UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 000-23262

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

DELAWARE **(State or other jurisdiction of incorporation or organization)**	**04-2921333** **(I.R.S. Employer Identification No.)**
1100 Winter Street **Waltham, Massachusetts** **(Address of principal executive offices)**	**02451** **(Zip Code)**

(781) 663-5001
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of March 6, 2006, there were 486,381,124 shares of the registrant's Common Stock, $.01 par value per share outstanding.

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CMGI, INC.

FORM 10-Q

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CMGI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	January 31, 2006	July 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 159,701	$ 192,483
Available-for-sale securities	3,274	278
Accounts receivable, trade, net of allowance for doubtful accounts of $1,594 and $2,107 at January 31, 2006 and July 31, 2005, respectively	215,925	162,913
Inventories	92,163	78,689
Prepaid expenses and other current assets	9,094	11,800
Current assets of discontinued operations	1,733	2,912
Total current assets	481,890	449,075
Property and equipment, net	42,942	40,579
Investments in affiliates	27,957	22,528
Goodwill	181,925	177,250
Other intangible assets	18,952	21,364
Other assets	3,586	5,888
Non-current assets of discontinued operations	2,362	5,000
	$ 759,614	$ 721,684
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 65	$ 1,670
Current installments of obligations under capital lease	305	304
Revolving line of credit	—	24,785
Accounts payable	156,499	134,252
Current portion of accrued restructuring	8,767	11,251
Accrued income taxes	3,393	2,778
Accrued expenses	48,291	43,024
Other current liabilities	2,883	3,797
Current liabilities of discontinued operations	1,999	2,576
Total current liabilities	222,202	224,437
Revolving line of credit	35,786	—
Long-term debt, less current installments	65	98
Long-term portion of accrued restructuring	7,754	7,912
Obligations under capital leases, less current installments	675	823
Other long-term liabilities	17,358	17,101
Non-current liabilities of discontinued operations	98	98
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at January 31, 2006 and July 31, 2005	—	—
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; issued and outstanding 486,231,977 at January 31, 2006 and 484,576,758 shares at July 31, 2005	4,862	4,846
Additional paid-in capital	7,452,030	7,453,851
Deferred compensation	—	(6,213)
Accumulated deficit	(6,987,443)	(6,983,260)
Accumulated other comprehensive income	6,227	1,991
Total stockholders' equity	475,679	471,215
	$ 759,614	$ 721,684

See accompanying notes to interim unaudited condensed consolidated financial statements

CMGI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2006	2005	2006	2005
Net revenue	$318,849	$292,025	$622,258	$545,249
Operating expenses:				
Cost of revenue	288,445	253,327	560,882	475,824
Selling	5,293	5,302	10,681	10,959
General and administrative	20,276	20,340	41,393	40,435
Amortization of intangible	1,206	1,305	2,412	2,612
Restructuring, net	5,326	977	6,303	2,313
Total operating expenses	320,546	281,251	621,671	532,143
Operating income (loss)	(1,697)	10,774	587	13,106
Other income (expense):				
Interest income	1,384	877	2,557	1,507
Interest expense	(722)	(590)	(1,274)	(1,013)
Other gains (losses), net	(1,119)	(1,158)	2,117	(2,600)
Equity in income (losses) of affiliates, net	5	303	(398)	77
	(452)	(568)	3,002	(2,029)
Income (loss) from continuing operations before income taxes	(2,149)	10,206	3,589	11,077
Income tax expense	758	1,020	1,701	2,546
Income (loss) from continuing operations	(2,907)	9,186	1,888	8,531
Discontinued operations, net of income taxes:				
Loss from discontinued operations	(3,408)	(1,950)	(6,071)	(1,848)
Net income (loss)	$ (6,315)	$ 7,236	$ (4,183)	$ 6,683
Basic and diluted earnings (loss) per share:				
Earnings (loss) from continuing operations	$ (0.01)	$ 0.02	$ 0.00	$ 0.02
Loss from discontinued operations	(0.01)	(0.00)	(0.01)	(0.00)
Net earnings (loss)	$ (0.02)	$ 0.02	$ (0.01)	$ 0.02
Shares used in computing basic earnings (loss) per share	482,727	475,072	482,373	472,472
Shares used in computing diluted earnings (loss) per share	482,727	485,719	487,351	480,905

See accompanying notes to interim unaudited condensed consolidated financial statements

