CMGI 2000 Annual Report

cmgi

Defining CMGI

about CMGI

CMGI, Inc. (Nasdaq: CMGI) is the world's leading Internet operating and development company. Long recognized for its visionary business model, CMGI defines the power and direction of the Internet as it creates and operates Internet-related companies. CMGI's focus on growth, leadership and profitability has led to the emergence of some of the best-known names on the Internet — companies that build ebusiness solutions, create sophisticated technologies and provide essential products to enterprise customers worldwide. Through its venture capital affiliate CMGI @Ventures, CMGI also invests in the future. Solid strategic partnerships, such as the one forged with Compaq Computer Corporation, further enhance opportunities for success for both CMGI and its partners.

CMGI companies are public and private, large and small, emerging and established, located in the U.S. and around the world. Its affiliates are organized into five operational segments and one investment segment:

> **SEARCH AND PORTALS** These companies connect Internet users to information and entertainment, utilizing some of the most advanced technologies and creative talent available today.

> **EBUSINESS AND FULFILLMENT** These companies represent the front line of the Internet marketplace, allowing businesses to cost-effectively manage inventories, find customers and deliver customer purchases.

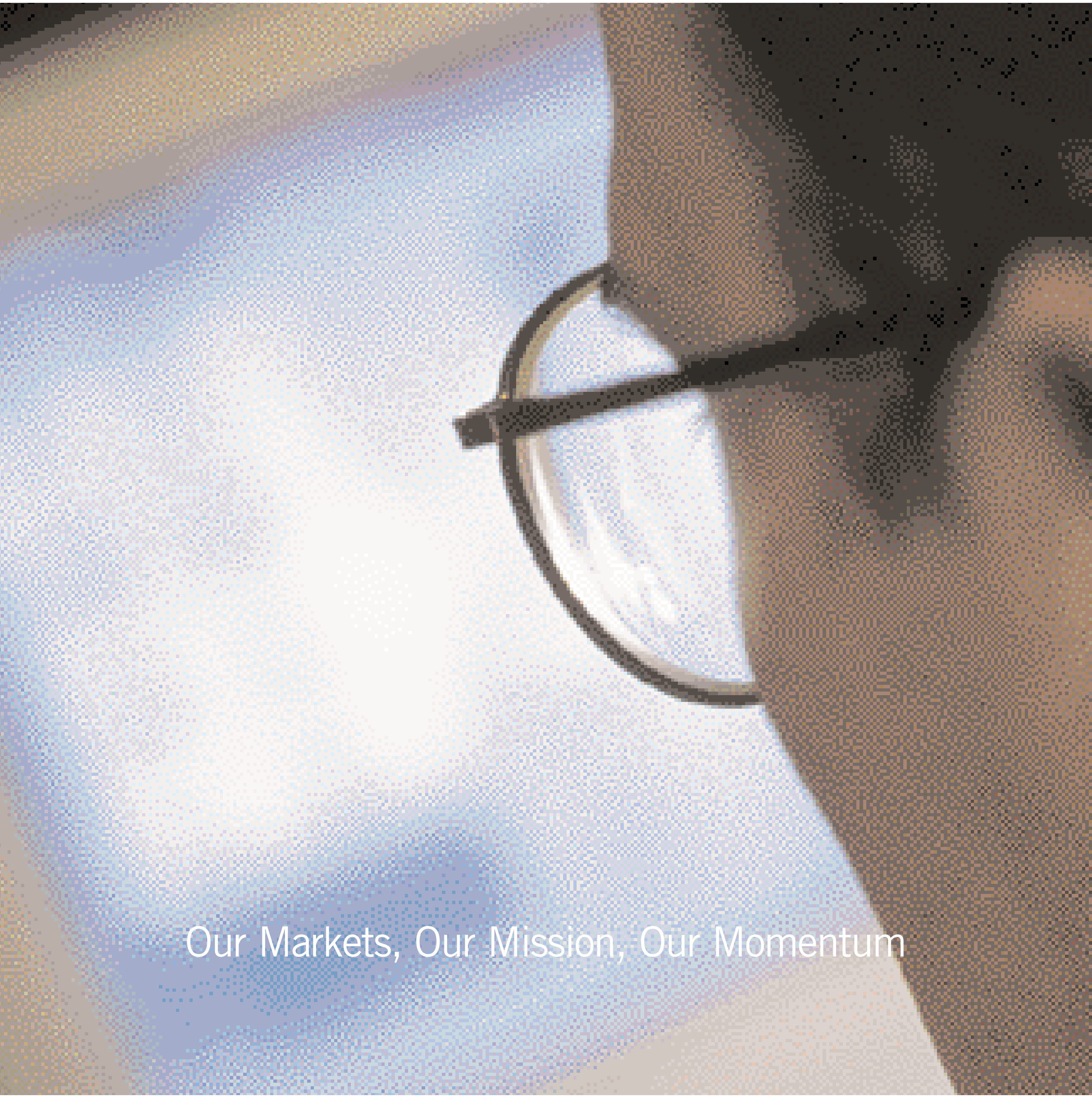
> **INTERACTIVE MARKETING** The companies in this segment provide the tools to support marketers with efficient ways to communicate about products and services with current and potential customers.

> **INFRASTRUCTURE AND ENABLING TECHNOLOGIES** Here is where products and services essential to everyday business operations on the Internet are found, from outsourced managed applications to technology platforms.

> **INTERNET PROFESSIONAL SERVICES** This segment provides strategic ebusiness solutions for Global 2000 organizations — utilizing flexible, scalable technologies and a powerhouse of consulting talent and experience.

> **VENTURE CAPITAL** This segment encompasses CMGI @Ventures, CMGI's strategic venture capital group, which scouts the future for CMGI by investing in promising new Internet and emerging technology companies.

CMGI corporate headquarters is located at 100 Brickstone Square, Andover, MA 01810. CMGI and its companies have operations around the globe. Compaq Computer Corporation, Microsoft Corporation, Pacific Century CyberWorks and Sumitomo hold minority positions in CMGI. For current information on CMGI, visit **www.cmgi.com.**



CMGI was well established long before the Internet was a recognized medium. Its operating companies serve Internet-based businesses and traditional enterprises alike. Its mission is to create profitable, leading companies that work in, with or serve the Internet, creatively meeting all challenges. The key to CMGI's success lies in its proven ability to anticipate and capitalize on new and emerging markets, thanks to a strong corporate center providing vision, leadership and strategic direction.

aligning our businesses to meet the marketplace

Reinforcing our operating model in this manner supports CMGI's prominence as a leader in the global Internet marketplace.

> DEAR FELLOW SHAREHOLDERS:

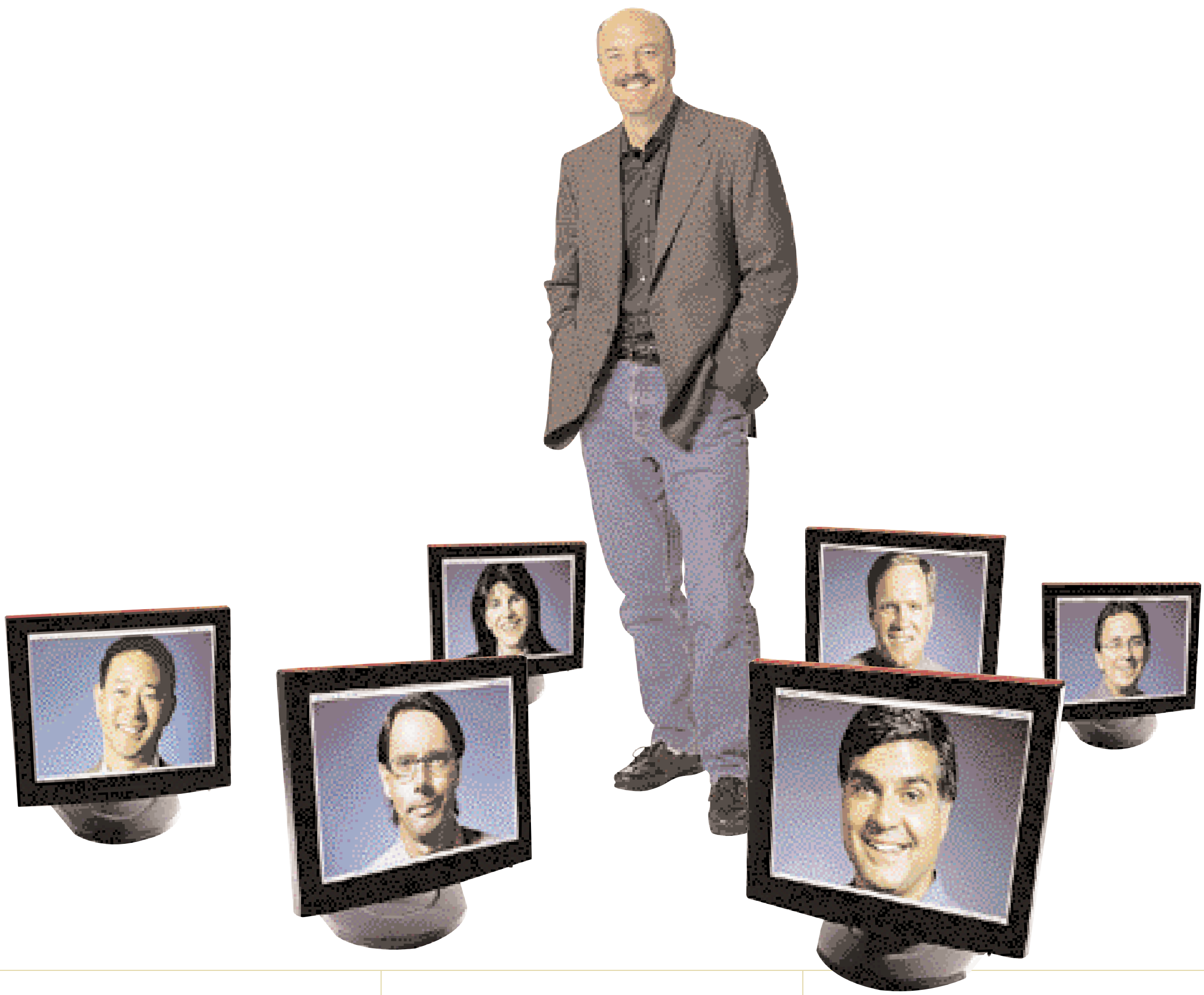
In a year of many significant events at CMGI, the one that stands out most occurred after the close of our fiscal year: the reaffirmation of CMGI as a company dedicated to growth, leadership and profitability. We demonstrated this in September by organizing our operating companies into five segments that, together with our venture capital affiliate, make it patently clear that CMGI is a healthy, flexible and strategically managed business, expertly navigating the environment in which we operate — the Internet — even as it changes our personal lives, our company and the world around us.

Reinforcing our operating model in this manner supports CMGI's prominence as a leader in the global Internet marketplace in several ways. It openly defines the key market segments that we feel offer the greatest opportunities for growth, leadership and profitability. This clears the way for expanding global strategic alliances and partnerships, amplifies CMGI @Ventures' role in investing in and helping accelerate promising businesses and gives you, our shareholders, unprecedented clarity to judge our progress. Given all that we know about the Internet, from our everyday experiences overseeing our operating companies and CMGI @Ventures companies and from external sources tracking its growth, we are convinced that not only are we headed in the right direction — we're leading the way.

The increasing complexity of the Internet, driven by the proliferation of users, devices and bandwidths, is

>CMGI'S MANAGEMENT TEAM>

STANDING: **DAVID S. WETHERELL** Chairman of the Board, Chief Executive Officer and President MONITORS LEFT TO RIGHT: **JEFF YANAGI** Executive Vice President, Human Resources > **ANDREW J. HAJDUCKY III** Executive Vice President and Chief Financial Officer > **JO HOPPE** Chief Information Officer > **DAVID ANDONIAN** President, Corporate Development > **HANS HAWRYSZ** Executive Vice President, Strategy and Planning > **WILLIAM WHITE** Executive Vice President, Marketing and Corporate Communications



creating new customer needs while it forces changes in the Internet infrastructure. End users need fast, efficient ways to find and retrieve information across many kinds of devices and require access at any time on any device. Global 2000 enterprises and dot.coms need tools and services to maximize business on the Web and to deliver personalized experiences to customers quickly. The comprehensive products and services offered by CMGI operating companies, coupled with our strong partner relationships, meet the needs of multiple Internet markets.

By aligning our companies in six major lines of Internet activity, we are establishing the foundation upon which to build CMGI's future. But there is nothing static about this model: Over time, we will continue to refine it by adding, creating, growing, merging and divesting companies within each segment.

This is the way we intend to create and maintain leaders that add value to the marketplace and demonstrate strong competitive advantage.

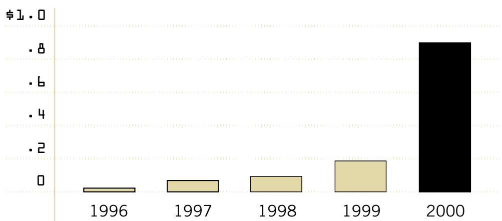
Our segments are:

Search and Portals, led by our flagship company AltaVista, provide users with contextual search tools for rapid access and delivery of relevant information;

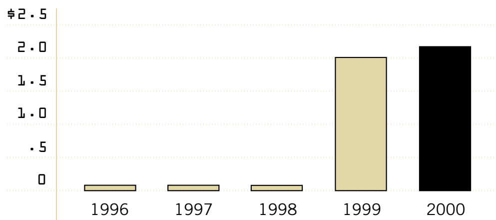
eBusiness and Fulfillment companies facilitate transactions that allow businesses to maximize commerce activities;

Interactive Marketing, where delivery of targeted ad campaigns, high-volume permission-based messaging and respect for user privacy are reconciled;

NET REVENUE (in billions)



CASH AND AVAILABLE-FOR-SALE SECURITIES (in billions)



Infrastructure and Enabling Technologies companies, do just that — enable the Internet to deliver content, integrate easily across multiple providers, function in a fast, scalable and secure multibandwidth environment and offer global hosting;

Internet Professional Services, helping Global 2000 companies create sites and extend enterprise activities to the Web while reducing costs by outsourcing Internet development; and

Venture Capital, encompassing CMGI @Ventures.

CMGI has grown dramatically over the past year. Net revenues increased 382% to $898.1 million for the fiscal year ended July 31, 2000. Other measures of our growth are as follows:

> During the fiscal year, CMGI strengthened its network of operating companies through a number of acquisitions, including: 1stUp.com, Activate, AltaVista, Equilibrium, ExchangePath, Tallán, uBid and yesmail.com. In addition, we acquired a number of companies that have been contributed to our existing operating companies: AdForce and Tribal Voice (now part of CMGion); AdKnowledge and Flycast Communications (now part of Engage); Click Hear (now part of NaviSite); iAtlas (now part of AltaVista); and Shortbuzz (now part of iCAST).

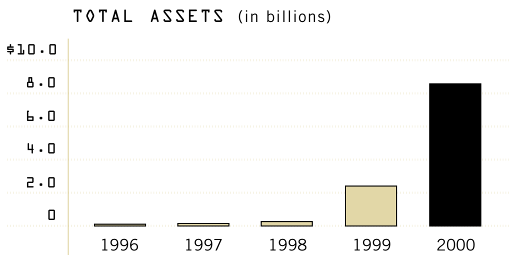
> Across all of its funds, CMGI @Ventures invested a total of $422 million in 27 companies during the fiscal year.

> The 1,500 employees we counted at the end of fiscal year 1999 increased to nearly 6,000 this year. Productivity, measured in terms of our fourth-quarter revenue run rate per employee, rose 86% compared with a year ago and now tops more than $264,000.

> We have a presence in 16 countries around the world — ten more than a year ago — and are undertaking major initiatives to capitalize on the tremendous opportunities for Internet-related products and services in the European and Asian markets. CMGI companies today touch more than two-thirds of the global online population, about 190 million users, compared with about 100 million users a year ago.

> We formed CMGion, our Internet operating network for dynamic delivery of content and applications at "the edge."

> We initiated and strengthened existing strategic partnerships, in particular the one established in August 1999 with Compaq Computer Corporation through the purchase of AltaVista. This brought us not only one of the world's leading search engines but a partnership opportunity that has proven its worth several times over. Compaq has made investments in CMGion and Engage and is a joint partner with CMGI in newly formed Freeup LLC, which aims to create communications for the business-to-



employee market. We are also working to enhance the experience of Compaq's Presario Internet keyboard users by providing one-touch access to AltaVista and other CMGI companies.

> CMGI and the New England Patriots formed a partnership through which we acquired exclusive naming rights for the new stadium, CMGI Field. This offers CMGI a cost-effective way to build brand awareness. This association will deliver 2.6 billion CMGI impressions per year starting in 2002.

Our telescope into the future is, of course, CMGI @Ventures, which has been a critical piece of our business model since we established the first Internet-only venture capital fund in 1995. The advice and counsel of our CMGI @Ventures professionals, who continue to identify promising early-stage opportunities, is invaluable to our operating segments. In September, at the same time the new organizational model was announced, we also noted that we were integrating our three current funds — CMGI @Ventures IV, CMGI @Ventures B2B and CMGI @Ventures Technology — into a single evergreen fund called CMGI @Ventures IV. This unified fund structure is easier to administer and mirrors the new corporate structure more accurately. Altogether, CMGI @Ventures funds have approximately $800 million under management.

We are confident that our strategy is the key to growth over the next 12 months. Our primary objectives for the year to come are to effectively manage our lines of business toward growth and profitability, to continue to identify, capture and build on attractive emerging Internet opportunities and to provide vision, leadership and strategic direction across all of our operating segments.

As a leading Internet company, CMGI has witnessed and experienced the past year's extreme stock market volatility and the downturn in technology stocks. However, we remain bullish on CMGI's future and excited about its prospects. With our newly aligned operating structure, strong products and services across our segments, world-class employees and a company-wide resolve to strengthen our position as the world's leading Internet operating company, we look forward to meeting the challenges that lie ahead and taking CMGI to the next level. Thank you for your continued support.

Best regards,

DAVID S. WETHERELL
Chairman, Chief Executive Officer and President

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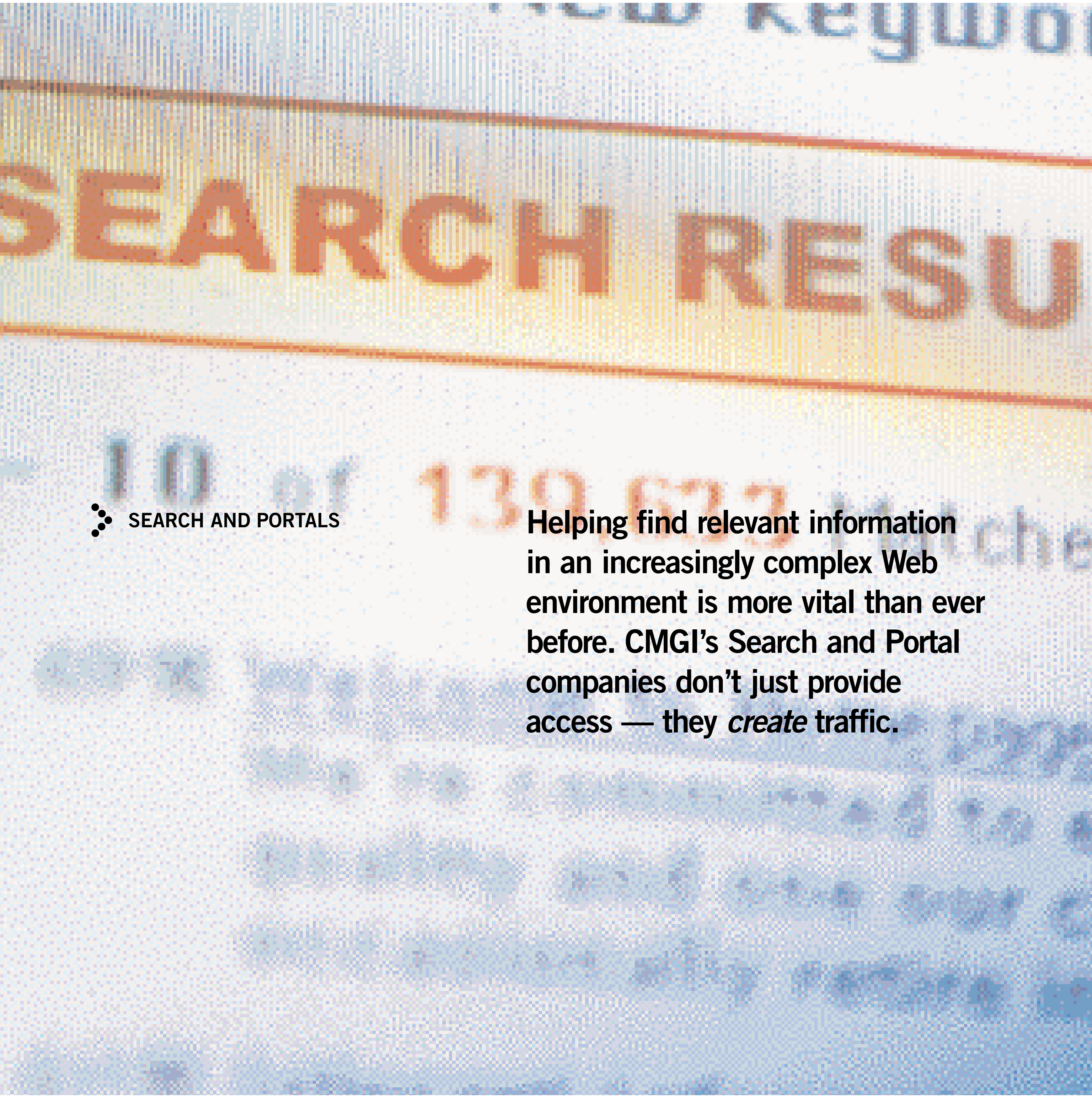
creating avenues for Internet search and access to information

>CMGI'S SEARCH AND PORTALS COMPANIES CONNECT USERS TO INFORMATION>

The need for rapid, contextual search engines for access to and delivery of information has never been more critical. CMGI's Search and Portal companies give users what they want: fast service, comprehensive content and experiences that both entertain and educate. The search segment is still a large, emerging opportunity, and CMGI's flagship search company AltaVista is leading a renaissance in search technology for Internet users and data-intensive businesses.



SEARCH AND PORTALS

Helping find relevant information in an increasingly complex Web environment is more vital than ever before. CMGI's Search and Portal companies don't just provide access — they *create* traffic.

iCast

Provides multimedia content and services allowing artists to promote and distribute their work.

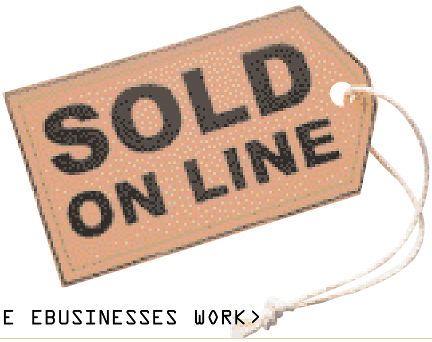
altavista

CMGI's flagship search service and information marketplace.

MyWay

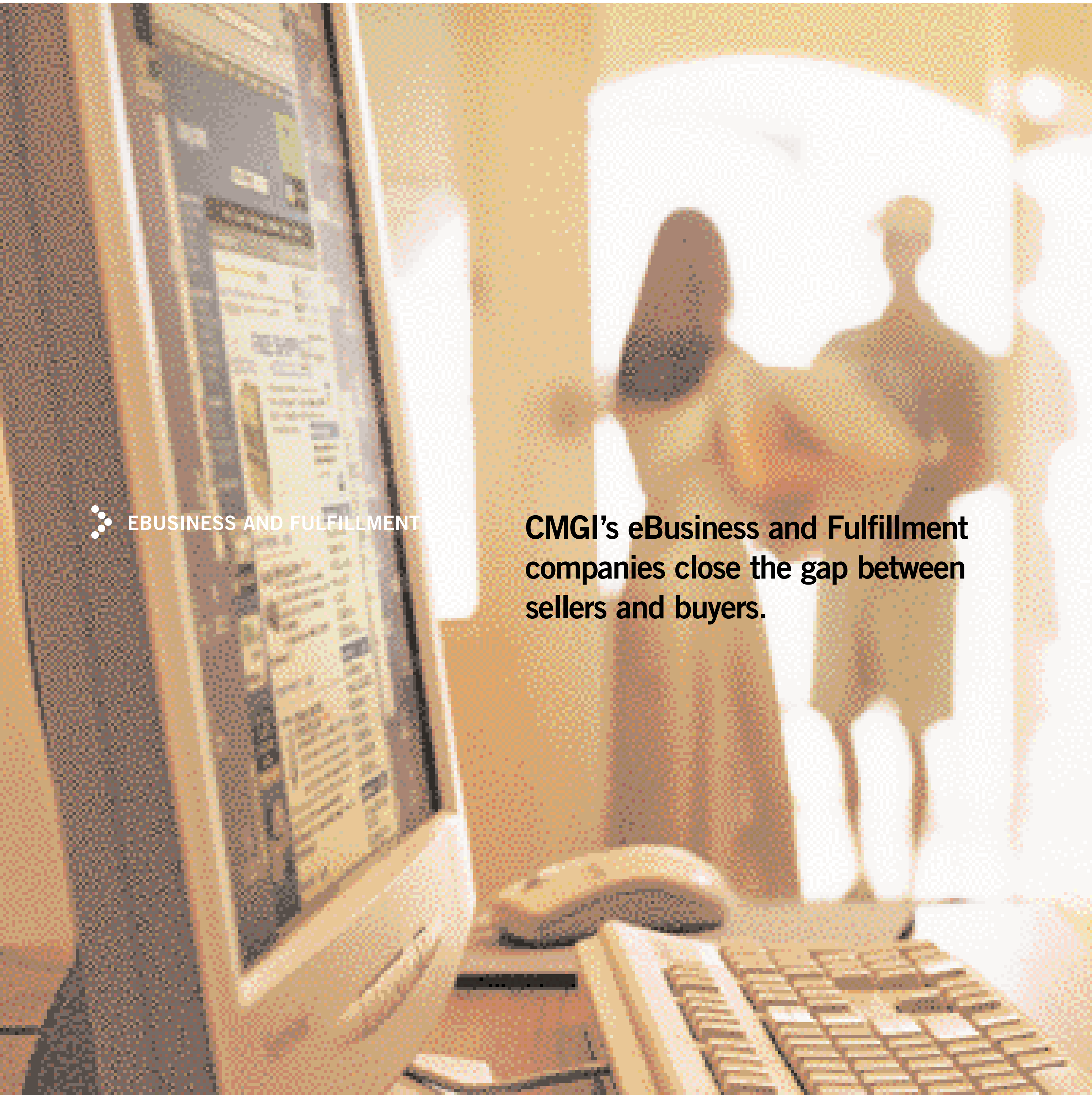
Develops and provides custom portal services.

providing technologies for the global marketplace



>CMGI'S EBUSINESS AND FULFILLMENT COMPANIES ARE WHAT MAKE EBUSINESSES WORK>

CMGI's eBusiness and Fulfillment companies work across the entire ebusiness value chain to sell and deliver goods from the manufacturer to the customer. Of all Web-based models, auction is perhaps the most ideally suited to the medium of the Internet, allowing buyers and sellers to transact independently across borders and across time zones. Taking a business digital requires readjustment of internal business processes. CMGI companies provide all this — and more.



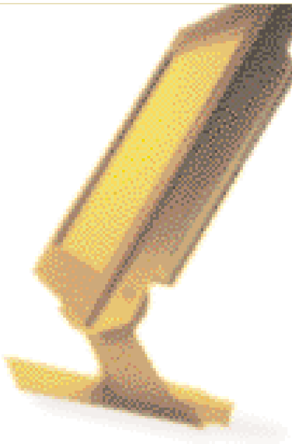
EBUSINESS AND FULFILLMENT

CMGI's eBusiness and Fulfillment companies close the gap between sellers and buyers.

Markets licensed entertainment merchandise for top music artists.

A business-to-consumer and business-to-business online auction marketplace.

