net of a market value discount to reflect the remaining restrictions on transferability on certain of these securities. A net unrealized holding gain of $418,432,000, net of deferred income taxes of $292,062,000, has been reflected in the equity section of the consolidated balance sheet based on the change in market value of the available-for-sale securities from dates of acquisition to April 30, 1999.

CMG@Ventures II also holds 45,177 shares of Amazon.com stock at April 30, 1999 which have been allocated to its profit members and, therefore, have not been classified as available-for-sale securities in the accompanying consolidated balance sheet. At April 30, 1999, CMG@Ventures I also holds approximately 1.4 million shares of Lycos common stock which have been allocated to its profit members and approximately 730,000 Lycos shares which CMG@Ventures I may be obligated to sell to Lycos in the future, as necessary, to provide for shares issuable upon the exercise of certain stock options granted by Lycos under its 1995 stock option plan. These shares of Lycos common stock have not been classified as available-for-sale securities in the accompanying consolidated balance sheet.

CMG@Ventures II's shares of Amazon.com stock are being held in escrow by an outside trustee until August 27, 1999 as indemnification related to Amazon.com's acquisition of Sage Enterprises.

The Hollywood Entertainment common shares held by CMGI and CMG@Ventures II are subject to restrictions on transferability until September 1, 1999.

R. New Accounting Pronouncements

In March, 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants, issued SOP 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," which requires the capitalization of certain internal costs related to the implementation of computer software obtained for internal use. The Company is required to adopt this standard in the first quarter of fiscal year 2000. The Company expects that the adoption of SOP 98-1 will not have a material impact on the Company's financial position or its results of operations.

In June, 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value. The Company is required to adopt this standard in the first quarter of fiscal year 2000. The Company expects that the adoption of SFAS No. 133 will not have a material impact on the Company's financial position or its results of operations.

S. Subsequent Events

On May 5, 1999, Silknet completed its initial public offering at a price of $15 per share. CMG@Ventures II currently holds 2.8 million shares of Silknet common stock (of which approximately 2.2 million shares are attributable to CMGI), which it acquired at an average cost of $2.42 per share. On June 2, 1999, Critical Path priced an additional offering of 3.5 million shares of common stock at $49.375 per share. Of the 3.5 million shares offered, 3 million shares were sold by the company and 500,000 by certain selling shareholders, all at $49.375 per share. Included in that offering, CMG@Ventures II sold approximately 45,000 shares, receiving net proceeds of approximately $2.1 million. CMG@Ventures II now holds approximately 1.7 million shares of Critical Path common stock (of which approximately 1.4 million shares are attributable to CMGI), which it acquired at an average cost of $1.44 per share. On May 10, 1999, CMGI's majority owned subsidiary, Engage, announced that on May 7, 1999 it filed with the Securities and Exchange Commission a registration statement for the initial public offering of its common stock.

On May 13, 1999, CMGI and Gateway announced that the two companies formed a strategic alliance and will seek out collaborative business and investment opportunities on the Internet. In addition, Gateway agreed to invest $200 million for an ownership stake in CMGI, subject to certain closing conditions. On June 7, 1999, CMGI's majority owned subsidiary, NaviSite, Inc., announced it signed strategic agreements with Dell Computer Corporation and Microsoft Corporation. In connection with separate strategic alliance agreements, Dell and Microsoft have each also made separate investments in NaviSite in return for 4.9 and 4.4 percent fully diluted equity stakes, respectively.

On May 13, 1999, CMGI completed the sale of its CMG Direct subsidiary to Marketing Services Group, Inc. in exchange for cash of approximately $13.9 million and approximately 2.3 million shares of MSGI stock. Also during May, Yahoo! completed the acquisition of GeoCities, pursuant to which the 8.8 million shares of GeoCities common stock, and options to purchase an additional 1 million GeoCities shares held by CMG@Ventures were converted to Yahoo! stock and options. MSGI and Yahoo! shares received will be accounted for as available-for-sale securities, at market value.

In May 1999, the Company completed the acquisition of Nascent Technologies, Inc. for approximately $6 million in CMGI stock. Nascent Technologies is a developer of value-added, carrier-class software that enables service providers to rapidly launch new services on the World Wide Web.

Also, subsequent to April 30, 1999, CMG@Ventures III acquired minority interests in Productopia, Inc., NextPlanetOver and one other investment and CMGI@Ventures II made follow-on investments in Mothernature.com, Universal Learning Technology, Visto.

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. All statements other than statements of historical information provided herein are forward-looking statements and may contain information about financial results, economic conditions, trends and known uncertainties. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section and elsewhere in this report, the risks discussed in the "Risk Factors" section included in the Company's registration statement on Form S-3 filed with the SEC on February 5, 1999, as amended and the risks discussed in the Company's other filings with the SEC. These risks and uncertainties could cause actual results to differ materially from those reflected in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Deconsolidation of Lycos beginning in the second quarter of fiscal year 1998

During the first quarter of fiscal year 1998, the Company owned in excess of 50% of Lycos and accounted for its investment under the consolidation method. Through the subsequent sale and distribution of Lycos shares, the Company's ownership percentage in Lycos was reduced to below 50% beginning in November 1997. As such, beginning in November 1997, the Company began accounting for its remaining investment in Lycos under the equity method of accounting, rather than the consolidation method. Prior to these events, the operating results of Lycos were consolidated within the operating results of the Company's investment and development segment, and the assets and liabilities of Lycos were consolidated with those of CMGI's other majority owned subsidiaries in the Company's consolidated balance sheets. The Company's historical quarterly consolidated operating results for the fiscal quarter ended October 31, 1997 included Lycos net revenues of $9,303,000 and operating losses of $433,000. Accordingly, CMGI began accounting for its investment in Lycos (net of shares attributable to CMG@Ventures I, LLC's profit members and shares which may be required to be sold to Lycos pursuant to employee stock option exercises) as available-for-sale securities, carried at fair value.

Deconsolidation of Vicinity beginning in the second quarter of fiscal year 1999

Beginning in November 1998, CMGI's ownership interest in Vicinity was reduced to below 50% as a result of employee stock option exercises. As such, beginning in November, 1998, the Company began to account for its remaining investment in Vicinity under the equity method of accounting, rather than the consolidation method. Prior to these events, the operating results of Vicinity were consolidated within the operating results of the Company's investment and development segment, and the assets and liabilities of Vicinity were consolidated with those of CMGI's other majority owned subsidiaries in the Company's consolidated balance sheets. The Company's historical quarterly consolidated operating results for the fiscal quarter ended October 31, 1998 included Vicinity net revenues of $1,454,000 and operating losses of $621,000.

Fiscal 1998 Fulfillment Segment Results

Operating income in the fulfillment services segment was adjusted during the fourth quarter of fiscal year 1998 to correct prior quarters' understatements of cost of sales by SalesLink's subsidiary company, Pacific Link. The cost of sales understatement was caused by estimates used in determining the material content in cost of sales. As a result, previous quarterly results had understated cost of sales and overstated inventory. Had such adjustments been recorded in the period in which they occurred, quarterly fulfillment services segment operating income (loss) would have been as follows:

	Three Months Ended				
	October 31, 1997	January 31, 1998	April 30, 1998	July 31, 1998	Total
As Reported	$ 1,061,000	$ 1,149,000	$ 1,547,000	$(2,313,000)	$ 1,444,000
As Restated	$ 279,000	$ 335,000	$ 656,000	$ 174,000	$ 1,444,000

Discontinued Operations

On March 11, 1999, the Company announced the signing of a binding agreement to sell its wholly owned subsidiary, CMG Direct to Marketing Services Group, Inc. (MSGI). At the time, CMG Direct comprised the Company's entire lists and database services segment. As a result, the operations of the Company's lists and database services segment have been reflected as income (loss) from discontinued operations. The gain on sale of certain data warehouse product rights by the Company's subsidiary, Engage Technologies, Inc. (Engage) in the first quarter of fiscal 1998 has also been reflected as discontinued operations. These data warehouse products were developed by Engage during fiscal 1996 and 1997, when Engage was included in the Company's lists and database services segment. CMG Direct's net assets, which included accounts receivable, prepaid expenses, net property and equipment, net goodwill, other assets, accounts payable, accrued expenses and other liabilities are reported as net current and non-current assets of discontinued operations at April 30, 1999. Certain prior period amounts in the consolidated financial statements have been reclassified in accordance with generally accepted accounting principles to reflect the Company's lists and database services segment as discontinued operations.

Three months ended April 30, 1999 compared to three months ended April 30, 1998

Net revenues for the quarter ended April 30,1999 increased $25,510,000, or 141%, to $43,655,000 from $18,145,000 for the quarter ended April 30, 1998. The increase was largely attributable to an increase of $17,108,000 in net revenues for the Company's fulfillment services segment, reflecting increased volume of turnkey business from Cisco Systems and the acquisitions of On-Demand Solutions and InSolutions during the fourth quarter of fiscal 1998. Additionally, net revenues in the Company's investment and development segment increased $8,402,000. Vicinity net revenues for last year's third quarter ended April 30, 1998 were $1,148,000. Absent the impact of Vicinity, net revenues in the investment and development segment increased by $9,550,000 or 900%, reflecting increased revenues for Engage, including the addition of Internet Profiles Corporation (I/PRO) during the quarter, Adsmart, including the addition of 2CAN Media (2CAN) during the quarter, NaviSite, and Planet Direct, whose results included approximately $2.3 million in license revenue from one significant customer. During the quarter ended April 30, 1999, non-consolidated related parties accounted for approximately 16% of net revenues in the investment and development segment. The Company believes that its subsidiary companies will continue to develop and introduce their products commercially, actively pursue increased revenues from new and existing customers, and look to expand into new market opportunities during the remainder of fiscal 1999. Additionally, subsequent to April 30, 1999, the Company signed an agreement to acquire an additional Internet company, Nascent Technologies, Inc. Therefore, as a result of both increased revenue from existing companies, and incremental revenues from new acquisitions, the Company expects to report future revenue growth.

Cost of revenues increased $24,939,000, or 145%, to $42,169,000 in the third quarter of fiscal 1999 from $17,230,000 for the corresponding period in fiscal 1998, reflecting increases of $14,576,000 and $10,363,000 in the fulfillment services and investment and development segments, respectively. Adjusted for the $891,000 impact of prior year understatements, cost of sales increased $13,685,000 in the fulfillment services segment resulting from higher revenues and the acquisitions of On-Demand Solutions and InSolutions. Investment and development segment cost of revenues increases were primarily attributable to higher revenues, the acceleration of operations in the segment and the additions of I/PRO and 2CAN during the quarter, partially offset by lower cost of revenues resulting from the deconsolidation of Vicinity beginning in the second quarter of fiscal 1999. Revenue increases, offset in part by the impact of deconsolidating Vicinity, is the primary reason cost of revenues as a percentage of revenues in the investment and development segment decreased to 144% in the third quarter of fiscal 1999 from 222% in the prior year. After adjusting for prior year understatements, fulfillment services segment cost of revenues as a percentage of net revenues decreased to 81% in the third quarter of fiscal 1999 from 83% in the third quarter of fiscal 1998, primarily reflecting increased operating efficiencies related to turnkey operations.

Research and development expenses increased $1,204,000, or 31%, to $5,053,000 in the quarter ended April 30, 1999 from $3,849,000 in the prior year's third quarter. All research and development expenses in both periods were incurred within the Company's investment and development segment. The $1,204,000 increase over prior year was primarily due to increased development efforts at Engage and Planet Direct and incremental costs associated with the development of NaviNet's technology platform, partially offset by reductions due to the deconsolidation of Vicinity and reduced NaviSite development costs. In-process research and development expense was $4.5 million during the three months ended April 30, 1999 which resulted from the I/PRO acquisition (See further discussion in "In-Process Research and Development Expense related to the Acquisition of I/PRO" below) compared to $9.2 million during the nine months ended April 30, 1998 principally related to the Accipiter transaction. All in-process research and development expenses in both periods were incurred within the Company's investment and development segment. The Company anticipates it will continue to devote substantial resources to product development and that these costs may substantially increase in future periods.

Selling expenses increased $5,079,000 or 82% to $11,282,000 in the third quarter ended April 30, 1999 from $6,203,000 for the corresponding period in fiscal 1998, primarily reflecting a $5,311,000 increase in the Company's investment and development segment. The increased costs in the investment and development segment reflects sales and marketing efforts related to product launches, the acquisitions of I/PRO and 2CAN and continued growth of sales and marketing infrastructures, partially offset by reduced selling expenses due to the deconsolidation of Vicinity. Selling expenses in the fulfillment services segment decreased by $232,000 in comparison with last year's third quarter due primarily to headcount reductions. Selling expenses decreased as a percentage of net revenues to 26% in the third quarter of fiscal 1999 from 34% for the corresponding period in fiscal 1998, primarily reflecting the impact of increased revenues. As the Company's subsidiaries continue to introduce new products and expand revenues, the Company expects to incur significant promotional expenses, as well as expenses related to the hiring of additional sales and marketing personnel and increased advertising expenses, and anticipates that these costs will substantially increase in future periods.