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CMGI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six Months Ended January 31,	
	2006	**2005**
Cash flows from operating activities of continuing operations:		
Net income (loss)	$ (4,183)	$ 6,683
Less loss from discontinued operations	(6,071)	(1,848)
Income from continuing operations	1,888	8,531
Adjustments to reconcile net income (loss) to net cash used for continuing operations:		
Depreciation	4,701	4,680
Amortization of intangible assets	2,412	2,612
Stock-based compensation	3,789	3,303
Non-operating (gains) losses, net	(351)	(549)
Gain on sale of building	(2,749)	—
Equity in income (losses) of affiliates	398	(77)
Non-cash restructuring charges	312	158
Changes in operating assets and liabilities, excluding effects from acquired and divested subsidiaries:		
Trade accounts receivable, net	(52,324)	(43,853)
Inventories	(13,382)	(15,016)
Prepaid expenses and other current assets	1,729	558
Accounts payable, accrued restructuring and expenses	22,357	26,268
Refundable and accrued income taxes, net	1,042	604
Other assets and liabilities	(1,534)	1,251
Net cash used for operating activities of continuing operations	(31,712)	(11,530)
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(8,463)	(4,481)
Net proceeds from sale of building	2,749	—
Net cash impact of Modus acquisition, including retirement of Modus' indebtedness	—	(68,073)
Proceeds from affiliate distributions	546	1,098
Investments in affiliates	(5,833)	(4,405)
Net cash used in investing activities of continuing operations	(11,001)	(75,861)
Cash flows from financing activities of continuing operations:		
Repayments of long-term debt	(1,638)	(422)
Repayments on capital leases	(149)	(149)
Proceeds from revolving line of credit	11,001	—
Proceeds from issuance of common stock	627	3,859
Net cash provided by financing activities of continuing operations	9,841	3,288
Cash flows from discontinued operations (Revised – see Note B):		
Operating cash flows	(74)	47
Investing cash flows	(165)	(606)
Net cash used for discontinued operations	(239)	(559)
Net effect of exchange rate changes on cash and cash equivalents	329	1,112
Net decrease in cash and cash equivalents	(32,782)	(83,550)
Cash and cash equivalents at beginning of period	192,483	271,865
Cash and cash equivalents at end of period	$159,701	$188,315

See accompanying notes to interim unaudited condensed consolidated financial statements

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

A. NATURE OF OPERATIONS

CMGI, Inc. (together with its consolidated subsidiaries, "CMGI" or the "Company"), through its ModusLink subsidiary, provides industry-leading global supply chain management services that help businesses market, sell and distribute their products and services. In addition, CMGI's venture capital affiliate, @Ventures, invests in a variety of technology ventures. The Company previously operated under the name CMG Information Services, Inc. and was incorporated in Delaware in 1986. CMGI's address is 1100 Winter Street, Suite 4600, Waltham, Massachusetts 02451.

CMGI's business strategy over the years has led to the development, acquisition and operation of majority-owned subsidiaries focused on technology and supply chain management services, as well as the strategic investment in other 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 subsidiaries, investments and affiliates. The Company expects to continue to develop and refine its product and service offerings, and to continue to pursue the development or acquisition of, or the investment in, additional companies and technologies.

On August 2, 2004, CMGI completed its acquisition of Modus Media, Inc., a privately held provider of supply chain management solutions ("Modus"), which conducted business through its wholly owned subsidiary, Modus Media International, Inc. CMGI acquired Modus in order to expand the geographic presence of its supply chain management offerings, diversify its client base, broaden its product and service offerings and bolster its management team. Modus Media International, Inc. has been renamed ModusLink Corporation, and the Company's supply chain management businesses previously operated by Modus and SalesLink are now operated under the ModusLink name. SalesLink's marketing distribution services business is managed by ModusLink and continues to operate under the name SalesLink. Through the formation of ModusLink, CMGI has created a supply chain management market leader with fiscal 2005 revenue of $1.1 billion, 42 locations in 14 countries (including six locations in Japan operated by an entity in which the Company has a 40% interest), including a significant China presence, and a widely diversified client base that includes leaders in technology, software and consumer electronics.

During the three months ended January 31, 2006, CMGI's Board of Directors authorized the divestiture of a business unit within the Company's Americas reporting segment. Management has determined that this planned divestiture meets the criteria for held for sale accounting for a discontinued operation in accordance with the provisions of Statement of Financial Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". As such, the operating results of the business unit have been segregated from continuing operations and have been reported as discontinued operations in the accompanying condensed balance sheets, statements of operations, cash flows and related notes to the condensed consolidated financial statements for all periods presented.

B. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by CMGI in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of the Company's financial position, results of operations and cash flows at the dates and for the periods indicated. While the Company believes that the disclosures presented are adequate to make the information not misleading, these condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2005 which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on October 14, 2005. The results for the three-month and six-month periods ended January 31, 2006 are not necessarily indicative of the results to be expected for the full fiscal year. Certain prior year amounts in the condensed consolidated financial statements have been reclassified in accordance with US GAAP to conform to the current year presentation.