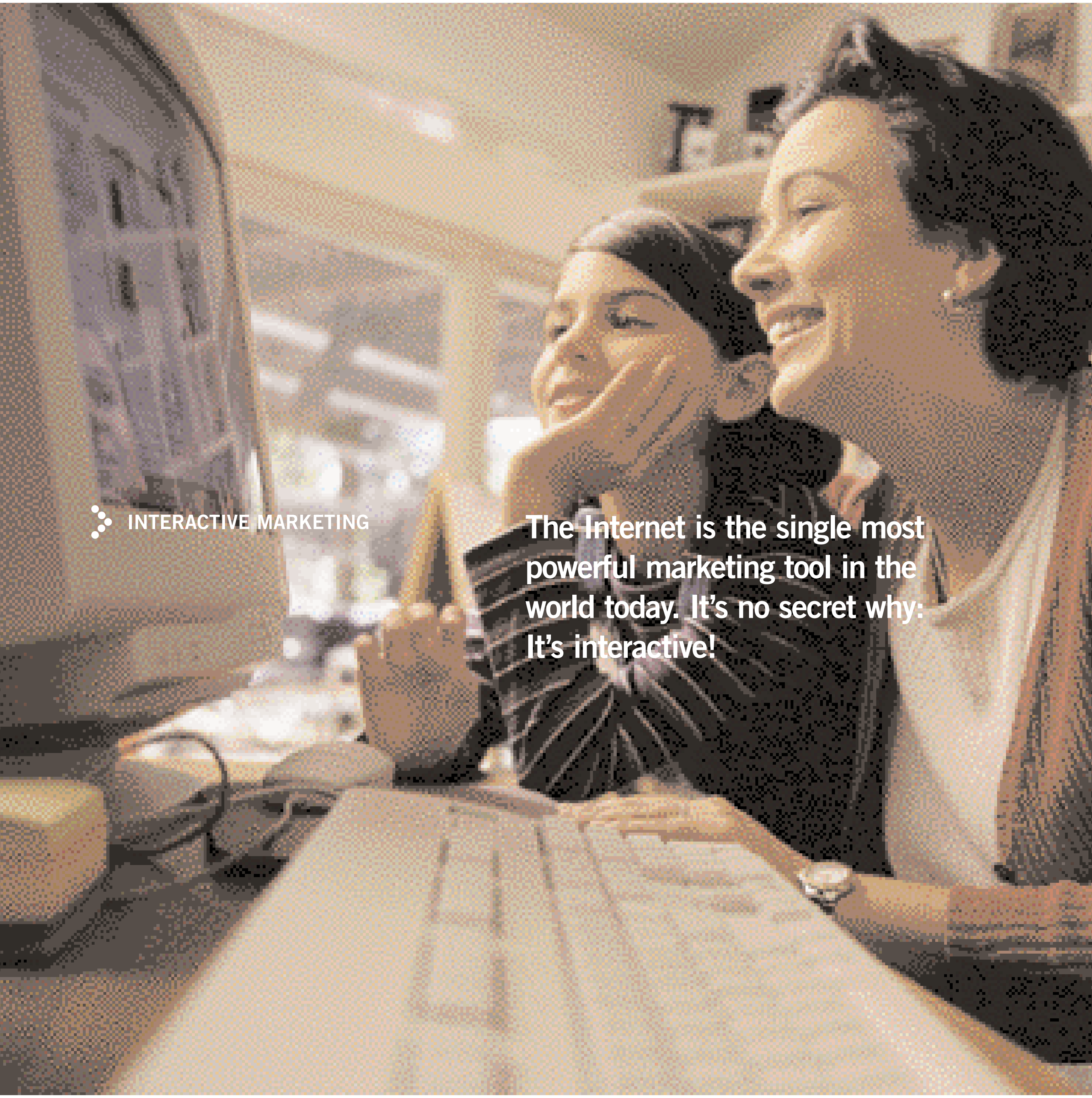
Offers integrated solutions for supply chain management, ebusiness and fulfillment services.



offering targeted, high-volume message delivery *and* privacy

>INTERACTIVE MARKETING IS THE HEART AND SOUL OF EBUSINESS>

Building on its origins as a direct marketing company, CMGI's Interactive Marketing companies recognize the value-add the Internet provides to businesses of all types and sizes around the world. CMGI offers a complete portfolio of marketing products and services, from enterprise-wide promotions management, profiling and ad-serving software to comprehensive media, media management and analytics. CMGI is well positioned to maintain its leadership in this area, helping companies acquire customers at lower costs.



INTERACTIVE MARKETING

The Internet is the single most powerful marketing tool in the world today. It's no secret why: It's interactive!

engage *(Nasdaq: ENGA)*

Delivers interactive marketing solutions through results-focused media analytics and technology.

yesmail.com

Provides permission email marketing technologies and services.

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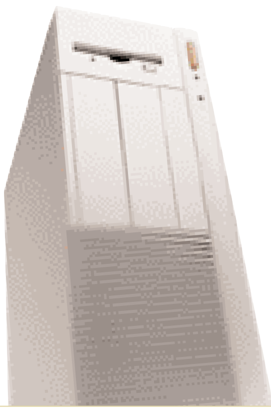
building the next generation of digital tools



>CMGI COMPANIES PROVIDE THE UNDERPINNINGS FOR THE INTERNET>

Companies in CMGI's Infrastructure and Enabling Technologies segment offer a broad range of products and services, from Web hosting and application services to streaming media, networking services, content distribution, rich media delivery and payment services. It is companies like these that empower the Internet — and propel it forward. CMGI stands ready to meet customer needs for end-to-end services and guaranteed quality.

NaviPath

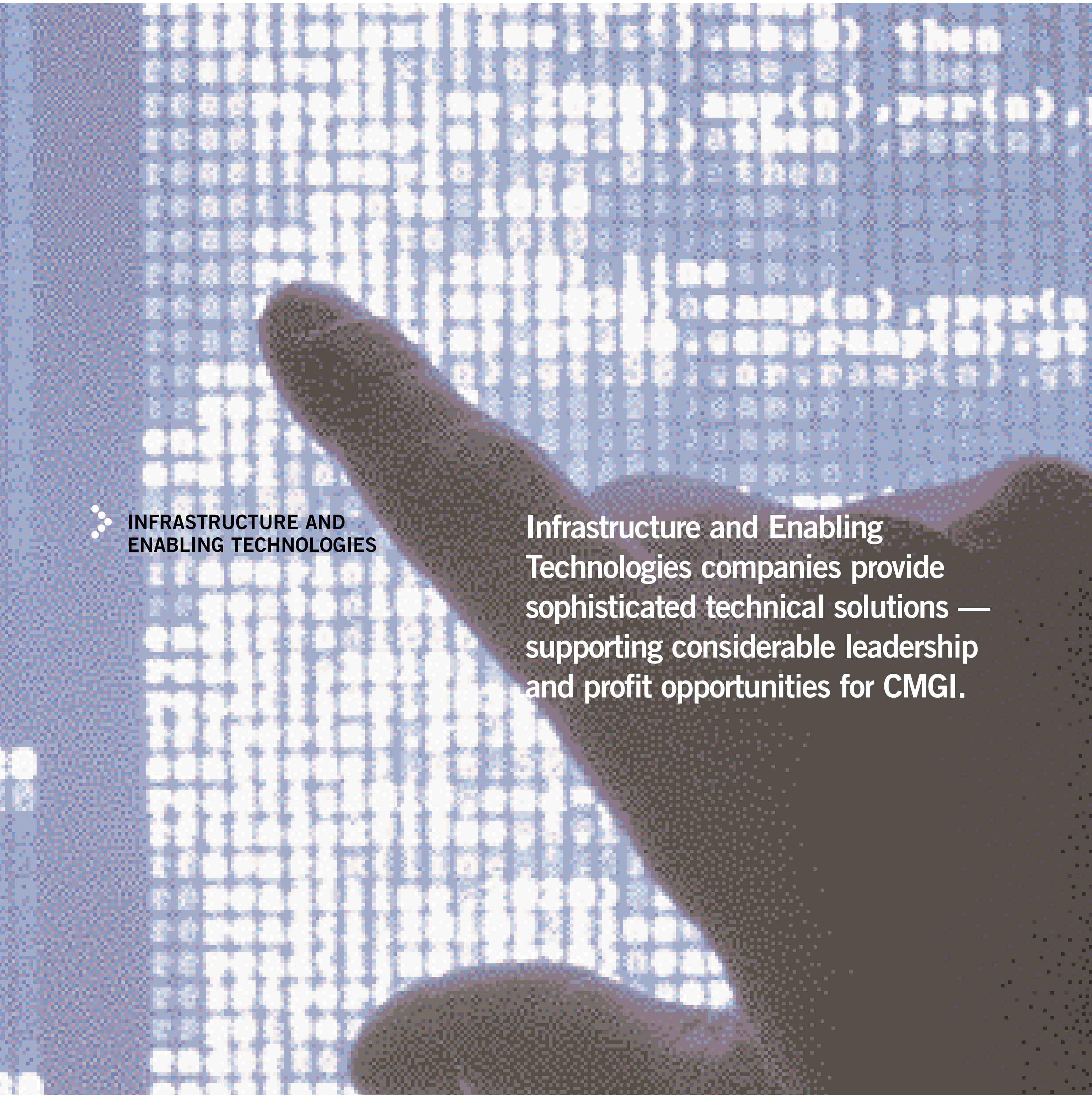
Provides outsourced Internet access solutions for affinity groups, corporations and ISPs.

Exchange Path

Offers multifunctional, integrated payment solutions for all online payment scenarios.

cmgion

An emerging Internet operating network for applications and content delivery.



INFRASTRUCTURE AND ENABLING TECHNOLOGIES

Infrastructure and Enabling Technologies companies provide sophisticated technical solutions — supporting considerable leadership and profit opportunities for CMGI.

1stUp.com

Provides private-label Internet access solutions and advertising technologies.

NaviSite (Nasdaq: NAVI)

Provides managed application hosting services.

activate

A digital media company that provides audio and video broadcasting.

equilibrium

Develops the MediaRich Publishing Platform™ that automates Web publishing.

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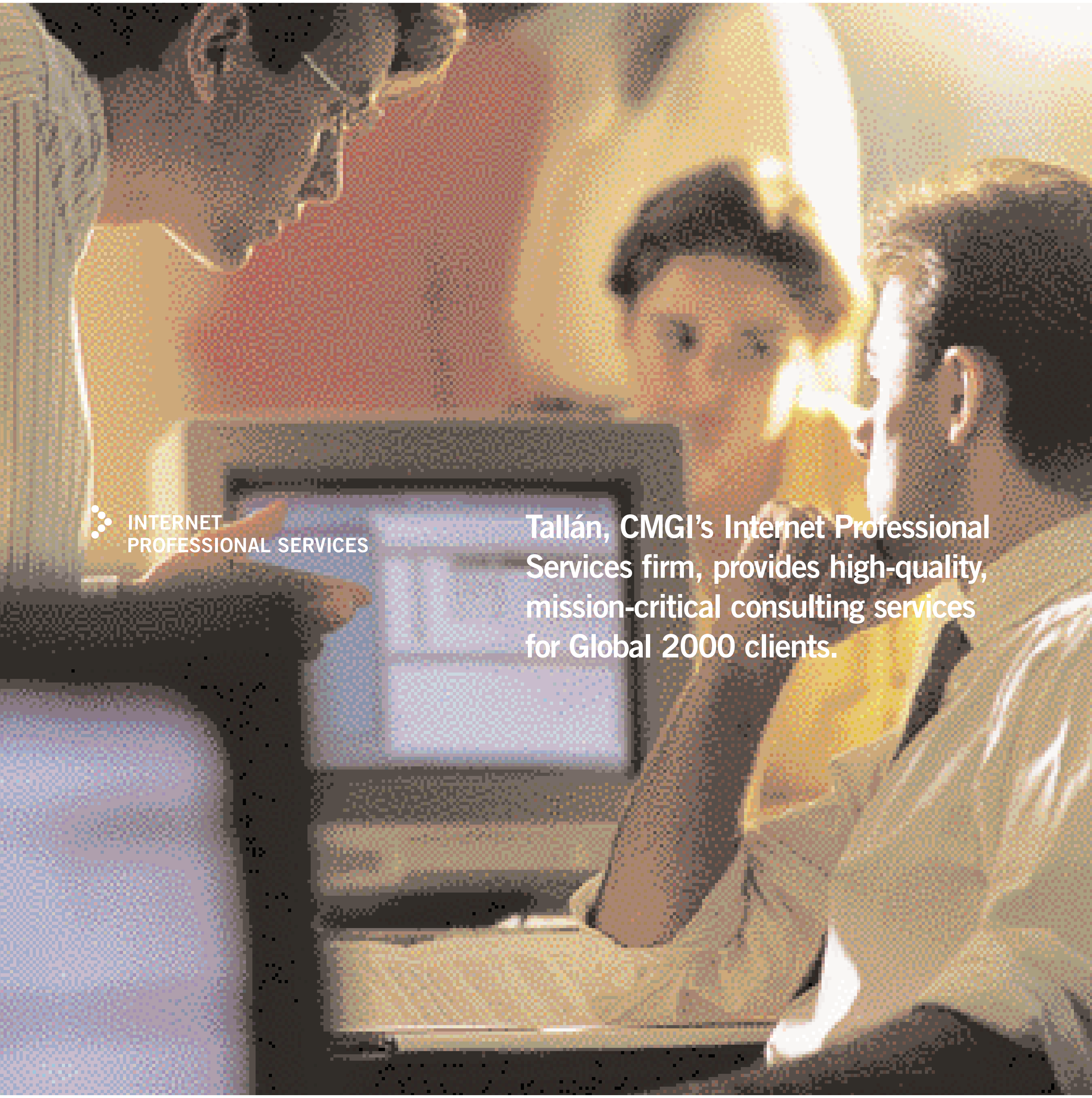
empowering clients through sound solutions

>HELPING COMPANIES FIND THEIR FOOTING ON THE INTERNET>

CMGI's Internet Professional Services group is in an excellent position to offer strategy consulting, infrastructure development and creative services to Global 2000 companies seeking to initiate, enhance or redirect their presence on the Internet. CMGI offers an impressive roster of professional talent to help clients create winning strategies, designs and development plans. By engaging Tallán's services, clients can build and implement digital solutions that are both business-critical and cost saving.



INTERNET
PROFESSIONAL SERVICES

Tallán, CMGI's Internet Professional Services firm, provides high-quality, mission-critical consulting services for Global 2000 clients.

TALLÁN *(formerly CMGI Solutions)*

Provides business-critical strategy, design and development services.

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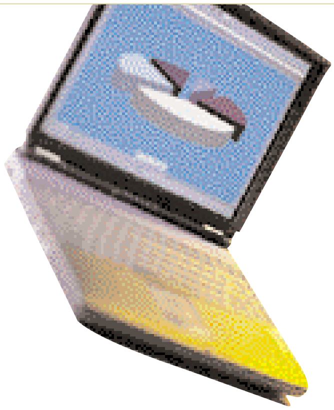
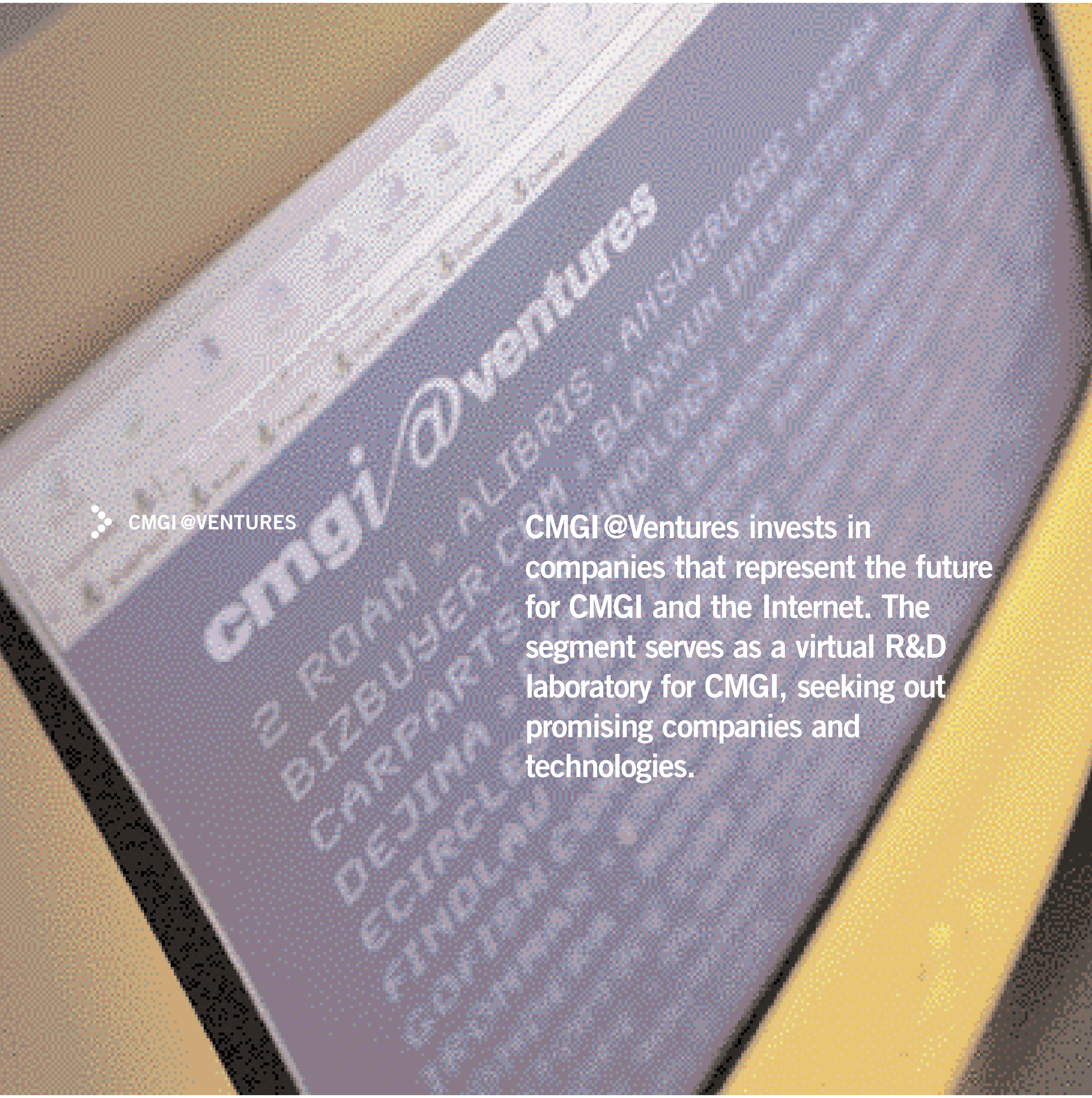


developing and discovering complementary assets

>CMGI@VENTURES IS THE ENGINE OF INNOVATION SUPPORTING CMGI>

CMGI@Ventures is CMGI's telescope into the future. Through strategic minority investments in Internet and emerging technology companies, CMGI@Ventures has become an integral part of the CMGI strategy and business model, continually introducing innovative and highly promising technology companies into the CMGI family to complement and create competitive advantage. These portfolio companies share resources, knowledge, customers and opportunities with each other and the CMGI operating companies.



CMGI @VENTURES

CMGI @Ventures invests in companies that represent the future for CMGI and the Internet. The segment serves as a virtual R&D laboratory for CMGI, seeking out promising companies and technologies.

cmgi @ventures

CMGI @Ventures makes strategic investments in Internet and emerging technology companies.

CMGI At a Glance

SEARCH AND PORTALS

CMGI Search and Portals companies make it possible to search across more than a billion Web pages to find what's needed quickly and accurately. The flagship company, AltaVista, is currently delivering answers to more than 4 billion search queries quarterly and has established a firm foothold in the enterprise market, a critical growth area for this segment. This segment also includes developers and distributors of custom portal services.

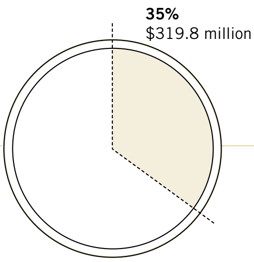
INTERNET PROFESSIONAL SERVICES

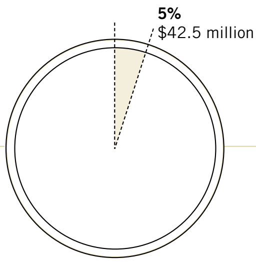
Tallán (formerly CMGI Solutions) designs and builds end-to-end strategic ebusiness solutions for Global 2000 organizations. Tallán ranks today among the top ten Internet professional services providers. With nearly 400 billable consultants, Tallán has offices in more than a dozen locations in the U.S. Annualized revenues per billable consultant as of July 31, 2000, were in excess of $300,000.

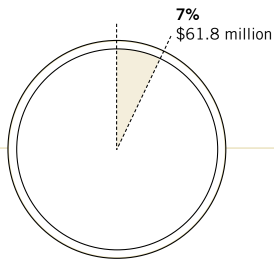
INFRASTRUCTURE AND ENABLING TECHNOLOGIES

CMGI measures progress of the companies in its Infrastructure and Enabling Technologies segment through annualized revenues per hosting customer; total managed hosting square footage; total streams delivered; total terabytes transferred; and total ISP customers and hours. Companies in this segment offer outsourced Web hosting, application services and technology platforms.

Fiscal Year 2000 Consolidated Net Revenue







Operating Companies by Segment

altavista

MyWay

icast

Tallán

cmgion

equilibrium

activate

1stUp.com

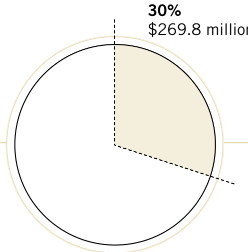
NaviSite

Exchange Path

NaviPath

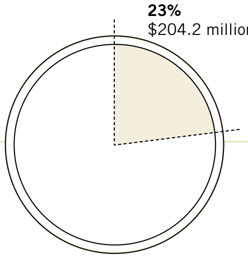
EBUSINESS AND FULFILLMENT

uBid and SalesLink make up the CMGI eBusiness and Fulfillment segment. In July 2000, it reported a total of 5.3 million unique visitors with 306,000 auction items sold. uBid, a B2B and B2C online auction marketplace, features more than 12,000 products daily. SalesLink offers product and literature fulfillment and inventory and data warehouse management. SalesLink offers exclusive fulfillment services for uBid.



INTERACTIVE MARKETING

The Interactive Marketing segment consists of Engage (Nasdaq: ENGA) and yesmail.com. Engage, with operations throughout North America, Europe and Asia, offers software products and services that help marketers identify, target and monetize audiences precisely. yesmail.com has more than doubled its membership base since December 1999 and is expanding at a rate of more than 1 million new members per month.



VENTURE CAPITAL

CMGI @Ventures represents CMGI's Venture Capital segment, actively investing in Internet and emerging technology companies that have the potential to change the way the world communicates, learns and conducts business. Since its inception in 1995 and through July 31, 2000, CMGI @Ventures has posted a total return for investments that have achieved liquidity events of 3,357%.

uBid

engage

cmgi @ventures

SalesLink

yesmail.com

Signatures Network

Financial table of contents

Selected Consolidated Financial Data

The following table sets forth selected consolidated financial information of the Company for the five years in the period ended July 31, 2000. The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Results of Operations" and the Company's consolidated financial statements and notes to those statements included elsewhere in this report. The following consolidated financial data includes the results of operations (from dates of acquisition) of the Company's fiscal 1997 acquisition of Pacific Direct Marketing Corporation, the fiscal 1998 acquisitions of Accipiter, Inc., InSolutions, Inc., Servercast Communications, LLC and On-Demand Solutions, Inc., the fiscal 1999 acquisitions of Magnitude Network, Inc., 2CAN Media, Inc., Internet Profiles Corporation, Activerse, Inc., Nascent Technologies, Inc., Netwright, LLC and Digiband, Inc. and the fiscal 2000 acquisitions AltaVista Company, AdForce, Inc., Flycast Communications Corporation, yesmail.com, inc., Tallán, Inc., uBid, Inc. and eighteen other companies. See Note 8 to the Company's consolidated financial statements for further information concerning these acquisitions. The historical results presented herein are not necessarily indicative of future results.

(in thousands, except per share data) Years ended July 31,	**2000**	1999	1998	1997	1996
Consolidated Statement of Operations Data:					
Net revenue	**$ 898,050**	$ 186,389	$ 92,197	$ 67,306	$ 20,873
Cost of revenue	**737,264**	179,553	83,021	42,116	14,353
Research and development expenses	**153,974**	22,253	19,108	17,767	5,412
In-process research and development expenses	**65,683**	6,061	10,325	1,312	2,691
Selling, general and administrative expenses	**694,056**	89,054	46,909	45,777	16,812
Amortization of intangible assets and stock-based compensation	**1,436,880**	16,127	3,093	1,254	—
Operating loss	**(2,189,807)**	(126,659)	(70,259)	(40,920)	(18,395)
Interest income (expense), net	**(15,096)**	269	(870)	1,749	2,691
Gains on issuance of stock by subsidiaries and affiliates	**80,387**	130,729	46,285	—	19,575
Other gains, net	**525,265**	758,312	96,562	27,140	30,049
Other income (expense), net	**113,385**	(13,406)	(12,899)	(769)	(746)
Income tax benefit (expense)	**121,173**	(325,402)	(31,555)	(2,034)	(17,566)
Income (loss) from continuing operations	**(1,364,693)**	423,843	27,264	(14,834)	15,608
Discontinued operations, net of income taxes	**—**	52,397	4,640	(7,193)	(1,286)
Net income (loss)	**(1,364,693)**	476,240	31,904	(22,027)	14,322
Preferred stock accretion and amortization of discount	**(11,223)**	(1,662)	—	—	—
Net income (loss) available to common stockholders	**$(1,375,916)**	$ 474,578	$ 31,904	$ (22,027)	$ 14,322
Diluted earnings (loss) per share:					
Earnings (loss) from continuing operations	**$ (5.26)**	$ 2.05	$ 0.15	$ (0.10)	$ 0.10
Discontinued operations	**—**	0.25	0.03	(0.05)	(0.01)
Net earnings (loss)	**$ (5.26)**	$ 2.30	$ 0.18	$ (0.15)	$ 0.09
Shares used in computing diluted earnings (loss) per share	**261,555**	206,832	180,120	150,864	154,912
Consolidated Balance Sheet Data:					
Working capital	**$ 1,110,105**	$1,381,005	$ 12,784	$ 38,554	$ 72,009
Total assets	**8,557,107**	2,404,594	259,818	146,248	106,105
Long-term obligations	**278,968**	34,867	5,801	16,754	514
Redeemable preferred stock	**383,140**	411,283	—	—	—
Stockholders' equity	**6,190,182**	1,062,461	133,136	29,448	53,992

Management's Discussion & Analysis of Financial Condition & Results of Operations

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, and Section 27A of the Securities Act of 1933, as amended, that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed below in "Factors That May Affect Future Results," and elsewhere in this report, and the risks discussed in the Company's other filings with the SEC. 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.

Basis of Presentation

Certain amounts for prior periods in the accompanying consolidated financial statements, and in the discussion below, have been reclassified to conform with current period presentations.

Overview

CMGI, Inc. and its consolidated subsidiaries, (CMGI or the Company) develop and operate a network of Internet companies. The Company's subsidiaries have been classified in the following five operating segments: i) Interactive Marketing, ii) eBusiness and Fulfillment, iii) Search and Portals, iv) Infrastructure and Enabling Technologies, and v) Internet Professional Services. CMGI also manages several venture capital funds that focus on investing in companies involved in various aspects of the Internet and technology. CMGI's business strategy includes the internal development and operation of majority-owned subsidiaries as well as taking strategic positions in other Internet companies that have demonstrated synergies with CMGI's core businesses. The Company's strategy also envisions and promotes opportunities for synergistic business relationships among its companies.

At July 31, 2000, CMGI's majority-owned subsidiaries by segment were:

The Company's Interactive Marketing segment subsidiaries provide a portfolio of online marketing products including enterprise-wide promotion management, profiling and ad serving software, media, media management and analytics and included AdForce, LLC (AdForce), which CMGI contributed to CMGion, Inc. (CMGion) on October 11, 2000, Engage, Inc. (Engage) and yesmail.com, inc. (yesmail.com). AdForce provides centralized advertising management services for the Internet, wireless services and broadband services; Engage offers an array of software products and services that enables marketers to identify and target precise online audiences; and yesmail.com provides comprehensive permission-based email marketing technologies and services.

The eBusiness and Fulfillment segment subsidiaries provide services across the entire ebusiness value chain to sell and deliver goods from the manufacturer to the customer and included SalesLink Corporation (SalesLink) and uBid, Inc. (uBid). SalesLink is a provider of integrated solutions for supply chain management, end-to-end ebusiness and fulfillment services. uBid is a business-to-consumer and business-to-business online auction marketplace.

The Search and Portals segment subsidiaries provide services and content which connect Internet users to information and entertainment and included AltaVista Company (AltaVista), iCAST Corporation (iCAST) and MyWay.com Corporation (MyWay.com). AltaVista is an Internet search, news media and commerce network that delivers personalized, relevant information and ecommerce services to millions of users worldwide; iCAST is a multimedia online entertainment community and personal publishing network; MyWay.com is a developer and distributor of custom portal services.

The Infrastructure and Enabling Technologies segment subsidiaries provide products and services essential to business operations on the Internet, including outsourced managed applications, private-label Internet access and technology platforms and included 1stUp.com Corporation (1stUp), Activate.net Corporation (Activate), CMGion, Equilibrium Technologies, Inc. (Equilibrium), ExchangePath, LLC (ExchangePath), NaviPath, Inc. (NaviPath, formerly NaviNet, Inc.), NaviSite, Inc. (NaviSite) and Tribal Voice, Inc. (Tribal Voice) which CMGI contributed to CMGion on September 15, 2000. 1stUp enables companies to offer private-label Internet access services to their customers; Activate is a provider of Internet broadcasting services to companies worldwide; CMGion is planning to develop applications and services that will optimize the speed, consistency and reliability of delivery of Internet content and commerce over various access technologies; Equilibrium provides automated media infrastructure solutions for the Internet; ExchangePath offers a multi-functional integrated solution for online payment transactions; NaviPath provides private label Internet access solutions through an integrated network and systems architecture, enabling businesses to expand their reach to customers, employees and partners; NaviSite, which completed its IPO during October 1999, provides outsourced Web hosting and application services for companies conducting mission-critical business on the Internet; Tribal Voice provides instant messaging, time sensitive notification and online presence detection services.

The Internet Professional Services segment subsidiaries provide applications strategy, development, design, and implementation services for companies seeking to initiate, enhance or redirect their presence on the Internet and included CMGI Solutions, Inc. (CMGI Solutions), Tallán, Inc. (Tallán) and Clara Vista Corporation (Clara Vista). CMGI Solutions, Tallán and Clara Vista provide ebusiness solutions utilizing flexible and scalable applications, tools, platforms and languages.