General and administrative expenses increased $9,604,000, or 188%, to $14,718,000 in the third quarter of fiscal 1999 from $5,114,000 for the corresponding period in fiscal 1998. The investment and development segment experienced an increase of $6,858,000, primarily due to the acquisitions of I/PRO, 2CAN, Activerse, and Magnitude Network (Magnitude), including approximately $3,200,000 related to higher goodwill charges, and to the building of management infrastructures in several of the Company's Internet investments. General and administrative expenses in the fulfillment services segment increased by $2,746,000 in comparison with last year's third quarter, largely due to the acquisitions of On-Demand Solutions and InSolutions, including approximately $650,000 related to higher goodwill charges. General and administrative expenses as a percentage of net revenues increased to 34% in the third quarter fiscal 1999 from 28% for the corresponding period in fiscal 1998, primarily reflecting the impact of increased goodwill charges during the third quarter of fiscal 1999. The Company anticipates that its general and administrative expenses will continue to increase significantly as the Company adds newly acquired subsidiaries and as existing subsidiaries continue to grow and expand their administrative staffs and infrastructures.

Gain on stock issuance by GeoCities in the third quarter of fiscal 1999 arose primarily as a result of the issuance of stock by GeoCities in its acquisition of Futuretouch. Gain on sale of Lycos, Inc. common stock in the third quarter of fiscal 1998 reflects the Company's net gain realized on the sale of 445,000 shares of Lycos stock. Gain on stock issuance by Lycos, Inc. in the third quarter of fiscal 1998 resulted primarily from the issuance of stock by Lycos for the acquisitions of Tripod and WiseWire.

Interest income increased $279,000 to $852,000 in the third fiscal quarter of 1999 from $573,000 in fiscal 1998, reflecting increased income associated with higher average corporate cash equivalent balances compared with prior year. Interest expense increased $287,000 compared with the third quarter of fiscal 1998, primarily due to higher corporate collateralized borrowings and borrowings incurred in conjunction with the Company's acquisition of InSolutions.

Equity in losses of affiliates resulted from the Company's minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's operating losses and amortization of the Company's net excess investment over its equity in each affiliate's net assets is included in equity in losses of affiliates. Equity in losses of affiliates for the quarter ended April 30, 1999 include the results from the Company's minority ownership in GeoCities, ThingWorld.com, Silknet, Speech Machines, Vicinity, and Engage Japan JV. Equity in losses of affiliates for the quarter ended April 30, 1998 included the results from the Company's minority ownership in ThingWorld.com, Silknet, GeoCities, Reel.com, Lycos, Chemdex, Sage Enterprises and Speech Machines. The Company expects its affiliate companies to continue to invest in development of their products and services, and to recognize operating losses, which will result in future charges recorded by the Company to reflect its proportionate share of such losses.

Income tax benefit in the third quarter of fiscal 1999 was $9,473,000. Exclusive of taxes provided for significant, unusual or extraordinary items that will be reported separately, the Company provides for income taxes on a year to date basis at an effective rate based upon its estimate of full year earnings. In determining the Company's effective rate for the third quarter of fiscal 1999, one-time in-process research and development expense and gain on stock issuance by GeoCities were excluded.

Nine months ended April 30, 1999 compared to nine months ended April 30, 1998

Net revenues for the nine months ended April 30, 1999 increased $64,062,000, or 115%, to $120,032,000 from $55,970,000 for the nine months ended April 30, 1998. The increase was largely attributable to an increase of $58,177,000 in net revenues for the Company's fulfillment services segment, reflecting increased volume of turnkey business from Cisco Systems and the acquisitions of On-Demand Solutions and InSolutions during the fourth quarter of fiscal 1998. Net revenues from the Company's investment and development segment increased $5,885,000 compared with the first nine months of fiscal 1998, which included Lycos and Vicinity net revenues of $9,303,000 and $3,291,000, respectively. Absent the impact of Lycos and Vicinity, net revenues in the investment and development segment increased by $17,025,000 reflecting improved sales by Engage, including the impact of the acquisition of Accipiter in April 1998 and I/PRO in April 1999, Adsmart, including the acquisition of 2CAN in March 1999, and Planet Direct, including approximately $2.3 million in license revenue recognized from one significant customer during the third fiscal quarter. The Company believes that its subsidiary companies will continue to develop and introduce their products commercially, actively pursue increased revenues from new and existing customers, and look to expand into new market opportunities during the remainder of fiscal 1999. Additionally, subsequent to April 30, 1999, the Company signed an agreement to acquire an additional Internet company, Nascent Technologies, Inc. Therefore, as a result of both increased revenues by existing companies and incremental revenues from new acquisitions, the Company expects to report future revenue growth.

Cost of revenues increased $69,737,000, or 154%, to $114,917,000 for the nine months ended April 30, 1999 from $45,180,000 for the corresponding period in fiscal 1998, reflecting increases of $52,696,000 and $17,041,000 in the fulfillment services and investment and development segments, respectively. Adjusted for the $2,487,000 impact of prior year understatements, cost of revenues increased $50,209,000 in the fulfillment services segment, primarily resulting from higher revenues, the acquisitions of On-Demand Solutions and InSolutions, and incremental costs incurred in fiscal 1999 associated with relocating SalesLink's Boston and Chicago operations to more efficient facilities. Investment and development segment cost of revenues increases were primarily attributable to higher revenues, the acceleration of operations in the segment and the impact of acquisitions, partially offset by lower cost of revenues resulting from the deconsolidation of Lycos beginning in the second quarter and the deconsolidation of Vicinity beginning in the second quarter of fiscal 1999. The start up of Internet operations with minimal revenues during early stages, and the impact of deconsolidating Lycos and Vicinity, are the primary reasons cost of revenues as a percentage of revenues in the investment and development segment increased to 148% in the first nine months of fiscal 1999 from 91% in the prior year. After adjusting for prior year understatements, fulfillment services segment cost of revenues as a percentage of net revenues increased to 85% in the first nine months of fiscal 1999 from 83% in the first nine months of fiscal 1998, reflecting operating inefficiencies during a period of high volume growth and the impact of incremental facilities relocation costs.

Research and development expenses increased $1,236,000, or 9%, to $15,645,000 for the nine months ended April 30, 1999 from $14,409,000 for the corresponding period in fiscal 1998. All research and development expenses in both periods were incurred within the Company's investment and development segment. The net increase in research and development expenses primarily reflects development efforts at Engage and its acquisitions of Accipiter and I/PRO, and incremental costs associated with the development of NaviNet's technology platform, partially offset by the impact of the deconsolidation of Lycos and Vicinity. In addition, the Company recorded $4,500,000 of in-process research and development expenses during the first nine months of fiscal year 1999 related to the Company's acquisition of I/PRO (See further discussion in "In-process Research and Development Charge Related to Acquisition of I/PRO" below) compared to the $10,125,000 of in-process research development expense during the first nine months of fiscal 1998 related to the Company's acquisition of Accipiter and investments in Speech Machines and Chemdex. The Company anticipates it will continue to devote substantial resources to product development and that these costs may substantially increase in future periods.

Selling expenses increased $4,501,000 or 21% to $26,452,000 for the nine months ended April 30, 1999 from $21,951,000 for the corresponding period in fiscal 1998, primarily reflecting a $4,396,000 increase in the Company's investment and development segment due to the acquisitions of 2 CAN, I/PRO and Activerse. Investment and development results include a $5,479,000 decrease due to the deconsolidation of Lycos and reduced marketing expenditures at Planet Direct, offset by sales and marketing efforts related to several product launches, the impact of acquisitions, and continued growth of sales and marketing infrastructures. Selling expenses in the fulfillment services segment increased by $105,000 in comparison with the corresponding period in fiscal 1998 due to the acquisitions of On-Demand Solutions and InSolutions, partially offset by headcount reductions. Selling expenses decreased as a percentage of net revenues to 22% for the first nine months of fiscal 1999 from 39% for the corresponding period in fiscal 1998, primarily reflecting the deconsolidations of Lycos and Vicinity as well as the impact of increased revenues. As existing subsidiaries continue to introduce new products and expand sales, the Company expects to incur significant promotional expenses, as well as expenses related to the hiring of additional sales and marketing personnel and increased advertising expenses, and anticipates that these costs will substantially increase in future periods.

General and administrative expenses increased $20,141,000, or 148%, to $33,782,000 for the nine months ended April 30, 1999 from $13,641,000 for the corresponding period in fiscal 1998. The investment and development segment experienced an increase of $13,735,000, primarily due to the impact of acquisitions and the building of management infrastructures in several of the Company's Internet investments. Such increases were somewhat offset by reductions associated with the deconsolidations of Lycos and Vicinity. General and administrative expenses in the fulfillment services segment increased by $6,406,000 in comparison with last year's corresponding period, largely due to the acquisitions of On-Demand Solutions and InSolutions, including approximately $1.2 million in increased goodwill charges. General and administrative expenses increased as a percentage of net revenues to 28% for the nine months ended April 30, 1999 from 24% for the corresponding period in fiscal 1998. The Company anticipates that its general and administrative expenses will continue to increase significantly as the Company adds newly acquired subsidiaries and as existing subsidiaries continue to grow and expand their administrative staffs and infrastructures.

Gain on sale of Lycos, Inc. common stock reflects the Company's net gain realized on the sale of 818,000 Lycos shares in fiscal 1999 and 1,004,900 shares in fiscal 1998. Gain on stock issuance by Lycos, Inc. in fiscal 1999 resulted primarily from the issuance of stock by Lycos for the first quarter fiscal 1999 acquisition of WhoWhere? Gain on stock issuance by Lycos, Inc. in fiscal 1998 resulted primarily from the issuance of stock by Lycos for the acquisitions of Tripod and WiseWire. Gain on stock issuance by GeoCities in fiscal 1999 arose primarily as a result of the sale of stock by GeoCities in an initial public offering in August 1998, and the sales of stock by GeoCities in its acquisitions of Starseed, Inc. (known as WebRing) in December 1998 and Futuretouch during the third fiscal quarter of 1999. Gain on sale of investment in Sage Enterprises, Inc. occurred during the first quarter of fiscal year 1999 when CMG@Ventures II's holdings in Sage Enterprises were converted into 225,558 shares of Amazon.com, Inc. common stock as part of a merger wherein Amazon.com, Inc. acquired Sage Enterprises. Gain on sale of investment in Reel.com, Inc. occurred in October, 1998, when CMG@Ventures II's holdings in Reel.com were converted into 1,943,783 restricted common and 485,946 restricted, convertible preferred shares of Hollywood Entertainment Corporation (Hollywood Entertainment) as part of a merger wherein Hollywood Entertainment acquired Reel.com. Gain on sale of Amazon.com, Inc. stock reflects the Company's net gain realized on the sale of 169,538 shares in the second quarter of fiscal 1999. Gain on sale of Premiere Technologies, Inc. stock reflects the Company's net gain on the sale of 224,795 shares of Premiere Technologies, Inc. stock during the first quarter of fiscal 1998.

Interest income increased $447,000 to $2,159,000 for the nine months ended April 30, 1999 from $1,712,000 in fiscal 1998, reflecting increased income associated with higher average corporate cash equivalent balances compared with prior year, partially offset by a $540,000 decrease from the deconsolidation of Lycos. Interest expense increased $1,034,000 compared with the corresponding period in fiscal 1998, primarily due to higher corporate collateralized borrowings and borrowings incurred in conjunction with the Company's acquisition of InSolutions.

Equity in losses of affiliates resulted from the Company's minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's operating losses and amortization of the Company's net excess investment over its equity in each affiliate's net assets is included in equity in losses of affiliates. Equity in losses of affiliates for the nine months ended April 30, 1999 include the results from the Company's minority ownership in Lycos (until January 1999 when the Company's ownership in Lycos was reduced below 20%), GeoCities, ThingWorld.com, Silknet, Speech Machines, Mother Nature, Vicinity, Engage Japan JV, and Magnitude Network (until February 1999 when the Company's ownership in Magnitude Network increased above 50%). Equity in losses of affiliates for the nine months ended, April 30, 1998 included the results from the Company's minority ownership in Ikonic, ThingWorld.com, Silknet, GeoCities, Reel.com, Lycos, Chemdex, Planet All and Speech Machines. The Company expects its affiliate companies to continue to invest in development of their products and services, and to recognize operating losses, which will result in future charges recorded by the Company to reflect its proportionate share of such losses.