Discontinued operations reporting has been applied for certain of the Company's divestitures (see Note O). During the three months ended January 31, 2006, the Company has revised its presentation of discontinued operations in its statement of cash flows to separately disclose the operating, investing and financing portions of the cash flows attributable to its discontinued operations, which in prior periods were reported on a combined basis as a single amount.

As a result of the Modus acquisition, the Company modified its organizational structure to closely resemble the operating model historically used by Modus. This operating structure is aligned along the Americas, Asia, and Europe regions. Each of these regions has designated management teams with direct responsibility over the operations of the respective regions. As a result, the Company now reports three operating segments, Americas, Asia, and Europe.

In addition to its three current operating segments, the Company reports an Other category. The Other category represents corporate expenses consisting primarily of directors and officers insurance costs, costs associated with maintaining certain of the Company's information technology systems and certain corporate administrative functions such as legal and finance, as well as certain administrative costs related to the Company's venture capital affiliates. The Other category also consists of any residual results from operations that exist through the cessation of operations of Equilibrium, CMGI Solutions, MyWay, iCast, NaviPath, ExchangePath, and Activate, each of which have been divested or substantially wound down, as these entities do not meet the aggregation criteria under SFAS No. 131 with respect to the Company's current reporting segments. The historical results of these companies were previously reported in the Enterprise Software and Services (Equilibrium and CMGI Solutions), Portals (MyWay and iCast) and Managed Application Services (NaviPath, ExchangePath, and Activate) segments, respectively. The Other category's balance sheet information includes certain cash equivalents, available-for-sale securities, investments and other assets, which are not identifiable to the operations of the Company's operating business segments.

In accordance with accounting principles generally accepted in the United States of America, all significant intercompany transactions and balances have been eliminated in consolidation. Accordingly, segment results reported by the Company exclude the effect of transactions between the Company and its subsidiaries and between the Company's subsidiaries.

C. NEW ACCOUNTING PRONOUNCEMENTS

In November 2005, the FASB issued a FASB Staff Position (FSP) FAS123(R)-3, Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards. This FSP requires an entity to follow either the transition guidance for the additional-paid-in-capital pool as prescribed in SFAS No. 123(R), Share-Based Payment, or the alternative transition method as described in the FSP. An entity that adopts SFAS No. 123(R) using the modified prospective application may make a one-time election to adopt the transition method described in this FSP. An entity may take up to one year from the later of its initial adoption of SFAS No. 123(R) or the effective date of this FSP to evaluate its available transition alternatives and make its one-time election. This FSP became effective in November 2005. We continue to evaluate the impact that the adoption of this FSP could have on our financial statements.

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards SFAS No. 154, Accounting Changes and Error Corrections which replaces APB Opinion No. 20 Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements —An Amendment of APB Opinion No. 28. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is not practicable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by the Company in the first quarter of fiscal 2007. Although the Company will continue to evaluate the application of SFAS No. 154, management does not currently believe adoption will have a material impact on the Company's results of operations or financial position.

D. GOODWILL AND INTANGIBLE ASSETS

The purchase price of the assets acquired and the liabilities assumed in a business combination are subject to an allocation period in accordance with SFAS 141, Business Combinations. In connection with the Modus acquisition, the allocation period for all adjustments other than those related to tax loss carryforwards expired during the quarter ended October 31, 2005, while the allocation period for tax adjustments will still remain open in accordance with SFAS 109, Accounting for Income Taxes. During the three months ended January 31, 2006, the Company recorded a purchase accounting adjustment of $0.3 million related to a deferred tax balance in Asia. During the six months ended January 31, 2006, total after-tax purchase accounting adjustments of $4.7 million were recorded, of which $3.9 million related to the restructuring of a facility in Europe (see Note G), $0.4 million related to the elimination of redundant positions in the Americas, $0.1 million related to an asset write-down in Europe and $0.3 million related to the previously mentioned tax adjustment in Asia.

The changes in the carrying amount of goodwill for the six months ended January 31, 2006 are as follows:

	Americas	Europe	Asia	Total
		(in thousands)		
Balance as of July 31, 2005	$77,764	$26,960	$72,526	$177,250
Adjustments to goodwill from acquisition of Modus	373	4,043	259	4,675
Balance as of January 31, 2006	$78,137	$31,003	$72,785	$181,925

	Goodwill	Customer Relationships	Developed Technology	Trade Names	Total
			(in thousands)		
Balance as of July 31, 2005	$177,250	$ 17,576	$ 2,332	$1,456	$198,614
Adjustments to goodwill and other intangible assets from the acquisition of Modus	4,416	—	—	—	4,416
Net carrying amount	181,666	17,576	2,332	1,456	203,030
Amortization expense	—	(731)	(292)	(183)	(1,206)
Balance as of October 31, 2005	$181,666	$ 16,845	$ 2,040	$1,273	$201,824
Goodwill adjustment from the acquisition of Modus	259	—	—	—	259
Net carrying amount	181,925	16,845	2,040	1,273	202,083
Amortization expense	—	(731)	(292)	(183)	(1,206)
Balance as of January 31, 2006	$181,925	$ 16,114	$ 1,748	$1,090	$200,877

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

The amortization of intangible assets for the six months ended January 31, 2006 and 2005 would have been primarily allocated to selling expenses had the Company recorded the expenses within the functional operating expense categories.