The Company's first Internet venture fund, CMG@Ventures I, LLC (CMG@Ventures I) was formed in February 1996. The Company owns 100% of the capital and is entitled to approximately 77.5% of the net capital gains of CMG@Ventures I. The Company's second Internet venture fund, CMG@Ventures II, LLC (CMG@Ventures II), was formed during fiscal year 1997. The Company owns 100% of the capital and is entitled to 80% of the net capital gains of CMG@Ventures II. At July 31, 2000, CMG@Ventures I and CMG@Ventures II held minority investments in six privately-held companies and the securities of twelve publicly-traded companies.

In fiscal year 1999, CMGI announced the formation of the @Ventures III venture capital fund (@Ventures III Fund). The @Ventures III Fund secured capital commitments from outside investors and CMGI, to be invested in emerging Internet and technology companies. 78.1% of amounts committed to the @Ventures III Fund are provided through two entities, @Ventures III, L.P. and @Ventures Foreign Fund III, L.P. CMGI does not have a direct ownership interest in either of these entities, but CMGI is entitled to 2% of the net capital gains realized by both entities. Management of these entities is the responsibility of @Ventures Partners III, LLC (@Ventures Partners III). The Company has committed to contribute up to $56 million to its limited liability company subsidiary, CMG@Ventures III, LLC (CMG@Ventures III), equal to 19.9% of total amounts committed to the @Ventures III Fund, of which approximately $49.9 million has been funded as of July 31, 2000. CMG@Ventures III will take strategic positions side by side with the @Ventures III Fund. CMGI owns 100% of the capital and is entitled to 80% of the net capital gains realized by CMG@Ventures III. @Ventures Partners III is entitled to the remaining 20% of the net capital gains realized by CMG@Ventures III. The remaining 2% committed to the @Ventures III Fund is provided by a fourth entity, @Ventures Investors, LLC, in which CMGI has no ownership. During fiscal year 2000, CMGI formed an expansion fund to the @Ventures III Fund to provide follow-on financing to existing @Ventures III Fund investee companies, pursuant to which CMGI's commitment increased by $38.2 million through its limited liability company subsidiary CMG@Ventures Expansion, LLC (CMG@Ventures Expansion) of which approximately $9.3 million was funded as of July 31, 2000. At July 31, 2000, CMG@Ventures III and CMG@Ventures Expansion held minority investments in thirty-one privately-held companies.

In fiscal year 2000, CMGI announced the formation of three new venture capital funds including: CMGI@Ventures IV, LLC (CMGI@Ventures IV), CMGI@Ventures B2B, LLC (B2B Fund) and CMGI@Ventures Technology Fund, LLC (Tech Fund). CMGI owns 100% of the capital and is entitled to 80% of the net capital gains realized by CMGI@Ventures IV, the B2B Fund and the Tech Fund. In September 2000, CMGI announced that it will be merging CMGI@Ventures IV, the B2B Fund and the Tech Fund into a single evergreen fund called CMGI@Ventures IV, LLC. Approximately $221.2 million has been invested by these funds as of July 31, 2000. At July 31, 2000, CMGI@Ventures IV, the B2B Fund and the Tech Fund held minority investments in eighteen privately-held companies and the securities of one publicly-traded company.

The Company has adopted a strategy of seeking opportunities to realize gains through the selective sale of investments or having separate subsidiaries or affiliates sell minority interests to outside investors. The Company believes that this strategy provides the ability to increase stockholder value as well as provide capital to support the growth in the Company's subsidiaries and investments.The Company expects to continue to develop and refine the products and services of its businesses, with the goal of increasing revenue as new products are commercially introduced, and to continue to pursue the acquisition of or the investment in additional companies.

Results of Operations

Fiscal 2000 Compared to Fiscal 1999

Net Revenue:

(in thousands)	2000	As a % of FY 2000 Total Net Revenue	1999	As a % of FY 1999 Total Net Revenue	2000 vs. 1999	% Change
Interactive Marketing	**$204,179**	**23%**	$ 26,830	14%	$177,349	661%
eBusiness and Fulfillment	**269,765**	**30%**	145,094	78%	124,671	86%
Search and Portals	**319,819**	**35%**	8,238	5%	311,581	3,782%
Infrastructure and Enabling Technologies	**61,789**	**7%**	6,101	3%	55,688	913%
Internet Professional Services	**42,498**	**5%**	126	—	42,372	33,629%
Total	**$898,050**	**100%**	$186,389	100%	$711,661	382%

Net revenue increased $711.7 million, or 382%, to $898.1 million for fiscal year 2000 from $186.4 million for fiscal year 1999. The increase was largely a result of acquisitions and increased net revenue growth at existing companies during fiscal year 2000. The fiscal year 2000 acquisitions accounted for approximately 78% of the net revenue increase. The increase in net revenue within the Interactive Marketing segment was primarily the result of the acquisitions of AdForce, AdKnowledge, Inc., Flycast Communications Corporation (Flycast) and yesmail.com during fiscal year 2000 and increased net revenue from Engage due to an approximately $13 million transaction with Compaq Computer Corporation (Compaq), an affiliate of CMGI, and the continued expansion of Engage's customer base. The increase in net revenue within the eBusiness and Fulfillment segment was primarily the result of the acquisition of uBid during fiscal year 2000 and increased volume of turnkey business from Cisco Systems, Inc. (Cisco) at SalesLink. The increase in net revenue within the Search and Portals segment was primarily the result of the acquisitions of AltaVista and Signatures Network, Inc. (Signatures Network), during fiscal year 2000. The increase in net revenue within the Infrastructure and Enabling Technologies segment was primarily the result of increased net revenue from NaviSite and NaviPath and the acquisitions of Activate and 1stUp during fiscal year 2000. The increase in net revenue for NaviSite was primarily due to the growth in its customer base facilitated by the build-out of its data center facilities. The increase in net revenue for NaviPath during fiscal year 2000 primarily related to the growth in users due to the expansion of its network coverage across the United States and Canada. The increase in net revenue within the Internet Professional Services segment was primarily the result of the acquisition of Tallán during fiscal year 2000. As a result of both increased net revenue from existing companies and the impact of including a full year of net revenue for companies acquired during fiscal year 2000, the Company expects to report future net revenue growth in each of the five operating segments.

Cost of Revenue:

(in thousands)	2000	% of 2000 Segment Net Revenue	1999	% of 1999 Segment Net Revenue	2000 vs. 1999	% Change
Interactive Marketing	**$139,866**	**69%**	$ 20,866	78%	$119,000	570%
eBusiness and Fulfillment	**228,755**	**85%**	122,728	85%	106,027	86%
Search and Portals	**193,295**	**60%**	10,041	121%	183,254	1,825%
Infrastructure and Enabling Technologies	**142,409**	**230%**	25,827	423%	116,582	451%
Internet Professional Services	**32,939**	**79%**	91	72%	32,848	36,097%
Total	**$737,264**	**82%**	$179,553	96%	$557,711	311%

Cost of revenue increased $557.7 million, or 311%, to $737.3 million for fiscal year 2000 from $179.6 million for fiscal year 1999. Cost of revenue consisted primarily of expenses related to the content, connectivity and production associated with delivering the Company's products and services. The increase was largely attributable to the increased net revenue due to acquisitions and the acceleration of operations at existing companies across each of the Company's five operating segments during fiscal year 2000. The fiscal year 2000 acquisitions accounted for approximately 66% of the increase in cost of revenue. Cost of revenue as a percentage of net revenue for the Company decreased to 82% for fiscal year ended 2000 from 96% for the prior fiscal year primarily as a result of the substantial net revenue increases across each of the five operating segments and the impact of companies acquired.

Research and Development Expenses:

(in thousands)	2000	% of 2000 Segment Net Revenue	1999	% of 1999 Segment Net Revenue	2000 vs. 1999	% Change
Interactive Marketing	**$ 40,106**	**20%**	$ 8,699	32%	$ 31,407	361%
eBusiness and Fulfillment	**—**	**—**	—	—	—	N/A
Search and Portals	**92,276**	**30%**	10,694	130%	81,582	763%
Infrastructure and Enabling Technologies	**18,607**	**30%**	2,709	44%	15,898	587%
Internet Professional Services	**2,985**	**7%**	151	120%	2,834	1,877%
Total	**$153,974**	**17%**	$22,253	12%	$131,721	592%

Research and development expenses increased $131.7 million, or 592%, to $154.0 million for fiscal year 2000 from $22.3 million for fiscal year 1999. Research and development expenses consisted primarily of personnel and related costs to design, develop, enhance, test and deploy the Company's product and service efforts either prior to the development effort reaching technological feasibility or once the product had reached the maintenance phase of its life cycle. Research and development expenses as a percentage of net revenue increased during fiscal year 2000 primarily due to acquisitions and increased research and development efforts at existing companies. The fiscal year 2000 acquisitions accounted for approximately 75% of the increase in research and development expenses. The increase within the Interactive Marketing segment was primarily the result of the acquisitions of AdForce, AdKnowledge, Flycast and yesmail.com during fiscal year 2000 and increased development efforts at Engage. The increase within the Search and Portals segment was primarily the result of the acquisition of AltaVista during fiscal year 2000 and the increased development efforts at iCAST and MyWay.com. The increase in the Infrastructure and Enabling Technologies segment was primarily the result of the acquisitions of Activate, Equilibrium, ExchangePath, 1stUp and Tribal Voice during fiscal year 2000 and increased development efforts at NaviSite. The increase within the Internet Professional Services segment was primarily the result of increased development efforts at CMGI Solutions during fiscal year 2000. The Company believes that significant investments in research and development are required to remain competitive. Consequently, the Company anticipates it will continue to devote substantial resources to research and development efforts and that these costs may substantially increase in absolute dollars in future periods.

In-Process Research and Development Expenses:

(in thousands)	2000	% of 2000 Segment Net Revenue	1999	% of 1999 Segment Net Revenue	2000 vs. 1999	% Change
Interactive Marketing	**$59,417**	**29%**	$4,500	17%	$54,917	1,220.4%
eBusiness and Fulfillment	**—**	**—**	—	—	—	N/A
Search and Portals	**—**	**—**	551	7%	(551)	–100.0%
Infrastructure and Enabling Technologies	**5,020**	**8%**	—	—	5,020	N/A
Internet Professional Services	**—**	**—**	1,010	801%	(1,010)	–100.0%
Other	**1,246**	**—**	—	—	1,246	N/A
Total	**$65,683**	**7%**	$6,061	3%	$59,622	984%

In-process research and development expenses increased $59.6 million, or 984%, to $65.7 million for fiscal year 2000 from $6.1 million for fiscal year 1999. The increase in fiscal year 2000 in-process research and development expenses was the result of the acquisitions of AdForce, AdKnowledge, ExchangePath, Equilibrium, Flycast and yesmail.com and the Company's investment in AnswerLogic, Inc. (See further discussion in "In-process Research and Development Expense" below).

Selling Expenses:

(in thousands)	2000	% of 2000 Segment Net Revenue	1999	% of 1999 Segment Net Revenue	2000 vs. 1999	% Change
Interactive Marketing	**$117,100**	**57%**	$19,368	72%	$ 97,732	505%
eBusiness and Fulfillment	**15,001**	**6%**	3,300	2%	11,701	355%
Search and Portals	**281,525**	**88%**	11,849	144%	269,676	2,276%
Infrastructure and Enabling Technologies	**48,123**	**78%**	9,119	150%	39,004	428%
Internet Professional Services	**7,112**	**17%**	76	60%	7,036	9,258%
Other	**6,580**	**—**	1,793	—	4,787	267%
Total	**$475,441**	**53%**	$45,505	24%	$429,936	945%

Selling expenses increased $429.9 million, or 945%, to $475.4 million for fiscal year 2000 from $45.5 million for fiscal year 1999. Selling expenses consisted primarily of advertising and other general marketing related expenses, compensation and employee-related expenses, sales commissions, facilities costs, trade show expenses and travel costs. Selling expenses increased as a percentage of net revenue during fiscal year 2000 primarily due to acquisitions and the continued growth of the sales and marketing efforts related to product launches and infrastructure at existing companies. The fiscal year 2000 acquisitions accounted for approximately 76% of the increase in selling expenses. The increase within the Interactive Marketing segment was primarily the result of the acquisitions of AdForce, AdKnowledge, Flycast and yesmail.com during fiscal year 2000 and increased sales and marketing efforts at Engage. The increase within the Search and Portals segment was primarily the result of the acquisition of AltaVista during fiscal year 2000 and the increased sales and marketing efforts related to new product launches and infrastructure at iCAST and MyWay.com. During fiscal year 2000, AltaVista incurred approximately $110.7 million in advertising costs which primarily related to a print and media advertising campaign. Also included in the increase in Search and Portals was approximately $12.3 million related to a one-time restructuring charge incurred by AltaVista primarily related to the renegotiation of a contract with DoubleClick, Inc. The increase in the Infrastructure and Enabling Technologies segment was primarily the result of the acquisitions of Activate, Equilibrium, ExchangePath, 1stUp and Tribal

Voice during fiscal year 2000 and increased sales and marketing efforts at NaviSite and NaviPath. The increase within the Internet Professional Services segment was primarily the result of increased sales and marketing efforts at CMGI Solutions during fiscal year 2000 and the acquisition of Tallán. The Company anticipates that its sales and marketing expenses will increase in absolute dollars in fiscal year 2001 as a result of reflecting a full year of expenses for companies acquired during fiscal year 2000. Such costs are also expected to increase in future periods as the Company continues to create brand awareness for each of the existing companies' products and services and as it continues to expand its international operations.

General and Administrative Expenses:

(in thousands)	2000	% of 2000 Segment Net Revenue	1999	% of 1999 Segment Net Revenue	2000 vs. 1999	% Change
Interactive Marketing	**$ 40,783**	**20%**	$ 6,003	22%	$ 34,780	579%
eBusiness and Fulfillment	**20,366**	**8%**	10,739	7%	9,627	90%
Search and Portals	**57,998**	**18%**	9,557	116%	48,441	507%
Infrastructure and Enabling Technologies	**39,101**	**63%**	6,189	101%	32,912	532%
Internet Professional Services	**13,257**	**31%**	708	18%	12,549	1,773%
Other	**47,110**	**—**	10,353	—	36,757	355%
Total	**$218,615**	**24%**	$43,549	23%	$175,066	402%

General and administrative expenses increased $175.1 million, or 402%, to $218.6 million for fiscal year 2000 from $43.5 million for fiscal year 1999. General and administrative expenses consist primarily of compensation, facilities costs and fees for professional services. General and administrative expenses increased slightly as a percentage of net revenue during fiscal year 2000 primarily due to acquisitions and the building of management infrastructure at the corporate level and at several of the Company's existing subsidiaries. The fiscal year 2000 acquisitions accounted for approximately 48% of the increase in general and administrative expenses. The increase in the Interactive Marketing segment was primarily the result of the acquisitions of AdKnowledge, AdForce, Flycast and yesmail.com during fiscal year 2000 and the continued building of management infrastructure at Engage. Approximately $5.0 million of the increase in the Interactive Marketing segment specifically related to acquisition costs incurred by Engage related to its acquisition of Adsmart Corporation (Adsmart) and Flycast from CMGI. The increase in the eBusiness and Fulfillment segment was primarily the result of the acquisition of uBid during fiscal year 2000 and the building of management infrastructure at SalesLink. The increase in the Search and Portals segment was primarily the result of the acquisitions of AltaVista and Signatures Network during fiscal year 2000. The increase in the Infrastructure and Enabling Technologies segment was primarily due to the acquisitions of Activate, Equilibrium, ExchangePath, 1stUp and Tribal Voice during fiscal year 2000 and the building of management infrastructure at NaviSite and NaviPath. The increase in the Internet Professional Services segment was primarily the result of the acquisition of Tallán. The increase in the Other expenses, which includes certain administrative functions such as legal, finance and business development which are not fully allocated to CMGI's subsidiary companies, was primarily the result of the growth of CMGI's corporate infrastructure including higher personnel costs due to increased headcount, increased professional fees and facilities costs. The Company anticipates that its general and administrative expenses will increase in absolute dollars in future periods as it continues to expand its international operations and as a result of reflecting a full year of expenses in fiscal year 2001 for companies acquired during fiscal year 2000.

Amortization of Intangible Assets and Stock-Based Compensation:

(in thousands)	2000	% of 2000 Segment Net Revenue	1999	% of 1999 Segment Net Revenue	2000 vs. 1999	% Change
Interactive Marketing	**$ 417,115**	**46%**	$ 9,872	37%	$ 407,243	4,125%
eBusiness and Fulfillment	**38,759**	**4%**	2,705	2%	36,054	1,333%
Search and Portals	**839,341**	**262%**	2,230	27%	837,111	37,539%
Infrastructure and Enabling Technologies	**71,724**	**116%**	—	—	71,724	N/A
Internet Professional Services	**69,725**	**164%**	1,320	1,047%	68,405	5,182%
Other	**216**	**—**	—	—	216	N/A
Total	**$1,436,880**	**160%**	$16,127	9%	$1,420,753	8,810%

Amortization of intangible assets and stock-based compensation increased $1.42 billion, or 8,810%, to $1.44 billion for fiscal year 2000 from $16.1 million for fiscal year 1999. Amortization of intangible assets and stock-based compensation consisted primarily of goodwill amortization expense related to acquisitions during fiscal year 2000. The fiscal year 2000 acquisitions accounted for approximately 93% of the increase in amortization of intangible assets and stock-based compensation. The intangible assets recorded as a result of the fiscal 2000 acquisitions are being amortized over periods ranging from two to five years. Included within amortization of intangible assets and stock-based compensation expenses was approximately $80.9 million and $1.5 million of stock-based compensation for fiscal years 2000 and 1999, respectively. Approximately $36.6 million of the $80.9 million fiscal 2000 amortization of stock-based compensation expense was related to the acceleration of the vesting of options to purchase approximately 323,000 shares of CMGI stock previously issued to former executives of Flycast under pre-existing severance agreements. Also included within the amortization of intangible assets and stock-based compensation was approximately $34.2 million of impairment of long-lived assets charges associated with goodwill previously recorded by the Company as a result of management's ongoing business review and impairment analysis performed under its existing policy. The significant components of this balance include an impairment charge of $13.3 million related to the closing of operations at Activerse and a net impairment charge of approximately $11.8 million related to Magnitude Network. It is reasonably possible that the impairment factors evaluated by management will change in subsequent periods, given that the Company operates in a volatile business environment. This could result in material impairment charges in future periods. The increase in the Interactive Marketing segment was primarily the result of the acquisitions of AdKnowledge, AdForce, Flycast and yesmail.com during fiscal year 2000. The increase in the eBusiness and Fulfillment segment was primarily the result of the acquisition of uBid during fiscal year 2000. The increase in the Search and Portals segment was primarily the result of the acquisitions of AltaVista and Signatures Network during fiscal year 2000. Intangible assets related to the AltaVista acquisition are being amortized primarily over a three year period. The increase in the Infrastructure and Enabling Technologies segment was primarily the result of the acquisitions of Activate, Equilibrium, ExchangePath, 1stUp and Tribal Voice during fiscal year 2000. The increase in the Internet Professional Services segment was primarily the result of the acquisition of Tallán during fiscal year 2000.

Other Income/Expense:

Gains on issuance of stock by subsidiaries and affiliates decreased $50.3 million, or 39%, to $80.4 million for fiscal year 2000 from $130.7 million for fiscal year 1999. Gains on the issuance of stock for fiscal year 2000 primarily related to a pre-tax gain of approximately $51.9 million on the issuance of stock by NaviSite and a pre-tax gain of approximately $20.9 million on the issuance of stock by Vicinity Corporation (Vicinity) primarily as a result of each company's respective initial public offerings. Gains on issuance of stock by subsidiaries and affiliates for fiscal year 1999 included a pre-tax gain of approximately $81.1 million on the issuance of stock by Engage in its initial public offering, a pre-tax gain of approximately $20.3 million on issuance of stock by Lycos, Inc. (Lycos) and a pre-tax gain of approximately $29.4 million on issuance of stock by GeoCities.

Other gains, net decreased $233.0 million, or 31%, to $525.3 million for fiscal 2000 from $758.3 million for fiscal 1999. Other gains, net for fiscal 2000 primarily consisted of a pre-tax gain of approximately $499.5 million on the sale of Yahoo! Inc. (Yahoo!) common stock and a pre-tax gain of approximately $53.6 million on the acquisition of Half.com, Inc. (Half.com) by eBay, Inc. (eBay), partially offset by a pre-tax loss of $35.0 million on the write-down of the Company's Marketing Services Group, Inc. (MSGI) common stock under the provisions of Financial Accounting Standards Board Statement No. 115, *"Accounting for Certain Investments in Debt and Equity Securities."* Other gains, net for fiscal 1999 consisted primarily of pre-tax gains of approximately $661.2 million on the conversion of the Company's GeoCities investment to Yahoo! common stock, $45.5 million on the sale of Lycos common stock, $23.2 million on the sale of the Company's investment in Reel.com, and $19.1 million on the sale of the Company's investment in Sage Enterprises, Inc.

Interest income increased $36.9 million to $41.5 million for fiscal 2000 from $4.6 million for fiscal 1999, reflecting increased interest income associated with higher average corporate cash equivalent balances compared with the prior year and interest income earned by Engage and NaviSite on cash raised from their initial public offerings. Interest expense increased $52.2 million to $56.6 million for fiscal 2000 from $4.4 million for fiscal 1999, primarily due to approximately $596.9 million in notes issued as part of the AltaVista and Tallán acquisitions.

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 increased $32.6 million to $51.9 million for fiscal year 2000, from $15.7 million for fiscal 1999, primarily reflecting an increased level of investment activity by the Company during fiscal 2000. Equity in losses of affiliates for fiscal 2000 included the results from the Company's minority ownership in AnswerLogic, Inc., BizBuyer.com, Inc., Boatscape, Inc., CarParts.com, Inc., Corrigo, Inc., Domania.com, Inc., eCircles Corporation, Engage Technologies Japan (until June 2000 when Engage's ownership increased above 50%) Ensera, Inc. (formerly buyersedge.com), EXP.com, Inc., FindLaw, Inc., FoodBuy.com, Inc., GXMedia, Half.com (until July 2000 when the Company's investment was converted into shares of eBay), HotLinks Network, Inc., Idapta,Inc. (formerly Intelligent/Digital, Inc.), IronMax.com, Inc., KnowledgeFirst, Inc., MyFamily.com, Inc., NameTree Corporation, NextMonet.com, Inc., NextOffice.com, Inc., Oncology.com, Inc., OneCore Financial Network, Inc., PlanetOutdoors.com, Inc., Productopia, Inc., Radiate, Inc. (formerly Aureate Media Corporation), ThingWorld.com LLC, Vicinity, Virtual Ink Corporation, and WebCT, Inc. Equity in losses of affiliates for fiscal 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 (until May 1999 when GeoCities investment was converted into Yahoo! common stock), ThingWorld.com LLC, Silknet Software, Inc. (until its initial public offering in May 1999), Speech Machines plc, MotherNature.com, Inc., Engage Technologies Japan, Magnitude Network (until February 1999 when the Company's ownership in Magnitude Network increased above 50%) and Web CT, Inc. 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.

Minority interest increased to $165.3 million for fiscal 2000 from $2.3 million for fiscal 1999, primarily reflecting minority interest in net losses of four subsidiaries during fiscal 2000, including AltaVista, Engage, MyWay.com and NaviSite compared to $2.3 million for fiscal year 1999.

The Company's effective tax rates for fiscal 2000 and 1999 were 8% and 43%, respectively. The Company's effective tax rate differs materially from the federal statutory rate primarily due to valuation allowances provided on certain deferred tax assets, the provision for state income taxes, and non-deductible goodwill amortization and in-process research and development charges.

Fiscal 1999 Compared Fiscal 1998

Net Revenue:

(in thousands)	1999	As a % of FY 1999 Total Net Revenue	1998	As a % of FY 1998 Total Net Revenue	1999 vs. 1998	% Change
Interactive Marketing	$ 26,830	14%	$ 2,685	3%	$24,145	899%
eBusiness and Fulfillment	145,094	78%	73,488	80%	71,606	97%
Search and Portals	8,238	5%	15,568	17%	(7,330)	(47%)
Infrastructure and Enabling Technologies	6,101	3%	456	—	5,645	1,238%
Internet Professional Services	126	—	—	—	126	N/A
Total	$186,389	100%	$92,197	100%	$94,192	102%

Net revenue increased $94.2 million, or 102%, to $186.4 million for fiscal year 1999 from $92.2 million for fiscal year 1998. The increase was largely attributable to increases within the Interactive Marketing and eBusiness and Fulfillment segments, as a result of acquisitions and increased net revenue growth at existing companies during fiscal year 1999. The increase in net revenue within the Interactive Marketing segment was primarily the result of the acquisitions of Internet Profiles Corporation (I/PRO) and 2CAN Media Inc. (2CAN) as well as a full year's impact of the acquisition of Accipiter, Inc. (Accipiter) in April of 1998. The increase in net revenue in the eBusiness and Fulfillment segment was primarily the result of increased volume of turnkey business from Cisco and a full year's impact of the acquisitions of On-Demand Solutions, Inc. (On-Demand Solutions) and InSolutions, Inc. (InSolutions) in fiscal 1998. The decrease in net revenue within the Search and Portals segment was a result of deconsolidating Lycos in the second quarter of fiscal year 1998 and Vicinity in the first quarter of fiscal year 1999. Lycos and Vicinity represented approximately $9.3 million and $4.8 million, respectively, of the Search and Portals segment net revenue for fiscal year 1998. Absent the impact of Lycos and Vicinity, net revenue in the Search and Portals segment increased approximately $5.2 million in fiscal year 1999. The increase in the Infrastructure and Enabling Technologies segment was primarily due to an increase in net revenue at NaviSite which resulted from an increase in its customer base during fiscal 1999.

Cost of Revenue:

(in thousands)	1999	% of 1999 Segment Net Revenue	1998	% of 1998 Segment Net Revenue	1999 vs. 1998	% Change
Interactive Marketing	$ 20,866	78%	$ 5,870	219%	$14,996	256%
eBusiness and Fulfillment	122,728	85%	63,315	86%	59,413	94%
Search and Portals	10,041	121%	8,319	53%	1,722	21%
Infrastructure and Enabling Technologies	25,827	423%	5,517	12,099%	20,310	368%
Internet Professional Services	91	72%	—	—	91	N/A
Total	$179,553	96%	$83,021	90%	$96,532	116%

Cost of revenue increased $96.5 million, or 116%, to $179.6 million for fiscal year 1999 from $83.0 million for fiscal year 1998. Cost of revenue consisted primarily of expenses related to the content, connectivity and production associated with delivering the Company's products and services. The increase was primarily attributable to higher net revenue, the acceleration of operations in each of the segments and the impact of acquisitions, partially offset by lower cost of revenue resulting from deconsolidating Lycos beginning in the second quarter of fiscal 1998 and deconsolidating Vicinity beginning in the second quarter of fiscal 1999. The primary reason that cost of revenue as a percentage of net revenue increased to 96% in fiscal 1999 from 90% in the prior year related to the effects of the start up of operations with minimal associated net revenue during early stages across each of the Company's segments, and the impact of deconsolidating Lycos and Vicinity.

Research and Development Expenses:

(in thousands)	1999	% of 1999 Segment Net Revenue	1998	% of 1998 Segment Net Revenue	1999 vs. 1998	% Change
Interactive Marketing	$ 8,699	32%	$ 6,120	228%	$2,579	42%
eBusiness and Fulfillment	—	—	—	—	—	N/A
Search and Portals	10,694	130%	11,181	72%	(487)	(4%)
Infrastructure and Enabling Technologies	2,709	44%	1,807	396%	902	50%
Internet Professional Services	151	120%	—	—	151	N/A
Total	$22,253	12%	$19,108	21%	$3,145	17%

Research and development expenses increased $3.2 million, or 17%, to $22.3 million for fiscal 1999 from $19.1 million for fiscal 1998. Research and development expenses consisted primarily of personnel and related costs to design, develop, enhance, test and deploy the Company's product and service efforts either prior to the development effort reaching technological feasibility or once the product had reached the maintenance phase of its life cycle. Research and development expenses as a percentage of net revenue decreased during fiscal 1999 primarily due to the impact of deconsolidating Lycos and Vicinity. The increase within the Interactive Marketing segment was primarily the result of increased development efforts at Engage. The decrease within the Search and Portals segment was primarily related to deconsolidating Lycos and Vicinity offset by increased development efforts at iCAST and MyWay.com. The increase within the Infrastructure and Enabling Technologies segment was primarily the result of increased costs associated with the development of NaviPath's technology platform.

In-Process Research and Development Expenses:

(in thousands)	1999	% of 1999 Segment Net Revenue	1998	% of 1998 Segment Net Revenue	1999 vs. 1998	% Change
Interactive Marketing	$4,500	17%	$ 9,200	343%	$(4,700)	(51%)
eBusiness and Fulfillment	—	—	—	—	—	N/A
Search and Portals	551	7%	—	—	551	N/A
Infrastructure and Enabling Technologies	—	—	—	—	—	N/A
Internet Professional Services	1,010	801%	—	—	1,010	N/A
Other	—	—	1,125	—	(1,125)	(100%)
Total	$6,061	3%	$10,325	11%	$(4,264)	(41%)

In-process research and development expenses decreased $4.3 million, or 41%, to $6.0 million for fiscal 1999 from $10.3 million for fiscal 1998. In-process research and development expenses in fiscal year 1999 of $6.0 million related to the Company's acquisitions of I/PRO (Interactive Marketing segment), Magnitude Network (Search and Portals segment) and Nascent (Internet Professional Services segment). In-process research and development expenses of $10.3 million in fiscal 1998 primarily related to the Company's acquisition of Accipiter (Interactive Marketing segment). (See further discussion in "In-process Research and Development Expense" below).