Income tax expense from continuing operations for the nine months ended April 30, 1999 was $30,981,000. Exclusive of taxes provided for significant, unusual or extraordinary items that will be reported separately, the Company provides for income taxes on a year to date basis at an effective rate based upon its estimate of full year earnings. In determining the Company's effective rate for fiscal 1999, one-time in-process research and development expense, gains on stock issuances by Lycos and GeoCities, gains on sales of investments in Sage Enterprises, Inc. and Reel.com, Inc., and gains on sales of Lycos, Inc. and Amazon.com, Inc. common stock were excluded.

In-Process Research and Development Expense Related to the Acquisition of I/PRO

The Company's subsidiary, Engage acquired I/PRO on April 7, 1999 for total purchase consideration of $30.3 million. The portion of the purchase price allocated to in-process research and development expense was $4.5 million, or approximately 15% of the total purchase price. At the acquisition date, I/PRO's major in-process project was the development of a new data processing system, project name Normandy, which is intended to provide improved functionality. In general, the existing data processing system does not provide for the fault tolerance, scalability and data processing efficiency that may be required to meet future customer needs. Accordingly, customers' long-term product needs required I/PRO to substantially redesign the data processing system to develop new technologies in the areas of: (1) fault tolerance and scalability, (2) system management, (3) data capture and (4) path analysis functionality (the ability to track movement of Web visitors across Web pages).

At the date of the acquisition, management estimated that completion of the Normandy technology would be accomplished by August 1999. The initial development effort had commenced in late 1998. At the acquisition date, the new Normandy technology had not reached a completed prototype stage and beta testing had not yet commenced. At the time of the I/PRO acquisition, the Normandy project was approximately 64% complete.

The value of in-process research and development was determined using an income approach. This approach takes into consideration earnings remaining after deducting from cash flows related to the in-process technology, the market rates of return on contributory assets, including core developed technology, assembled workforce, working capital and fixed assets. The cash flows are then discounted to present value at an appropriate rate. Discount rates are determined by an analysis of the risks associated with each of the identified intangible assets. The discount rate used for in-process research and development was 30%, a premium over Engage's estimated weighted-average forecast period. Revenue was predicted to grow at rates comparable to the growth of Internet cost of capital of 25%. The discount rate used for core developed technology was 22%.

The resulting net cash flows to which the discount rate was applied are based on management's estimates of revenues, cost of revenues, research and development costs, selling and marketing costs, general and administrative costs, and income taxes from such acquired technology. These estimates are based on the assumptions set forth below.

Management projected average annual revenue increases for the forecast period based on its assessment of future market potential and the ability of I/PRO to successfully implement the Normandy technology. Revenue was predicted to grow at rates comparable to the growth of Internet users and online activity and the impact such growth would have on Internet service companies. Revenue related to the Normandy project were separately identified.

These projections are based on management's estimates of the significant growth in the number of companies engaged in e-commerce (which is supported by independent market data), the need for e-commerce companies to utilize independent audit, verification and analysis services, expected trends in technology (such as increased speed of the Internet, reduced hardware costs and the resulting increase in new Internet users) and the nature and expected timing of new product introductions by its competitors. These estimates also include growth related to the use of certain I/PRO technologies in conjunction with Engage's products and the benefits of Engage's incremental financial support and stability.

I/PRO's estimated cost of revenues as a percentage of revenue is expected to significantly decrease on a stand-alone basis (85% in 1998), as certain fixed costs included in cost of sales are spread over a larger revenue base and provide for the realization of efficiencies due to economies of scale. The Normandy technology is expected to greatly increase the automation of data processing, allowing significant labor cost savings per revenue dollar. Increases in hardware utilization are also expected. Due to these savings, the estimated cost of sales as a percentage of revenue is expected to decrease to a low of 20% in the fifth forecast year.

I/PRO's operating expenses are expected to increase on an absolute basis, but to significantly decrease as a percentage of revenue over the term of the forecast (192% in 1998). Certain fixed expenses are spread over a larger revenue base and provide for the realization of efficiencies due to economies of scale. Due to these savings, the estimated operating expenses as a percentage of revenue is expected to decrease to a low of 49% in the fifth forecast year.

Liquidity and Capital Resources

During January 1999, CMGI sold 748,000 shares of Lycos, Inc. stock for total proceeds of $50.6 million. As a result of the Company's sale of Lycos shares during January 1999, the Company's ownership interest in Lycos fell below 20% of Lycos' outstanding shares. With this decline in ownership below 20%, CMGI began accounting for its investment in Lycos as available-for-sale securities, carried at fair value, rather than under the equity method. Excluding shares attributable to profit members of CMG@Ventures I, LLC and shares which may be required to be sold to Lycos pursuant to employee stock option exercises at April 30, 1999, the carrying value of the Lycos shares was approximately $580 million. On March 29, 1999, Critical Path successfully completed its initial public offering (IPO) at a price of $24 per share, raising net proceeds to Critical Path in excess of $100 million. The Company, through its subsidiary limited liability company, CMG@Ventures II, has invested a total of $2.5 million in Critical Path beginning in April 1998, and prior to March 29, 1999, accounted for its minority investment in Critical Path at cost. As a result of the Critical Path IPO, it became appropriate for CMGI to begin accounting for its investment in Critical Path as available-for-sale securities, carried at fair value, rather than at cost. Excluding shares attributable to profit members of CMG@Ventures II, LLC, at April 30, 1999, the carrying value of the Critical Path shares was approximately $173 million.

Working capital at April 30, 1999 increased to $595 million compared to $13 million at July 31, 1998. Approximately $563 million of the net increase in working capital is attributable to increased amounts of available-for sale securities, net of associated deferred tax liabilities. The largest contributing factors to this increase were the changes in the Company's method of accounting for its investments in Lycos and Critical Path to available-for-sale securities, carried at fair value, rather than under the equity and cost methods, respectively. The Company's principal sources of capital during the first nine months of fiscal 1999 were $53.1 million received from the sale of Lycos stock, $49.9 million from issuance of Series B convertible preferred stock, and $27.2 million received from the sale of Amazon.com stock. The Company's principal uses of capital during the first nine months of fiscal 1999 were $62.4 million for funding of operations, primarily those of start-up activities in the Company's investment and development segment, $31.1 million for the purchase of Hollywood Entertainment stock, $49.4 million for investments in affiliates and acquisitions of subsidiaries (net of cash acquired), $11.6 million for net repayments of notes payable and long-term debt, and $7.8 million for purchases of property and equipment.

The Company's $20 million collateralized corporate borrowing facility became payable in full on January 20, 1999. Upon its maturity, CMGI renewed this $20 million facility for another one-year period, with similar terms as the expiring facility. This borrowing is now secured by 762,465 of CMGI's shares of Lycos common stock. Under this agreement, CMGI could become subject to additional collateral requirements under certain circumstances. The Company expects to again seek the renewal of this facility upon its next maturity on January 20, 2000. The Company's subsidiary, SalesLink has a $14.7 million bank term note outstanding at April 30, 1999, which provides for repayment in quarterly installments through November 2002. Additionally, SalesLink's credit agreement includes a $9 million revolving line of credit, of which $1.1 million has been reserved in support of outstanding letters of credit for operating leases as of April 30, 1999, and $7.9 million is available for future borrowings. The obligations of SalesLink under its bank line of credit and bank term loans had been classified as current liabilities in the Company's July 31, 1998 and January 31, 1999 balance sheets since, at those dates, SalesLink was not in compliance with certain covenants of its borrowing arrangements. In connection with the investment by CMGI in $10 million original principal amount of subordinated convertible notes and warrants to purchase SalesLink Series A Convertible Preferred Stock, the bank has since waived all covenant defaults and amended certain covenants contained in the SalesLink bank facility. There are no current defaults. In addition, On-Demand Solutions, Inc. was added to the SalesLink credit facility as an additional borrower.

In December 1998, CMGI announced the close of the @Ventures III venture capital fund. This fund has secured $212 million in capital commitments from outside investors, which will be invested in emerging Internet service and technology companies through two newly formed entities, @Ventures III L.P. and @Ventures III Foreign Fund, L.P. CMGI does not have a direct ownership interest in either of these newly created entities, but CMGI is entitled to 2% of the net capital gains realized by both entities. Management of these entities, including investment and sale decisions, is the responsibility of @Ventures Partners III, LLC, whose members include David S. Wetherell, CMGI's President and Chief Executive Officer, and Andrew J. Hajducky III, CMGI's Chief Financial Officer. The Company has committed to contribute $54 million to its newly formed limited liability company subsidiary, CMG@Ventures III, LLC, of which approximately $10 million has been funded as of April 30, 1999. CMG@Ventures III, LLC will take strategic positions side by side with @Ventures III L.P. CMGI owns 100% of the capital and is entitled to 80% of the net capital gains realized by CMG@Ventures III, LLC. @Ventures Partners III, LLC is entitled to the remaining 20% of the net capital gains realized by CMG@Ventures III, LLC.

During the first nine months of fiscal year 1999 through CMG@Ventures III, LLC, CMGI acquired minority ownership interests in thirteen Internet companies, including Raging Bull, Asimba, Virtual Ink, Ancestry.com, Furniture.com, HotLinks, Medical Village, NextMonet.com, ONElist, OneCore.com, eCircles.com, advoco.com, and Carparts.com, for an aggregate total of approximately $10 million. Raging Bull is a financial Web message board service that offers the ability to filter content and tailor personally relevant financial information to meet users' needs. Asimba is creating a content rich, personalized, online community for the competitive and recreational sports market. Virtual Ink is a newly launched company focused on the development of Digital Meeting Assistant TM (DMA) technologies. Ancestry.com is a provider of community, content and commerce resources for families via the Internet, including the Web's largest repository of searchable genealogy data. Furniture.com is an e-commerce provider of a broad selection of furniture and home furnishing accessories. HotLinks operates a service that allows users to create personal Web directories. Medical Village is an Internet community of medical professionals offering members a variety of services including access to a searchable, comprehensive healthcare industry database, communication with other members, ordering from online medical product catalogs and access to current healthcare industry news. NextMonet is developing an ecommerce site for purchasers of art, in the form of an on-line art gallery. ONElist provides free e-mail communities via the Internet, allowing users to search for or subscribe to tens of thousands of communities on different topics or create their own community. OneCore.com offers an integrated set of Web-based financial applications targeted at small businesses. eCircles.com provides a free service that allows for friends and family to share information and coordinate events on the World Wide Web. Advoco provides an electronic marketplace for interactive advice servicing a wide range of categories. Carparts.com operates the only Website that provides consumers with a search capability to locate and order online certain auto parts. The Company anticipates synergies between these strategic positions and CMGI's core businesses, including speeding technological innovation and access to markets. Each of the thirteen new investments made by CMG@Ventures III, LLC during the first nine months of fiscal year 1999 are carried at cost in CMGI's consolidated financial statements.

During the first nine months of fiscal year 1999 through CMG@Ventures II, CMGI made follow-on investments in Chemdex, Critical Path, KOZ, MotherNature.com, Silknet, Softway Systems and ThingWorld.com, for an aggregate total of approximately $11 million.

During February 1999, CMGI exercised its right to invest an additional $22 million to increase its ownership in Magnitude Network from 23% to 92%. CMGI had previously invested a total of $2.5 million in Magnitude Network in July and October 1998. Accordingly, beginning in February 1999, CMGI began accounting for its investment in Magnitude Network under the consolidation method of accounting, rather than the equity method. The acquisition accounting and valuation for CMGI's investment in Magnitude Network may result in a significant portion of the investment being identified as in-process research and development, in accordance with valuation methodologies provided by the Securities and Exchange Commission, which is expected to be charged to operating results in the fourth quarter when the amount is determined.

On March 11, 1999, CMGI completed the acquisition of 2CAN Media, Inc. (2CAN) for initial consideration of approximately $27,493,000. Immediately following the completion of the acquisition, on March 11, 1999, 2CAN was merged with and into Adsmart Corporation (Adsmart), a majority-owned subsidiary of CMGI, with Adsmart becoming the surviving corporation. 2CAN was a Los Angeles, California-based full-service interactive media company serving the entire online advertising community with site-focused sales and advertising representation and was comprised of five distinct sales channels: WebRep, Pinnacle Interactive, ECG, MediaPlus and Grupo NetFuerza. As the primary component of the initial consideration paid for 2CAN, CMGI and Adsmart jointly issued convertible promissory notes (the "Promissory Notes") in the aggregate principal amount of $26,983,000. The Promissory Notes bear interest at an annual rate of 6.5% and are due and payable in full, with accrued interest, on March 11, 2004. The holders of the Promissory Notes can elect at any time prior to March 11, 2004, to convert all or a portion of the outstanding principal and accrued interest (the "Conversion Amount") into the following: 14.66% of the Conversion Amount will be paid in cash, 14.66% of the Conversion Amount will be paid in shares of CMGI common stock and 70.68% of the Conversion Amount will be paid in either shares of CMGI common stock or Adsmart common shares based on the election of the Promissory Note holders. As of April 30, 1999, Promissory Notes in the principal amount of $23,333,000 had been converted into $3,433,000 in cash and 304,210 shares of CMGI common stock. The principal amounts payable under the Promissory Notes are subject to a $1 for $1 reduction if certain revenue amounts are not achieved by Adsmart during the period from March 11, 1999 to December 31, 1999. Additionally, the initial consideration is subject to an increase of $0.83 for each $1 of calendar year 1999 revenues achieved by Adsmart and 2CAN in excess of $28 million. The additional consideration is payable in shares of CMGI common stock. The shares of CMGI common stock are not registered under the Securities Act of 1933, as amended, and are subject to a Lockup Agreement. The Lockup Agreement prohibits transfer of the shares of CMGI common stock, without the permission of the Company, for a period of twelve months following the date of the issuance.