E. EMPLOYEE STOCK BENEFIT PLANS

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 an equity 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 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. During fiscal year 2002, the Plan was amended to increase the aggregate number of shares to 3.0 million. During the six months ended January 31, 2006 and 2005, the Company issued approximately 113,000 and 98,000 shares, respectively, under the Plan. As of January 31, 2006, approximately 860,000 shares were available for issuance under the Plan.

Stock Option Plans

The Company currently awards stock options under four plans: the 2004 Stock Incentive Plan (the "2004 Plan"), the 2002 Non-Officer Employee Stock Incentive Plan (2002 Plan), the 2000 Stock Incentive Plan (2000 Plan) and the 2005 Non-Employee Director Plan (the "2005 Plan"). Options granted under the 2004 Plan, 2002 Plan and the 2000 Plan are generally exercisable as to 25% of the shares underlying the options beginning one year after the date of grant, with the option being exercisable as to the remaining shares in equal monthly installments over the next three years. Stock options granted under these plans have contractual terms of five to seven years. The Company may also grant awards other than stock options under the 2004 Plan, 2002 Plan and 2000 Plan.

In December 2005, at the Company's Annual Meeting of Stockholders, the stockholders of the Company approved the 2005 Plan, pursuant to which the Company may grant non-qualified stock options to certain members of the Board of Directors. The 2005 Plan replaced the Company's Amended and Restated 1999 Stock Option Plan For Non-Employee Directors ("1999 Plan"). No additional options will be granted under the 1999 Plan; however, all then-outstanding options under the 1999 Plan shall remain in effect in accordance with their respective terms. Up to 2,000,000 shares of common stock may be issued pursuant to awards granted under the 2005 Plan (subject to adjustment in the event of stock splits and other similar events). The 2005 Plan provides that each eligible director who is elected to the Board for the first time after this plan is adopted will automatically be granted an option to acquire 200,000 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 200,000 shares of Common Stock under the plan. Each Initial Option will vest and become exercisable as to 1/36th 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 the date of each annual meeting of stockholders of the Company commencing with the 2005 Meeting, each eligible director who has served on the Board for at least six months 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. Each Annual Option will vest and become exercisable on a monthly basis as to 1/36th of the number of shares 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. Stock options granted under the 2005 Plan

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

have contractual terms of 10 years. Outstanding options under the 2005 Plan at January 31, 2006 expire through December 2015.

In December 2004, at the Company's Annual Meeting of Stockholders, the stockholders of the Company approved the 2004 Plan pursuant to which the Company may grant stock options, stock appreciation rights, restricted stock awards and other equity-based awards for the purchase of up to an aggregate of 15,000,000 shares of common stock of the Company (subject to adjustment in the event of stock splits and other similar events). The maximum number of shares with respect to which stock options may be granted to any one participant under the 2004 Plan may not exceed 6,000,000 shares per calendar year. The maximum number of shares with respect to which awards other than stock options and stock appreciation rights may be granted under the 2004 Plan is 5,000,000 shares.

In March 2002, the Board of Directors adopted the 2002 Plan, pursuant to which 4,150,000 shares of common stock were reserved for issuance (subject to adjustment in the event of stock splits and other similar events). In May 2002, the Board of Directors approved an amendment to the 2002 Plan in which the total shares available under the plan were increased to 19,150,000. Under the 2002 Plan, non-statutory stock options or restricted stock awards may be granted to the Company's or its subsidiaries' employees, other than those who are also officers or directors, as defined. The Board of Directors administers this plan, approves the individuals to whom options will be granted, and determines the number of shares and exercise price of each option. Outstanding options under the 2002 Plan at January 31, 2006 expire through 2013.

In October 2000, the Board of Directors adopted the 2000 Plan, pursuant to which 15,500,000 shares of common stock were reserved for issuance (subject to adjustment in the event of stock splits and other similar events). Under the 2000 Plan, non-qualified stock options or incentive stock options may be granted to the Company's or its subsidiaries' employees, consultants, advisors or directors, as defined. The Board of Directors administers this plan, approves the individuals to whom options will be granted, and determines the number of shares and exercise price of each option. Outstanding options under the 2000 Plan at January 31, 2006 expire through 2012.

The 1999 Plan, approved in fiscal year 2000, replaced the Company's 1995 Directors' Plan. No options under the 1995 Director's Plan remain in effect. Pursuant to the 1999 Plan, 2,000,000 shares of the Company's common stock were initially reserved for issuance.