Selling Expenses:

(in thousands)	1999	% of 1999 Segment Net Revenue	1998	% of 1998 Segment Net Revenue	1999 vs. 1998	% Change
Interactive Marketing	$19,368	72%	$ 6,264	233%	$13,104	209%
eBusiness and Fulfillment	3,300	2%	3,681	5%	(381)	(10%)
Search and Portals	11,849	144%	15,442	99%	(3,593)	(23%)
Infrastructure and Enabling Technologies	9,119	150%	2,807	616%	6,312	225%
Internet Professional Services	76	60%	—	—	76	N/A
Other	1,793	—	650	—	1,143	176%
Total	$45,505	24%	$28,844	31%	$16,661	58%

Selling expenses increased $16.7 million, or 58%, to $45.5 million for fiscal year 1999 from $28.8 million for fiscal year 1998. Selling expenses consisted primarily of advertising and other general marketing related expenses, compensation and employee-related expenses, sales commissions, facilities costs, trade show expenses and travel costs. Selling expenses decreased as a percentage of net revenue during fiscal year 1999 primarily due to deconsolidating Lycos and Vicinity as well as the impact of increased net revenue. The increase in the Interactive Marketing segment was primarily due to the acquisitions of 2CAN and I/PRO during fiscal 1999. The decrease in the eBusiness and Fulfillment segment was primarily related to headcount reductions at SalesLink. The decrease in the Search and Portals segment was primarily due to deconsolidating Lycos and Vicinity. The increase in the Infrastructure and Enabling Technologies segment was primarily related to the continued growth of sales and marketing infrastructure at NaviSite and NaviPath. The increase in the Other expenses was primarily related to the continued growth of corporate marketing infrastructure at CMGI's corporate level.

General and Administrative Expenses:

(in thousands)	1999	% of 1999 Segment Net Revenue	1998	% of 1998 Segment Net Revenue	1999 vs. 1998	% Change
Interactive Marketing	$ 6,003	22%	$ 2,844	106%	$ 3,159	111%
eBusiness and Fulfillment	10,739	7%	3,644	5%	7,095	195%
Search and Portals	9,557	116%	5,964	38%	3,593	60%
Infrastructure and Enabling Technologies	6,189	101%	1,559	342%	4,630	297%
Internet Professional Services	708	18%	—	—	708	N/A
Other	10,353	—	4,054	—	6,299	155%
Total	$43,549	23%	$18,065	20%	$25,484	141%

General and administrative expenses increased $25.5 million, or 141%, to $43.6 million for fiscal year 1999 from $18.1 million for fiscal 1998. General and administrative expenses consist primarily of compensation, facilities costs and fees for professional services. General and administrative expenses increased slightly as a percentage of net revenue during fiscal year 1999 primarily due to acquisitions and the building of management infrastructure at CMGI's corporate level and at several of the Company's existing subsidiaries. The increase was partially offset by reductions associated with deconsolidating Lycos and Vicinity. The increase in the Interactive Marketing segment was primarily due to the acquisitions of 2CAN and I/PRO, the full year impact of the fiscal 1998 acquisition of Accipiter and the building of management infrastructure at Engage. The increase in the eBusiness and Fulfillment segment was primarily related to the full year impact of the fiscal 1998 acquisitions of On-Demand Solutions and InSolutions. The increase in the Search and Portals segment was primarily the result of the building of management infrastructures at Blaxxun Interactive, Inc.(Blaxxun), iCAST and MyWay.com. The increase in the Infrastructure and Enabling Technologies segment was primarily related to building of the management infrastructure at NaviSite and NaviPath. The increase in Other expense, which includes certain administrative functions such as legal, finance and business development which are not fully allocated to CMGI's subsidiary companies, was primarily due to the building of infrastructure at CMGI's corporate level.

Amortization of Intangible Assets and Stock-Based Compensation:

(in thousands)	1999	% of 1999 Segment Net Revenue	1998	% of 1998 Segment Net Revenue	1999 vs. 1998	% Change
Interactive Marketing	$ 9,872	37%	$1,669	62%	$ 8,203	491%
eBusiness and Fulfillment	2,705	2%	1,177	2%	1,528	130%
Search and Portals	2,230	27%	—	—	2,230	N/A
Infrastructure and Enabling Technologies	—	—	—	—	—	N/A
Internet Professional Services	1,320	1,047%	—	—	1,320	434%
Other	—	—	247	—	(247)	(100%)
Total	$16,127	9%	$3,093	3%	$13,034	421%

Amortization of intangible assets and stock-based compensation increased $13.0 million, or 421%, to $16.1 million for fiscal year 1999 from $3.1 million for fiscal year 1998. Amortization of intangible assets and stock-based compensation consisted primarily of goodwill amortization expense related to the acquisitions during fiscal year 1999. The increase in the Interactive Marketing segment was primarily due to the acquisitions of I/PRO and 2CAN during fiscal year 1999 and a full year's impact of the acquisition of Accipiter in fiscal year 1998. The increase in the eBusiness and Fulfillment segment was primarily the result of a full year's impact of the acquisitions of On-Demand Solutions and InSolutions during fiscal year 1998. The increase in the Search and Portals segment was primarily due to the acquisition of Magnitude Network during fiscal year 1999. Included within the amortization of intangible assets and stock-based compensation expense was approximately $1.5 million and $500,000 of stock-based compensation for fiscal years 1999 and 1998, respectively.

Other Income/Expense:

Gains on issuance of stock by subsidiaries and affiliates increased $84.4 million, or 182%, to $130.7 million for fiscal 1999 from $46.3 million for fiscal year 1998. The increase is primarily due to a pre-tax gain of approximately $81.1 million on the issuance of stock by Engage in its initial public offering. Gains on issuance of stock by subsidiaries and affiliates for fiscal year 1999 also included a pre-tax gain of approximately $20.3 million on issuance of stock by Lycos and a pre-tax gain of approximately $29.4 million on issuance of stock by GeoCities. The fiscal 1998 amount represents a pre-tax gain on the issuance of stock by Lycos.

Other gains, net increased $661.7 million, or 685%, to $758.3 million for fiscal year 1999 from $96.6 million for fiscal year 1998. The increase was largely due to a pre-tax gain of $661.2 million on the conversion of the Company's GeoCities investment to Yahoo! common stock. Fiscal 1999 Other gains, net also included pre-tax gains of approximately $45.5 million on the sale of Lycos common stock, $23.2 million on the sale of the Company's investment in Reel.com and $19.1 million on the sale of the Company's investment in Sage Enterprises, Inc. Fiscal 1998 Other gains, net included pre-tax gains of approximately $92.4 million on the sale of Lycos common stock and $4.2 million on the sale of Premiere Technologies, Inc. common stock.

Interest income increased $2.2 million to $4.6 million for fiscal year 1999 from $2.4 million for fiscal year 1998, reflecting increased income associated with higher average corporate cash equivalent balances compared with the prior year, partially offset by a $540,000 decrease from deconsolidating Lycos. Interest expense increased $1.1 million to $4.4 million for fiscal year 1999 from $3.3 million for fiscal year 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 fiscal year 1999 included 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 (until May 1999 when the Company's GeoCities investment was converted into Yahoo! common stock), ThingWorld.com LLC, Silknet Software, Inc. (until May 1999 when the Company's ownership in Silknet was reduced below 20%), Speech Machines plc, MotherNature.com, Engage Technologies Japan, Magnitude Network (until February 1999 when the Company's ownership in Magnitude Network increased above 50%) and Web CT, Inc. Equity in losses of affiliates for fiscal year 1998 included the results from the Company's minority ownership in Ikonic Interactive, Inc., ThingWorld.com LLC, Silknet Software, Inc., GeoCities, Reel.com, Ventro Corporation (Ventro, formerly Chemdex Corporation), Sage Enterprises, MotherNature.com, and Speech Machines plc and the results from Lycos beginning in November 1997.

Minority interest increased to $2.3 million for fiscal year 1999 from ($28,000) for fiscal year 1998, primarily reflecting minority interest in net losses of three subsidiaries that raised outside equity financing during fiscal 1999, including Engage, Blaxxun and NaviSite.

The Company's effective tax rates for fiscal years 1999 and 1998 were 43% and 54%, respectively. The Company's effective tax rate differs materially from the federal statutory rate primarily due to valuation allowances provided on certain deferred tax assets, the provision for state income taxes, and non-deductible goodwill amortization and in-process research and development charges.

Discontinued operations, net, increased to $52.4 million for fiscal year 1999 from $4.6 million for fiscal year 1998, due primarily to the gain on the sale of CMG Direct Corporation to MSGI during the fourth quarter of fiscal 1999.

In-Process Research and Development Expense

Flycast and yesmail.com Acquisitions

During fiscal 2000, CMGI recorded in-process research and development (IPRD) charges of $65.7 million, representing purchased in-process research and development that had not reached technological feasibility and had no alternative future use. These IPRD charges related primarily to the Company's acquisitions of Flycast and yesmail.com, for total purchase consideration of approximately $897.5 million and $588.6 million, respectively. The portion of the purchase price allocated to in-process research and development for these acquisitions was $29.3 million or approximately 3.2% of the total purchase price for Flycast, and $18.5 million or approximately 3.1% of the total purchase price for yesmail.com. CMGI management was primarily responsible for estimating the fair value of purchased in-process research and development. The total consideration allocated to projects identified as IPRD has been charged to operations during fiscal 2000.

At the acquisition dates, Flycast was in the process of developing technology which would add functionality and features, and developing a new platform for its product, and yesmail.com was in the process of developing technology which would add functionality and features to expand the yesmail.com product offerings. In the case of both Flycast and yesmail.com, the IPRD had not yet reached technological feasibility, had no alternative uses, and may not have achieved commercial viability. The technological feasibility of the in-process product is established when the enterprise has completed all planning, designing, coding, and testing activities that are necessary to establish that the product can be produced to meet its design specifications including functions, features, and technical performance requirements.

At the acquisition date, management estimated that completion of the Flycast IPRD would be accomplished in May 2000. The initial development effort had commenced in late April through November 1999. At the valuation date, the new technology had not reached a completed prototype stage, although some beta testing on portions of the technology had begun. At the valuation date, the IPRD was approximately 65% complete, based on costs incurred on the IPRD through the acquisition date versus the total costs estimated to complete the project. The Flycast IPRD was substantially completed within the time originally estimated.

At the acquisition date, management estimated that completion of the yesmail.com IPRD would be accomplished in June 2000. The initial development effort had commenced in December 1999. At the valuation date, the new technology had not reached a completed prototype stage, although some beta testing on portions of the technology had begun. At the valuation date, the IPRD was approximately 40% complete, based on costs incurred on the IPRD through the acquisition date versus the total costs estimated to complete the project. The yesmail.com IPRD was substantially completed within the time originally estimated.

In the Flycast and yesmail.com acquisitions, the IPRD projects were valued using an income approach. This approach took into consideration earnings remaining after deducting from cash flows related to the in-process technology, the market rates of return on contributory assets, including assembled workforce, working capital and fixed assets. The cash flows were then discounted to present value at an appropriate rate. Discount rates were determined by an analysis of the risks associated with each of the identified intangible assets. The resulting net cash flows to which the discount rates (ranging from 25% to 30%) were applied were based on management's estimates of revenues, operating expenses and income taxes from such acquired in-process technology.

Other

During fiscal 2000, CMGI or its subsidiaries also recorded IPRD charges related to four other acquisitions, including AdForce, AdKnowledge, Equilibrium and ExchangePath, and the Company's investment in AnswerLogic. The portion of the total consideration allocated to IPRD for each of these acquisitions and investments were as follows: AdForce ($9.3 million, or approximately 1.7% of the total consideration), AdKnowledge ($2.3 million, or approximately 1.4% of the total consideration), Equilibrium ($2.6 million, or approximately 15.2% of the total consideration), ExchangePath ($2.4 million, or approximately 19.2% of the total consideration) and AnswerLogic ($1.2 million or approximately 13.3% of the total consideration). The total consideration allocated to projects identified as IPRD has been charged to operations during fiscal 2000.

During fiscal 1999, CMGI or its subsidiaries, recorded IPRD charges related to the acquisitions of I/PRO, Magnitude Network and Nascent. The portion of the total consideration allocated to IPRD for each of these acquisitions were as follows: I/PRO ($4.5 million, or approximately 14% of the total consideration), Magnitude Network ($551,000, or approximately 2% of the total consideration), and Nascent ($1.0 million or approximately 21% of the total consideration). The total consideration allocated to projects identified as IPRD was charged to operations during fiscal 1999.

During fiscal 1998, CMGI or its subsidiaries, recorded an IPRD charge related to the acquisition of Accipiter. The portion of the total consideration allocated to IPRD for the Accipiter acquisition was $9.2 million, or approximately 29% of the total consideration. The total consideration allocated to projects identified as IPRD was charged to operations during fiscal 1998.

At the acquisition dates, the projects in development for AdForce, AdKnowledge, Equilibrium, ExchangePath, AnswerLogic, I/PRO, Magnitude Network, Nascent and Accipiter, had not yet reached technological feasibility, had no alternative uses and may not have achieved commercial viability.

The value of in-process research and development for these acquisitions 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 assembled workforce, working capital and fixed assets. The cash flows are then discounted to present value at an appropriate rate. The resulting net cash flows to which the discount rates (ranging from 24.5% to 35%) were applied were based on management's estimates of revenues, operating expenses and income taxes from such acquired technology.

Liquidity and Capital Resources

Working capital at July 31, 2000 decreased to $1.1 billion compared to $1.4 billion at July 31, 1999. The $300 million decrease in working capital is attributable to the increase of approximately $500 million in notes payable, primarily related to the issuance of notes as a portion of the consideration for the Tallán acquisition, partially offset by the increase in available-for-sale securities of approximately $63 million. The Company's principal sources of capital during the twelve months ended July 31, 2000 were from the sales of Yahoo! common stock in the open market and the forward sale of Yahoo! common stock, net proceeds from the issuances of common stock, primarily by NaviSite in its initial public offering and Engage's issuance of common stock to Compaq, the conversion of the Company's investment in Half.com into eBay common stock as a result of eBay's acquisition of Half.com and net cash acquired through acquisitions of subsidiaries. The Company's principal uses of capital during the twelve months ended July 31, 2000 were approximately $763.7 million for funding of operations and $177.6 million for purchases of property and equipment.

During fiscal year 2000 the Company sold 9,092,304 shares of Yahoo! common stock, 260,000 shares of Open Market, Inc. common stock and 87,698 shares of Amazon.com, Inc. and received proceeds of approximately $1.1 billion, $9.2 million and $5.7 million, respectively. In April 2000, the Company entered into a forward sale agreement with an investment bank. The transaction hedges a portion of the Company's investment in common stock of Yahoo! Under the terms of the contract the Company agreed to deliver, at its discretion, either cash or Yahoo! common stock in three separate tranches, with maturity dates ranging from August 2000 to February 2001. Under the first tranche, which was executed in April 2000, the Company agreed to deliver 581,499 shares of Yahoo! common stock or the cash equivalent, to the investment bank in August 2000 and in exchange, received $106.4 million, or 90.75% of the fair market value of the shares on the execution date, in cash. Under the terms of the second and third tranches, both executed in May 2000, the Company agreed to deliver an additional 581,499 shares of Yahoo! common stock in November 2000 and 47,684 shares of Yahoo! common stock in February 2001 and in exchange, received $74.2 million, or 87.9% of the fair market value of the shares on the execution date, in cash. In August 2000, the Company settled the first tranche by delivering 581,499 shares of its Yahoo! common stock to the investment bank.

On October 22, 1999, NaviSite commenced its initial public offering at $7 per share, raising $69.6 million, net of issuance and other costs. In November 1999, NaviSite raised an additional $10.8 million pursuant to the exercise of the underwriters' over-allotment option. On June 13, 2000, CMGI invested $50 million in NaviSite in exchange for 980,873 shares of NaviSite's common stock. CMGI currently owns approximately 40.1 million shares of NaviSite common stock.

In July 2000, CMGI@Ventures IV's investment in Half.com was acquired by eBay. As a result of the acquisition the Company's investment in Half.com was converted into eBay common stock. Excluding shares attributable to CMGI@Ventures IV's profit partners, the carrying value of CMGI's eBay shares is $58.9 million at July 31, 2000.

During fiscal year 2000, the Company, or its subsidiaries, completed the acquisitions of 24 companies for combined consideration of approximately $6.36 billion. This consideration was in the form of CMGI and subsidiary common stock, options and warrants valued at approximately $5.69 billion, $607.2 million in notes payable, and $15.9 million in cash. Total direct acquisition costs incurred by the Company in connection with these acquisitions totaled approximately $44.0 million. The notes payable were issued in connection with the Company's acquisitions of AltaVista and Tallán. The Company issued the three-year notes in the aggregate principal amount of $220.0 million due August 2002 to Compaq as part of the consideration for the Company's acquisition of AltaVista. The Company also issued three short-term promissory notes totaling approximately $376.9 million due in September and December 2000 as consideration for the Company's acquisition of Tallán. These notes are payable in cash, CMGI common stock, or any combination thereof, at the option of CMGI.

During fiscal year 2000, the Company, through its limited liability company subsidiaries, CMG@Ventures I, CMG@Ventures II, CMG@Ventures III, CMGI@Ventures IV, the B2B Fund, the Tech Fund, and CMG@Ventures Expansion acquired initial or follow-on minority ownership interests in 47 Internet companies for a total of approximately $267.5 million. On October 29, 1999, the Company purchased 250,000 shares of Akamai Technologies, Inc. common stock at a cost of $26 per share. On March 14, 2000, the Company purchased preferred shares of divine Interventures, Inc. (divine), which were subsequently converted into 3,047,387 common shares, at a purchase price of $6 per common share. On November 29, 1999, the Company and Pacific Century CyberWorks Limited (PCCW), completed an exchange of stock. The Company received approximately 448.3 million shares of PCCW stock in exchange for approximately 8.2 million shares of the Company's common stock. On April 7, 2000, the Company and Netcentives, Inc. (Netcentives), completed an exchange of stock. The Company received approximately 1.7 million shares of Netcentives common stock in exchange for approximately 425,000 shares of the Company's common stock. On May 19, 2000, the Company and Primedia, Inc. (Primedia), completed an exchange of stock. The Company received approximately 8.0 million shares of Primedia common stock in exchange for approximately 1.5 million shares of CMGI common stock. On July 18, 2000, the Company and divine completed an exchange of stock. The Company received approximately 1.7 million shares of divine common stock in exchange for approximately 372,000 shares of CMGI common stock. The shares of stock issued and received in the aforementioned transactions are subject to restrictions on transferability for periods ranging from one to three years from dates of issuance.

During fiscal year 2000, CMGI formed an expansion fund to the @Ventures III Fund to provide follow-on financing to existing @Ventures III Fund investee companies, pursuant to which CMGI's commitment increased by $38.2 million through its limited liability company affiliate CMG@Ventures Expansion. Also during fiscal year 2000, CMGI announced the formation of three new venture capital funds including CMGI@Ventures IV, the B2B Fund and the Tech Fund. CMGI owns 100% of the capital and is entitled to 80% of the net capital gains realized by CMGI@Ventures IV, the B2B Fund and the Tech Fund. The remaining interest in the net capital gains on these investments are attributed to profit members. In September 2000, CMGI announced that it would be merging CMGI@Ventures IV, the B2B Fund and the Tech Fund into a single evergreen fund called CMGI@Ventures IV, LLC.

MotherNature.com commenced its IPO on December 9, 1999. (CMG@Ventures II currently holds 1.2 million shares of MotherNature.com common stock.) On November 4, 1999, Tickets.com, Inc. commenced its IPO. (CMG@Ventures II currently holds approximately 800,000 shares of Tickets.com, Inc. common stock.) On February 8, 2000, Vicinity commenced its IPO. (CMG@Ventures I and CMG@Ventures II collectively hold 5.8 million shares of Vicinity common stock.)

On February 29, 2000, the Company announced an agreement with Cable & Wireless plc to issue $500 million in shares of CMGI common stock in exchange for $500 million in shares of PCCW, which Cable & Wireless plc was to receive upon the completion of Cable & Wireless plc sale of their Cable & Wireless HKT subsidiary to PCCW. This share exchange was completed in August 2000.

The Company leases facilities and certain equipment under various noncancelable operating leases expiring through June 2013. At July 31, 2000, the Company has future minimum payments related to these leases of approximately $549.7 million.

Subsequent to July 31, 2000, the Company's subsidiary, NaviSite, did not comply with a covenant associated with an equipment leasing facility it had established with a bank. NaviSite had approximately $30 million in outstanding obligations under this leasing facility at July 31, 2000.

In August 1999, the Company entered into a Strategic Alliance Partnership with Compaq. This partnership is intended to create mutually beneficial ways of bundling, distributing and promoting products and services of companies in the CMGI network on Compaq's products. Under this partnership, each party has committed to spend $50.0 million to co-market products and services over the first six quarters of the term of the agreement. Also, under this partnership, the Company is obligated to pay Compaq a fee based on the number of redirect messages directed to the Company's sites from Compaq.

On August 23, 2000, the Company announced it has acquired the exclusive naming and sponsorship rights to the New England Patriots' new stadium, to be known as "CMGI Field," for a period of fifteen years. In return for the naming and sponsorship rights, CMGI will pay $7.6 million per year for the first ten years, with consumer price index adjustments for years eleven through fifteen. CMGI will not make its first semi-annual payment under this agreement until January 2002.

On August 18, 2000, the Company issued 312,547 shares of its common stock to Compaq as a semi-annual interest payment of $11.5 million related to notes payable issued in the acquisition of AltaVista. On September 30, 2000, the Company issued 7,250,615 shares of its common stock as payment of principal and interest totaling approximately $249.8 million related to notes payable that had been issued in the Company's acquisition of Tallán.

During the period from August 1, 2000 through October 27, 2000, the Company sold the following shares of stock in transactions on the open market: approximately 8.4 million shares of Lycos for proceeds of $394.7 million; approximately 241.0 million shares of PCCW for proceeds of $190.2 million; approximately 1.3 million shares of Critical Path for proceeds of $72.8 million; and approximately 3.7 million shares of Kana Communications, Inc. for proceeds of $137.6 million.

The Company intends to continue to fund existing and future Internet efforts, acquire additional companies for cash, stock, or other consideration and to actively seek new CMGI@Ventures investment opportunities. Similar to CMGI's current subsidiaries, future Internet company acquisitions will likely be in early stages of business development and therefore are expected to require additional cash funding by the Company to fund their operations. 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. 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. There can be no assurance, however, that the Company will be able to raise additional capital on terms that are favorable to the Company.

Year 2000 Compliance

The Company and its subsidiaries have not experienced any material problems with network infrastructure, software, hardware and computer systems relating to the inability to recognize appropriate dates related to the year 2000. The Company and its subsidiaries are also not aware of any material Year 2000 problems with customers, suppliers or vendors. Accordingly, the Company and its subsidiaries do not anticipate incurring material expenses or experiencing any material operational disruptions as a result of any Year 2000 issues.

Factors That May Affect Future Results

The Company operates in a rapidly changing environment that involves a number of risks, some of which are beyond the Company's control. Forward-looking statements in this document and those made from time to time by the Company through its senior management are made pursuant to the safe harbor provisions of the Private

Securities Litigation Reform Act of 1995. Forward-looking statements concerning the expected future revenues or earnings or concerning projected plans, performance, product development, product release or product shipment, as well as other estimates related to future operations are necessarily only estimates of future results and there can be no assurance that actual results will not materially differ from expectations.

Factors that could cause actual results to differ materially from results anticipated in forward-looking statements include, but are not limited to, the following:

CMGI may not have operating income or net income in the future.

During the fiscal year ended July 31, 2000, CMGI had an operating loss of approximately $2.19 billion and a net loss of approximately $1.38 billion. CMGI anticipates continuing to incur significant operating expenses in the future, including significant costs of revenue and selling, general and administrative and amortization expenses. As a result, CMGI expects to continue to incur operating losses and may not have enough money to grow its business in the future. CMGI can give no assurance that it will achieve profitability or be capable of sustaining profitable operations.

CMGI may have problems raising money it needs in the future.

In recent years, CMGI has financed its operating losses in part with profits from selling some of the stock of companies in which CMGI had invested through the @Ventures funds. This funding source may not be sufficient in the future, and CMGI may need to obtain funding from outside sources. However, CMGI may not be able to obtain funding from outside sources. In addition, even if CMGI finds outside funding sources, CMGI may be required to issue to such outside sources securities with greater rights than those currently possessed by holders of CMGI's currently outstanding securities. CMGI may also be required to take other actions, which may lessen the value of its common stock, including borrowing money on terms that are not favorable to CMGI.

CMGI may incur significant costs to avoid investment company status and may suffer adverse consequences if deemed to be an investment company.

CMGI may incur significant costs to avoid investment company status and may suffer other adverse consequences if deemed to be an investment company under the Investment Company Act of 1940. Some of CMGI's equity investments in other businesses and its venture subsidiaries may constitute investment securities under the Investment Company Act. A company may be deemed to be an investment company if it owns investment securities with a value exceeding 40% of its total assets, subject to certain exclusions. Investment companies are subject to registration under, and compliance with, the Investment Company Act unless a particular exclusion or safe harbor provision applies. If CMGI were to be deemed an investment company, CMGI would become subject to the requirements of the Investment Company Act. As a consequence, CMGI would be prohibited from engaging in business or issuing securities as it has in the past and might be subject to civil and criminal penalties for noncompliance. In addition, certain of CMGI contracts might be voidable, and a court-appointed receiver could take control of CMGI and liquidate its business.

Although CMGI's investment securities currently comprise less than 40% of its total assets, fluctuations in the value of these securities or of CMGI's other assets may cause this limit to be exceeded. Unless an exclusion or safe harbor was available to CMGI, CMGI would have to attempt to reduce its investment securities as a percentage of its total assets. This reduction can be attempted in a number of ways, including the disposition of investment securities and the acquisition of non-investment security assets. If CMGI were required to sell investment securities, CMGI may sell them sooner than it otherwise would. These sales may be at depressed prices and CMGI may never realize anticipated benefits from, or may incur losses on, these investments. CMGI may be unable to sell some investments due to contractual or legal restrictions or the inability to locate a suitable buyer. Moreover, CMGI may incur tax liabilities when selling assets. CMGI may also be unable to purchase additional investment securities that may be important to its operating strategy. If CMGI decides to acquire non-investment security assets, CMGI may not be able to identify and acquire suitable assets and businesses or the terms on which CMGI is able to acquire such assets may be unfavorable.

If CMGI fails to successfully execute on its segmentation strategy, its revenue, earnings prospects and business may be materially and adversely affected.

On September 7, 2000, CMGI announced that it had formally organized its majority-owned operating companies and venture capital affiliates into six segments. These six segments include five operational disciplines—Interactive Marketing; eBusiness and Fulfillment; Search and Portals; Infrastructure and Enabling Technologies; and Internet Professional Services—as well as CMGI's affiliated venture capital arm, CMGI@Ventures. The segmentation strategy includes a focus on:

- market segments in which CMGI can establish a leadership position;
- a planned reduction in the number of operating companies to an optimal number of five to ten in total;
- improved future financial performance including continued revenue growth; and
- a significant reduction in cash flow requirements through improved operating efficiencies in acquisitions, consolidations and divestitures.

To successfully implement its segmentation strategy, CMGI must achieve each of the following:

- overcome the difficulties of integrating its operating companies;
- decrease its cash burn rate;
- improve its cash position and revenue run rate; and
- increase its holdings of marketable securities.

If CMGI fails to address each of these factors, its business prospects for achieving and sustaining profitability, and the market value of its securities may be materially and adversely affected. Even if its implementation of this segmentation strategy is successful, the revised structure and reporting procedures of the new segmentation strategy may not lead to increased market clarity or stockholder value. In addition, the execution of the segmentation strategy, including planned reductions in the number of operating companies, could result in restructuring charges being recorded by CMGI in future periods.

CMGI depends on certain important employees, and the loss of any of those employees may harm CMGI's business.
CMGI's performance is substantially dependent on the performance of its executive officers and other key employees, in particular, David S. Wetherell, CMGI's chairman, president and chief executive officer, Andrew J. Hajducky III, CMGI's executive vice president, chief financial officer and treasurer, and David Andonian, CMGI's president, corporate development. The familiarity of these individuals with the Internet industry makes them especially critical to CMGI's success. In addition, CMGI's success is dependent on its ability to attract, train, retain and motivate high quality personnel, especially for its management team. The loss of the services of any of CMGI's executive officers or key employees may harm its business. CMGI's success also depends on its continuing ability to attract, train, retain and motivate other highly qualified technical and managerial personnel. Competition for such personnel is intense.