In April 1999, the Company's subsidiary, Engage, acquired Internet Profiles Corporation (I/PRO), which provides Web site traffic measurement and audit services, for approximately $30.6 million, consisting of $1.6 million in net cash, $20.9 million in CMGI shares and $7.8 million in Engage shares and options. Engage has recorded an expense of $4.5 million in the third quarter of fiscal 1999 representing acquired in-process research and development that had not yet reached technological feasibility and had no alternative future use. In addition, CMGI must pay up to $3.0 million to I/PRO stockholders if performance goals are met relating to the gross revenue of I/PRO for the year ended March 31, 2000; data contributed to the Engage knowledge database as of March 31, 2000; and various employees of I/PRO continuing employment with Engage. Engage must reimburse CMGI for any such payments, at CMGI's election, in cash or by issuance of shares of Engage common stock at its then fair market value. Any additional payment will be treated as additional purchase price and amortized over the balance of the two or five year period. The shares of CMGI common stock are not registered under the Securities Act of 1933, as amended, and are subject to a Lockup Agreement. The Lockup Agreement prohibits transfer of the CMGI Shares, without the permission of the Company, for periods of up to twelve months following the date of the issuance of the shares of CMGI common stock.

On April 4, 1999, CMGI completed its acquisition of Activerse, Inc. (Activerse), a provider of open standard Internet messaging technologies, for 198,536 shares of the Company's common stock. The shares issued by the Company under the Activerse acquisition are not registered under the Securities Act of 1933 and are subject to restrictions on transferability for a period of one year from the date of issuance. The total purchase price for Activerse was valued at approximately$13,800,000, including costs of acquisition of $100,000. The value of the Company's shares included in the purchase price was recorded net of a weighted average 12% market value discount to reflect the restrictions on transferability.

On May 5, 1999, Silknet completed its initial public offering at a price of $15 per share. CMG@Ventures II currently holds 2.8 million shares of Silknet common stock (of which approximately 2.2 million shares are attributable to CMGI), which it acquired at an average cost of $2.42 per share. On June 2, 1999, Critical Path priced an additional offering of 3.5 million shares of common stock at $49.375 per share. Of the 3.5 million shares offered, 3 million shares were sold by Critical Path and 500,000 by certain selling shareholders, all at $49.375 per share. Included in that offering, CMG@Ventures II sold approximately 45,000 shares, receiving net proceeds of approximately $2.1 million.

On May 13, 1999, CMGI and Gateway announced that the two companies formed a strategic alliance and will seek out collaborative business and investment opportunities on the Internet. In addition, Gateway agreed to invest $200 million for an ownership stake in CMGI, subject to certain closing conditions. On June 7, 1999, CMGI's majority owned subsidiary, NaviSite, Inc., announced it signed strategic agreements with Dell Computer Corporation and Microsoft Corporation. In connection with separate strategic alliance agreements, Dell and Microsoft have each also made seperate investments in NaviSite in return for 4.9 and 4.4 percent fully diluted equity stakes, respectively.

On May 13, 1999, CMGI completed the sale of its CMG Direct subsidiary to Marketing Services Group, Inc. in exchange for cash of approximately $13.9 million and approximately 2.3 million shares of MSGI stock. Also during May, Yahoo! completed the acquisition of GeoCities, pursuant to which the 8.8 million shares of GeoCities common stock, and options to purchase an additional 1 million GeoCities shares held by CMG@Ventures were converted to Yahoo! stock and options. MSGI and Yahoo! shares received will be accounted for as available-for-sale securities, at market value.

Along with CMGI's other Internet subsidiaries, CMGI's newly acquired subsidiaries, Activerse, I/PRO, Magnitude Network, Nascent Technologies and 2CAN are in early stages of business development and therefore are expected to require additional cash funding by the Company to fund their operations. The Company intends to continue to fund existing and future Internet and interactive media investment and development efforts, and to actively seek new CMG@Ventures investment opportunities. The Company believes that existing working capital and the availability of available-for-sale securities which could be sold or posted as additional collateral for additional loans, will be sufficient to fund its operations, investments and capital expenditures for the foreseeable future. Additionally, the Company may also choose to raise additional capital through private placement. Should additional capital be needed to fund future investment and acquisition activity, the Company may seek to raise additional capital through public or private offerings of the Company's or its subsidiaries' stock, or through debt financing. It is also contemplated that the Company may look to raise a fourth Internet investment fund, which could seek to secure outside investment commitments of up to $1 billion in the near future.

Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. These date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, many companies will need to update or replace their software and computer systems in order to comply with such "Year 2000" requirements. CMGI is in the process of evaluating the Year 2000 compliance of its products and services. The Company is also evaluating the Year 2000 compliance of third party equipment and software that CMGI uses in both information technology and non-information technology applications in our business. Examples of non-information technology systems include our building security and voice mail systems.

The Company's Year 2000 project plan is coordinated by a committee that reports to senior management, as well as to CMGI's Board of Directors on a periodic basis. The Company's Year 2000 readiness efforts consist of the following four phases:

(1) Identification of all software products, information technology systems and non-information technology systems the Company offers or uses. The Company has substantially completed this phase for its existing systems.

(2) Testing and assessment of these products and systems to determine repair or replacement requirements for each. The Company expects to substantially complete this phase by July 1999 for its existing systems.

(3) Repair or replacement of products and systems, where required, to achieve Year 2000 compliance. The Company expects to substantially complete this phase by July 1999 for its existing business-critical systems.

(4) Creation of contingency plans in the event of Year 2000 failures. The Company expects that its initial contingency plan will be completed by July 1999.

Acquisitions made subsequent to May 1, 1999 may not follow the dates specified above.

Through April 30, 1999, the Company has incurred expenditures of approximately $2 million in connection with Year 2000 readiness efforts. Preliminary cost estimates for the Company to evaluate and address its Year 2000 issues for CMGI's existing business-critical systems are in the range of $4.5 million to $6 million. There is no assurance that our Year 2000 costs will not exceed these estimated amounts.

The Company's business model includes expansion through the acquisition of businesses, technologies, products and services from other businesses. As the Company continues to expand in this manner throughout calendar 1999, the scope and cost estimates of CMGI's Year 2000 efforts may increase substantially.

The Company's failure to resolve Year 2000 issues with respect to its products and services could damage CMGI's business and revenues and result in liability on the Company's part for such failure. The Company's business and its prospects may be permanently affected by either the liability the Company incurs to third parties or the negative impact on CMGI's business reputation. The Company also relies upon various vendors, utility companies, telecommunications service companies, delivery service companies and other service providers who are outside of CMGI's control. There is no assurance that such companies will not suffer a Year 2000 business disruption, which could harm CMGI's business and financial condition. Furthermore, if third-party equipment or software CMGI uses in its business fails to operate properly with regard to the year 2000 CMGI may need to incur significant unanticipated expenses to remedy any such problems.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to equity price risks on the marketable portion of its equity securities. The Company's available-for-sale securities at April 30, 1999 include strategic equity positions in companies in the Internet industry sector, including Lycos, Inc., Critical Path, Amazon.com, Inc. and Open Market, Inc., many of which have experienced significant historical volatility in their stock prices. The Company typically does not attempt to reduce or eliminate its market exposure on these securities. A 20% adverse change in equity prices, based on a sensitivity analysis of the Company's available-for-sale securities portfolio as of April 30, 1999, would result in an approximate $177.2 million decrease in the fair value of the Company's available-for-sale securities.

The carrying values of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and notes payable, approximate fair value because of the short maturity of these instruments. The carrying value of long-term debt approximates its fair value, as estimated by using discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

The Company uses derivative financial instruments primarily to reduce exposure to adverse fluctuations in interest rates on its borrowing arrangements. The Company does not enter into derivative financial instruments for trading purposes. As a matter of policy all derivative positions are used to reduce risk by hedging underlying economic exposure. The derivatives the Company uses are straightforward instruments with liquid markets. At April 30, 1999, the Company was primarily exposed to the London Interbank Offered Rate (LIBOR) interest rate on the outstanding borrowings under its line of credit and other bank borrowing arrangements.

The Company has historically had very low exposure to changes in foreign currency exchange rates, and as such, has not used derivative financial instruments to manage foreign currency fluctuation risk. As the Company expands globally, the risk of foreign currency exchange rate fluctuation may dramatically increase. Therefore, in the future, the Company may consider utilizing derivative instruments to mitigate such risks.

Item 2. Changes in Securities and Use of Proceeds

On March 11, 1999 as a result of a conversion of notes issued to effect its acquisition of 2CAN Media, the Company issued 304,210 shares of its common stock to holders of the notes in consideration of the acquisition of all of the issued and outstanding shares of capital stock of 2Can Media. The shares issued by the Company are not registered under the Securities Act of 1933, as amended and carry restrictions on transfer or sale for a period of twelve months.

On April 4, 1999 the Company issued 198,536 shares of its common stock to shareholders of Activerse, Inc. in consideration of the acquisition of all of the issued and outstanding shares of capital stock of Activerse, Inc. The shares issued by the Company are not registered under the Securities Act of 1933, as amended and carry restrictions on transfer or sale for a period of twelve months.

The shares issued in the above mentioned transactions were issued in private placements in reliance upon the exemption provided by section 4 (2) of the Securities Act of 1933.

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

On May 13, 1999 the Company held a Special Meeting of Stockholders. At the meeting the following matters were approved (Note: All amounts are split-adjusted):

1. An amendment to the Company's Restated Certificate of Incorporation to provide for an increase in the number of authorized shares of Common Stock, $0.01 par value per share, from 100,000,000 to 400,000,000 was approved. 64,468,974 shares of Common Stock were voted for such amendment, 1,120,376 shares of Common Stock were voted against such amendment and 72,858 shares of Common Stock abstained from the vote. 1,000 shares of common stock were subject to non-votes.

2. An amendment to the Company's 1986 Stock Option Plan and 1995 Employee Stock Option Purchase Plan to provide for an increase in the maximum number of shares of the Company's Common Stock available under its two plans combined from nine million shares to fourteen million shares was approved. 31,700,584 shares of Common Stock were voted for such amendment, 5,520,190 shares of Common Stock were voted against such amendment and 244,268shares of Common Stock abstained from the vote. 24,677,996 shares of common stock were subject to non-votes.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are filed herewith or incorporated by reference pursuant to Rule 12b-32 under the Securities Exchange Act of 1934:

Exhibit No.	Title	Method of Filing
3 (I)	Amended and Restated Certificate of Incorporation	Incorporated by reference from Exhibit 99.3 to the Current Report on Form 8-K filed with the SEC on January 7, 1999.
3 (ii)	Restated By-Laws	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).

Item 6. Exhibits and Reports on Form 8-K (continued)

(b) Exhibits (continued)

Exhibit No.	Title	Method of Filing
10.1	First Amendment to Amended and Restated Revolving Credit and Term Loan Agreement, dated as of June 11, 1998, among SalesLink Corporation, InSolutions Incorporated, Pacific Direct Marketing Corp., BankBoston, N.A. and the other lending institutions set forth in Schedule 1.	Filed herewith.
10.2	Second Amended and Restated Term Note, dated March 16, 1999 among Saleslink.com Corporation, Insolutions Incorporated, On-Demand Solutions, Inc. and BankBoston, N.A.	Filed herewith.
10.3	Second Amended and Restated Term Note, dated March 16, 1999 among Saleslink.com Corporation, Insolutions Incorporated, On-Demand Solutions, Inc. and Imperial Bank	Filed herewith.
10.4	Security Agreement, dated March 16, 1999 between On-Demand Solutions and BankBoston, N.A.	Filed herewith.
27.1	Financial Data Schedule for the nine months ended April 30, 1999	Filed herewith.

(b) Reports on Form 8-K.