Stock Option Valuation and Expense Information under SFAS No. 123(R)

On August 1, 2005, the Company adopted SFAS No. 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company's employees and directors including employee stock options and employee stock purchases based on estimated fair values. The following table summarizes stock-based compensation expense related to employee stock options, employee stock purchases and nonvested shares under SFAS No. 123(R) for the three and six months ended January 31, 2006 which was allocated as follows:

	For the three months ended January 31, 2006	For the six months ended January 31, 2006
	(in thousands)	
Cost of goods sold	$ 147	$ 284
Selling	200	405
General and administrative	1,432	3,100
	$ 1,779	$ 3,789

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

The Company uses a lattice-binomial model to value stock options. The use of a lattice-binomial model requires the use of extensive actual employee exercise behavior data and the use of a number of complex assumptions including expected volatility, risk-free interest rate and expected life. The weighted-average estimated value of employee stock options granted during the three and six months ended January 31, 2006 was $0.97 and $1.00 per share, respectively, using the lattice-binomial model with the following weighted-average assumptions:

	For the three months ended January 31, 2006	For the six months ended January 31, 2006
Expected volatility	79.47%	80.52%
Risk-free interest rate	4.30%	4.26%
Expected life (in years)	4.29	4.29

The volatility assumption is based on the weighted average for the most recent one-year and long term volatility measures of the Company's stock as well as certain of the Company's peers. Prior to August 1, 2005, the Company had used its historical stock price volatility in accordance with SFAS No. 123 for purposes of its pro forma information.

The risk-free interest rate assumption is based upon the interpolation of various U.S. Treasury rates, as of the month of the grants.

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is a derived output of the lattice-binomial model. The determination of the expected life of employee stock options assumes that employees' exercise behavior is a function of the option's remaining vested life and the extent to which the option is in-the-money. The lattice-binomial model estimates the probability of exercise as a function of these two variables based on the entire history of exercises and cancellations on all past option grants made by the Company. The expected life generated by these probabilities reflects actual and anticipated exercise behavior of options granted historically.

As stock-based compensation expense recognized in the condensed consolidated statement of operations for the three and six months ended January 31, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based partially on historical experience. In the Company's pro forma information required under SFAS No. 123 for the periods prior to August 1, 2005, the Company established estimates for forfeitures.

Stock Options

The status of the plans during the six months ended January 31, 2006 is as follows:

	Number of shares	Weighted average exercise price
	(in thousands, except exercise price)	
Stock options outstanding, July 31, 2005	19,456	$ 1.71
Granted	1,749	1.66
Exercised	(55)	0.61
Forfeited	(1,791)	2.47
Stock options outstanding, October 31, 2005	19,359	$ 1.64
Granted	2,181	1.57
Exercised	(561)	0.78
Forfeited	(486)	2.06
Stock options outstanding, January 31, 2006	20,493	$ 1.65

As of January 31, 2006, unrecognized stock-based compensation related to stock options was approximately $10.1 million. This cost is expected to be expensed over a weighted average period of 2.6 years. The aggregate intrinsic value of stock options outstanding as of January 31, 2006 is approximately $4.3 million. The aggregate intrinsic value of stock options exercisable as of January 31, 2006 is approximately $3.0 million.

The following table summarizes information about the Company’s stock options outstanding at January 31, 2006:

	Outstanding			Exercisable	
Range of exercise prices	Number of shares	Weighted average remaining contractual life	Weighted average exercise price	Number of shares	Weighted average exercise price
	(number of shares in thousands)				
$0.00–$1.00	2,856	5.4 years	$ 0.51	2,379	$ 0.50
$1.01–$2.50	16,272	5.3	1.50	6,279	1.49
$2.51–$5.00	1,301	4.7	3.89	1,258	3.91
$5.01–$25.00	17	1.1	23.48	17	23.48
$25.01–$50.00	38	1.8	30.17	38	30.17
$50.01–$150.00	9	4.0	132.44	9	132.44
	20,493	5.2 years	$ 1.65	9,980	$ 1.83

Nonvested Stock

Nonvested stock are shares of Common Stock that are subject to restrictions on transfer and risk of forfeiture until the fulfillment of specified conditions. In connection with the adoption of SFAS No. 123(R) on August 1, 2005, the Company reclassified approximately $6.2 million of recorded deferred compensation related to unamortized nonvested stock to additional paid-in capital. Nonvested stock is expensed ratably over the term of the restriction period, ranging from one to five years. Nonvested stock compensation expense for the three and six months ended January 31, 2006 is approximately $0.4 million and $0.9 million, respectively. Nonvested stock compensation expense for the three and six months ended January 31, 2005 is approximately $1.8 million and $3.3 million, respectively.