There may be conflicts of interest among CMGI's network companies, CMGI's officers, directors and stockholders and CMGI.
Some of CMGI's officers and directors also serve as officers or directors of one or more of CMGI's network companies. As a result CMGI, CMGI's officers and directors, and CMGI's network companies may face potential conflicts of interest with each other and with its stockholders. Specifically, CMGI's officers and directors may be presented with situations in their capacity as officers or directors of one of CMGI's network companies that conflict with their fiduciary obligations as officers or directors of CMGI's company or of another network company.

In fiscal 2000, CMGI derived a significant portion of its revenue from a small number of customers and the loss of any of those customers could significantly damage CMGI's business.
During the fiscal year ended July 31, 2000, sales to Cisco accounted for 11% of CMGI's total net revenue and 36% of CMGI's net revenue from its eBusiness and Fulfillment segment. CMGI currently does not have any agreements with Cisco which obligate this customer to buy a minimum amount of products from CMGI or to designate CMGI as its sole supplier of any particular products or services. During the fiscal year ended July 31, 2000, approximately 12% of CMGI's total net revenue and 35% of net revenue from CMGI's Search and Portals segment was derived from customer advertising contracts serviced by DoubleClick, Inc. CMGI believes that it will continue to derive a significant portion of its operating revenue from sales to a small number of customers.

CMGI's strategy of selling assets of or investments in the companies that it has acquired and developed presents risks.
One element of CMGI's business plan involves raising cash for working capital for its business by selling, in public or private offerings, some of the companies, or portions of the companies, that it has acquired and developed or in which it has invested. Market and other conditions largely beyond CMGI's control affect:

- its ability to engage in such sales;
- the timing of such sales; and
- the amount of proceeds from such sales.

As a result, CMGI may not be able to sell some of these assets. In addition, even if CMGI is able to sell, CMGI may not be able to sell at favorable prices. If CMGI is unable to sell these assets at favorable prices, its business will be harmed.

CMGI's stock price may fluctuate because the value of some of its companies fluctuates.
A portion of CMGI's assets include the equity securities of both publicly traded and non-publicly traded companies. For example, as of October 4, 2000, CMGI directly or through its @Ventures funds owned shares of common stock of Critical Path, divine, eBay, Engage, Hollywood Entertainment, Kana Communications, Inc., Lycos, MSGI, MotherNature.com, NaviSite, Netcentives, PCCW, Primedia, Ventro, Vicinity and Yahoo!, which are publicly traded companies. The market price and valuations of the securities that CMGI holds in these and other companies may fluctuate due to market conditions and other conditions over which CMGI has no control. Fluctuations in the market price and valuations of the securities that CMGI holds in other companies may result in fluctuations of the market price of CMGI's common stock and may reduce the amount of working capital available to CMGI.

CMGI's strategy of expanding its business through acquisitions of other businesses and technologies presents special risks.

CMGI intends to continue to expand through the acquisition of businesses, technologies, products and services from other businesses. Acquisitions involve a number of special problems, including:

- difficulty integrating acquired technologies, operations, and personnel with the existing businesses;
- diversion of management attention in connection with both negotiating the acquisitions and integrating the assets;
- strain on managerial and operational resources as management tries to oversee larger operations;
- exposure to unforeseen liabilities of acquired companies;
- potential issuance of securities in connection with an acquisition with rights that are superior to the rights of holders of CMGI's currently outstanding securities;
- the need to incur additional debt; and
- the requirement to record potentially significant additional future operating costs for the amortization of goodwill and other intangible assets.

CMGI may not be able to successfully address these problems. Moreover, CMGI's future operating results will depend to a significant degree on its ability to successfully manage growth and integrate acquisitions. In addition, many of CMGI's investments are in early-stage companies with limited operating histories and limited or no revenues. CMGI may not be able to successfully develop these young companies.

CMGI faces competition from other acquirors of and investors in Internet-related ventures which may prevent CMGI from realizing strategic opportunities.

Although CMGI creates many of its network companies, it also acquires or invests in existing companies that it believes are complementary to its network and further its vision of the Internet. In pursuing these opportunities, CMGI faces competition from other capital providers and incubators of Internet-related companies, including publicly-traded Internet companies, venture capital companies and large corporations. Some of these competitors have greater financial resources than CMGI does. This competition may limit CMGI's opportunity to acquire interests in companies that could advance its vision of the Internet and increase its value.

CMGI's growth places strain on its managerial, operational and financial resources.

CMGI's rapid growth has placed, and is expected to continue to place, a significant strain on its managerial, operational and financial resources. Further, as the number of CMGI's users, advertisers and other business partners grows, CMGI will be required to manage multiple relationships with various customers, strategic partners and other third parties. CMGI's further growth or an increase in the number of its strategic relationships will increase this strain on its managerial, operational and financial resources, inhibiting its ability to achieve the rapid execution necessary to successfully implement its business plan.

CMGI must develop and maintain positive brand name awareness.

CMGI believes that establishing and maintaining its brand names is essential to expanding its business and attracting new customers. CMGI also believes that the importance of brand name recognition will increase in the future because of the growing number of Internet companies that will need to differentiate themselves. Promotion and enhancement of CMGI's brand names will depend largely on its ability to provide consistently high-quality products and services. If CMGI is unable to provide high-quality products and services, the value of its brand names may suffer.

CMGI's quarterly results may fluctuate widely.

CMGI's operating results have fluctuated widely on a quarterly basis during the last several years, and it expects to experience significant fluctuation in future quarterly operating results. Many factors, some of which are beyond CMGI's control, have contributed to these quarterly fluctuations in the past and may continue to do so. Such factors include:

- demand for its products and services;
- payment of costs associated with its acquisitions, sales of assets and investments;
- timing of sales of assets;
- market acceptance of new products and services;
- charges for impairment of long-lived assets in future periods;
- potential restructuring charges in connection with CMGI's segmentation strategy;
- specific economic conditions in the industries in which CMGI competes; and
- general economic conditions.

The emerging nature of the commercial uses of the Internet makes predictions concerning CMGI's future revenues difficult. CMGI believes that period-to-period comparisons of its results of operations will not necessarily be meaningful and should not be relied upon as indicative of its future performance. It is also possible that in some fiscal quarters, CMGI's operating results will be below the expectations of securities analysts and investors. In such circumstances, the price of CMGI's common stock may decline.

The price of CMGI's common stock has been volatile.

The market price of CMGI's common stock has been, and is likely to continue to be, volatile, experiencing wide fluctuations. In recent years, the stock market has experienced significant price and volume fluctuations, which have particularly impacted the market prices of equity securities of many companies providing Internet-related products and services. Some of these fluctuations appear to be unrelated or disproportionate to the operating performance of such companies. Future market movements may adversely affect the market price of CMGI's common stock.

Ownership of CMGI is concentrated.

David S. Wetherell, CMGI's chairman, president and chief executive officer, beneficially owned approximately 12% of CMGI's outstanding common stock as of September 30, 2000. As a result, Mr. Wetherell possesses significant influence over CMGI on matters, including the election of directors. Additionally, Compaq owned approximately 13% of CMGI's outstanding common stock as of September 30, 2000. The concentration of CMGI's share ownership may:

- delay or prevent a change in its control;
- impede a merger, consolidation, takeover, or other transaction involving CMGI; or
- discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of CMGI.

CMGI relies on NaviSite for Web site hosting.

CMGI and many of its operating companies rely on NaviSite for network connectivity and hosting of servers. If NaviSite fails to perform such services, CMGI's internal business operations may be interrupted, and the ability of CMGI's operating companies to provide services to customers may also be interrupted. Such interruptions may have an adverse impact on CMGI's business and revenues and its operating companies.

The success of CMGI's network companies depends greatly on increased use of the Internet by business and individuals.

The success of CMGI's network companies depends greatly on increased use of the Internet for advertising, marketing, providing services and conducting business. Commercial use of the Internet is currently at an early stage of development and the future of the Internet is not clear. In addition, it is not clear how effective advertising on the Internet is in generating business as compared to more traditional types of advertising such as print, television and radio. The businesses of CMGI's network companies will suffer if commercial use of the Internet fails to grow in the future.

CMGI network companies are subject to intense competition.

The market for Internet products and services is highly competitive. Moreover, the market for Internet products and services lacks significant barriers to entry, enabling new businesses to enter this market relatively easily. Competition in the market for Internet products and services may intensify in the future. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with the products and services of CMGI network companies. In addition, many of the current and potential competitors of CMGI network companies have greater financial, technical, operational and marketing resources than those of CMGI network companies. CMGI network companies may not be able to compete successfully against these competitors. Competitive pressures may also force prices for Internet goods and services down and such price reductions may reduce the revenues of CMGI network companies.

Growing concerns about the use of "cookies" may limit Engage's ability to develop user profiles.

Web sites typically place small files of information commonly known as "cookies" on a user's hard drive, generally without the user's knowledge or consent. Cookie information is passed to the Web site through the Internet user's browser software. Engage's technology currently uses cookies to collect information about an Internet user's movement through the Internet. Most of the currently available Internet browsers allow users to modify their browser settings to prevent cookies from being stored on their hard drive, and a small minority of users currently choose to do so. Users can also delete cookies from their hard drive at any time. Some Internet commentators and privacy advocates have suggested limiting or eliminating the use of cookies, and recently, the Federal Trade Commission initiated an informal inquiry into the data collection practices of DoubleClick, Inc. The effectiveness of Engage's technology could be limited by any reduction or limitation in the use of cookies. If the use or effectiveness of cookies is limited, Engage would likely have to switch to other technology that would allow it to gather demographic and behavioral information. This could require significant reengineering time and resources, might not be completed in time to avoid negative consequences to CMGI's business, financial condition or results of operations, and might not be possible at all.

If the United States or other governments regulate the Internet more closely, the businesses of CMGI network companies may be harmed.

Because of the Internet's popularity and increasing use, new laws and regulations may be adopted. These laws and regulations may cover issues such as privacy, pricing, taxation and content. The enactment of any additional laws or regulations may impede the growth of the Internet and the Internet-related business of CMGI network companies and could place additional financial burdens on their businesses.

To succeed, CMGI network companies must respond to the rapid changes in technology and distribution channels related to the Internet.

The markets for the Internet products and services of our network companies are characterized by:

- rapidly changing technology;
- evolving industry standards;
- frequent new product and service introductions;
- shifting distribution channels; and
- changing customer demands.

The success of CMGI network companies will depend on their ability to adapt to this rapidly evolving marketplace. They may not be able to adequately adapt their products and services or to acquire new products and services that can compete successfully. In addition, CMGI network companies may not be able to establish and maintain effective distribution channels.

CMGI network companies face security risks.

Consumer concerns about the security of transmissions of confidential information over public telecommunications facilities is a significant barrier to electronic commerce and communications on the Internet. Many factors may cause compromises or breaches of the security systems CMGI network companies or other Internet sites use to protect proprietary information, including advances in computer and software functionality or new discoveries in the field of cryptography. A compromise of security on the Internet would have a negative effect on the use of the Internet for commerce and communications and negatively impact CMGI network companies' businesses. Security breaches of their activities or the activities of their customers and sponsors involving the storage and transmission of proprietary information, such as credit card numbers, may expose CMGI network companies to a risk of loss or litigation and possible liability. CMGI cannot assure that the security measures of CMGI network companies will prevent security breaches.

The success of the global operations of CMGI network companies is subject to special risks and costs.

CMGI network companies have begun, and intend to continue, to expand their operations outside of the United States. This international expansion will require significant management attention and financial resources. The ability of CMGI network companies to expand their offerings of CMGI's products and services internationally will be limited by the general acceptance of the Internet and intranets in other countries. In addition, CMGI and its network companies have limited experience in such international activities. Accordingly, CMGI and its network companies expect to commit substantial time and development resources to customizing the products and services of its network companies for selected international markets and to developing international sales and support channels.

CMGI expects that the export sales of its network companies will be denominated predominantly in United States dollars. As a result, an increase in the value of the United States dollar relative to other currencies may make the products and services of its network companies more expensive and, therefore, potentially less competitive in international markets. As CMGI network companies increase their international sales, their total revenues may also be affected to a greater extent by seasonal fluctuations resulting from lower sales that typically occur during the summer months in Europe and other parts of the world.

CMGI network companies could be subject to infringement claims.

From time to time, CMGI network companies have been, and expect to continue to be, subject to third party claims in the ordinary course of business, including claims of alleged infringement of intellectual property rights. Any such claims may damage the businesses of CMGI network companies by:

- subjecting them to significant liability for damages;
- resulting in invalidation of their proprietary rights;
- being time-consuming and expensive to defend even if such claims are not meritorious; and
- resulting in the diversion of management time and attention.

CMGI network companies may have liability for information retrieved from the Internet.

Because materials may be downloaded from the Internet and subsequently distributed to others, CMGI network companies may be subject to claims for defamation, negligence, copyright or trademark infringement, personal injury or other theories based on the nature, content, publication and distribution of such materials.

Consolidated Balance Sheets

(in thousands, except share and per share amounts) July 31,	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	**$ 639,666**	$ 468,912
Available-for-sale securities	**1,595,011**	1,532,327
Accounts receivable, trade, net of allowance for doubtful accounts of $34,618 in 2000 and $3,034 in 1999	**232,104**	41,794
Prepaid expenses and other current assets	**105,094**	14,301
Total current assets	**2,571,875**	2,057,334
Property and equipment, net	**259,270**	24,832
Investments in affiliates	**583,648**	44,623
Goodwill and other intangible assets, net of accumulated amortization of $1,516,045 in 2000 and $18,712 in 1999	**4,955,076**	149,703
Other assets	**187,238**	128,102
	$8,557,107	$2,404,594
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	**$ 523,022**	$ 20,000
Current installments of long-term debt	**6,649**	5,258
Accounts payable	**128,627**	31,812
Accrued income taxes	**36,318**	11,777
Accrued expenses	**246,289**	42,559
Deferred income taxes	**392,340**	508,348
Deferred revenue	**27,898**	6,726
Other current liabilities	**100,627**	49,849
Total current liabilities	**1,461,770**	676,329
Long-term debt, less current installments	**228,023**	15,060
Deferred income taxes	**61,365**	35,140
Other long-term liabilities	**50,945**	19,807
Minority interest	**586,062**	184,514
Commitments and contingencies		
Preferred stock, $0.01 par value. Authorized 5,000,000 shares; issued 35,000 shares Series B redeemable, convertible preferred stock at July 31, 1999, conversion premium at 4% per annum and issued 375,000 Series C redeemable, convertible preferred stock at July 31, 2000 and 1999, dividend at 2% per annum; both carried at liquidation value	**383,140**	411,283
Stockholders' equity:		
Common stock, $0.01 par value per share. Authorized 1,400,000,000 and 400,000,000 shares at July 31, 2000 and 1999, respectively; issued and outstanding 296,487,502 and 191,168,280 shares at July 31, 2000 and 1999, respectively	**2,965**	1,912
Additional paid-in capital	**6,190,182**	234,273
Deferred compensation	**(45,202)**	(180)
Retained earnings (accumulated deficit)	**(857,814)**	518,102
	5,290,131	754,107
Accumulated other comprehensive income	**495,671**	308,354
Total stockholders' equity	**5,785,802**	1,062,461
	$8,557,107	$2,404,594

see accompanying notes to consolidated financial statements

Consolidated Statements of Operations

(in thousands, except per share amounts) Years ended July 31,	2000	1999	1998
Net revenue	**$ 898,050**	$ 186,389	$ 92,197
Operating expenses:			
Cost of revenue	**737,264**	179,553	83,021
Research and development	**153,974**	22,253	19,108
In-process research and development	**65,683**	6,061	10,325
Selling	**475,441**	45,505	28,844
General and administrative	**218,615**	43,549	18,065
Amortization of intangible assets and stock-based compensation	**1,436,880**	16,127	3,093
Total operating expenses	**3,087,857**	313,048	162,456
Operating loss	**(2,189,807)**	(126,659)	(70,259)
Other income (expense):			
Interest income	**41,521**	4,640	2,426
Interest expense	**(56,617)**	(4,371)	(3,296)
Gains on issuance of stock by subsidiaries and affiliates	**80,387**	130,729	46,285
Other gains, net	**525,265**	758,312	96,562
Equity in losses of affiliates	**(51,886)**	(15,737)	(12,871)
Minority interest	**165,271**	2,331	(28)
	703,941	875,904	129,078
Income (loss) from continuing operations before income taxes	**(1,485,866)**	749,245	58,819
Income tax expense (benefit)	**(121,173)**	325,402	31,555
Income (loss) from continuing operations	**(1,364,693)**	423,843	27,264
Discontinued operations, net of income taxes:			
Gain on sale of CMG Direct Corporation	**—**	53,203	—
Loss from discontinued operations	**—**	(806)	(338)
Gain on sale of data warehouse product rights	**—**	—	4,978
Net income (loss)	**(1,364,693)**	476,240	31,904
Preferred stock accretion and amortization of discount	**(11,223)**	(1,662)	—
Net income (loss) available to common stockholders	**$(1,375,916)**	$ 474,578	$ 31,904
Earnings (loss) per share:			
Basic:			
Earnings (loss) from continuing operations available to common stockholders	**$ (5.26)**	$ 2.26	$ 0.16
Gain on sale of CMG Direct Corporation	**—**	0.29	—
Loss from discontinued operations	**—**	(0.01)	—
Gain on sale of data warehouse product rights	**—**	—	0.03
Net earnings (loss) available to common stockholders	**$ (5.26)**	$ 2.54	$ 0.19
Diluted:			
Earnings (loss) from continuing operations available to common stockholders	**$ (5.26)**	$ 2.05	$ 0.15
Gain on sale of CMG Direct Corporation	**—**	0.26	—
Loss from discontinued operations	**—**	(0.01)	—
Gain on sale of data warehouse product rights	**—**	—	0.03
Net earnings (loss) available to common stockholders	**$ (5.26)**	$ 2.30	$ 0.18
Shares used in computing earnings (loss) per share:			
Basic	**261,555**	186,532	166,664
Diluted	**261,555**	206,832	180,120

see accompanying notes to consolidated financial statements

Consolidated Statements of Stockholders' Equity

(in thousands, except share amounts)	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Deferred compensation	Retained earnings (accumulated deficit)	Total stockholders' equity
Balance at July 31, 1997 (154,552,688 shares)	$1,546	$ 15,430	$ 852	$ —	$ 11,620	$ 29,448
Comprehensive income, net of taxes:						
Net income	—	—	—	—	31,904	31,904
Other comprehensive income:						
Net unrealized holding gain arising during period	—	—	1,167	—	—	1,167
Less: Reclassification adjustment for gain realized in net income	—	—	(2,455)	—	—	(2,455)
Total comprehensive income						30,616
Issuance of common stock pursuant to employee stock purchase plans and stock options (4,078,072 shares)	41	2,795	—	—	—	2,836
Issuance of common stock and common stock equivalents for acquisitions and investments (25,640,784 shares)	256	66,439	—	(1,731)	—	64,964
Amortization of deferred compensation	—	—	—	289	—	289
Tax benefit of stock option exercises	—	3,114	—	—	—	3,114
Effect of subsidiaries' equity transactions	—	1,869	—	—	—	1,869
Balance at July 31, 1998 (184,271,544 shares)	1,843	89,647	(436)	(1,442)	43,524	133,136
Comprehensive income, net of taxes:						
Net income	—	—	—	—	476,240	476,240
Other comprehensive income:						
Net unrealized holding gain arising during period	—	—	314,910	—	—	314,910
Less: Reclassification adjustment for gain realized in net income	—	—	(6,120)	—	—	(6,120)
Total comprehensive income						785,030
Conversion of redeemable preferred stock to common stock (1,168,008 shares)	12	15,175	—	—	—	15,187
Preferred stock accretion	—	—	—	—	(1,662)	(1,662)
Issuance of common stock pursuant to employee stock purchase plans and stock options (3,890,344 shares)	39	7,915	—	—	—	7,954
Issuance of common stock and common stock equivalents for acquisitions and investments (1,838,384 shares)	18	63,882	—	—	—	63,900
Amortization of deferred compensation	—	—	—	1,262	—	1,262
Tax benefit of stock option exercises	—	43,202	—	—	—	43,202
Effect of subsidiaries' equity transactions	—	14,452	—	—	—	14,452
Balance at July 31, 1999 (191,168,280 shares)	1,912	234,273	308,354	(180)	518,102	1,062,461
Comprehensive loss, net of taxes:						
Net loss	**—**	**—**	**—**	**—**	**(1,364,693)**	**(1,364,693)**
Other comprehensive income:						
Net unrealized holding gain arising during period	**—**	**—**	**496,304**	**—**	**—**	**496,304**
Less: Reclassification adjustment for gain realized in net loss	**—**	**—**	**(308,987)**	**—**	**—**	**(308,987)**
Total comprehensive loss	**—**	**—**	**—**	**—**	**—**	**(1,177,376)**
Preferred stock accretion	**—**	**—**	**—**	**—**	**(8,516)**	**(8,516)**
Amortization of discount on preferred stock	**—**	**2,707**	**—**	**—**	**(2,707)**	**—**
Conversion of redeemable preferred stock to common stock (2,834,520 shares)	**28**	**36,357**	**—**	**—**	**—**	**36,385**
Issuance of common stock pursuant to employee stock purchase plans and stock options (8,279,232 shares)	**83**	**39,137**	**—**	**—**	**—**	**39,220**
Issuance of common stock and common stock equivalents for acquisitions and investments (94,205,470 shares)	**942**	**5,676,877**	**—**	**(75,265)**	**—**	**5,602,554**
Amortization of deferred compensation	—	—	—	**30,243**	—	**30,243**
Tax benefit of stock option exercises	**—**	**189,944**	**—**	**—**	**—**	**189,944**
Effect of subsidiaries' equity transactions, net	**—**	**10,887**	**—**	**—**	**—**	**10,887**
Balance at July 31, 2000 (296,487,502 shares)	**$2,965**	**$6,190,182**	**$ 495,671**	**$(45,202)**	**$ (857,814)**	**$ 5,785,802**

see accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(in thousands) Years ended July 31,	**2000**	1999	1998
Cash flows from operating activities:			
Income (loss) from continuing operations	**$(1,364,693)**	$ 423,843	$ 27,264
Adjustments to reconcile income (loss) from continuing operations to net cash used for continuing operations:			
Depreciation and amortization	**1,501,583**	22,669	6,953
Deferred income taxes	**(280,450)**	312,445	4,206
Non-operating gains, net	**(605,652)**	(889,041)	(142,847)
Equity in losses of affiliates	**51,886**	15,737	12,871
Minority interest	**(165,271)**	(2,331)	28
In-process research and development	**65,683**	6,061	10,325
Changes in operating assets and liabilities, excluding effects from acquisitions and deconsolidation of subsidiaries:			
Trade accounts receivable	**(91,383)**	(17,208)	(8,977)
Prepaid expenses and other current assets	**(42,191)**	(2,764)	(5,195)
Accounts payable and accrued expenses	**19,984**	34,749	8,019
Deferred revenue	**9,514**	5,879	3,618
Refundable and accrued income taxes, net	**(46,712)**	(41,003)	11,917
Tax benefit from exercise of stock options	**189,944**	43,202	3,114
Other assets and liabilities	**(5,976)**	(2,322)	(636)
Net cash used for operating activities of continuing operations	**(763,734)**	(90,084)	(69,340)
Net cash used for operating activities of discontinued operations	**—**	(280)	(2,385)
Net cash used for operating activities	**(763,734)**	(90,364)	(71,725)
Cash flows from investing activities:			
Additions to property and equipment—continuing operations	**(177,637)**	(16,211)	(8,043)
Additions to property and equipment—discontinued operations	**—**	(63)	(146)
Proceeds from sale of stock investments	**1,143,574**	84,668	116,431
Proceeds from sale of data warehouse product rights—discontinued operations	**—**	—	9,543
Proceeds from sale of CMG Direct Corporation—discontinued operations	**—**	12,835	—
Cash paid for acquisitions of subsidiaries, net of cash acquired	**(185,127)**	(54,016)	(6,551)
Investments in affiliates	**(299,330)**	(48,211)	(27,961)
Net proceeds from maturities of (purchases of) available-for-sale securities	**11,182**	(31,123)	(5,000)
Reduction in cash due to deconsolidation of Lycos, Inc.	**—**	—	(41,017)
Other, net	**(301)**	1,510	(338)
Net cash provided by (used for) investing activities	**492,361**	(50,611)	36,918
Cash flows from financing activities:			
Net proceeds from (repayments of) notes payable	**160,672**	(6,654)	4,456
Proceeds from issuance of long-term debt	**—**	—	10,250
Repayments of long-term debt	**(4,935)**	(5,609)	(7,521)
Net proceeds from issuance of Series B and Series C redeemable, convertible preferred stock	**—**	424,805	—
Net proceeds from issuance of common stock	**47,237**	7,613	23,206
Net proceeds from issuance of stock by subsidiaries	**209,207**	129,461	3,526
Other	**29,946**	(1,266)	2,665
Net cash provided by financing activities	**442,127**	548,350	36,582
Net increase in cash and cash equivalents	**170,754**	407,375	1,775
Cash and cash equivalents at beginning of year	**468,912**	61,537	59,762
Cash and cash equivalents at end of year	**$ 639,666**	$ 468,912	$ 61,537

see accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

NOTE 1 Nature of Operations

CMGI, Inc. and its consolidated subsidiaries, (CMGI or the Company) develop and operate a network of Internet companies. The Company's subsidiaries have been classified in the following five operating segments: i) Interactive Marketing, ii) eBusiness and Fulfillment, iii) Search and Portals, iv) Infrastructure and Enabling Technologies, and v) Internet Professional Services. CMGI also manages several venture capital funds that focus on investing in companies involved in various aspects of the Internet. CMGI's business strategy includes the internal development and operation of majority-owned subsidiaries as well as taking strategic positions in other Internet companies that have demonstrated synergies with CMGI's core businesses. The Company's strategy also envisions and promotes opportunities for synergistic business relationships among its companies.

NOTE 2 Summary of Significant Accounting Policies

Principles of Consolidation and Presentation

The consolidated financial statements of the Company include its wholly-owned and majority-owned subsidiaries which at July 31, 2000 include, 1st Up.com Corporation (1st Up), Activate.Net Corporation (Activate), AdForce, Inc. (AdForce), AltaVista Company (AltaVista), Clara Vista Corporation (Clara Vista), CMG Securities Corporation, CMG@Ventures Capital Corporation, CMG@Ventures Securities Corporation, CMG@Ventures, Inc., CMG@Ventures I, LLC (CMG@Ventures I), CMG@Ventures II, LLC (CMG@Ventures II), CMG@Ventures III, LLC (CMG@Ventures III), CMG@Ventures Expansion, LLC (CMG@Ventures Expansion), CMGI@Ventures IV, LLC (CMGI@Ventures IV), CMGI@Ventures B2B, LLC (B2B Fund), CMGI@Ventures Technology Fund (Tech Fund), CMGI Solutions, Inc., CMGion, Inc. (CMGion), Engage, Inc., (Engage, formerly Engage Technologies Inc.), Equilibrium Technologies, Inc. (Equilibrium), ExchangePath, LLC (ExchangePath), Green Witch, LLC (Green Witch), iCAST Corporation (iCAST), MyWay.com Corporation, Nascent Technologies, Inc. (Nascent), NaviPath, Inc., (NaviPath, formerly NaviNet, Inc.), NaviSite, Inc. (NaviSite), SalesLink Corporation (SalesLink), Tallán, Inc. (Tallán), Tribal Voice, Inc., uBid, Inc. (uBid) and yesmail.com, inc. (yesmail.com). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company accounts for investments in businesses in which it owns less than 50% using the equity method, if the Company has the ability to exercise significant influence over the investee company. All other investments for which the Company does not have the ability to exercise significant influence or for which there is not a readily determinable market value, are accounted for under the cost method of accounting. Certain amounts for prior periods have been reclassified to conform to current year presentations.

Revenue Recognition

The Company's advertising revenue is derived primarily from the delivery of advertising impressions through its own or third party Web sites. Revenue is recognized in the period that the advertising impressions are delivered, provided the collection of the resulting receivable is probable.

Prior to August 1, 1998, revenue from the sales of product licenses to customers were generally recognized when the product was shipped, provided no significant obligations remained and collectability was probable, in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement of Position (SOP) 91-1, "Software Revenue Recognition." Effective August 1, 1998, the Company adopted the provisions of SOP 97-2, "Software Revenue Recognition" (SOP 97-2). For transactions after August 1, 1998, revenues from software product licenses, database services and web-site traffic audit reports are generally recognized when (i) a signed non-cancelable software license exists, (ii) delivery has occurred, (iii) the Company's fee is fixed or determinable, and (iv) collectability is probable. Revenue from license agreements that have significant customizations and modifications of the software product is deferred and recognized using the percentage of completion method. The Company adopted SOP 98-9, "Modification of SOP 97-2, 'Software Revenue Recognition', with Respect to Certain Transactions" (SOP 98-9), which modified SOP 97-2 with respect to certain transactions during the year ended July 31, 2000. There was no material change to the Company's accounting for revenue as a result of the adoption of SOP 97-2 or SOP 98-9.

Revenue from periodic subscriptions is recognized ratably over the subscription term, typically twelve months. Revenue from usage based subscriptions is recognized monthly based on actual usage.

Revenue from sales of merchandise is recognized upon shipment of the merchandise and verification of the customer's credit card authorization or receipt of cash.

Service and support revenue includes software maintenance and other professional service revenues, primarily from consulting, implementation and training. Revenue from software maintenance is deferred and recognized ratably over the term of each maintenance agreement, typically twelve months. Revenue from professional services is recognized as the services are performed, collectability is probable and such revenues are contractually nonrefundable.