On May 7, 1999, the Company filed a Current Report on Form 8-K in conjunction with its news release related to the restatement of its results for its third and fourth quarters of fiscal 1998 ended April 30, 1998 and July 31, 1998, respectively, and its first and second quarters of fiscal 1999 ended October 31, 1998 and January 31, 1999, respectively.

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

CMGI, Inc.

By: /s/ Andrew J. Hajducky III

Date: June 14, 1999

Andrew J. Hajducky III, CPA
Chief Financial Officer and
Treasurer (Principal Financial
and Accounting Officer)

Exhibit 10.1

FIRST AMENDMENT TO AMENDED AND RESTATED REVOLVING
CREDIT AND TERM LOAN AGREEMENT

FIRST Amendment to amended and restated REVOLVING Credit AND TERM LOAN Agreement, dated as of March 16, 1999 (this "Amendment"), by and among SALESLINK.COM CORPORATION ("SalesLink"), INSOLUTIONS INCORPORATED ("InSolutions", and, collectively with SalesLink, the "Existing Borrowers" and each individually, an "Existing Borrower"), ON-DEMAND SOLUTIONS, INC., a Massachusetts corporation (the "New Borrower" and, collectively with the Existing Borrowers, the "Borrowers" and each individually, a "Borrower") PACIFIC DIRECT MARKETING CORP. (the "Subsidiary Guarantor"), BANKBOSTON, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement (collectively, the "Banks") and BANKBOSTON, N.A. as agent for the Banks (in such capacity, the "Agent"), amending certain provisions of the Amended and Restated Revolving Credit and Term Loan Agreement, dated as of June 11, 1998 (as amended and in effect from time to time, the "Credit Agreement"), by and among the Existing Borrowers, the Subsidiary Guarantor, the Agent and the Banks. Terms not otherwise defined herein which are defined in the Credit Agreement shall have the same respective meanings herein as therein.

WHEREAS, the New Borrower wishes to become a party (and a joint and several Borrower) to the Credit Agreement and the Banks have agreed, subject to the terms and conditions set forth in the Credit Agreement and herein, to make Loans and otherwise extend credit to the New Borrower;

WHEREAS, the Borrowers, the Banks and the Agent desire to amend certain provisions of the Credit Agreement as provided more fully herein below;

NOW THEREFORE, in consideration of the mutual agreements contained in the Credit Agreement and herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

(S)1. Amendment to Introductory Paragraph of the Credit Agreement. The introductory paragraph of the Credit Agreement is hereby amended by deleting such paragraph in its entirety and restating it as follows:

> This AMENDED AND RESTATED REVOLVING CREDIT AND TERM LOAN AGREEMENT (this "Agreement") is made as of June 11, 1998 by and among (a) SALESLINK.COM CORPORATION ("SalesLink"), a Delaware corporation having its principal place of business at 425 Medford Street, Charlestown, Massachusetts 02129, (b) INSOLUTIONS INCORPORATED ("InSolutions"), a Delaware corporation having its principal place

of business at 2940 Kifer Road, Santa Clara, California 95051, (c) ON-DEMAND SOLUTIONS, INC. ("On-Demand", and collectively with SalesLink and Insolutions, the "Borrowers" and each individually, a "Borrower"), a Massachusetts corporation having its principal place of business at 30A Upton Drive, Wilmington, MA 01887, (d) PACIFIC DIRECT MARKING CORP. ("Pacific Direct"), a California corporation having its principal place of business at 8356 Thornton Avenue, Newark, California 94520, (e) BANKBOSTON, N.A. (formerly known as The First National Bank of Boston), a national banking association, and the other lending institutions listed on Schedule 1 hereto and (f) BANKBOSTON, N.A. as agent for itself and such other lending institutions.

(S)2. Amendment to Section 1. Section 1 of the Credit Agreement is hereby amended as follows:

(a) the definition of "Combined Total Interest Expense" is hereby amended by deleting such definition in its entirety and restating it as follows:

Combined Total Interest Expense: For any period, the aggregate amount of interest required to be paid or accrued by the Borrowers and their Subsidiaries during such period on all Indebtedness of the Borrowers and their Subsidiaries outstanding during all or any part of such period, other than the Subordinated Debt, whether such interest was or is required to be reflected as an item of expense or capitalized, including payments consisting of interest in respect of Capitalized Leases and including commitment fees, agency fees, facility fees, balance deficiency fees and similar fees or expenses in connection with the borrowing of money.

(b) the definition of "EBITDA" is hereby amended by deleting such definition in its entirety and restating it as follows:

EBITDA: With respect to any fiscal period, an amount equal to the sum of (a) Combined Net Income for such period, plus (b) to the extent deducted in the calculation of such Person's Combined Net Income and without duplication, (i) depreciation and amortization for such period, plus (ii) other noncash charges, including, without limitation, in process research and development expenses or charges, made in calculating Combined Net Income for such period, plus (iii) restructuring charges taken by any Borrower in such period (1) for inventory writedown up to a maximum aggregate amount of not more than $3,100,000 and (2) relating to moving and relocation up to a maximum aggregate amount of not more than $2,100,000,

plus (iv) tax expense for such period, plus (v) Combined Total Interest Expense paid or accrued during such period, all as determined in accordance with GAAP.

(c) the definition of "Loan Documents" is hereby amended by inserting immediately following the words "the Letters of Credit" a comma and the words "the Subordination Agreement".

(d) the definition of "Security Agreements" is hereby amended by deleting such definition in its entirety and restating it as follows:

Security Agreements: Collectively, (a) the Amended and Restated Security Agreement, dated or to be dated on or prior to the Closing Date, among SalesLink, InSolutions and the Agent and in form and substance satisfactory to the Agent; (b) the Amended and Restated Security Agreement, dated or to be dated on or prior to the Closing Date, between Pacific Direct and the Agent, and in form and substance satisfactory to the Agent; and (c) the Security Agreement, dated or to be dated on or prior to March 16, 1999, between On-Demand and the Agent and in form and substance satisfactory to the Agent, and as each Security Agreement may be amended, restated, modified and/or supplemented from time to time.

(e) the definition of "Total Funded Indebtedness" is hereby amended by deleting such definition in its entirety and restating it as follows:

Total Funded Indebtedness: All Indebtedness of the Borrowers and their Subsidiaries for borrowed money (other than the Subordinated Debt), purchase money Indebtedness and with respect to Capitalized Leases, determined on a consolidated basis in accordance with GAAP.

(f) Section 1.1 of the Credit Agreement is further amended by inserting the following definition in the appropriate alphabetical order:

Subordinated Debt. Unsecured Indebtedness of SalesLink that is expressly subordinated and made junior to the payment and performance in full of the Obligations, and evidenced as such by the Subordination Agreement or by another written instrument containing subordination provisions in form and substance approved by the Agent in writing.

Subordination Agreement. The Subordination Agreement, dated as of January 29, 1999, among the Agent, the Parent and SalesLink and in form and substance satisfactory to the Banks and the Agent.

(S)3. Amendment to Section 2 of the Credit Agreement. Section 2.2(d) of the Credit Agreement is hereby amended by deleting the words "dated as of the Closing Date" which appears in the first sentence of (S)2.2 and substituting in place thereof the words "dated as of March 16, 1999".

(S)4. Amendment to Section 3 of the Credit Agreement. Section 3.2 of the Credit Agreement is hereby amended by deleting the words "dated the Closing Date" which appears in the first sentence of (S)3.2 and substituting in place thereof the words "dated as of March 16, 1999".

(S)5. Amendment to Section 9 of the Credit Agreement. Section 9 of the Credit Agreement is hereby amended as follows:

(a) Section 9.1(a)(v) of the Credit Agreement is hereby amended by deleting the words "within twenty (20) days after the end of each calendar month or at such earlier time as the Agent may reasonably request, a Borrowing Base Report" and substituting in place thereof the words "within thirty (30) days after the end of each calendar month or at such earlier time as the Agent may reasonably request, a Borrowing Base Report";

(b) Section 9.1(a)(vi) of the Credit Agreement is hereby amended by deleting the words "within twenty (20) days after the end of each calendar month, an Accounts Receivable aging report" and substituting in place thereof the words "within thirty (30) days after the end of each calendar month, an Accounts Receivable aging report".

(c) Section 9.2(a)(vi) of the Credit Agreement is hereby amended by deleting the text of (S)9.2(a)(vi) in its entirety and restating it as follows: "the Subordinated Debt and Indebtedness not otherwise included above and listed on Schedule 9.2(a) hereto; and".

(d) Section 9.3(a) of the Credit Agreement is hereby amended by deleting (S)9.3(a) in its entirety and restating it as follows:

> (a) make capital expenditures or incur Indebtedness in respect of capitalized leases which in the aggregate and on a combined basis exceed (i) $5,000,000 for the fiscal year ending July 31, 1999; and (ii) $6,000,000 in any fiscal year thereafter.

(S)6. Amendment to Section 10 of the Credit Agreement. Section 10(f) of the Credit Agreement is hereby by deleting (S)10(f) in its entirety and restating it as follows:

> (f) the Borrowers or any of their Subsidiaries shall be in default (after any applicable period of grace or cure period) under any agreement or agreements evidencing Indebtedness owing to any Bank or any affiliates of any Bank, to the Seller, to any other Person in excess of $500,000 in the aggregate principal amount, or any Subordinated Debt, or shall fail to pay such Indebtedness when due, or within any applicable period of grace, or the holders of all or any part of the Subordinated Debt shall accelerate the

maturity of all or any part of the Subordinated Debt or the Subordinated Debt shall be (or shall be required at such time to be) prepaid, redeemed or repurchased in whole or in part, except if such prepayment, redemption or repurchase is made not in cash but solely in shares of the Borrower's capital stock pursuant to the express conversion provisions set forth in any document evidencing the Subordinated Debt, or the Borrowers or any of their Subsidiaries shall be or become required under the terms of any of the Subordinated Debt to prepay, redeem or repurchase (or shall be or become required thereunder to offer to prepay, redeem or repurchase), except if such prepayment, redemption or repurchase is made not in cash but solely in shares of the Borrower's capital stock pursuant to the express conversion provisions set forth in any document evidencing the Subordinated Debt, all or any part of the Subordinated Debt;

(S)7. Conditions to Effectiveness. This Amendment shall not become effective until the Agent shall have received the following:

(a) a counterpart of this Amendment executed by the Borrowers, the Subsidiary Guarantor, the Agent and the Banks;

(b) duly executed and delivered replacement Revolving Credit Notes and Term Notes for each of the Banks;

(c) duly executed and delivered Security Agreement and all UCC-1 financing statements and similar documents necessary to perfect the Agent's security interest in all assets of the New Borrower, all to be in form and substance satisfactory to the Agent;

(d) evidence satisfactory to the Agent and the Banks that all corporate action necessary for the valid execution, delivery and performance by the Borrowers of the Credit Agreement as amended by this Amendment and the other Loan Documents to which it is or is to become a party have been duly and effectively taken;

(e) a certification from a duly authorized officer of each Existing Borrower to the effect that each of its charter or other incorporation documents and its bylaws delivered to the Agent and the Banks in connection with the entry into the Credit Agreement are true and correct copies of such documents as in effect on the effective date hereof and, with respect to the New Borrower, its charter or other incorporation documents certified to be true and complete as of the date of certification by the Secretary of State or other appropriate governmental official of the New Borrower's jurisdiction of organization, which date of certification shall be no more than ten (10) days before the effective date hereof and its bylaws as in effect on such date, certified by a duly authorized officer of the New Borrower to be true and complete on the effective date hereof;

(f) an incumbency certificate from each Borrower, dated the effective date hereof, signed by a duly authorized officer of such Borrower and giving the name and bearing the specimen signature of each individual who shall be authorized to (i) sign, in the name and on behalf of the such Borrower, this Amendment and each of the Loan Documents to which it is or is to become a party, (ii) make Loan Requests and submit Letter of Credit Applications and (iii) give notices and to take other action on its behalf under the Loan Documents;

(g) Each of the Banks shall have received from Palmer and Dodge LLP, counsel to the Borrowers, a favorable legal opinion addressed to the Agent and the Banks dated as of the effective date hereof, in form and substance satisfactory to the Agent; and

(h) payment in cash of an amendment fee in the aggregate amount of $30,000, which amendment fee shall be for the pro rata accounts of the Banks.