A summary of the status of our nonvested stock for the six months ended January 31, 2006, is as follows:

	Number of shares	Weighted average grant date fair value
	(in thousands)	
Nonvested stock outstanding, July 31, 2005	4,815	$ 1.55
Granted	985	1.66
Vested	(2,436)	1.23
Nonvested stock outstanding, October 31, 2005	3,364	$ 1.82
Granted	140	1.57
Vested	(79)	1.23
Canceled	(10)	1.59
Nonvested stock outstanding, January 31, 2006	3,415	$ 1.78

The fair value of nonvested shares is determined based on market price of the Company's common stock on the grant date. The total fair value of nonvested stock that vested during the six months ended January 31, 2006 was approximately $4.6 million. As of January 31, 2006, there was approximately $6.0 million of total unrecognized compensation cost related to nonvested stock to be recognized over a weighted-average period of 3.1 years.

Pro Forma Information under SFAS No. 123

Pro forma information regarding the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 for the three and six months ended January 31, 2005 is as follows:

	For the Three Months Ended January 31, 2005	For the Six Months Ended January 31, 2005
	(in thousands, except per share amounts)	
Net income	$ 7,236	$ 6,683
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(2,223)	(14,747)
Add: Total stock-based employee compensation expense included in reported net income	1,758	3,303
Pro forma net income (loss)	$ 6,771	$ (4,761)
Net income (loss) per share:		
Basic—as reported	$ 0.02	$ 0.02
Basic—pro forma	$ 0.01	$ (0.01)
Diluted—as reported	$ 0.02	$ 0.02
Diluted—pro forma	$ 0.01	$ (0.01)

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the Three Months Ended January 31, 2005	For the Six Months Ended January 31, 2005
Risk-free interest rate	3.7%	3.5%
Expected dividend yield	0.0%	0.0%
Expected volatility	69.9%	71.0%
Expected life (years)	6.10	4.10
Weighted average fair value of options granted during the period	$ 0.89	$ 0.94

F. OTHER GAINS (LOSSES), NET

The following table reflects the components of “Other gains (losses), net”:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2006	2005	2006	2005
	(in thousands)			
Loss on impairment of marketable securities	$ —	$ —	$ (77)	$ —
Gain on sale of investments	546	—	546	—
Foreign exchange losses	(1,542)	(1,343)	(1,005)	(3,117)
Gain on sale of building	—	—	2,749	—
Other, net	(123)	185	(96)	517
	$(1,119)	$(1,158)	$ 2,117	$(2,600)

During the three and six months ended January 31, 2006, the Company recorded foreign exchange losses of approximately $1.5 million and $1.0 million, respectively. These foreign exchange losses related primarily to unhedged foreign currency exposures in Asia. The Company has operations in various countries throughout the world and its operating results and financial position can be affected by significant fluctuations in foreign currency exchange rates. The Company has historically used derivative financial instruments to manage the exposure that results from such fluctuations, and the Company expects to continue such practice. Also, during the three months ended January 31, 2006, the Company recorded an adjustment of approximately $0.5 million to increase a previously recorded gain on the sale of Molecular (an @Ventures portfolio company) due to the release of funds held in escrow. During the six months ended January 31, 2006, the Company recorded impairment charges of approximately $0.1 million related to the Company’s holdings of shares of NaviSite, and a gain of approximately $2.7 million related to the sale of a building in Ireland.

During the three and six months ended January 31, 2005, the Company incurred foreign exchange losses of approximately $1.3 million and $3.1 million, respectively. These foreign exchange losses related primarily to unhedged foreign currency exposures in Asia.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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G. RESTRUCTURING CHARGES

The following table summarizes the activity in the restructuring accrual for the three and six months ended January 31, 2006:

	Employee Related Expenses	Contractual Obligations	Asset Impairments	Total
	(in thousands)			
Accrued restructuring balance at July 31, 2005	$ 1,409	$ 17,754	$ —	$19,163
Restructuring accrual—Modus acquisition	3,504	773	—	4,277
Restructuring charges	723	247	—	970
Restructuring adjustments	(224)	231	—	7
Cash charges	(900)	(4,506)	—	(5,406)
Accrued restructuring balance at October 31, 2005	$ 4,512	$ 14,499	$ —	$19,011
Restructuring charges	3,488	1,109	312	4,909
Restructuring adjustments	44	373	—	417
Cash charges	(4,700)	(2,804)	—	(7,504)
Non-cash charges	—		(312)	(312)
Accrued restructuring balance at January 31, 2006	$ 3,344	$ 13,177	$ —	$16,521

It is expected that the payments of employee-related expenses will be substantially completed by July 31, 2006. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the previous restructuring activities of the Company, and excess plant capacity relating to the Company's Modus acquisition on August 2, 2004. The Company anticipates that contractual obligations will be settled by May 2012.