Substantially all media and media management revenue is recognized on a gross basis and amounts paid to Web sites are recorded as cost of revenue. Revenue is generally recognized at gross in arrangements in which the Company acts as principal in the transaction. Revenue is recognized net of the related Web site expense in arrangements in which the Company acts primarily as a sales agent.

Revenue also consists of monthly fees for server hosting, systems administration, application rentals and Web site management services. Revenue for these services (other than installation fees) is generally billed and recognized over the term of the contract, generally one to three years, based on actual usage. Installation fees are typically recognized at the time that installation occurs.

Amounts collected prior to satisfying the above revenue recognition criteria are classified as deferred revenue.

Gains on Issuance of Stock by Subsidiaries

At the time a subsidiary sells its stock to unrelated parties at a price in excess of its book value, the Company's net investment in that subsidiary increases. If at that time, the subsidiary is not a newly-formed, non-operating entity, nor a research and development, start-up or development stage company, nor is there question as to the subsidiary's ability to continue in existence, the Company records the increase in its Consolidated Statements of Operations. Otherwise, the increase is reflected in "effect of subsidiaries' equity transactions" in the Company's Consolidated Statements of Stockholders' Equity.

If gains have been recognized on issuances of a subsidiary's stock and shares of the subsidiary are subsequently repurchased by the subsidiary or by the Company, gain recognition does not occur on issuance subsequent to the date of a repurchase until such time as shares have been issued in an amount equivalent to the number of repurchased shares. Such transactions are reflected as equity transactions, and the net effect of these transactions is reflected in the Consolidated Statements of Stockholders' Equity.

Cash Equivalents and Statement of Cash Flows Supplemental Information

Highly liquid investments with maturity of three months or less at the time of acquisition are considered cash equivalents.

Net cash used for operating activities reflect cash payments for interest and income taxes, net of income tax refunds received, as follows:

(in thousands) Years ended July 31,	2000	1999	1998
Interest	**$16,143**	$ 3,910	$ 2,856
Income taxes	**$14,574**	$10,764	$15,720

Portions of the consideration for acquisitions of businesses by the Company, or its subsidiaries, during fiscal years 2000, 1999 and 1998 included the issuance of shares of the Company's and its subsidiaries' common stock and the issuance of seller's notes (see note 8).

During fiscal year 2000, significant non-cash investing activities included the following transactions:

On July 18, 2000, the Company and divine Interventures, inc. (divine) completed an exchange of stock. The Company received 1,701,900 shares of divine for 372,000 shares of the Company's common stock.

On July 11, 2000, eBay, Inc. (eBay) acquired Half.com, Inc. (Half.com), an affiliate of the Company. In connection with the merger, the Company received 1,480,267 shares of eBay common stock.

On June 9, 2000, the Company received 4,350,000 units in Freeup, LLC, a joint venture between the Company and Compaq Computer Corporation (Compaq), in exchange for 61,234 shares of the Company's common stock.

On May 19, 2000, the Company and Primedia, Inc. (Primedia), completed an exchange of stock. The Company received 8 million shares of Primedia stock in exchange for 1,532,567 million shares of CMGI common stock.

On April 10, 2000, the Company and Netcentives, Inc. (Netcentives) completed an exchange of stock. The Company received 1,694,492 shares of Netcentives common stock in exchange for 425,317 shares of the Company's common stock.

On November 29, 1999, the Company and Pacific Century CyberWorks Limited (PCCW) completed an exchange of stock. The Company received 448,347,107 shares of PCCW stock in exchange for 4,057,971 shares of the Company's common stock.

During fiscal year 2000, CMG@Ventures I distributed to its profit members options to purchase 200,242 shares of Yahoo! Inc. (Yahoo!) common stock, 274,141 shares of Yahoo! common stock, 1,318,003 shares of Lycos, Inc. (Lycos) common stock and 10,079 shares of PTEK Holdings, Inc. (PTEK Holdings, formerly Premiere Technologies, Inc.) common stock to its profit members; CMG@Ventures II distributed to its profit members 213,819 shares of Critical Path, Inc. (Critical Path) common stock, 260,036 shares of Hollywood Entertainment Corporation (Hollywood Entertainment) common stock, 713,533 shares of Kana Communications, Inc. (Kana) common stock, 19,891 shares of Yahoo! common stock and 54,400 shares of Amazon.com, Inc. (Amazon.com) common stock; and CMG@Ventures III distributed 51,935 shares of Ventro Corporation (formerly Chemdex Corporation) common stock to its profit members.

During fiscal year 1999, significant non-cash investing activities included the sale of the Company's investments in GeoCities, Reel.com, Inc. (Reel.com) and Sage Enterprises, Inc. (Sage Enterprises) in exchange for common stock of Yahoo!, Hollywood Entertainment and Amazon.com, respectively (see note 11). In addition, the Company completed the sale of its wholly-owned subsidiary, CMG Direct Corporation (CMG Direct) to Marketing Services Group, Inc. (MSGI) in exchange for cash and shares of MSGI common stock (see note 4).

In September 1998, CMG@Ventures I distributed 558,317 shares of Lycos stock to its profit members. In October 1998, CMG@Ventures II distributed 15,059 shares of Amazon.com stock to its profit members. In addition, during fiscal year 1999, CMG@Ventures I distributed 817,838 shares of Yahoo! stock and 8,004 shares of USWeb Corporation stock to its profit members and CMG@Ventures II distributed 39,773 shares of Yahoo! stock to its profit members.

During fiscal year 1998, significant non-cash investing activities included the sale of data warehouse product rights by the Company's subsidiary, Engage, in exchange for available-for-sale securities in addition to $9.5 million in cash (see note 4). In addition, CMG@Ventures I distributed 593,164 shares of Lycos stock and 24,843 shares of PTEK Holdings, Inc. stock to its profit members. Also, portions of the consideration for acquisitions of businesses by the Company, or its subsidiaries, during fiscal 1998 included the issuance of shares of the Company's common stock and the issuance of seller's notes (see note 8).

Fair Value of Financial Instruments

The carrying value for cash and cash equivalents, accounts receivable, accounts payable and notes payable approximates 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.

Investments

Marketable securities held by the Company which meet the criteria for classification as available-for-sale are carried at fair value, net of market discount to reflect any restrictions on transferability. Unrealized holding gains and losses on securities classified as available-for-sale are carried net of taxes as a component of accumulated other comprehensive income in stockholders' equity.

Other investments in which the Company's interest is less than 20% and which are not classified as available-for-sale securities are carried at the lower of cost or net realizable value unless it is determined that the Company exercises significant influence over the investee company, in which case the equity method of accounting is used. For those investments in affiliates in which the Company's voting interest is between 20% and 50%, the equity method of accounting is generally used. Under this method, the investment balance, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur, limited to the extent of the Company's investment in, advances to and commitments for the investee. The Company's share of net earnings or losses of affiliates includes the amortization difference between the Company's investment and its share of the underlying net assets of the investee. Amortization is recorded on a straight-line basis over period ranging from three to five years. These adjustments are reflected in "equity in losses of affiliates" in the Company's Consolidated Statements of Operations.

At the time an equity method investee sells its stock to unrelated parties at a price in excess of its book value, the Company's net investment in that affiliate increases. If at that time, the affiliate is not a newly-formed, non-operating entity, nor a research and development, start-up or development stage company, nor is there question as to the affiliate's ability to continue in existence, the Company records the increase as a gain in its Consolidated Statements of Operations.

The Company assesses the need to record impairment losses on investments and records such losses when the impairment of an investment is determined to be more than temporary in nature.

Accounting for Impairment of Long-Lived Assets

The Company assesses the need to record impairment losses on long-lived assets used in operations when indicators of impairment are present. On an on-going basis, management reviews the value and period of amortization or depreciation of long-lived assets, including goodwill and other intangible assets. During this review, the Company reevaluates the significant assumptions used in determining the original cost of long-lived assets. Although the assumptions may vary from transaction to transaction, they generally include revenue growth, operating results, cash flows and other indicators of value. Management then determines whether there has been a permanent impairment of the value of long-lived assets based upon events or circumstances, which have occurred since acquisition. The impairment policy is consistently applied in evaluating impairment for each of the Company's wholly-owned and majority-owned subsidiaries and investments. It is reasonably possible that the impairment factors evaluated by management will change in subsequent periods, given that the Company operates in a volatile business environment. This could result in material impairment charges in future periods.

Property and Equipment

Property and equipment is stated at cost. Depreciation and amortization is provided on the straight-line basis over the estimated useful lives of the respective assets (three to seven years). Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the lease term.

Maintenance and repairs are charged to operating expenses as incurred. Major renewals and betterment are added to property and equipment accounts at cost.

Intangible Assets

Goodwill and other intangible assets are being amortized principally over periods expected to be benefited, ranging from two to fifteen years.

Research and Development Costs and Software Costs

Expenditures that are related to the development of new products and processes, including significant improvements and refinements to existing products and the development of software are expensed as incurred, unless they are required to be capitalized. Software development costs are required to be capitalized when a product's technological feasibility has been established by completion of a detailed program design or working model of the product, and ending when a product is available for general release to customers. To date, the establishment of technological feasibility and general release have substantially coincided. As a result, capitalized software development costs have not been significant. Additionally, at the date of acquisition or investment, the Company evaluates the components of the purchase price of each acquisition or investment to identify amounts allocated to in-process research and development. Upon completion of acquisition accounting and valuation, such amounts are charged to expense if technological feasibility had not been reached at the acquisition date.

The Company adopted SOP 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" (SOP 98-1) in the first quarter of fiscal 2000. The adoption of SOP 98-1 did not have a material impact on the Company's financial position or its results of operations.

Advertising Costs

Advertising costs are expensed in the year incurred. Advertising expenses were approximately $161.7 million, $6.8 million and $3.5 million for the years ended July 31, 2000, 1999 and 1998, respectively.

Accounting for Income Taxes

Income taxes are accounted for under the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings (Loss) 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. Approximately 13.1 million weighted average common stock equivalents and approximately 11.5 million shares representing the weighted average effect of assumed conversion of convertible preferred stock were excluded from the denominator in the diluted loss per share calculation for the year ended July 31, 2000.

If a subsidiary has dilutive stock options or warrants outstanding, diluted earnings per share is computed by first deducting from net income (loss), 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 during the years ended July 31, 2000, 1999 and 1998.

The reconciliation of the denominators of the basic and diluted earnings (loss) per share computations for the Company's reported net income (loss) is as follows:

(in thousands) Years ended July 31,	**2000**	1999	1998
Weighted average number of common shares outstanding—basic	**261,555**	186,532	166,664
Weighted average number of dilutive common stock equivalents outstanding	—	17,810	13,456
Weighted average effect of assumed conversion of convertible preferred stock	—	2,490	—
Weighted average number of common shares outstanding—diluted	**261,555**	206,832	180,120

Stock-Based Compensation Plans

The Company has adopted SFAS No. 123, *"Accounting for Stock-Based Compensation"* (SFAS No. 123). As permitted by SFAS No. 123, the Company measures compensation cost in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) and related interpretations. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to equity. The pro forma impact on earnings per share has been disclosed in the Notes to Consolidated Financial Statements as required by SFAS No. 123 (see note 16).

Use of Estimates

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

Diversification of Risk

Sales to one customer, Cisco Systems, Inc. (Cisco), accounted for 11% and 34% of consolidated net revenue and 36% and 43% of eBusiness and Fulfillment segment net revenue for fiscal 2000 and 1999, respectively. Accounts receivable from this customer amounted to approximately 2% and 18% of total trade accounts receivable at July 31, 2000 and 1999, respectively. Customer advertising contracts serviced by DoubleClick, Inc. accounted for approximately 12% and 0% of consolidated net revenue and 35% and 0% of Search and Portals segment net revenue for fiscal 2000 and 1999, respectively. The Company's products and services are provided to customers primarily in North America.

Financial instruments, which potentially subject the Company to concentrations of credit risk, are cash equivalents, available-for-sale securities, and accounts receivable. The Company's cash equivalent investment portfolio is diversified and consists primarily of short-term investment grade securities. To reduce risk, the Company performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral on accounts receivable. The Company has not incurred any material write-offs related to its accounts receivable.

The Company enters into interest rate swap and cap agreements to reduce the impact of changes in interest rates on its floating rate debt. The swap agreements are contracts to exchange floating rate for fixed interest payments periodically over the life of the agreements without the exchange of the underlying notional amounts. The notional amounts of interest rate agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The differential paid or received on interest rate agreements is recognized as an adjustment to interest expense.

Comprehensive Income

The Company adopted SFAS No. 130, "Reporting Comprehensive Income" (SFAS No. 130) during fiscal 1999 which established standards for the reporting and display of comprehensive income and its components in a full set of comparative general-purpose financial statements. SFAS No. 130 requires certain financial statement components, such as net unrealized holding gains or losses and cumulative translation adjustments, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive income (loss). The Company reports comprehensive income in the Consolidated Statements of Stockholders' Equity.

Segment and Related Information

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS No. 131) during fiscal 1999. SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements. In the fourth quarter of fiscal 2000, the Company adjusted its segment reporting set forth in Note 3 of the Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

In March 2000, the Financial Accounting Standards Board (FASB) issued Interpretation No. 44 (FIN 44), "Accounting for Certain Transactions involving Stock Compensation, an Interpretation of APB Opinion No. 25." FIN 44 clarifies the application of APB No. 25 for certain issues, including the definition of an employee, the treatment of the acceleration of stock options and the accounting treatment for options assumed in business combinations. FIN 44 became effective on July 1, 2000, but is applicable for certain transactions dating back to December 1998. The adoption of FIN 44 did not have a material impact on the Company's financial position or results of operations.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements" (SAB No. 101). SAB No. 101 expresses the views of the SEC staff in applying generally accepted accounting principles to certain revenue recognition issues. The Company will adopt the provisions of SAB No. 101 in the first quarter of fiscal 2001 and expects that its adoption will have no material impact on its financial position or its results of operations.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). 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 2001 pursuant to SFAS No. 137 (issued in June 1999), which delays the adoption of SFAS No. 133 until that time. The Company expects that the adoption of SFAS No. 133 will not have a material impact on its financial position or its results of operations.

NOTE 3 **Segment Information**

In fiscal 1999, the Company adopted SFAS No. 131, which requires the reporting of segment information using the "management approach" versus the "industry approach" previously required by SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise."

Based on the information provided to the Company's chief operating decision maker for purposes of making decisions about allocating resources and assessing performance, the Company's continuing operations have been classified in five operating segments that are strategic business units offering distinctive products and services that are marketed through different channels.

The five operating segments are: (i) Interactive Marketing, (ii) eBusiness and Fulfillment, (iii) Search and Portals, (iv) Infrastructure and Enabling Technologies and (v) Internet Professional Services. The Interactive Marketing segment companies provide a portfolio of online marketing products including enterprise wide promotion management, profiling and ad serving software, media, media management and analytics. The eBusiness and Fulfillment segment companies provide services across the entire ebusiness value chain to sell and deliver goods from the manufacturer to the customer. Search and Portals segment companies provide services and content which connect Internet users to information and entertainment. The Infrastructure and Enabling Technologies segment companies provide products and services essential to business operations on the Internet, including outsourced managed applications, private-label Internet access and technology platforms. The Internet Professional Services Segment provides applications strategy, development, design, and implementation services for companies seeking to initiate, enhance or redirect their presence on the Internet.

The Company's accounting policies for segments are the same as those described in note 2 "Summary of Significant Accounting Policies." Management evaluates segment performance based on segment operating income or loss excluding in-process research and development expenses and amortization of intangible assets and stock based compensation.

Summarized financial information of the Company's continuing operations by business segment is as follows:

(in thousands) Years ended July 31,	2000	1999	1998
Net revenue:			
Interactive Marketing	$ 204,179	$ 26,830	$ 2,685
eBusiness and Fulfillment	269,765	145,094	73,488
Search and Portals	319,819	8,238	15,568
Infrastructure and Enabling Technologies	61,789	6,101	456
Internet Professional Services	42,498	126	—
	$ 898,050	$ 186,389	$ 92,197
Operating income (loss):			
Interactive Marketing	$ (610,208)	$ (42,478)	$(29,282)
eBusiness and Fulfillment	(33,116)	5,622	1,671
Search and Portals	(1,144,616)	(36,684)	(25,338)
Infrastructure and Enabling Technologies	(263,195)	(37,743)	(11,234)
Internet Professional Services	(83,520)	(3,230)	(247)
Other	(55,152)	(12,146)	(5,829)
	$(2,189,807)	$(126,659)	$(70,259)
Operating income (loss), excluding in-process research and development expenses and amortization of intangible assets and stock-based compensation:			
Interactive Marketing	$ (133,676)	$ (28,106)	$(18,413)
eBusiness and Fulfillment	5,643	8,327	2,848
Search and Portals	(305,275)	(33,903)	(25,338)
Infrastructure and Enabling Technologies	(186,451)	(37,743)	(11,234)
Internet Professional Services	(13,795)	(900)	—
Other	(53,690)	(12,146)	(4,704)
	$ (687,244)	$(104,471)	$(56,841)

(in thousands) July 31,	2000	1999
Total assets:		
Interactive Marketing	$2,073,279	$ 205,407
eBusiness and Fulfillment	470,800	74,260
Search and Portals	2,153,474	29,072
Infrastructure and Enabling Technologies	365,290	39,432
Internet Professional Services	848,332	4,639
Other	2,645,932	2,051,784
	$8,557,107	$2,404,594

"Other" includes certain cash equivalents, available-for-sale securities, certain other assets and corporate infrastructure expenses, which are not identifiable to the operations of the Company's five operating business segments.

NOTE 4 Discontinued Operations

In May 1999, the Company completed the sale of its subsidiary, CMG Direct to MSGI. At the time, CMG Direct comprised the Company's entire lists and database services segment. As a result of the sale of CMG Direct the Company received total proceeds valued at approximately $91.4 million consisting of approximately $12.3 million in cash and approximately 2.3 million shares of MSGI common stock. As a result of the sale, the net gain of $53.2 million recorded by the Company and the historical operations of the Company's lists and database services segment have been reflected as income from discontinued operations in the accompanying consolidated financial statements. The gain on sale of data warehouse product rights by 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. 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. Summarized financial information for discontinued operations is as follows:

(in thousands) Years ended July 31,	1999	1998
Net revenues	$ 6,998	$ 9,568
Operating expenses	8,343	10,125
Operating loss	(1,345)	(557)
Gain on sale of CMG Direct	90,444	—
Gain on sale of data warehouse product rights	—	8,437
Income before income taxes	89,099	7,880
Income tax expense	36,702	3,240
Net income from discontinued operations	$52,397	$ 4,640

NOTE 5 Deconsolidation of Lycos, Inc. and Vicinity Corporation

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 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 consolidated method. Prior to these events, the operating results of Lycos were consolidated with those of CMGI's other majority-owned subsidiaries in the Company's consolidated financial statements.

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) as available-for-sale securities, carried at fair value.

The Company's consolidated operating results for the fiscal quarter ended October 31, 1997 included Lycos net revenue and operating loss of approximately $9.3 million and ($433,000), respectively.

Beginning in November 1998, CMGI's ownership interest in Vicinity Corporation (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 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 Search and Portals 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 approximately $1.5 million and operating losses of approximately ($621,000.)

NOTE 6 Available-for-Sale Securities

At July 31, 2000 and 1999, available-for-sale securities primarily consist of common stock investments, carried at fair value and based on quoted market prices, net of a market value discount to reflect any remaining restrictions on transferability. Available-for-sale securities at July 31, 2000 primarily consist of approximately: 12.9 million shares of Lycos valued at $781.6 million, 1.2 million shares of Yahoo! valued at $155.8 million, 8.0 million shares of Primedia valued at $150.0 million, 3.7 million shares of Kana valued at $135.7 million, 1.3 million shares of Critical Path valued at $73.3 million and 1.5 million shares of eBay valued at $69.6 million. Available-for-sale securities at July 31, 1999 primarily consist of approximately: 4.6 million shares of Yahoo! valued at $631.3 million, 13.1 million shares of Lycos valued at $541.5 million, 2.8 million shares of Silknet Software, Inc. (Silknet) valued at $86.0 million, 4.7 million shares of Hollywood Entertainment valued at $83.0 million, 2.7 million shares of Ventro valued at $76.0 million and 1.6 million shares of Critical Path valued at $54.0 million. Shares of publicly traded companies held by CMG@Ventures I and CMG@Ventures II which have been allocated to CMG@Ventures I's and CMG@Ventures II's profit members have been classified in other non-current assets in the accompanying Consolidated Balance Sheets and valued at carrying value as of the date of allocation. Certain shares included in available-for-sale securities at July 31, 2000 and 1999 may be required to be allocated to CMG@Ventures I's and CMG @Venture II's profit members in the future. The net unrealized holding gain of approximately $495.7 million and $308.4 million, net of deferred income taxes, has been presented as "accumulated other comprehensive income" within the Consolidated Statement of Stockholders' Equity at July 31, 2000 and 1999, respectively. Also included in available-for-sale securities at July 31, 2000 and 1999, were approximately 1.2 million and 1.5 million shares, respectively, of Lycos common stock which the Company may be required to sell to Lycos, at prices ranging from $0.0025 to $2.40 per share, pursuant to employee stock option exercises. Corresponding liabilities, carried at market value, of approximately $71.0 million have been included in other current liabilities as of July 31, 2000 and liabilities of approximately $47.8 million and $11.1 million have been included in other current and other non-current liabilities, respectively, as of July 31, 1999 to reflect these potential obligations.

NOTE 7 Property and Equipment

Property and equipment consists of the following:

(in thousands) July 31,	2000	1999
Machinery and equipment	**$143,677**	$14,974
Leasehold improvements	**76,621**	11,632
Software	**55,904**	7,941
Office furniture and equipment	**24,808**	3,015
Land and building	**16,913**	—
	317,923	37,562
Less: Accumulated depreciation and amortization	**58,653**	12,730
Net Property and Equipment	**$259,270**	$24,832

NOTE 8 Business Combinations

Fiscal 2000

In August 1999, CMGI completed its acquisition of approximately 81.5% of AltaVista, a Web portal that integrates proprietary Internet technology and services to deliver relevant results for both individuals and Web-based businesses, for 37,989,950 CMGI common shares valued at approximately $1.8 billion, 18,090.45 shares of the Company's Series D preferred stock, which were converted into approximately 3,618,090 million shares of CMGI common stock in October 1999 valued at approximately $173.0 million, two three-year notes totaling $220.0 million and the exchange of CMGI and subsidiary stock options for AltaVista stock options. The AltaVista acquisition included the assets and liabilities constituting the AltaVista Internet search service and also included former Compaq subsidiaries Zip2 Corporation and Shopping.com. The shares issued by the Company in connection with the AltaVista 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 AltaVista was valued at approximately $2.4 billion, including costs of acquisition of $4.0 million. The value of the Company's shares included in the purchase price was recorded net of a weighted average 10% market value discount to reflect the restrictions on transferability.

In January 2000, CMGI completed its acquisition of AdForce, a leading online provider of centralized, outsourced ad management and delivery services. The total purchase price for AdForce was valued at approximately $545.0 million, consisting of 11,270,209 shares of CMGI common stock valued at approximately $473.0 million, options and warrants to purchase CMGI common stock valued at approximately $70.9 million, and direct acquisition costs of approximately $1.1 million. Of the purchase price, $9.3 million was allocated to in-process research and development, which was charged to operations during the third quarter of fiscal 2000.

In January 2000, CMGI completed its acquisition of Flycast Communications Corporation (Flycast), a leading provider of Web-based direct response advertising solutions. The total purchase price for Flycast was valued at approximately $897.5 million consisting of 14,620,975 shares of CMGI common stock valued at approximately $717.0 million, options and warrants to purchase CMGI common stock valued at approximately $168.2 million, and direct acquisition costs of approximately $12.3 million. Of the purchase price, $29.3 million was allocated to in-process research and development, which was charged to operations during the third quarter of fiscal 2000.

In March 2000, CMGI completed its acquisition of yesmail.com, a leading outsourcer of permission email marketing technologies and services. The total purchase price for yesmail.com was valued at approximately $588.6 million consisting of 5,035,774 shares of CMGI common stock valued at approximately $537.8 million, options to purchase CMGI common stock valued at approximately $45.3 million, and direct acquisition costs of approximately $5.5 million. The value of the Company's shares included in the purchase price was recorded net of a weighted average 2% market value discount to reflect the restrictions on transferability on certain shares. Of the purchase price, $18.5 million was allocated to in-process research and development, which was charged to operations during the fourth quarter of fiscal 2000. Approximately $9.5 million of deferred compensation was recorded during fiscal 2000 relating to approximately 93,000 shares of the Company's common stock issued to certain of the then employee stockholders of yesmail.com. These shares are subject to certain restrictions, including repurchase by the Company, upon termination of employment prior to the end of the required service periods. Deferred compensation expense is being recognized over the service periods which expire on December 14, 2000.

In April 2000, CMGI completed its acquisition of approximately 94.2% of Tallán, a leading provider of Internet and e-commerce professional services to Fortune 500 and Global 2000 companies. The total purchase price for Tallán was valued at approximately $905.2 million consisting of cash totaling $342.3 million, options to purchase CMGI common stock valued at approximately $188.3 million, short-term promissory notes valued at approximately $368.7 million, and direct acquisition costs of approximately $5.9 million.

In April 2000, CMGI completed its acquisition of uBid, a leading e-commerce auction site. The total purchase price for uBid was valued at approximately $390.8 million consisting of 3,068,374 shares of CMGI common stock valued at approximately $360.6 million, options to purchase CMGI common stock valued at approximately $26.5 million, and direct acquisition costs of approximately $3.7 million.

In April 2000, CMGI contributed Flycast and Adsmart Corporation (Adsmart) to Engage, a majority-owned subsidiary of CMGI. Upon completion of the transaction, CMGI received approximately 64 million shares of Engage common stock, and Flycast and Adsmart became wholly-owned subsidiaries of Engage. As a result of the transaction, CMGI's ownership interest in Engage increased to approximately 87% and CMGI recorded a decrease to its consolidated stockholders' equity of approximately $54.0 million to reflect this transaction.

During fiscal year 2000, the Company, or its subsidiaries, also completed the acquisitions of eighteen other companies for combined consideration of approximately $586.1 million in CMGI and subsidiary common stock, options and warrants to purchase common stock of CMGI and subsidiaries, notes which are payable only in CMGI common stock and cash and commitments to fund a total of approximately $83.0 million in operating capital. Those acquisitions included 1stUp ($35.9 million purchase price), Activate ($61.6 million), AdKnowledge, Inc. (AdKnowledge) ($164.1 million), AdTECH Advertising Service Providing GmbH (AdTECH) (in which the Company acquired an 80.29% ownership interest) ($20.2 million), Clara Vista ($17.2 million), ClickHear, Inc. (ClickHear) ($50,000), Equilibrium ($17.1 million), ExchangePath (formerly 1ClickCharge) ($12.5 million), GreenWitch ($3.0 million), iAtlas, Inc. (iAtlas) ($23.3 million), Interactive Solutions (ISI) ($5.0 million), Raging Bull, Inc. (Raging Bull), a CMGI affiliate ($165.8 million), Shortbuzz.com, LLC (ShortBuzz) ($330,000), Signatures SNI, Inc. (Signatures Network) ($30.0 million), Transium Corporation (Transium) ($9.6 million), Tribal Voice, Inc. (Tribal Voice) ($13.8 million), Virtual BillBoard Network (VBN) ($4.7 million), and the remaining 33% minority interest in Netwright, LLC (Netwright) ($2.0 million) not already owned by CMGI. In the first step of the AdKnowledge transaction, CMGI acquired an 88% equity stake in AdKnowledge. The second step of the AdKnowledge transaction, the contribution of AdKnowledge shares held by AdKnowledge shareholders, including CMGI, to Engage in exchange for approximately 10.3 million shares of Engage common stock, closed in December 1999. Upon completion of the transaction, CMGI received approximately 9.8 million shares of Engage, and AdKnowledge became a wholly-owned subsidiary of Engage. In connection with these acquisitions, the Company recorded approximately $85.3 million of deferred compensation during fiscal 2000 relating to approximately 1.0 million shares of the Company's common stock issued to certain of the then employee stockholders of the acquired companies. These shares are subject to certain restrictions, including repurchase by the Company, upon termination of employment prior to the end of the required service periods.

Fiscal 1999

During the third fiscal quarter of 1999, CMGI exercised its right to invest an additional $22 million in cash to increase its ownership in Magnitude Network, Inc. (Magnitude Network) from 23% to 92%. Magnitude Network is a company that focuses on opportunities surrounding the integration of radio and the Internet. CMGI had previously invested total cash of $2.5 million in Magnitude Network in June 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. CMGI's ownership interest in Magnitude Network was contributed to CMGI's subsidiary, iCAST, during fiscal 2000.