(S)8. Ratification and Joinder by New Borrower. The Borrowers, the Banks and the Agent agree that, from and after the date on which all of the conditions precedent set forth in (S)7 hereof shall have been satisfied, (a) the New Borrower shall be a party to the Credit Agreement with all of the rights and joint and several obligations of a Borrower thereunder, including without limitation, the right to borrow Loans and to request Letters of Credit, subject to the terms and conditions of the Credit Agreement; (b) the New Borrower agrees to be bound by all of the terms, conditions and covenants of the Credit Agreement and the other Loan Documents as though the New Borrower had been an original party thereto and agrees to perform all of the obligations of a Borrower under, and to be bound in all respects by the terms of, the Credit Agreement applicable to a Borrower party thereto, including without limitation the absolute and unconditional joint and several liability for, and promise to pay and perform all of the Obligations owing from time to time to the Banks and the Agent as provided in the Loan Documents; and (c) the New Borrower hereby acknowledges and agrees that the representations and warranties set forth in (S)7(a)-(c), (S)7(f)-(i) and (S)7(k)-(n) of the Credit Agreement are true and correct in all material respects as to the undersigned as of the date hereof, except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and the other Loan Documents, and to the extent that such representations and warranties relate expressly to an earlier date.

(S)9. Representations and Warranties. Each of the Borrowers and the Subsidiary Guarantor hereby represents and warrants to the Agent and the Banks as follows:

(a) Representation and Warranties in the Credit Agreement. The representations and warranties of each of the Borrowers and the Subsidiary Guarantor contained in the Credit Agreement were true and correct in all material respects as of the date when made and continue to be true and correct in all material respects on the date hereof, except to the extent of changes resulting from transactions or events contemplated by the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse to the Borrowers or the Subsidiary Guarantor, or to the extent that such representations and warranties relate expressly to an earlier date or were otherwise disclosed in writing to the Banks on or prior to the date hereof.

(b) Ratification, Etc. Except as expressly amended hereby, the Credit Agreement, the Security Documents and all other documents, instruments and agreements related thereto, are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement, shall together with this Amendment, be read and construed as a single agreement. All references in the Credit Agreement or any related agreement or instrument shall hereafter refer to the Credit Agreement as amended hereby.

(c) Authority, Etc. The execution and delivery by each of the Borrowers and the Subsidiary Guarantor of this Amendment and the performance by each of the Borrowers and the Subsidiary Guarantor of all of its agreements and obligations under the Credit Agreement as amended hereby are within the corporate authority of the Borrowers and the Subsidiary Guarantor and have been duly authorized by all necessary corporate action on the part of the Borrowers and the Subsidiary Guarantor.

(d) Enforceability of Obligations. This Amendment and the Credit Agreement as amended hereby constitute the legal, valid and binding obligations of the Borrowers and the Subsidiary Guarantor enforceable against the Borrowers and the Subsidiary Guarantor in accordance with their terms, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of, creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

(e) No Default. No Default or Event of Default has occurred and is continuing, and no Default or Event of Default will exist after execution and delivery of this Amendment.

(S)10. No Other Amendments or Waivers. Except as expressly provided in this Amendment, all of the terms and conditions of the Credit Agreement and the other Loan Documents remain in full force and effect.

(S)11. Execution in Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but which together shall constitute one instrument.

(S)12. *Expenses.* Pursuant to (S)14 of the Credit Agreement, all costs and expenses incurred or sustained by the Agent in connection with this Amendment, including the fees and disbursements of legal counsel for the Agent in producing, reproducing and negotiating the Amendment, will be for the account of the Borrowers whether or not the transactions contemplated by this Amendment are consummated.

(S)13. *Miscellaneous.* THIS AMENDMENT SHALL BE DEEMED TO BE A CONTRACT UNDER THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). The captions in this Amendment are for convenience of reference only and shall not define or limit the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as a document under seal as of the date first above written.

SALESLINK.COM CORPORATION

By:

Title:

INSOLUTIONS INCORPORATED

By:

Title:

ON-DEMAND SOLUTIONS, INC.

By:

Title:

PACIFIC DIRECT MARKETING CORP.

By:

Title:

BANKBOSTON, N.A., Individually
and Agent

By:

Title:

IMPERIAL BANK

By:

Title:

RATIFICATION OF GUARANTY

The undersigned guarantor hereby acknowledges and consents to the foregoing First Amendment as of March 16, 1999, and agrees that the Guaranty dated as of October 30, 1999 from CMGI, Inc. in favor of the Agent and each of the Banks remains in full force and effect, and the undersigned confirms and ratifies all of its obligations thereunder.

CMGI, INC.

By:

Title:

Exhibit 10.2

SECOND AMENDED AND RESTATED TERM NOTE

$9,893,616.99 as of March 16, 1999

FOR VALUE RECEIVED, the undersigned SALESLINK.COM CORPORATION, a Delaware corporation ("SalesLink"), INSOLUTIONS INCORPORATED, a Delaware corporation "InSolutions" and ON-DEMAND SOLUTIONS, INC., a Massachusetts corporation ("On-Demand", and, collectively with SalesLink and InSolutions, the "Borrowers"), hereby jointly and severally promise to pay to the order of BANKBOSTON, N.A., a national banking association (the "Bank") at the Agent's Head Office (as defined in the Credit Agreement referred to below):

(a) prior to or on the Term Loan Maturity Date the principal amount of NINE MILLION EIGHT HUNDRED NINETY THREE THOUSAND SIX HUNDRED SIXTEEN DOLLARS AND NINETY NINE CENTS ($9,893,616.99) evidencing the Term Loan made by the Bank to the Borrowers pursuant to the Amended and Restated Revolving Credit and Term Loan Agreement dated as of June 11, 1998 (as amended and in effect from time to time, the "Credit Agreement"), by and among the Borrower, the Bank and other parties thereto;

(b) the principal outstanding hereunder from time to time at the times provided in the Credit Agreement; and

(c) interest from the date hereof on the principal amount from time to time outstanding to and including the maturity hereof at the rates and terms and in all cases in accordance with the terms of the Credit Agreement.

This Note constitutes the amendment and restatement in its entirety of the Amended and Restated Term Note issued by SalesLink to the Bank in the original principal amount of $9,893,616.99, dated as of June 11, 1998 (the "Original Note") and is issued in substitution therefor and an amendment and replacement thereof. Nothing herein or in any other document shall be construed to constitute payment of the Original Note or to release or terminate any guaranty, lien, mortgage, pledge or other security interest in favor of the Bank.

This Note evidences borrowings under and has been issued by the Borrowers in accordance with the terms of the Credit Agreement. The Bank and any holder hereof is entitled to the benefits of the Credit Agreement, the Security Documents and the other Loan Documents, and may enforce the agreements of the Borrowers contained therein, and any holder hereof may exercise the respective remedies provided for thereby or otherwise available in respect thereof, all in accordance with the respective terms thereof. All capitalized terms used in this Note and not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

Each Borrower irrevocably authorizes the Bank to make or cause to be made, at the time of receipt of any payment of principal of this Note, an appropriate notation on the grid attached to this Note, or the continuation of such grid, or any other similar record, including computer records, reflecting the receipt of such payment. The outstanding amount of the Term Loan set forth on the grid attached to this Note, or the continuation of such grid, or any other similar record, including computer records, maintained by the Bank with respect to the Term Loan shall be *prima facie* evidence of the principal amount of the Term Loan owing and unpaid to the Bank, but the failure to record, or any error in so recording, any such amount on any such grid, continuation or other record shall not limit or otherwise affect the joint and several obligations of the Borrowers hereunder or under the Credit Agreement to make payments of principal of and interest on this Note when due.

Each Borrower has the right in certain circumstances and the obligation under certain other circumstances to prepay the whole or part of the principal of this Note on the terms and conditions specified in the Credit Agreement.

If any one or more of the Events of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

No delay or omission on the part of the Bank or any holder hereof in exercising any right hereunder shall operate as a waiver of such right or of any other rights of the Bank or such holder, nor shall any delay, omission or waiver on any one occasion be deemed a bar or waiver of the same or any other right on any future occasion.

The Borrowers and every endorser and guarantor of this Note or the obligation represented hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note, and assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral and to the addition or release of any other party or person primarily or secondarily liable.

THIS NOTE AND THE JOINT AND SEVERAL OBLIGATIONS OF THE BORROWERS HEREUNDER SHALL FOR ALL PURPOSES BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE COMMONWEALTH OF MASSACHUSETTS (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). THE BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS NOTE MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY FEDERAL COURT SITTING THEREIN AND THE CONSENT TO THE NONEXCLUSIVE JURISDICTION OF SUCH

COURT AND THE SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWERS BY MAIL AT THE ADDRESS SPECIFIED BENEATH THE BORROWERS' SIGNATURE ON THE SIGNATURE PAGE OF THE CREDIT AGREEMENT. EACH BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

This Note shall be deemed to take effect as a sealed instrument under the laws of the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the undersigned has caused this Note to be signed in its corporate name and its corporate seal to be impressed thereon by its duly authorized officer as of the day and year first above written.

[Corporate Seal]

SALESLINK.COM CORPORATION

By:

Title:

INSOLUTIONS INCORPORATED

By:

Title:

ON-DEMAND SOLUTIONS, INC.

By:

Title:

Exhibit 10.3

SECOND AMENDED AND RESTATED TERM NOTE

$5,606,383.01 as of March 16, 1999

FOR VALUE RECEIVED, the undersigned SALESLINK.COM CORPORATION, a Delaware corporation ("SalesLink"), INSOLUTIONS INCORPORATED, a Delaware corporation "InSolutions" and ON-DEMAND SOLUTIONS, INC., a Massachusetts corporation ("On-Demand", and, collectively with SalesLink and InSolutions, the "Borrowers"), hereby jointly and severally promise to pay to the order of IMPERIAL BANK, a national banking association (the "Bank") at the Agent's Head Office (as defined in the Credit Agreement referred to below):

(a) prior to or on the Term Loan Maturity Date the principal amount of FIVE MILLION SIX HUNDRED SIX THOUSAND THREE HUNDRED EIGHTY THREE DOLLARS AND ONE CENT ($5,606,383.01) evidencing the Term Loan made by the Bank to the Borrowers pursuant to the Amended and Restated Revolving Credit and Term Loan Agreement dated as of June 11, 1998 (as amended and in effect from time to time, the "Credit Agreement"), by and among the Borrower, the Bank and other parties thereto;

(b) the principal outstanding hereunder from time to time at the times provided in the Credit Agreement; and

(c) interest from the date hereof on the principal amount from time to time outstanding to and including the maturity hereof at the rates and terms and in all cases in accordance with the terms of the Credit Agreement.

This Note constitutes the amendment and restatement in its entirety of the Amended and Restated Term Note issued by SalesLink to the Bank in the original principal amount of $9,893,616.99, dated as of June 11, 1998 (the "Original Note") and is issued in substitution therefor and an amendment and replacement thereof. Nothing herein or in any other document shall be construed to constitute payment of the Original Note or to release or terminate any guaranty, lien, mortgage, pledge or other security interest in favor of the Bank.

This Note evidences borrowings under and has been issued by the Borrowers in accordance with the terms of the Credit Agreement. The Bank and any holder hereof is entitled to the benefits of the Credit Agreement, the Security Documents and the other Loan Documents, and may enforce the agreements of the Borrowers contained therein, and any holder hereof may exercise the respective remedies provided for thereby or otherwise available in respect thereof, all in accordance with the respective terms thereof. All capitalized terms used in this Note and not otherwise defined herein shall have the same meanings herein as in the Credit Agreement.

Each Borrower irrevocably authorizes the Bank to make or cause to be made, at the time of receipt of any payment of principal of this Note, an appropriate notation on the grid attached to this Note, or the continuation of such grid, or any other similar record, including computer records, reflecting the receipt of such payment. The outstanding amount of the Term Loan set forth on the grid attached to this Note, or the continuation of such grid, or any other similar record, including computer records, maintained by the Bank with respect to the Term Loan shall be *prima facie* evidence of the principal amount of the Term Loan owing and unpaid to the Bank, but the failure to record, or any error in so recording, any such amount on any such grid, continuation or other record shall not limit or otherwise affect the joint and several obligations of the Borrowers hereunder or under the Credit Agreement to make payments of principal of and interest on this Note when due.

Each Borrower has the right in certain circumstances and the obligation under certain other circumstances to prepay the whole or part of the principal of this Note on the terms and conditions specified in the Credit Agreement.

If any one or more of the Events of Default shall occur, the entire unpaid principal amount of this Note and all of the unpaid interest accrued thereon may become or be declared due and payable in the manner and with the effect provided in the Credit Agreement.

No delay or omission on the part of the Bank or any holder hereof in exercising any right hereunder shall operate as a waiver of such right or of any other rights of the Bank or such holder, nor shall any delay, omission or waiver on any one occasion be deemed a bar or waiver of the same or any other right on any future occasion.

The Borrowers and every endorser and guarantor of this Note or the obligation represented hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note, and assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral and to the addition or release of any other party or person primarily or secondarily liable.