The net restructuring charges for the three and six months ended January 31, 2006 and 2005, respectively, would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2006	2005	2006	2005
	(in thousands)			
Cost of revenue	$ 1,713	$ 142	$2,240	$1,032
Selling	79	69	235	69
General and administrative	3,534	766	3,828	1,212
	$ 5,326	$ 977	$6,303	$2,313

The Company's restructuring initiatives during the three and six months ended January 31, 2006 and January 31, 2005 involved strategic decisions to reposition certain on-going businesses of the Company. Restructuring charges consisted primarily of contract terminations, severance charges and facility and equipment charges incurred as a result of actions taken to increase operational efficiencies, improve margins, and further reduce expenses. Severance charges included employee termination costs as a result of workforce reductions. The contract terminations primarily consisted of costs to exit facility and equipment leases and to terminate other vendor contracts. The Company also recorded charges related to operating leases with no future economic benefit to the Company as a result of the abandonment of unutilized facilities.

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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During the three months ended January 31, 2006, the Company recorded net restructuring charges of approximately $5.3 million. These charges consisted of approximately $3.5 million relating to a workforce reduction of 47 employees, primarily due to the elimination of redundant positions in Europe. In addition, the Company recorded approximately $1.1 million relating to unutilized lease facilities for which the Company expects to realize no future economic benefit primarily due to the consolidation of two plants in the Netherlands, as well as approximately $0.3 million relating to the impairment of certain assets no longer in service. The Company also recorded adjustments of $0.4 million to increase a previously recorded restructuring estimate for facility lease obligations, primarily based on changes to the underlying assumptions.

Included in the $5.3 million charge mentioned above, is a charge of $1.0 million related mainly to termination benefits entitled to employees affected by the closure of a site in Europe. The Company expects to reach the cease-use date of the facility during the quarter ended April 30, 2006, at which time additional restructuring charges will be recorded related to the obligation remaining on the facility lease post the cease-use date, as well as, other qualifying costs associated with the exit activity. As of January 31, 2006, the undiscounted obligation remaining on the facility lease, which runs through July 2010, is approximately $2.7 million.

During the six months ended January 31, 2006, the Company recorded net restructuring charges of approximately $6.3 million. These charges consisted of approximately $4.2 million relating to a workforce reduction of 81 employees, primarily due to the elimination of redundant positions in Europe. In addition, the Company recorded approximately $1.4 million of contractual obligations primarily related to the consolidation of two plants in the Netherlands, as well as approximately $0.3 million relating to the impairment of certain assets no longer in service. The Company also recorded adjustments of $0.4 million to increase a previously recorded restructuring estimate for facility lease obligations and employee severance, primarily based on changes to the underlying assumptions.

In addition, during the three months ended October 31, 2005, the Company accrued a purchase accounting adjustment to goodwill of approximately $4.3 million for restructuring activities related to the acquisition of Modus. These restructuring activities occurred in the Americas ($0.4 million) and Europe ($3.9 million), respectively. The restructuring in the Americas was employee severance related to the elimination of redundant positions. The restructuring in Europe primarily related to the closure of a plant in Scotland and consists of approximately $3.1 million of severance for 130 employees and $0.8 million relating to unoccupied facilities for which the Company expects to realize no future economic benefit.

During the three months ended January 31, 2005, the Company recorded net restructuring charges of approximately $1.0 million. These charges consisted of approximately $0.5 million relating to a workforce reduction of 29 employees, $0.3 million relating to unutilized lease facilities for which the Company expects to realize no future economic benefit, and $0.2 million relating to the impairment of certain assets no longer in service.

During the six months ended January 31, 2005, the Company recorded net restructuring charges of approximately $2.3 million. These charges consisted of approximately $0.9 million related to a workforce reduction of 56 employees, approximately $1.2 million relating to unutilized lease facilities for which the Company expects to realize no future economic benefit, and $0.2 million relating to the impairment of certain assets no longer in service.

H. DERIVATIVES AND FINANCIAL INSTRUMENTS

The Company often enters into forward currency exchange contracts to manage exposures to foreign currencies. The fair value of the Company’s foreign currency exchange contracts is estimated based on foreign exchange rates as of the end of each reporting period. The Company's policy is not to allow the use of derivatives for trading or speculative purposes. The Company believes that its forward currency exchange contracts economically function as effective hedges of the underlying exposures, however the foreign currency contracts do not meet the specific criteria for hedge accounting defined in SFAS No. 133, thus requiring the Company to record all changes in the fair value of these contracts in earnings in the period of the change. During the quarter ended January 31, 2006, the Company recorded an unrealized gain of $0.1 million, as a result of fair value changes on its outstanding forward currency exchange contracts. This unrealized gain has been included in Other gains (losses), net in the Company's condensed consolidated statement of operations.