In March 1999, CMGI completed the acquisition of 2CAN Media, Inc. (2CAN) for initial consideration of approximately $27.5 million. Immediately following the completion of the acquisition, 2CAN was merged with and into CMGI's subsidiary, Adsmart. 2CAN is an interactive media company serving the online advertising community with site-focused sales and advertising representation. As the primary component of the initial consideration paid for 2CAN, CMGI and Adsmart jointly issued convertible promissory notes in the aggregate principal amount of approximately $27.0 million. Pursuant to the conversion terms of the notes, approximately $26.7 million of the convertible notes have been converted as of July 31, 2000. Additionally, the initial consideration was subject to increase if certain revenue targets were achieved by Adsmart and 2CAN. During the second quarter of fiscal 2000, CMGI recorded additional purchase consideration of approximately $5.2 million as a result of contingent consideration performance goals having been met by Adsmart and 2CAN. The additional consideration was paid in shares of CMGI common stock and cash. The shares of CMGI common stock issued in the 2CAN acquisition are not registered under the Securities Act of 1933, as amended, and were subject to restrictions on transferability 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 $32.7 million including acquisition costs of $244,000. The purchase price consisted of approximately $1.6 million in net cash, $20.9 million in shares of CMGI common stock and $10.2 million in shares of Engage common stock and options. Of the purchase price, $4.5 million was allocated to in-process research and development which was charged to operations during fiscal 1999. The shares of CMGI common stock are not registered under the Securities Act of 1933, as amended, and were subject to restrictions on transferability for periods of up to twelve months following the date of the issuance. The value of the CMGI shares included in the purchase price was recorded net of a 9% weighted average market value discount to reflect the restrictions on transferability.

Also during fiscal 1999, the Company, or its subsidiaries, completed the acquisitions of four other companies for purchase prices valued at a combined total of approximately $19.8 million including acquisition costs of $300,000. Those acquisitions were Activerse, Inc. ($14.1 million purchase price), Nascent ($4.9 million), Netwright (66% ownership in exchange for $5.0 million in future funding commitments) and Digiband, Inc. ($845,000). The combined consideration for these acquisitions consisted primarily of 253,060 shares of the Company's common stock valued at approximately $19.5 million. The shares of CMGI common stock issued by the Company are not registered under the Securities Act of 1933, as amended, and are subject restrictions on transferability for periods of up to twelve months following the date of the issuance. The value of the CMGI shares included in the purchase price was recorded net of a 10% market value discount to reflect the restrictions on transferability.

In fiscal 1998, the Company acquired Accipiter, Inc. (Accipiter), a company specializing in Internet advertising management solutions, in exchange for 10,109,536 shares of the Company's common stock. The total purchase price for Accipiter was valued at approximately $31.3 million, including acquisition costs of $198,000. The value of the Company's shares included in the purchase price was recorded net of a 10% market value discount to reflect the restrictions on transferability. The shares issued by the Company in the acquisition of Accipiter were not registered under the Securities Act of 1933 and were subject to restrictions on transferability for periods ranging from six to twenty-four months from the date of issuance. Of the purchase price, $9.2 million was allocated to in-process research and development which has been charged to operations during fiscal 1998. In August 1998, Accipiter was merged with Engage. Approximately $1.7 million of deferred compensation was recorded during fiscal 1998 relating to approximately 344,000 of the Company's common shares issued to the then employee stockholders of Accipiter which were being held in escrow. These shares were subject to forfeiture upon termination of employment over a two-year period. Deferred compensation expense was recognized over the two-year service period beginning April 1, 1998.

Also during fiscal 1998, the Company, or its subsidiaries, completed the acquisition of three other companies, including InSolutions, Inc. (InSolutions), Servercast Communications, LLC (Servercast) and On-Demand Solutions, Inc. (On-Demand Solutions). The combined consideration for these acquisitions consisted of a combination of the Company's common stock, cash and seller's notes. The shares issued by the Company were not registered under the Securities Act of 1933 and were subject to restrictions on transferability for periods ranging from twelve to twenty-four months. The value of the Company's shares included in the purchase prices of these acquisitions were recorded net of market value discount of 10% to reflect the restrictions on transferability. Of the cash consideration, $5 million was provided through additional bank borrowings by the Company's subsidiary, SalesLink. During fiscal 2000, the Company recorded additional purchase price for the InSolutions acquisition of approximately $1.5 million as a result of contingent consideration performance goals having been met. Also during fiscal 2000, InSolutions and On-Demand Solutions were contributed to SalesLink.

The acquisitions completed during fiscal 2000, 1999 and 1998 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 dates of acquisition. Goodwill and other intangible assets totaling approximately $5.98 billion and $103.8 million were recorded related to acquisitions in fiscal 2000 and 1999, respectively, and are being amortized on a straight-line basis over periods ranging from two or five years. The portions of the purchase prices allocated to goodwill are being amortized on a straight-line basis over five years for all fiscal year 1998 acquisitions with the exception of InSolutions and On-Demand Solutions whose goodwill is being amortized over 15 years. The acquired companies are included in the Company's consolidated financial statements from the dates of acquisition.

The purchase prices for fiscal year 2000 and 1999 acquisitions were allocated as follows:

	Fiscal 2000				
(in thousands)	AltaVista	AdForce	Flycast	yesmail.com	Tallán
Working capital, including cash (cash overdraft) acquired	**$ (39,604)**	**$ 33,808**	**$ 36,880**	**$ 15,378**	**$ 14,024**
Property and equipment	**44,460**	**10,360**	**11,751**	**3,195**	**3,062**
Other assets (liabilities), net	**15,786**	**(15,997)**	**(9,490)**	**21,068**	**32,167**
Goodwill	**2,199,426**	**449,269**	**735,202**	**514,540**	**809,935**
Developed technology	**128,128**	**29,440**	**35,000**	**8,000**	**—**
Other identifiable intangible assets	**40,575**	**28,820**	**58,820**	**7,940**	**46,000**
In-process research and development	**—**	**9,300**	**29,300**	**18,500**	**—**
Minority interest	**—**	**—**	**—**	**—**	**—**
Losses recorded under equity method	**—**	**—**	**—**	**—**	**—**
Purchase price	**$2,388,771**	**$545,000**	**$897,463**	**$588,621**	**$905,188**

	Fiscal 2000			Fiscal 1999
(in thousands)	uBid	Others	Total	Total
Working capital, including cash (cash overdraft) acquired	**$ 22,927**	**$ 32,397**	**$ 115,810**	$ (6,859)
Property and equipment	**5,423**	**11,583**	**89,834**	2,388
Other assets (liabilities), net	**(889)**	**12,108**	**54,753**	(646)
Goodwill	**323,371**	**500,335**	**5,532,078**	103,808
Developed technology	**12,700**	**7,150**	**220,418**	3,000
Other identifiable intangible assets	**27,300**	**15,160**	**224,615**	1,920
In-process research and development	**—**	**7,337**	**64,437**	6,061
Minority interest	**—**	**—**	**—**	(119)
Losses recorded under equity method	**—**	**—**	**—**	388
Purchase price	**$390,832**	**$586,070**	**$6,301,945**	$109,941

The above allocations of the AltaVista and Tallán purchase prices represent the Company's 81.5% and 94.2% interest in the fair values of the acquired underlying assets and liabilities of AltaVista and Tallán, respectively. The purchase price allocations for each of the acquisitions which were consummated during fiscal 2000 are preliminary and are subject to adjustment upon finalization of the purchase accounting.

Amortization of intangible assets and stock-based compensation consists of the following:

(in thousands) Years ended July 31,	2000	1999	1998
Amortization of intangible assets	**$1,317,795**	$14,672	$2,593
Amortization of stock-based compensation	**84,880**	1,455	500
Impairment of intangible assets, net	**34,205**	—	—
Total	**$1,436,880**	$16,127	$3,093

The Company has recorded impairment charges totaling approximately $34.2 million during fiscal 2000 as a result of management's ongoing business review and impairment analysis performed under its existing policy regarding impairment of long-lived assets. The significant components of this balance include an impairment charge of approximately $13.3 million related to the closing of operations at Activerse and a net impairment charge of approximately $11.8 million related to the sale of substantially all of the assets of Magnitude Network. An impairment charge of approximately $16.7 million for Magnitude Network was initially recorded in the third quarter of fiscal 2000, based on an evaluation of the net realizable value of the entity at that date. In the fourth quarter of fiscal 2000, approximately $4.9 million was recorded as a reduction of the previously recorded impairment charge due to the estimated value of the consideration to be received upon the consummation of the sale of substantially all of the assets of Magnitude Network, which occurred during the first quarter of fiscal 2001.

The following unaudited pro forma financial information presents the consolidated operations of the Company as if the fiscal year 2000 acquisitions of AltaVista, AdForce, Flycast, yesmail.com, Tallán, and uBid, and the fiscal year 1999 acquisitions of Magnitude Network, 2CAN, I/PRO, Activerse, and Nascent had occurred as of the beginning of fiscal 2000 and 1999, respectively, after giving effect to certain adjustments including increased amortization of goodwill and other intangible assets related to the acquisitions and increased interest expense related to long-term debt issued in conjunction with the acquisitions. In-process research and development charges totaling $57.1 million and $6.1 million which were recorded in fiscal 2000 and 1999, respectively, related to the acquisitions of AdForce, Flycast and yesmail.com in fiscal 2000 and I/PRO, Magnitude Network and Nascent in fiscal 1999 are excluded from the pro forma results as they are non-recurring and not indicative of normal operating results. The unaudited pro forma information excludes the impact of all other fiscal year 2000 and 1999 acquisitions since they are not material to the Company's consolidated financial statements. The unaudited pro forma financial information is provided for informational purposes only and should not be construed to be indicative of the Company's consolidated results of operations had the acquisitions been consummated on the dates assumed and do not project the Company's results of operations for any future period:

(in thousands, except per share data) Years ended July 31,	2000	1999
Net revenue	$ 1,228,633	$ 481,290
Net loss	$(1,918,717)	$(1,179,750)
Net loss per share (basic and diluted)	$ (6.68)	$ (4.51)

NOTE 9 CMGI@Ventures Investments

The Company's first Internet venture fund, CMG@Ventures I was formed in February 1996. The Company owns 100% of the capital and is entitled to approximately 77.5% of the net capital gains of CMG@Ventures I. The Company completed its $35 million commitment to this fund during fiscal year 1997. The Company's second Internet venture fund, CMG@Ventures II, was formed during fiscal year 1997. The Company owns 100% of the capital and is entitled to 80% of the net capital gains of CMG@Ventures II. The remaining interest in the net capital gains on these investments are attributed to profit members, including the Chief Executive Officer and the Chief Financial Officer of the Company. The Company is responsible for all operating expenses of CMG@Ventures I and CMG@Ventures II. CMG@Ventures II invested a total of approximately $27.6 million in 15 companies during fiscal year 1998, approximately $26.4 million in nine companies during fiscal year 1999 and approximately $7.3 million in four companies during fiscal year 2000.

In fiscal year 1999, CMGI formed the @Ventures III venture capital fund (@Ventures III Fund). The @Ventures III Fund secured capital commitments from outside investors, and CMGI, to be invested in emerging Internet service and technology companies. 78.1% of amounts committed to the @Ventures III Fund are provided through two entities, @Ventures III, L.P. and @Ventures Foreign Fund III, L.P. CMGI does not have a direct ownership interest in either of these entities, but CMGI is entitled to 2% of the net capital gains realized by both entities. Management of these entities is the responsibility of @Ventures Partners III, LLC (@Ventures Partners III), which is entitled to 20% of their net gains. The Company has committed to contribute up to $56 million to its limited liability company subsidiary, CMG@Ventures III, equal to 19.9% of total amounts committed to the @Ventures III Fund, of which approximately $49.9 million has been funded as of July 31, 2000. CMG@Ventures III will take strategic positions side by side with the @Ventures III Fund. CMGI owns 100% of the capital and is entitled to 80% of the net capital gains realized by CMG@Ventures III. @Ventures Partners III is entitled to the remaining 20% of the net capital gains realized by CMG@Ventures III. The remaining 2% committed to the @Ventures III Fund is provided by a fourth entity, @Ventures Investors, LLC (@Ventures Investors), in which CMGI has no ownership. The Company's Chief Executive Officer and Chief Financial Officer each have individual ownership interests in @Ventures Investors and, as members of @Ventures Partners III, are entitled to a portion of net gains distributed to @Ventures Partners III. CMG@Ventures III invested a total of approximately $20.3 million in 23 companies during fiscal year 1999 and approximately $29.7 million in 25 companies during fiscal year 2000.

During fiscal year 2000, CMGI formed an expansion fund to the @Ventures III Fund to provide follow-on financing to existing @Venture III Fund investee companies pursuant to which CMGI's commitment increased by $38.2 million through its limited liability company subsidiary CMG@Ventures Expansion. CMG@Ventures Expansion invested a total of approximately $9.3 million in 14 companies during fiscal year 2000.

Also during fiscal year 2000, CMGI announced the formation of three new venture capital funds including: CMGI@Ventures IV, the B2B Fund, the Tech Fund. CMGI owns 100% of the capital and is entitled to 80% of the net capital gains realized by CMGI@Ventures IV, the B2B Fund and the Tech Fund. During fiscal year 2000, CMGI@Ventures IV, the B2B Fund, and the Tech Fund invested approximately $28.9 million, $155.0 million and $37.3 million in three, eleven and six companies, respectively.

NOTE 10 Gains on Issuance of Stock by Subsidiaries and Affiliates

The following schedule reflects the components of "Gains on issuance of stock by subsidiaries and affiliates":

(in thousands) Years ended July 31,	2000	1999	1998
Gain on stock issuance by NaviSite	$51,279	$ —	$ —
Gain on stock issuance by Vicinity	20,903	—	—
Gain on stock issuance by Engage	8,205	81,103	—
Gain on stock issuance by GeoCities	—	29,373	—
Gain on stock issuance by Lycos	—	20,253	46,285
	$80,387	$130,729	$46,285

For the fiscal year ended July 31, 2000, gain on issuance of stock by NaviSite related primarily to the issuance of approximately 12.8 million shares of NaviSite's common stock in its initial public offering at a price of $7 per share, raising approximately $80.4 million in net proceeds for NaviSite. The Company recorded a pre-tax gain of approximately $51.9 million as a result of the initial public offering. As a result, the Company's ownership interest in NaviSite was reduced from approximately 89% to approximately 69%. The Company provided for deferred income taxes resulting from the gain on issuance of stock by NaviSite.

Also during the fiscal year ended July 31, 2000, the Company's affiliate, Vicinity, completed its initial public offering of common stock, issuing approximately 8.0 million shares at a price of $17 per share, raising approximately $126.1 million in net proceeds for Vicinity. As a result of the initial public offering, the Company's ownership interest in Vicinity was reduced from approximately 29% to approximately 21%. The Company recorded a pre-tax gain of approximately $20.9 million as a result of this initial public offering. The gains were recorded net of the interests attributable to CMG@Ventures I's and CMG@Ventures II's profit members. The Company provided for deferred income taxes resulting from the gain on issuance of stock by Vicinity.

Also during the fiscal year ended July 31, 2000, gain on issuance of stock by Engage, related primarily to the issuance of approximately 1.7 million shares of its common stock to Compaq at a price of $15 per share, raising approximately $24.2 million in net proceeds for Engage. The Company recorded a pre-tax gain of approximately $12.6 million as a result of the issuance of stock by Engage to Compaq. The Company's ownership interest in Engage remained approximately 87% as a result of the Compaq transaction. The Company provided for deferred income taxes resulting from the gain on issuance of stock by Engage.

During the fiscal year ended July 31, 1999, the gain on issuance of stock by Engage related primarily to the issuance by Engage of approximately 15.6 million shares of its common stock in its initial public offering ($7.50 per share) and in a private placement of its common stock ($6.98 per share). Engage received net proceeds totaling approximately $108.0 million from these stock issuances and the Company's ownership in Engage was reduced from approximately 96% to 79%. The Company provided for deferred income taxes resulting from the gain on issuance of stock by Engage.

Also during the fiscal year 1999, the Company's affiliate, GeoCities, completed its initial public offering of common stock, issuing approximately 5.5 million shares at a price of $17 per share, which raised approximately $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 28%. The Company recorded a pre-tax gain of approximately $24.1 million related to the issuance of stock by GeoCities in its initial public offering. The Company also recorded net pre-tax gains totaling approximately $5.3 million related to other issuances of stock by GeoCities during fiscal year 1999 which included stock issued by GeoCities in its acquisition of Starseed, Inc. (known as WebRing) and Futuretouch.

The gain on issuance of stock by Lycos in fiscal year 1999 was primarily related to the issuance of approximately 4.1 million shares by Lycos, valued at approximately $158.0 million during August 1998 in its acquisition of WhoWhere? Inc. With this transaction, the Company's ownership interest in Lycos was reduced from approximately 24% to 22%.

During the fiscal year 1998, the Company recorded a pre-tax gain of approximately $16.8 million relating to Lycos' issuance of 1.3 million shares of its common stock, valued at approximately $61.0 million, in its acquisition of Tripod, Inc. during February 1998. With this transaction, the Company's ownership in Lycos was reduced from approximately 46% to 42%. The Company's pre-tax gain was recorded net of the impact of a $7.2 million in-process research development charge recorded by Lycos in conjunction with the acquisition of Tripod, Inc. In June 1998, the Company recorded a pre-tax gain of approximately $23.0 million relating to Lycos' secondary public offering of approximately 2.3 million shares of common stock at $50 per share, which raised net proceeds of approximately $111.2 million for Lycos. With this transaction, the Company's ownership in Lycos was reduced from approximately 35% to 31%. The Company also recorded net pre-tax gains totaling approximately $6.6 million on other issuances of stock by Lycos during fiscal year 1998, which included stock issued by Lycos relating to other acquisitions and minority investments during fiscal year 1998, net of the impact of in-process research and development charges recorded by Lycos, and stock issued by Lycos as a result of employee stock option exercises. The gains on issuance of stock by Lycos in fiscal years 1999 and 1998 were recorded net of the interests attributable to CMG@Ventures I's profit members. The Company provided for deferred income taxes resulting from the gains on stock issuances by Lycos during fiscal years 1999 and 1998.

NOTE 11 **Other Gains, Net**

The following schedule reflects the components of "Other gains, net":

(in thousands) Years ended July 31,	2000	1999	1998
Gain on sale of Yahoo! common stock	**$499,533**	$ —	$ —
Gain on sale of investment in Half.com	**53,641**	—	
Loss on impairment of MSGI common stock	**(35,000)**	—	—
Gain on sale of investment in GeoCities	**—**	661,171	—
Gain on sale of investment in Sage Enterprises	**—**	19,057	—
Gain on sale of investment in Reel.com	**—**	23,158	—
Gain on sale of Lycos common stock	**—**	45,475	92,388
Other	**7,091**	9,451	4,174
	$525,265	$758,312	$96,562

During fiscal year 2000, the Company sold 9,092,304 shares of Yahoo! common stock on the open market for proceeds of approximately $1.1 billion and recorded a pre-tax gain of approximately $499.5 million on the sales. In addition, the Company recorded a pre-tax gain of approximately $53.6 million on the sale of its investment in Half.com to eBay. The Company's subsidiary, CMGI@Ventures IV converted its holdings in Half.com into 1,480,267 shares of eBay common stock valued at a total of approximately $61.2 million. This gain was recorded net of the 20% interest attributable to CMGI@Ventures IV's profit members.

During fiscal year 1999, the Company recorded a pre-tax gain of approximately $661.2 million on the sale of its investment in

GeoCities to Yahoo!. The Company's subsidiaries, CMG@Ventures I and CMG@Ventures II converted their holdings in GeoCities into 5,595,706 shares and 341,423 shares of Yahoo! common stock, respectively, valued at a total of approximately $878.7 million. The gain was recorded net of the interests attributable to CMG@Ventures I's and II's profit members. In addition, the Company recorded a pre-tax gain of approximately $19.1 million on the sale of CMG@Ventures II's investment in Sage Enterprises. CMG@Ventures II converted its holdings in Sage Enterprises into 225,558 shares of Amazon.com common stock, valued at approximately $26.5 million, as part of a merger wherein Amazon.com acquired Sage Enterprises. This gain was recorded net of the 20% interest attributable to CMG@Ventures II's profit members.

During fiscal 1999, the Company recorded a pre-tax gain of approximately $23.2 million on the sale of CMG@Ventures II's investment in Reel.com. 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, valued at a total of approximately $32.8 million, as part of a merger wherein Hollywood Entertainment acquired Reel.com. The preferred shares were subsequently converted into common shares on a 1-for-1 basis. The gain is reported net of the 20% interest attributable to CMG@Ventures II's profit members.

Also during fiscal 1999, the Company sold 818,000 of its Lycos shares on the open market. As a result of the sale, the Company received proceeds of approximately $53.1 million, and recognized a pre-tax gain of approximately $45.5 million, 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 fiscal 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) as available-for-sale securities, carried at fair value, rather than under the equity method.

During fiscal 1998, the Company sold 1,955,015 of its Lycos shares, including 1,705,015 sold on the open market throughout the year and 250,000 shares sold as part of Lycos' secondary public offering in June 1998. The Company received net proceeds of approximately $108.9 million from its sales of Lycos shares in fiscal 1998 and recorded pre-tax gains on the sales totaling approximately $92.4 million. The pre-tax gains on the Company's sales of Lycos shares are reported net of the associated interest attributed to CMG@Ventures I's profit members.

Also, included in "Other gains, net" in fiscal 2000 were a pre-tax gain on the sale of Amazon.com common stock of approximately $4.2 million, a pre-tax gain on the sale of Open Market, Inc. common stock of approximately $5.8 million and an impairment charge of approximately $35.0 million related to CMGI's MSGI common shares securities. Also, included in "Other gains, net" in fiscal year 1999 were a gain on the sale of Amazon.com common stock of approximately $7.0 million, a gain on the sale of Critical Path common stock of approximately $3.4 million and an impairment charge of approximately ($952,000) related to CMG@Ventures II's investment in Softway Systems, Inc. Included in "Other gains, net" in fiscal year 1998 was a pre-tax gain on the sale of Premiere Technologies, Inc. common stock of approximately $4.2 million. These gains were reported net of the interest, if any, attributable to CMG@Ventures I's and II's profit members.

NOTE 12 **Borrowing Arrangements**

At July 31, 2000, notes payable totaling approximately $523.0 million consisted of three short-term promissory notes issued in connection with the Company's acquisition of Tallán and a forward sale agreement entered into by the Company for its Yahoo! common stock. Notes payable at July 31, 1999 consisted of $20.0 million in collateralized corporate borrowings. These borrowings were repaid in full in January 2000.

In March 2000, the Company issued three short-term promissory notes totaling approximately $376.9 million as consideration for the Company's acquisition of Tallán. Interest on each note is payable at a rate of 6.5% per annum. Principal and interest payments due on the notes are payable in September 2000 and December 2000, at the option of CMGI, in cash, marketable securities or any combination thereof. The value of the promissory notes included in the purchase price was recorded net of a discount of $8.2 million to reflect the difference between the actual interest rates of the promissory notes and the Company's current incremental borrowing rates for similar types of borrowing transactions. The discounts are being amortized over the life of the notes.

In April 2000, the Company entered into a forward sale agreement that hedges a portion of the Company's investment in common stock of Yahoo!. Under the terms of the contract, the Company agreed to deliver, at its discretion, either cash or Yahoo! common stock in three separate tranches, with maturity dates ranging from August 2000 to February 2001. The Company executed the first tranche in April 2000 and received approximately $106.4 million. The Company subsequently settled this tranche through the delivery of 581,499 shares of Yahoo! common stock in August 2000. In May 2000, the Company received approximately $68.5 million and $5.7 million upon the execution of the second and third tranches, respectively. The Company has agreed to deliver, at its discretion, either cash or an additional 581,499 and 47,684 shares of Yahoo! common stock in November 2000 and February 2001 to settle these tranches, respectively.

SalesLink has a revolving credit agreement with a bank. The revolving credit agreement provides for the option of interest at LIBOR or the higher of 1) Prime, or 2) 0.5% above the Federal Funds Effective Rate plus, in any case, an applicable margin based on SalesLink's leverage ratio (8.12% and 7.22% effective rates at July 31, 2000 and 1999, respectively). At July 31, 2000, SalesLink's revolving line of credit agreement totaled $9 million, of which $800,000 had been reserved in support of outstanding letters of credit for operating leases, and $8.2 million was available for future borrowings. The line of credit matures November 11, 2002 and includes a commitment fee payable quarterly at a rate of 0.05% per annum on the average daily unused portion of the line. Also, as of July 31, 2000, SalesLink, had an interest rate swap agreement with the lender providing SalesLink's bank borrowing arrangements. The agreement effectively set a maximum LIBOR interest rate base on debt for a notional principal amount of $6.2 million at a rate of 5.84% through October 31, 2002. At July 31, 2000, based on prices quoted from the bank, interest rate hedge agreement values would indicate an asset of $82,000 if the contract were to be terminated.

Long-term debt consists of the following:

(in thousands) July 31,	2000	1999
Notes payable to Compaq	$220,000	$ —
Term notes payable to a bank issued by SalesLink	12,400	14,338
Notes payable to former shareholders of 2CAN	325	3,034
Note payable to former shareholder of InSolutions	1,947	1,946
Notes payable to former members of Servercast issued by NaviSite	—	1,000
	234,672	20,318
Less: Current portion	6,649	5,258
	$228,023	$15,060

In August 1999, the Company issued two three-year notes totaling $220.0 million to Compaq as consideration for the Company's acquisition of AltaVista. The notes bear interest at an annual rate of 10.5% and are due and payable in full in August 2002. Interest is due and payable semiannually on each February 18 and August 18 until the notes are paid in full. Principal and interest payments due on the notes are payable in cash, marketable securities, or any combination thereof at the option of CMGI.

SalesLink's term notes payable to a bank provide for the option of interest at LIBOR or the higher of 1) Prime, or 2) 0.5% above the Federal Funds Effective Rate plus, in any case, an applicable margin based on SalesLink's leverage ratio (8.12% and 7.22% effective rates at July 31, 2000 and 1999, respectively). The bank term notes outstanding at July 31, 2000 provide for repayment in quarterly installments through October 2002.

The obligations of SalesLink, under its bank line of credit and bank term loans have been guaranteed by CMGI. As of July 31, 2000, SalesLink was not in compliance with a certain covenant of its borrowing arrangements. SalesLink has received a waiver for such covenant violation. In fiscal year 1999, CMGI invested a $10 million original principal amount of subordinated convertible notes and warrants to purchase SalesLink Series A Convertible Preferred Stock in order to cure certain covenant defaults under the SalesLink fiscal year 1998 borrowing arrangements. The bank subsequently waived all covenant defaults and amended certain financial and operating covenants contained in the SalesLink bank facility. There were no defaults as of July 31, 1999.

The Company and its subsidiary, Adsmart, jointly issued convertible notes payable to former shareholders of 2CAN in March 1999 as partial purchase consideration. The notes bear interest at an annual rate of 6.5% and are due and payable in full in March 2004, if not previously converted by the holders.

The Company issued a note payable to a former shareholder of InSolutions in June 1998 as part of consideration for the Company's acquisition of InSolutions. The note bears interest at 5.71% and the initial tranche of the note was payable in twelve monthly installments beginning in November 1998. In accordance with the purchase agreement, InSolutions was required to meet certain performance goals in order for the contingent second and third tranches of the note to become payable. During fiscal year 1999 and 2000, InSolutions met its performance goals, and accordingly additional principal amounts of approximately $1.5 million and $1.5 million, respectively, became due under this note. The amounts related to the second and third tranches are each payable in twelve monthly installments beginning in November 1999 and 2000, respectively.

The Company's subsidiary, NaviSite, issued $1 million in notes payable to former members of Servercast as consideration for the acquisition of Servercast in July 1998. These notes were repaid in January 2000.

Maturities of long-term debt are approximated as follows: 2001, $6.6 million; 2002, $6.1 million; 2003, $221.6 million; 2004, $.4 million.

NOTE 13 Commitments and Contingencies

The Company leases facilities and certain other machinery and equipment under various noncancelable operating leases expiring through June 2013. Future minimum lease payments as of July 31, 2000 are as follows:

(in thousands)	
2001	$139,604
2002	119,880
2003	73,372
2004	56,537
2005	50,206
Thereafter	110,065
	$549,664

Total future minimum lease payments have not been reduced by future minimum sublease rentals of approximately $11.9 million.

Total rent and equipment lease expense charged to continuing operations was approximately $79.0 million, $16.3 million and $10.5 million for the years ended July 31, 2000, 1999 and 1998, respectively.

The Company leases facilities and certain machinery and equipment under non-cancelable capital lease arrangements. The present value of net minimum capital lease obligations included in other current liabilities and other long term liabilities are $23.0 million and $43.8 million, respectively.

Subsequent to July 31, 2000, the Company's subsidiary, NaviSite, did not comply with a covenant associated with an equipment leasing facility it had established with a bank. NaviSite had approximately $30 million in outstanding obligations under this leasing facility at July 31, 2000.

On August 23, 2000, the Company announced it has acquired the exclusive naming and sponsorship rights to the New England Patriots' new stadium, to be known as "CMGI Field," for a period of fifteen years. In return for the naming and sponsorship rights, CMGI will pay $7.6 million per year for the first ten years, with consumer price index adjustments for years eleven through fifteen. CMGI will not make its first semi-annual payment under this agreement until January 2002.

In June 2000, the Company's subsidiary, NaviSite, completed its financing of certain of its data center infrastructure and capital equipment under a sale-leaseback arrangement. The transaction has been accounted for as a financing arrangement, wherein the property remains on NaviSite's books and will continue to be depreciated. The total proceeds of $30 million was recorded as a capital lease obligation and is being reduced based on payments under the lease. The lease bears interest at 9.15% and has a term of four years. NaviSite is required to repurchase the leased assets at the end of the agreement at an agreed upon price. The lease contains certain financial covenants which NaviSite was in compliance with as of and for the year ended July 31, 2000.