THIS NOTE AND THE JOINT AND SEVERAL OBLIGATIONS OF THE BORROWERS HEREUNDER SHALL FOR ALL PURPOSES BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE COMMONWEALTH OF MASSACHUSETTS (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). THE BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS NOTE MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY FEDERAL COURT SITTING THEREIN AND THE CONSENT TO THE NONEXCLUSIVE JURISDICTION OF SUCH

COURT AND THE SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWERS BY MAIL AT THE ADDRESS SPECIFIED BENEATH THE BORROWERS' SIGNATURE ON THE SIGNATURE PAGE OF THE CREDIT AGREEMENT. EACH BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

This Note shall be deemed to take effect as a sealed instrument under the laws of the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the undersigned has caused this Note to be signed in its corporate name and its corporate seal to be impressed thereon by its duly authorized officer as of the day and year first above written.

[Corporate Seal]

SALESLINK.COM CORPORATION

By:

Title:

INSOLUTIONS INCORPORATED

By:

Title:

ON-DEMAND SOLUTIONS, INC.

By:

Title:

Exhibit 10.4

SECURITY AGREEMENT

SECURITY AGREEMENT, dated as of March 16, 1999, between ON-DEMAND SOLUTIONS, a Massachusetts corporation (the "Company"), and BANKBOSTON, N.A., a national banking association, as agent (hereinafter, in such capacity, the "Agent") for itself and other banking institutions (hereinafter, collectively, the "Banks") which are or may become parties to an Amended and Restated Revolving Credit and Term Loan Agreement dated as of June 11, 1998 (as amended and in effect from time to time, the "Credit Agreement"), among SalesLink.com Corporation ("SalesLink"), InSolutions Incorporation ("InSolutions"), the Company (collectively with SalesLink and InSolutions, the "Borrowers"), Pacific Direct Marketing Corp. (the "Subsidiary Guarantor"), the Banks and the Agent.

WHEREAS, the Borrowers, the Subsidiary Guarantor, the Banks and the Agent are parties to that certain First Amendment to Amended and Restated Revolving Credit and Term Loan Agreement dated as of the date hereof (the "First Amendment"), pursuant to which the parties thereto have agreed, subject to the conditions contained therein, to amend the Credit Agreement to, among other things, permit the Company to become a Borrower under the Credit Agreement; and

WHEREAS, it is a condition precedent to the Banks' continuing to make loans or otherwise extend credit to the Borrower under the Credit Agreement that the Company execute and deliver to the Agent, for the benefit of the Banks and the Agent, a security agreement in substantially the form hereof; and

WHEREAS, the Company wishes to grant security interests in favor of the Agent, for the benefit of the Banks and the Agent, as herein provided;

NOW, THEREFORE, in consideration of the promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. All capitalized terms used herein without definitions shall have the respective meanings provided therefor in the Credit Agreement. All terms defined in the Uniform Commercial Code of the Commonwealth of Massachusetts and used herein shall have the same definitions herein as specified therein.

2. Grant of Security Interest.

2.1. Collateral Granted. The Company hereby grants to the Agent, for the benefit of the Banks and the Agent, to secure the payment and performance in full of all of the Obligations, a security interest in and so pledges and assigns to the Agent, for the benefit of the Banks and the Agent, the following properties, assets and rights of the Company, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof (all of the same being hereinafter called the "Collateral"):

All personal and fixture property of every kind and nature including without limitation all furniture, fixtures, equipment, raw materials, inventory, other goods, accounts, contract rights, rights to the payment of money, insurance refund claims and all other insurance claims and proceeds, tort claims, chattel paper, documents, instruments, securities and other investment property, deposit accounts, rights to proceeds of letters of credit and all general intangibles including, without limitation, all tax refund claims, license fees, patents, patent applications, trademarks, trademark applications, trade names, copyrights, copyright applications, rights to sue and recover for past infringement of patents, trademarks and copyrights, computer programs, computer software, engineering drawings, service marks, customer lists, goodwill, and all licenses, permits, agreements of any kind or nature pursuant to which the Company possesses, uses or has authority to possess or use property (whether tangible or intangible) of others or others possess, use or have authority to possess or use property (whether tangible or intangible) of the Company, and all recorded data of any kind or nature, regardless of the medium of recording including, without limitation, all software, writings, plans, specifications and schematics.

2.2. Delivery of Instruments, etc.

(a) Pursuant to the terms hereof, the Company has endorsed, assigned and delivered to the Agent all negotiable or non-negotiable instruments, certificated securities and chattel paper pledged by it hereunder, together with instruments of transfer or assignment duly executed in blank as the Agent may have specified. In the event that the Company shall, after the date of this Agreement, acquire any other negotiable or non-negotiable instruments, certificated securities or chattel paper to be pledged by it hereunder, the Company shall forthwith endorse, assign and deliver the same to the Agent, accompanied by such instruments of transfer or assignment duly executed in blank as the Agent may from time to time specify.

(b) To the extent that any securities now or hereafter acquired by the Company are uncertificated and are issued to the Company or its nominee directly by the issuer thereof, the Company shall cause the issuer to note on its books the security interest of the Agent in such securities and shall cause the issuer, pursuant to an agreement in form and substance satisfactory to the Agent, to agree to comply with instructions from the Agent as to such securities, without further consent of the Company or such nominee. To the extent that any securities, whether certificated or uncertificated, or other investment property now or hereafter acquired by the Company is held by the Company or its nominee through a securities intermediary or commodity intermediary, the Company shall, at the request of the Agent, cause such securities intermediary or (as the case may be) commodity intermediary, pursuant to an agreement in form and substance satisfactory to the Agent, to agree to comply with entitlement orders or other instructions from the Agent to such securities intermediary as to such securities or other investment property, or (as the case may be) to apply any value distributed on account of any commodity contract as directed by the Agent to such commodity intermediary, without further consent of the Company or such nominee. The Agent agrees with the Company that the Agent shall not give any such entitlement orders or instructions or directions to any such issuer, securities intermediary or commodity intermediary unless an Event of Default has occurred and is continuing and the Agent has elected to exercise its rights and remedies as contemplated by (S)14.

(c) To the extent that the Company is a beneficiary under any written letter of credit now or hereafter issued in favor of the Company, the Company shall deliver such letter of credit to the Agent. The Agent shall from time to time, at the request and expense of the Company, make such arrangements with the Company as are in the Agent's reasonable judgment necessary and appropriate so that the Company may make any drawing to which the Company is entitled under such letter of credit, without impairment of the Agent's perfected security interest in the Company's rights to proceeds of such letter of credit or in the actual proceeds of such drawing. At the Agent's request, the Company shall, for any letter of credit, whether or not written, now or hereafter issued in favor of the Company as beneficiary, execute and deliver to the issuer and any confirmer of such letter of credit an assignment of proceeds form, in favor of the Agent and satisfactory to the Agent and such issuer or (as the case may be) such confirmer, requiring the proceeds of any drawing under such letter of credit to be paid directly to the Agent for application as provided in the Credit Agreement.

2.3. Excluded Collateral. Notwithstanding the foregoing provisions of this (S)2, such grant of security interest shall not extend to, and the term "Collateral" shall not include, any chattel paper and general intangibles which are now or hereafter held by the Company as licensee, lessee or otherwise, to the extent that (a) such chattel paper and general intangibles are not assignable or capable of being encumbered as a matter of law or under the terms of the license, lease or other agreement applicable thereto (but solely to the extent that any such restriction shall be enforceable under applicable law), without the consent of the licensor or lessor thereof or other applicable party thereto and (b) such consent has not been obtained; provided, however, that the foregoing grant of security interest shall extend to, and the term "Collateral" shall include, (i) any and all proceeds of such chattel paper and general intangibles to the extent that the assignment or encumbering of such proceeds is not so restricted and (ii) upon any such licensor, lessor or other applicable party consent with respect to any such otherwise excluded chattel paper or general intangibles being obtained, thereafter such chattel paper or general intangibles as well as any and all proceeds thereof that might have theretofore have been excluded from such grant of a security interest and the term "Collateral".

3. Title to Collateral, etc. The Company is the owner of the Collateral free from any adverse lien, security interest or other encumbrance, except for the security interest created by this Agreement and other liens permitted by the Credit Agreement. None of the Collateral constitutes, or is the proceeds of, "farm products" as defined in (S)9-109(3) of the Uniform Commercial Code of the Commonwealth of Massachusetts. None of the account debtors in respect of any accounts, chattel paper or general intangibles and none of the obligors in respect of any instruments included in the Collateral is a governmental authority subject to the Federal Assignment of Claims Act.

4. Continuous Perfection. The Company's place of business or, if more than one, chief executive office is indicated on the Perfection Certificate delivered to the Agent herewith (the "Perfection Certificate"). The Company will not change the same, or the name, identity or corporate structure of the Company in any manner, without providing at least 30 days prior written notice to the Agent. The Collateral, to the extent not delivered to the Agent pursuant to (S)2.2, will be kept at those locations listed on the Perfection Certificate and the Company will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Agent.

5. No Liens. Except for the security interest herein granted and liens permitted by the Credit Agreement, the Company shall be the owner of the Collateral free from any lien, security interest or other encumbrance, and the Company shall defend the same against all claims and demands of all persons at any time claiming the same or any interests therein adverse to the Agent or any of the Banks. The Company shall not pledge, mortgage or create, or suffer to exist a security interest in the Collateral in favor of any person other than the Agent, for the benefit of the Banks and the Agent, except for liens permitted by the Credit Agreement.

6. No Transfers. The Company will not sell or offer to sell or otherwise transfer the Collateral or any interest therein except for (a) sales and leases of inventory and licenses of general intangibles in the ordinary course of business and (b) sales or other dispositions of obsolescent items of equipment in the ordinary course of business consistent with past practices.

7. Insurance.

7.1. Maintenance of Insurance. The Company will maintain with financially sound and reputable insurers insurance with respect to its properties and business against such casualties and contingencies as shall be in accordance with general practices of businesses engaged in similar activities in similar geographic areas. Such insurance shall be in such minimum amounts that the Company will not be deemed a co-insurer under applicable insurance laws, regulations and policies and otherwise shall be in such amounts, contain such terms, be in such forms and be for such periods as may be reasonably satisfactory to the Agent. In addition, all such insurance shall be payable to the Agent as loss payee under a "standard" or "New York" loss payee clause for the benefit of the Banks and the Agent. Without limiting the foregoing, the Company will (a) keep all of its physical property insured with casualty or physical hazard insurance on an "all risks" basis, with broad form flood and earthquake coverages and electronic data processing coverage, with a full replacement cost endorsement and an "agreed amount" clause in an amount equal to 100% of the full replacement cost of such property, (b) maintain all such workers' compensation or similar insurance as may be required by law and (c) maintain, in amounts and with deductibles equal to those generally maintained by businesses engaged in similar activities in similar geographic areas, general public liability insurance against claims of bodily injury, death or property damage occurring, on, in or about the properties of the Company; business interruption insurance; and product liability insurance.

7.2. Insurance Proceeds. The proceeds of any casualty insurance in respect of any casualty loss of any of the Collateral shall, subject to the rights, if any, of other parties with a prior interest in the property covered thereby, (a) so long as no Default or Event of Default has occurred and is continuing and to the extent that the amount of such proceeds is less than $25,000, be disbursed to the Company for direct application by the Company solely to the repair or replacement of the Company's property so damaged or destroyed and (b) in all other circumstances, be held by the Agent as cash collateral for the Obligations. The Agent may, at its sole option, disburse from time to time all or any part of such proceeds so held as cash collateral, upon such terms and conditions as the Agent may reasonably prescribe, for direct application by the Company solely to the repair or replacement of the Company's property so damaged or destroyed, or the Agent may apply all or any part of such proceeds to the Obligations with the Total Commitment (if not then terminated) being reduced by the amount so applied to the Obligations.

7.3. Notice of Cancellation, etc. All policies of insurance shall provide for at least thirty (30) days prior written cancellation notice to the Agent. In the event of failure by the Company to provide and maintain insurance as herein provided, the Agent may, at its option, provide such insurance and charge the amount thereof to the Company. The

Company shall furnish the Agent with certificates of insurance and policies evidencing compliance with the foregoing insurance provision.

8. Maintenance of Collateral; Compliance with Law. The Company will keep the Collateral in good order and repair and will not use the same in violation of law or any policy of insurance thereon. The Agent, or its designee, may inspect the Collateral at any reasonable time, wherever located. The Company will pay promptly when due all taxes, assessments, governmental charges and levies upon the Collateral or incurred in connection with the use or operation of such Collateral or incurred in connection with this Agreement. The Company has at all times operated, and the Company will continue to operate, its business in compliance with all applicable provisions of the federal Fair Labor Standards Act, as amended, and with all applicable provisions of federal, state and local statutes and ordinances dealing with the control, shipment, storage or disposal of hazardous materials or substances.