In August 1999, the Company entered into a Strategic Alliance Partnership with Compaq. This partnership is intended to create mutually beneficial ways of bundling, distributing and promoting products and services of companies in the CMGI network on Compaq's products. Under this partnership, each party has committed to spend $50.0 million to co-market products and services over the first six quarters of the term of the agreement. Also, under this partnership, the Company is obligated to pay Compaq a fee based on the number of redirect messages directed to the Company's sites from Compaq.

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Company.

NOTE 14 **Redeemable, Convertible Preferred Stock**

On June 29, 1999, CMGI completed a $375 million private placement of 375,000 shares of newly issued Series C Redeemable, Convertible Preferred Stock ("Series C Preferred Stock"). Each share of Series C Preferred Stock has a stated value of $1,000 per share. The Company will pay a semi-annual dividend of 2% per annum, in arrears, on June 30 and December 30 of each year at the Company's option, in cash or through an adjustment to the liquidation preference of the Series C Preferred Stock. Such adjustments, if any, will also increase the number of shares into which the Series C Preferred Stock is convertible into common stock. The Series C Preferred Stock is segregated into three separate tranches of 125,000 shares each. The shares in each tranche have identical rights and preferences to shares in other tranches except as to conversion price. The three tranches are convertible into common stock at prices of $45.72, $37.58 and $37.66 per share. The conversion price calculated for each tranche is also subject to adjustment for certain actions taken by the Company. The Series C Preferred Stock may be converted into common stock by the holders any time and automatically converts into common stock on June 30, 2002. The Series C Preferred Stock is redeemable at the option of the holders upon the occurrence of certain events.

On December 22, 1998, CMGI completed a $50 million private placement of 50,000 shares of newly issued Series B Redeemable, Convertible Preferred Stock ("Series B Preferred Stock"). Each share of Series B Preferred Stock has a stated value of $1,000 per share, and accretes an incremental conversion premium at a rate of 4% per year. In April 1999, 15,000 shares of Series B Preferred Stock, with a face amount of $15,000,000 and accumulated conversion premium of $184,000, were converted into 1,168,008 shares of the Company's common stock. In April 2000, 35,000 shares of Series B Preferred Stock, with a face amount of $35,000,000 and accumulated conversion premium of approximately $1.6 million, were converted into 2,834,520 shares of the Company's common stock.

NOTE 15 **Stockholders' Equity**

On May 5, 2000, stockholders of CMGI approved an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of capital stock from 405,000,000 to 1,405,000,000 shares.

On May 11, 1998, January 11, 1999, May 27, 1999 and January 11, 2000 the Company effected 2-for-1 common stock splits in the form of stock dividends. Accordingly, all data shown in the accompanying consolidated financial statements have been retroactively adjusted to reflect these events.

Pursuant to a stock purchase agreement entered into as of December 19, 1997, the Company sold 8,048,032 shares of its common stock to Intel Corporation (Intel). The CMGI shares sold to Intel were priced at $1.359 per share, with proceeds to CMGI totaling approximately $10.9 million. On February 27, 1998 the Company sold 5 million shares of its common stock to Sumitomo Corporation (Sumitomo). The CMGI shares sold to Sumitomo were priced at $2.00 per share, with proceeds to CMGI totaling approximately $10.0 million.

Effect of subsidiaries' equity transactions in fiscal 1998 relate to the issuance by Blaxxun Interactive, Inc. (Blaxxun) of common and preferred shares for total proceeds of $690,000, including $500,000 invested by the Company. As a result of the fiscal 1998 transactions, the Company's ownership in Blaxxun was reduced from 92% to 81%. An increase of approximately $3.1 million, net of deferred income taxes, has been recorded in the accompanying Consolidated Statement of Stockholders' Equity to reflect the increase in the Company's net equity in Blaxxun as a result of this transaction.

Effect of subsidiaries' equity transactions during fiscal 1999 primarily related to equity transactions of NaviSite and Engage, prior to its initial public offering. In June 1999, NaviSite completed a private equity placement of approximately 4.2 million preferred shares at $3.70 per share, raising net proceeds to NaviSite of approximately $15.4 million. With this transaction, the Company's ownership in NaviSite was reduced from approximately 99% to 89%. An increase of approximately $7.9 million, net of deferred income taxes, has been recorded in the accompanying Consolidated Statement of Stockholders' Equity to reflect the increase in the Company's net equity in NaviSite as a result of NaviSite's private placement. During April 1999, Engage acquired I/PRO for consideration which included the issuance of 1 million shares of Engage common stock and Engage stock options valued at a total of approximately $10.2 million. As a result of the issuance, the Company's ownership in Engage was reduced from approximately 98% to 96%. An increase of approximately $4.7 million, net of deferred income taxes, has been recorded in the accompanying Consolidated Statement of Stockholders' Equity to reflect the increase in the Company's net equity in Engage as a result of this transaction.

Effect of subsidiaries' equity transactions during fiscal 2000 was primarily related to the equity transactions of Engage, AltaVista, CMGion and NaviSite. In April 2000, Engage completed its acquisition of Flycast and Adsmart from CMGI. As a result of this transaction, CMGI received approximately 64.3 million shares of Engage stock and the Company's ownership percentage in Engage increased from approximately 81% to 87%. A decrease of approximately $54.0 million has been recorded in the accompanying Consolidated Statements of Stockholders' Equity to reflect the decrease in the Company's net equity in Engage as a result of Engage's purchase of Flycast and Adsmart. In June 2000, CMGI invested $50.0 million in Engage in exchange for approximately 3.3 million shares of Engage common stock. As a result of the transaction, the Company's ownership percentage in Engage remained approximately 87%. A decrease of approximately $5.1 million has been recorded in the accompanying Consolidated Statement of Stockholders' Equity as a result of the transaction. During the third quarter of fiscal 2000, AltaVista acquired Raging Bull and Transium in exchange for AltaVista common stock. In addition, during the third quarter, AltaVista also issued shares of its stock to CMGI and Compaq to satisfy AltaVista's borrowings from CMGI and Compaq. As a result of these transactions, CMGI's ownership in AltaVista decreased from approximately 82% to 78%. An increase of approximately $38.8 million has been recorded in the accompanying Consolidated Statements of Stockholders' Equity as a result of these transactions. During April and May fiscal 2000, CMGion completed a private placement of approximately 2.7 million preferred shares raising approximately $60.0 million in net proceeds. With these transactions, the Company's ownership percentage in CMGion decreased from 100% to approximately 85%. An increase of approximately $30.0 million, net of deferred income taxes, has been recorded in the accompanying Consolidated Statements of Stockholders' Equity as a result of CMGion's private placement of its stock. In May 2000, CMGI invested $50.0 million in NaviSite in exchange for approximately 981,000 shares of NaviSite common stock. As a result of the transaction, the Company's ownership percentage in NaviSite remained approximately 70%. A decrease of approximately $14.7 million, net of deferred income taxes, has been recorded in the accompanying Consolidated Statements of Stockholders' Equity as a result of the transaction.

During fiscal 2000, the Company completed stock exchanges with four companies. On November 29, 1999, the Company received approximately 448.3 million shares of PCCW common stock in exchange for approximately 8.2 million shares of CMGI common stock. On April 7, 2000, the Company received approximately 1.7 million shares of Netcentives common stock in exchange for approximately 425,000 shares of CMGI common stock. On May 19, 2000, the Company received approximately 8.0 million shares of Primedia, Inc. common stock in exchange for approximately 1.5 million shares of CMGI common stock. On July 18, 2000, the Company received approximately 1.7 million shares of divine common stock in exchange for approximately 372,000 shares of CMGI common stock.

NOTE 16 **Stock Option Plans**

The Company currently awards stock options under two plans: the 1986 Stock Option Plan (1986 Plan) and the 1999 Stock Option Plan For Non-Employee Directors (1999 Directors' Plan), which replaced the 1995 Directors' Plan (1995 Directors' Plan). Options under both plans are granted at fair market value on the date of the grant. Options granted under the 1986 Plan are generally exercisable in equal cumulative installments over a four-to-ten year period beginning one year after the date of grant. Options under the 1999 Directors' Plan become exercisable in five equal installments beginning immediately after each Annual Stockholders' Meeting following the date of grant.

In addition, the Company assumed several stock option plans of companies which were acquired during fiscal 2000. Options to purchase a total of approximately 10.2 million shares of CMGI common stock were assumed. The terms and conditions of these assumed options were consistent with the terms of the plans under which they were initially granted by the acquired companies.

Under the 1986 Plan, non-qualified stock options or incentive stock options may be granted to the Company's or its subsidiaries' employees, as defined. The Board of Directors administers this plan, selects the individuals to whom options will be granted, and determines the number of shares and exercise price of each option. Outstanding options under the 1986 Plan at July 31, 2000 expire through 2005. The maximum number of the Company's common shares available under the 1986 Plan is 56,000,000 shares. The number of shares reserved for issuance pursuant to the 1986 Plan is reduced by the number of shares issued under the Company's 1995 Employee Stock Purchase Plan (see note 17).

During fiscal 2000, the 1999 Directors' Plan replaced the Company's 1995 Directors' Plan, however, all outstanding options under the 1995 Directors' Plan remained in effect. Options under the plans are granted at fair market value on the date of the grant. Options under the 1995 Directors' Plan were amended in fiscal year 2000 to provide that all options previously granted under the plan vest monthly for the remainder of the five-year vesting term (in contrast to the previous vesting schedule which consisted of five annual 20% installments). Options under the 1999 Directors' Plan are exercisable as to $\frac{1}{48}$th of the number of shares of Common Stock originally subject to the option on each monthly anniversary of the date of grant, provided that the optionee serves as a director on such monthly anniversary date. Outstanding options under the 1995 Directors' Plan and the 1999 Directors' Plan at July 31, 2000 expire through 2010.

Pursuant to the 1995 Directors' Plan, 4,512,000 shares of the Company's common stock were initially reserved. Under the 1995 Directors' Plan, options for 752,000 shares were to be granted to each Director who is neither an officer or full time employee of the Company, nor an affiliate of an institutional investor which owns shares of common stock of the Company. Options were granted to existing Directors with five years of continuous service at the date the Plan was adopted, and were granted to subsequent Directors at the time of election to the Board.

The 1999 Directors' Plan, approved in fiscal year 2000, replaces the Company's 1995 Directors' Plan. No further option grants shall be made under the 1995 Directors' Plan, however, all outstanding options under the 1995 Directors' Plan remain in effect. Pursuant to the 1999 Directors' Plan, 2,000,000 shares of the Company's common stock were initially reserved. Each eligible director who is elected to the Board for the first time will be granted an option to acquire 96,000 shares of Common Stock (the "Initial Option"). Each Affiliated Director who ceases to be an Affiliated Director and is not otherwise an employee of the Company or any of its subsidiaries or affiliates will be granted, on the date such director ceases to be an Affiliated Director but remains as a member of the Board of Directors, an Initial Option to acquire 96,000 shares of Common Stock under the plan. Each Initial Option will vest and become exercisable as to $\frac{1}{48}$th of the number of shares of Common Stock originally subject to the option on each monthly anniversary of the date of grant, provided that the optionee serves as a director on such monthly anniversary date. On each anniversary of the grant of the Initial Option to an eligible director, each eligible director will automatically be granted an option to purchase 24,000 shares of Common Stock (an "Annual Option"), provided that such eligible director serves as a director on the applicable anniversary date. In addition, each eligible director who received an option under the 1995 Directors' Plan will receive an Annual Option on the second anniversary of the date on which such option was granted, and on each subsequent anniversary date thereof, provided that the optionee serves as a director on the applicable anniversary date. Each Annual Option will vest and become exercisable on a monthly basis as to $\frac{1}{12}$th of the number of shares originally subject to the option commencing on the 37th month after the grant date, provided that the optionee then serves as a director on such monthly anniversary date.

The status of the plans during the three fiscal years ended July 31, 2000, was as follows:

	2000		1999		1998	
(in thousands, except exercise price data)	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding, beginning of year	**20,829**	**$ 7.29**	17,819	$ 1.11	15,483	$0.48
Granted	**23,727**	**40.63**	7,378	18.97	7,050	2.17
Exercised	**(8,152)**	**4.43**	(3,781)	1.55	(3,812)	0.61
Canceled	**(2,477)**	**28.46**	(587)	3.08	(902)	0.73
Options outstanding, end of year	**33,927**	**$30.09**	20,829	$ 7.29	17,819	$1.11
Options exercisable, end of year	**8,974**	**$10.21**	5,993	$ 0.41	5,170	$0.31
Options available for grant, end of year	**8,713**		20,936		7,836	

Included in the options granted during fiscal year 2000 are approximately 10.2 million shares assumed from acquired companies.

The following table summarizes information about the Company's stock options outstanding at July 31, 2000:

	Options Outstanding			Options Exercisable	
(number of shares in thousands) Range of exercise prices	Number of shares	Weighted average remaining contractual life	Weighted average exercise price	Number of shares	Weighted average exercise price
$ 0.07–$ 1.34	**7,080**	**3.5 years**	**$ 0.41**	**4,238**	**$ 0.40**
$ 1.35–$ 3.94	**3,448**	**4.3**	**2.05**	**1,683**	**2.09**
$ 5.00–$ 12.95	**4,592**	**4.5**	**6.18**	**1,439**	**6.56**
$ 14.31–$ 28.87	**2,165**	**5.6**	**23.00**	**896**	**21.89**
$ 29.23–$ 42.94	**8,465**	**4.7**	**40.70**	**74**	**37.05**
$ 43.13–$ 69.50	**6,011**	**5.2**	**55.87**	**445**	**57.00**
$ 70.14–$105.94	**559**	**6.3**	**87.53**	**20**	**85.94**
$106.07–$119.94	**986**	**4.8**	**113.36**	**30**	**111.36**
$120.81–$195.97	**581**	**6.0**	**140.14**	**103**	**134.94**
$221.65–$510.13	**40**	**6.6**	**256.12**	**41**	**256.12**
	33,927	**4.6 years**	**$ 30.09**	**8,969**	**$ 10.21**

SFAS No. 123 sets forth a fair-value based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company has elected to continue to apply APB No. 25 to account for its stock-based compensation plans. Had compensation cost for awards in fiscal 1998, 1997 and 1996 under the Company's stock-based compensation plans been determined based on the fair value method set forth under SFAS No. 123, the pro forma effect on the Company's net income (loss) and earnings (loss) per share would have been as follows:

(in thousands, except per share data) Years ended July 31,	2000	1999	1998
Pro forma net income (loss)	**$(2,108,145)**	$454,631	$28,604
Pro forma net income (loss) per share:			
Basic	**$ (8.06)**	$ 2.44	$ 0.17
Diluted	**$ (8.06)**	$ 2.20	$ 0.16

The fair value of each stock option grant has been estimated on the date of grant using the Black-Scholes option pricing model, assuming no expected dividends and the following weighted average assumptions:

Years Ended July 31,	2000	1999	1998
Volatility	**103.4%**	97.3%	90.1%
Risk-free interest rate	**6.3%**	5.7%	5.5%
Expected life of options (in years)	**3.1**	3.1	4.2

The weighted average fair value per share of options granted during fiscal years 2000, 1999 and 1998 was $33.89, $13.01 and $1.46, respectively.

The effect of applying SFAS No. 123 as shown in the above pro forma disclosure is not likely to be representative of the pro forma effect on reported income or loss for future years as SFAS No. 123 does not apply to awards made prior to fiscal 1996.

NOTE 17 Employee Stock Purchase Plan

On October 4, 1994, the Board of Directors of the Company adopted the 1995 Employee Stock Purchase Plan (the Plan). The purpose of the Plan is to provide a method whereby all eligible employees of the Company and its subsidiaries may acquire a proprietary interest in the Company through the purchase of shares of common stock. Under the Plan, employees may purchase the Company's common stock through payroll deductions.

At the beginning of each of the Company's fiscal quarters, commencing with February 1, 1995, participants are granted an option to purchase shares of the Company's common stock at an option price equal to 85% of the fair market value of the Company's common stock on either the first business day or last business day of the applicable quarterly period, whichever is lower.

Employees purchased 118,719, 109,060, and 132,784 shares of common stock of the Company under the Plan during fiscal years 2000, 1999 and 1998, respectively.

NOTE 18 Income Taxes

The total income tax provision (benefit) was allocated as follows:

(in thousands) Years ended July 31,	2000	1999	1998
Income from continuing operations	**$(121,173)**	$325,402	$31,555
Discontinued operations	**—**	37,240	3,240
Unrealized holding gain included in comprehensive income, but excluded from net income	**167,020**	215,835	—
Subsidiaries' equity transactions charged directly to stockholders' equity	**(43,230)**	4,538	1,297
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes charged directly to stockholders' equity	**(189,943)**	(43,202)	(3,114)
Total tax provision (benefit)	**$(187,326)**	$539,813	$32,978

The income tax expense (benefit) from continuing operations consists of the following:

(in thousands)	Current	Deferred	Total
July 31, 1998:			
Federal	$ 17,229	$ 7,424	$ 24,653
State	10,120	(3,218)	6,902
	$ 27,349	$ 4,206	$ 31,555
July 31, 1999:			
Federal	$ 7,262	$ 237,980	$ 245,242
State	5,695	74,465	80,160
	$ 12,957	$ 312,445	$ 325,402
July 31, 2000:			
Federal	**$137,197**	**$(209,903)**	**$ (72,706)**
State	**22,080**	**(70,547)**	**(48,467)**
	$159,277	**$(280,450)**	**$(121,173)**

Deferred income tax assets and liabilities have been classified on the accompanying Consolidated Balance Sheets in accordance with the nature of the item giving rise to the temporary differences. The components of deferred tax assets and liabilities are as follows:

	July 31, 2000			July 31, 1999		
(in thousands)	Current	Non-current	Total	Current	Non-current	Total
Deferred tax assets:						
Accruals and reserves	**$ 185,924**	**$ —**	**$ 185,924**	$ 10,765	$ —	$ 10,765
Tax basis in excess of financial basis of available-for-sale securities	**29,770**	**—**	**29,770**	16,554	—	16,554
Tax basis in excess of financial basis of investments in subsidiaries and affiliates	**—**	**31,353**	**31,353**	—	8,879	8,879
Net operating loss carryforwards of acquired subsidiaries	**—**	**208,124**	**208,124**	—	12,865	12,865
Tax basis in excess of financial basis for intangible assets	**—**	**144,588**	**144,588**	—	—	—
Total gross deferred tax assets	**215,694**	**384,065**	**599,759**	27,319	21,744	49,063
Less: valuation allowance	**(110,682)**	**(331,298)**	**(441,980)**	(1,733)	(19,977)	(21,710)
Net deferred tax assets	**105,012**	**52,767**	**157,779**	25,586	1,767	27,353
Deferred tax liabilities:						
Financial basis in excess of tax basis of investments in subsidiaries and affiliates	**—**	**(17,536)**	**(17,536)**	—	(36,798)	(36,798)
Financial basis in excess of tax basis of available-for-sale securities	**(497,352)**	**—**	**(497,352)**	(533,934)	—	(533,934)
Tax basis in excess of financial basis for intangible assets and fixed assets	**—**	**(96,596)**	**(96,596)**	—	(109)	(109)
Total gross deferred tax liabilities	**(497,352)**	**(114,132)**	**(611,484)**	(533,934)	(36,907)	(570,841)
Net deferred tax asset (liability)	**$(392,340)**	**$ (61,365)**	**$(453,705)**	$(508,348)	$(35,140)	$(543,488)

Subsequently reported tax benefits relating to the valuation allowance for deferred tax assets as of July 31, 2000 and July 31, 1999 will be allocated as follows:

(in thousands) July 31,	**2000**	1999
Income tax benefit recognized in the Consolidated Statement of Operations	**$271,968**	$ 8,173
Goodwill and other intangible assets	**105,988**	13,537
Accumulated other comprehensive income	**64,024**	—
	$441,980	$21,710

The net change in the total valuation allowance for the year ended July 31, 2000 was an increase of $420.2 million. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at July 31, 2000.

The Company has net operating loss carryforwards for federal and state tax purposes of approximately $543.2 million and $367.2 million, of which, approximately $316.4 million and $187.5 million, respectively, are attributable to majority-owned subsidiaries not included in the Company's consolidated tax return group. The federal net operating losses will expire from 2009 through 2020 and the state net operating losses will expire from 2001 through 2015. In addition, approximately $156.8 million and $109.8 million of the federal and state net operating losses, respectively, are attributable to the pre-acquisition periods of acquired subsidiaries. The utilization of these losses may be limited pursuant to Internal Revenue Code Section 382 as a result of prior ownership changes.

Income tax expense attributable to income (loss) from continuing operations differs from the computed expense computed by applying the U.S. federal income tax rate of 35 percent to pre-tax income (loss) from continuing operations as a result of the following:

(in thousands) Years ended July 31,	**2000**	1999	1998
Computed "expected" tax expense (benefit)	**$(520,035)**	$262,236	$20,587
Increase (decrease) in income tax expense resulting from:			
Non-deductible goodwill amortization	**250,797**	5,316	859
Losses not benefited	**144,393**	(2,813)	2,465
Non-deductible in-process research and development charge related to acquisition of subsidiary	**22,989**	2,121	3,220
Utilization of research and development credits	**—**		(612)
State income taxes, net of federal benefit	**(31,504)**	52,104	4,486
Other	**12,187**	6,438	550
Actual income tax expense	**$(121,173)**	$325,402	$31,555

NOTE 19 **Selected Quarterly Financial Information (unaudited)**

The following table sets forth selected quarterly financial for the years ended July 31, 2000 and 1999. The operating results for any given quarter are not necessarily indicative of results for any future period. The Company's common stock is traded on the Nasdaq National Market System (NASDAQ/NMS) under ther symbol CMGI. Included below are the high and low sales prices (adjusted for 2-for-1 stock splits effected on January 11, 1999, May 27, 1999 and January 11, 2000) during each quarterly period for the shares of common stock as reported by NASDAQ/NMS.

	Fiscal 2000 Quarter ended				Fiscal 1999 Quarter ended			
(in thousands)	Oct. 31	Jan. 31	Apr. 30	Jul. 31	Oct. 31	Jan. 31	Apr. 30	Jul. 31
Net revenue	**$ 129,118**	**$ 158,540**	**$ 233,144**	**$ 377,248**	$40,724	$41,043	$ 48,158	$ 56,464
Cost of revenue	**113,560**	**126,820**	**188,318**	**308,566**	38,942	39,192	46,670	54,749
Research and development expenses	**20,188**	**31,424**	**49,671**	**52,691**	5,308	5,194	5,008	6,743
In-process research and development expenses	**—**	**4,717**	**41,220**	**19,746**		—	4,500	1,561
Selling, general and administrative expenses	**102,554**	**156,301**	**190,226**	**244,975**	14,963	16,228	21,150	36,713
Amortization of intangible assets and stock based compensation	**170,039**	**253,831**	**481,987**	**531,023**	1,639	1,498	4,897	8,093
Operating loss	**(277,223)**	**(414,553)**	**(718,278)**	**(779,753)**	(20,128)	(21,069)	(34,067)	(51,395)
Interest income (expense), net	**171**	**2,819**	**1,443**	**(19,529)**	(509)	(417)	(210)	1,405
Non-operating gains, net	**94,717**	**171,720**	**233,525**	**105,690**	88,600	54,859	859	744,723
Equity in losses of affiliates	**(1,796)**	**(3,633)**	**(10,290)**	**(36,167)**	(3,359)	(6,189)	(3,553)	(2,636)
Minority interest	**23,288**	**31,576**	**55,980**	**54,427**	101	103	275	1,852
Income tax benefit (expense)	**43,431**	**26,496**	**9,581**	**41,665**	(26,316)	(14,138)	9,473	(294,421)
Income (loss) from continuing operations	**(117,412)**	**(185,575)**	**(428,039)**	**(633,667)**	38,389	13,149	(27,223)	399,528
Discontinued operations, net of income taxes	**—**	**—**	**—**	**—**	(131)	(148)	(527)	53,203
Net income (loss)	**$(117,412)**	**$(185,575)**	**$(428,039)**	**$(633,667)**	$38,258	$13,001	$(27,750)	$452,731
Market Price								
High	**$ 57.59**	**$ 163.50**	**$ 151.50**	**$ 75.13**	$ 11.25	$ 38.75	$ 82.50	$ 64.59
Low	**$ 33.13**	**$ 48.09**	**$ 49.38**	**$ 33.56**	$ 4.31	$ 7.27	$ 20.50	$ 35.75

NOTE 20 **Subsequent Events**

On August 18, 2000, the Company issued 312,547 shares of its common stock to Compaq as a semi-annual interest payment of approximately $11.5 million related to notes payable issued in the acquisition of AltaVista.

On August 25, 2000, the Company and Cable and Wireless plc, completed their previously agreed to exchange of stock. CMGI received 241,013,597 shares of PCCW stock in exchange for 13,413,816 shares of the CMGI's common stock.

On August 31, 2000, Engage acquired Space Media Holdings Limited (Space Media), an independent marketing network in Asia, in an all-stock transaction for approximately $64.5 million including acquisition costs of $400,000 and net cash acquired of $71,000. Engage expects to record goodwill for substantially the entire purchase price for Space Media. As part of this transaction, Engage issued approximately 6.1 million shares of its common stock. Approximately 915,493 shares are being held in escrow for a period of at least one year. These shares in escrow are intended to secure the obligations of the former Space Media stockholders to indemnify Engage under the acquisition agreement. In addition, 1,403,750 shares are being held in escrow to ensure the satisfaction of certain performance objectives by Space Media.

On September 11, 2000, Engage completed its acquisition of MediaBridge Technologies, Inc. (MediaBridge), a provider of closed-looped, targeted marketing systems for approximately $225.8 million including acquisition costs of approximately $482,000 and net of cash acquired of approximately $2.7 million. As part of this transaction, Engage issued approximately 11.7 million shares of its common stock to MediaBridge shareholders and approximately 2.5 million Engage stock options to the MediaBridge employees. Ten percent of the shares issued are subject to an escrow period of one year to secure certain indemnification obligations of the MediaBridge shareholders. Engage expects to allocate the majority of the purchase price to goodwill and other intangible assets.

On September 30, 2000, the Company issued 7,250,615 shares of its common stock as payment of principal and interest totaling approximately $249.8 million related to notes payable that had been issued in the Company's acquisition of Tallán.

In September 2000, CMGI announced that it will be merging CMGI@Ventures IV, the B2B Fund and the Tech Fund into a single evergreen fund called CMGI@Ventures IV.

On October 11, 2000, CMGI contributed AdForce to CMGion, a majority-owned subsidiary of CMGI. Upon completion of the transaction, AdForce became a wholly-owned subsidiary of CMGion, whose results are reported in the Infrastructure and Enabling Technologies business segment. In fiscal year 2000, AdForce's operating results were reported in the Interactive Marketing business segment. Beginning with the date of contribution, AdForce's results will be reported in the Infrastructure and Enabling Technologies segment.

On October 18, 2000, the Board of Directors approved, subject to stockholder approval, the 2000 Stock Incentive Plan, which reserves 15.5 million shares of common stock available for future issuance under the plan. The 2000 Stock Incentive Plan is intended to replace the Company's 1986 Stock Option Plan, however all outstanding options under the 1986 plan shall remain in effect.

During the period from August 1, 2000 through October 27, 2000, the Company sold the following shares of stock in transactions on the open market: approximately 8.4 million shares of Lycos for proceeds of $394.7 million; approximately 241.0 million shares of PCCW for proceeds of $190.2 million; approximately 1.3 million shares of Critical Path for proceeds of $72.8 million; and approximately 3.7 million shares of Kana Communications, Inc. for proceeds of approximately $137.6 million.

Independent Auditors' Report

The Board of Directors and Stockholders
CMGI, Inc.:

We have audited the accompanying consolidated balance sheets of CMGI, Inc. and subsidiaries as of July 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended July 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CMGI, Inc. and subsidiaries as of July 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended July 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Boston, Massachusetts
September 21, 2000, except as to Note 20,
which is as of October 27, 2000

Directors & Officers

BOARD OF DIRECTORS

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Chairman of the Board
Chief Executive Officer
President and Secretary
CMGI, Inc.

Craig D. Goldman
Chief Executive Officer and President
Cyber Consulting Services Corp.

William H. Berkman
Managing Partner
The Associated Group

Robert J. Ranalli
Former President
AT&T Multimedia Services

Avram Miller
Chief Executive Officer
The Avram Miller Company

Harold F. Enright, Jr.
Vice President, Corporate Development
Compaq Computer Corporation

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CMGI, Inc.

David S. Andonian
President, Corporate Development
CMGI, Inc.

Hans G. Hawrysz
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CMGI, Inc.

Joel B. Rosen
Chief Executive Officer
NaviSite, Inc.

Paul L. Schaut
Chief Executive Officer and President
Engage, Inc.

Richard F. Torre
Chief Executive Officer and President
SalesLink Corporation

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Stock Listing
CMGI, Inc. is listed on the Nasdaq National Market under the symbol CMGI.

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Stockholders of CMGI, Inc. automatically receive the company's annual report and proxy solicitation material enabling them to vote at the Annual Meeting. The 2000 annual report, 10-K and investor information can be viewed online at CMGI's Website:
www.cmgi.com/investors

Annual Meeting
The Annual Meeting of Stockholders of CMGI, Inc. will be held on
December 20, 2000:
The Westin Copley Place
10 Huntington Avenue
Boston, MA 02116
12:00–2:00 PM

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