9. Collateral Protection Expenses; Preservation of Collateral.

9.1. Expenses Incurred by Agent. In its discretion, the Agent may discharge taxes and other encumbrances at any time levied or placed on any of the Collateral, make repairs thereto and pay any necessary filing fees. The Company agrees to reimburse the Agent on demand for any and all expenditures so made. The Agent shall have no obligation to the Company to make any such expenditures, nor shall the making thereof relieve the Company of any default.

9.2. Agent's Obligations and Duties. Anything herein to the contrary notwithstanding, the Company shall remain liable under each contract or agreement comprised in the Collateral to be observed or performed by the Company thereunder. Neither the Agent nor any Bank shall have any obligation or liability under any such contract or agreement by reason of or arising out of this Agreement or the receipt by the Agent or any Bank of any payment relating to any of the Collateral, nor shall the Agent or any Bank be obligated in any manner to perform any of the obligations of the Company under or pursuant to any such contract or agreement, to make inquiry as to the nature or sufficiency of any payment received by the Agent or any Bank in respect of the Collateral or as to the sufficiency of any performance by any party under any such contract or agreement, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to the Agent or to which the Agent or any Bank may be entitled at any time or times. The Agent's sole duty with respect to the custody, safe keeping and physical preservation of the Collateral in its possession, under (S)9-207 of the Uniform Commercial Code of the Commonwealth of Massachusetts or otherwise, shall be to deal with such Collateral in the same manner as the Agent deals with similar property for its own account.

10. Securities and Deposits. The Agent may at any time after the occurrence of an Event of Default, at its option, transfer to itself or any nominee any securities constituting Collateral, receive any income thereon and hold such income as additional Collateral or apply it to the Obligations. Whether or not any Obligations are due, the Agent may, after the occurrence of an Event of Default, demand, sue for, collect, or make any settlement or compromise which it deems desirable with respect to the Collateral. Regardless of the adequacy of Collateral or any other security for the Obligations, any deposits or other sums at any time credited by or due from the Agent or any Bank to the Company may at any time be applied to or set off against any of the Obligations.

11. Notification to Account Debtors and Other Obligors. If an Event of Default shall have occurred and be continuing, the Company shall, at the request of the Agent, notify account debtors on accounts, chattel paper and general intangibles of the Company and obligors on instruments for which the Company is an obligee of the security interest of the Agent in any account, chattel paper, general intangible or instrument and that payment thereof is to be made directly to the Agent or to any financial institution designated by the Agent as the Agent's agent therefor, and the Agent may itself, if an Event of Default shall have occurred and be continuing, without notice to or demand upon the Company, so notify account debtors and obligors. After the making of such a request or the giving of any such notification, the Company shall hold any proceeds of collection of accounts, chattel paper, general intangibles and instruments received by the Company as trustee for the Agent, for the benefit of the Banks and the Agent, without commingling the same with other funds of the Company and shall turn the same over to the Agent in the identical form received, together with any necessary endorsements or assignments. The Agent shall apply the proceeds of collection of accounts, chattel paper, general intangibles and instruments received by the Agent to the Obligations, such proceeds to be immediately entered after final payment in cash or solvent credits of the items giving rise to them.

12. Further Assurances. The Company, at its own expense, shall do, make, execute and deliver all such additional and further acts, things, deeds, assurances and instruments as the Agent may require more completely to vest in and assure to the Agent and the Banks their respective rights hereunder or in any of the Collateral, including, without limitation, (a) executing, delivering and, where appropriate, filing financing statements and continuation statements under the Uniform Commercial Code, (b) obtaining governmental and other third party consents and approvals, including without limitation any consent of any licensor, lessor or other applicable party referred to in (S)2.3, (c) obtaining waivers from mortgagees and landlords and (d) taking all actions required by Sections 8-313 and 8-321 of the Uniform Commercial Code (1990) or Sections 8-106 and 9-115 of the Uniform Commercial Code (1994), as applicable in each relevant jurisdiction, with respect to certificated and uncertificated securities.

13. Power of Attorney.

13.1. Appointment and Powers of Agent. The Company hereby irrevocably constitutes and appoints the Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorneys-in-fact with full irrevocable power and authority in the place and stead of the Company or in the Agent's own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments that may be necessary or desirable to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, hereby gives said attorneys the power and right, on behalf of the Company, without notice to or assent by the Company, to do the following:

(a) upon the occurrence and during the continuance of an Event of Default, generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral in such manner as is consistent with the Uniform Commercial Code of the Commonwealth of Massachusetts and as fully and completely as though the Agent were the absolute owner thereof for all purposes, and to do at the Company' expense, at any time, or from time to time, all acts and things which the Agent deems necessary to protect, preserve or realize upon the Collateral and the Agent's security interest therein, in order to effect the intent of this Agreement, all as fully and effectively as the Company might do, including, without limitation, (i) the filing and prosecuting of registration and transfer applications with the appropriate federal or local agencies or authorities with respect to trademarks, copyrights and patentable inventions and processes, (ii) upon written notice to the Company, the exercise of voting rights with respect to voting securities, which rights may be exercised, if the Agent so elects, with a view to causing the liquidation in a commercially reasonable manner of assets of the issuer of any such securities and (iii) the execution, delivery and recording, in connection with any sale or other disposition of any Collateral, of the endorsements, assignments or other instruments of conveyance or transfer with respect to such Collateral; and

(b) to file such financing statements with respect hereto, with or without the Company's signature, or a photocopy of this Agreement in substitution for a financing statement, as the Agent may deem appropriate and to execute in the Company's name such financing statements and amendments thereto and continuation statements which may require the Company's signature.

13.2. Ratification by Company. To the extent permitted by law, the Company hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

13.3. No Duty on Agent. The powers conferred on the Agent hereunder are solely to protect the interests of the Agent and the Banks in the Collateral and shall not impose any duty upon the Agent to exercise any such powers. The Agent shall be accountable only for the amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its officers, directors, employees or agents shall be responsible to the Company for any act or failure to act, except for the Agent's own gross negligence or willful misconduct.

14. Remedies. If an Event of Default shall have occurred and be continuing, the Agent may, without notice to or demand upon the Company, declare this Agreement to be in default, and the Agent shall thereafter have in any jurisdiction in which enforcement hereof is sought, in addition to all other rights and remedies, the rights and remedies of a secured party under the Uniform Commercial Code, including, without limitation, the right to take possession of the Collateral, and for that purpose the Agent may, so far as the Company can give authority therefor, enter upon any premises on which the Collateral may be situated and remove the same therefrom. The Agent may in its discretion require the Company to assemble all or any part of the Collateral at such location or locations within the state(s) of the Company's principal office(s) or at such other locations as the Agent may designate. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Agent shall give to the Company at least five Business Days prior written notice of the time and place of any public sale of Collateral or of the time after which any private sale or any other intended disposition is to be made. The Company hereby acknowledges that five Business Days prior written notice of such sale or sales shall be reasonable notice. In addition, the Company waives any and all rights that it may have to a judicial hearing in advance of the enforcement of any of the Agent's rights hereunder, including, without limitation, its right following an Event of Default to take immediate possession of the Collateral and to exercise its rights with respect thereto. To the extent that any of the Obligations are to be paid or performed by a person other than the Company, the Company waives and agrees not to assert any rights or privileges which it may have under (S)9-112 of the Uniform Commercial Code of the Commonwealth of Massachusetts.

15. No Waiver, etc. The Company waives demand, notice, protest, notice of acceptance of this Agreement, notice of loans made, credit extended, Collateral received or delivered or other action taken in reliance hereon and all other demands and notices of any description. With respect to both the Obligations and the Collateral, the Company assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of or failure to perfect any security interest in any Collateral, to the addition or release of any party or person primarily or secondarily liable, to the acceptance of partial payment thereon and the settlement, compromising or adjusting of any thereof, all in such manner and at such time or times as the Agent may deem advisable. The Agent shall have no duty as to the collection or protection of the Collateral or any income thereon, nor as to the preservation of rights against prior parties, nor as to the

preservation of any rights pertaining thereto beyond the safe custody thereof as set forth in (S)9.2. The Agent shall not be deemed to have waived any of its rights upon or under the Obligations or the Collateral unless such waiver shall be in writing and signed by the Agent with the consent of the Majority Banks. No delay or omission on the part of the Agent in exercising any right shall operate as a waiver of such right or any other right. A waiver on any one occasion shall not be construed as a bar to or waiver of any right on any future occasion. All rights and remedies of the Agent with respect to the Obligations or the Collateral, whether evidenced hereby or by any other instrument or papers, shall be cumulative and may be exercised singularly, alternatively, successively or concurrently at such time or at such times as the Agent deems expedient.

16. Marshalling. Neither the Agent nor any Bank shall be required to marshal any present or future collateral security (including but not limited to this Agreement and the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order, and all of the rights of the Agent hereunder and of the Agent or any Bank in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights, however existing or arising. To the extent that it lawfully may, the Company hereby agrees that it will not invoke any law relating to the marshalling of collateral which might cause delay in or impede the enforcement of the Agent's rights under this Agreement or under any other instrument creating or evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, the Company hereby irrevocably waives the benefits of all such laws.

17. Proceeds of Dispositions; Expenses. The Company shall pay to the Agent on demand any and all expenses, including reasonable attorneys' fees and disbursements, incurred or paid by the Agent in protecting, preserving or enforcing the Agent's rights under or in respect of any of the Obligations or any of the Collateral. After deducting all of said expenses, the residue of any proceeds of collection or sale of the Obligations or Collateral shall, to the extent actually received in cash, be applied to the payment of the Obligations in such order or preference as is provided in the Credit Agreement, proper allowance and provision being made for any Obligations not then due. Upon the final payment and satisfaction in full of all of the Obligations and after making any payments required by Section 9-504(1)(c) of the Uniform Commercial Code of the Commonwealth of Massachusetts, any excess shall be returned to the Company, and the Company shall remain liable for any deficiency in the payment of the Obligations.

18. Overdue Amounts. Until paid, all amounts due and payable by the Company hereunder shall be a debt secured by the Collateral and shall bear, whether before or after judgment, interest at the rate of interest for overdue principal set forth in the Credit Agreement.

19. Governing Law; Consent to Jurisdiction. THIS AGREEMENT IS INTENDED TO TAKE EFFECT AS A SEALED INSTRUMENT AND SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS. The Company agrees that any suit for the enforcement of this Agreement may be brought in the courts of the Commonwealth of Massachusetts or any federal court sitting therein and consents to the non-exclusive jurisdiction of such court and to service of process in any such suit being made upon the Company by mail at the address specified in the signature page of the Credit Agreement. The Company hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient court.

20. Waiver of Jury Trial. THE COMPANY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THE PERFORMANCE OF ANY SUCH RIGHTS OR OBLIGATIONS. Except as prohibited by law, the Company waives any right which it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. The Company (a) certifies that neither the Agent or any Bank nor any representative, agent or attorney of the Agent or any Bank has represented, expressly or otherwise, that the Agent or any Bank would not, in the event of litigation, seek to enforce the foregoing waivers and (b) acknowledges that, in entering into the Credit Agreement and the other Loan Documents to which the Agent or any Bank is a party, the Agent and the Banks are relying upon, among other things, the waivers and certifications contained in this (S)20.

21. Miscellaneous. The headings of each section of this Agreement are for convenience only and shall not define or limit the provisions thereof. This Agreement and all rights and obligations hereunder shall be binding upon the Company and its respective successors and assigns, and shall inure to the benefit of the Agent, the Banks and their respective successors and assigns. If any term of this Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby, and this Agreement shall be construed and be enforceable as if such invalid, illegal or unenforceable term had not been included herein. The Company acknowledges receipt of a copy of this Agreement.

IN WITNESS WHEREOF, intending to be legally bound, the Company has caused this Agreement to be duly executed as of the date first above written.

ON-DEMAND SOLUTIONS, INC.

By:

Title:

Accepted:

BANKBOSTON, N.A.,
as Agent

By:

Title:

CERTIFICATE OF ACKNOWLEDGMENT

COMMONWEALTH OF MASSACHUSETTS)
) ss.
COUNTY OF _______________________________)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this ____ day of March, 1999, personally appeared _________ to me known personally, and who, being by me duly sworn, deposes and says that he is the ______ of On-Demand Solutions, Inc., and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said __________ acknowledged said instrument to be the free act and deed of said corporation.

Notary Public
My commission expires:

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE QUARTERLY REPORT ON FORM 10-Q OF CMGI, INC. FOR THE QUARTER ENDED APRIL 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
JUL-31-1999
AUG-01-1998
APR-30-1999
41,758
886,242
30,216
0
9,028
995,835
17,885
0
1,246,582
400,555
0
35,305
0
953
689,740
1,246,582
120,032
120,032
114,917
114,917
80,379
0
3,295
55,296
30,981
24,315
(806)
0
0
23,509
0.25
0.22