I. SEGMENT INFORMATION

Based on the information provided to the Company's chief operating decision-maker (CODM) for purposes of making decisions about allocating resources and assessing performance, prior to August 2, 2004, the Company reported one operating segment, eBusiness and Fulfillment, which included the results of operations of the Company's SalesLink subsidiary which, at that time, operated the Company's supply-chain management business.

On August 2, 2004, CMGI completed its acquisition of Modus. As a result of this acquisition, the Company modified its organizational structure to closely resemble the operating model historically used by Modus. This operating structure is aligned along the Americas, Asia, and Europe regions. Each of these regions has designated management teams with direct responsibility over the operations of the respective regions. Accordingly, the Company's CODM now focuses primarily on regional information and analysis for purposes of making decisions about allocating resources and assessing performance. As a result, the Company currently reports three operating segments, Americas, Asia, and Europe. Historical segment information has been reclassified to conform to the current reporting structure.

In addition to its three current operating segments, the Company reports an Other category. The Other category represents corporate expenses consisting primarily of directors and officers insurance costs, costs associated with maintaining certain of the Company's information technology systems and certain corporate administrative functions such as legal and finance, as well as certain administrative costs related to the Company's venture capital affiliates. The Other category also consists of any residual results from operations, that exist through the cessation of operations of Equilibrium, CMGI Solutions, MyWay, iCast, NaviPath, ExchangePath, and Activate, each of which have been divested or substantially wound down, as these entities do not meet the aggregation criteria under SFAS No. 131 with respect to the Company's current reporting segments. The historical results of these companies were previously reported in the Enterprise Software and Services (Equilibrium and CMGI Solutions), Portals (MyWay and iCast) and Managed Application Services (NaviPath, ExchangePath, and Activate) segments, respectively. The Other category's balance sheet information includes certain cash equivalents, available-for-sale securities, investments and other assets, which are not identifiable to the operations of the Company's operating business segments.

Management evaluates segment performance based on segment net revenue, operating income (loss) and "Non-GAAP operating income (loss)", which is defined as the operating income/(loss) excluding net charges related to depreciation, long-lived asset impairment, restructuring, and amortization of intangible assets and stock-based compensation. The Company believes that its Non-GAAP measure of operating income/(loss) provides investors with a useful supplemental measure of the Company's operating performance by excluding the impact of non-cash charges and restructuring activities. Each of the excluded items (depreciation, long-lived asset impairment, amortization of intangible assets and stock-based compensation and restructuring) were

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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excluded because they may be considered to be of a non-operational nature. Historically, the Company has recorded significant impairment and restructuring charges and therefore management uses Non-GAAP operating income/(loss) to assist in evaluating the performance of the Company's core operations. Non-GAAP operating income/(loss) does not have any standardized definition and therefore is unlikely to be comparable to similar measures presented by other reporting companies. These Non-GAAP results should not be evaluated in isolation of, or as a substitute for the Company's financial results prepared in accordance with US GAAP.

For the three and six months ended January 31, 2006, sales to Hewlett-Packard accounted for approximately 28% and 29% of our consolidated net revenue, respectively, and sales to Kodak accounted for approximately 13% and 14% of our consolidated net revenue, respectively. A significant portion of our annual volume in fiscal 2006 was concentrated with Kodak during the first half of our fiscal year in support of seasonality based demand for Kodak's consumer products during the holiday season.

One customer based in the U.S., Hewlett-Packard, accounted for approximately 35% of the Company's consolidated net revenue for the three months ended January 31, 2005 and approximately 38% of the Company's consolidated net revenue for the six months ended January 31, 2005.

International revenues accounted for approximately 56% of total revenues during the six months ended January 31, 2006 as compared to 57% for the same period in the prior year. The growth in our international operations, which is due to our Modus acquisition, has increased our exposure to foreign currency fluctuations. Revenues and related expenses generated from our international segments are generally denominated in the functional currencies of the local countries. Primary currencies include Euros, Singapore Dollars, British Pounds, Chinese Yuan Renminbi and Taiwan Dollars. The income statements of our international operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenues and operating expenses for our Asia and Europe segments. Similarly, our revenues and operating expenses will decrease for our Asia and Europe segments when the U.S. dollar strengthens against foreign currencies.

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Summarized financial information of the Company's continuing operations by segment is as follows:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2006	2005	2006	2005
	(in thousands)			
Net revenue:				
eBusiness and Fulfillment				
Americas	$144,076	$126,513	$273,440	$229,877
Asia	62,951	58,745	123,668	110,074
Europe	111,822	106,761	225,150	205,214
Total eBusiness and Fulfillment	318,849	292,019	622,258	545,165
Other	—	6	—	84
	$318,849	$292,025	$622,258	$545,249
Operating income (loss):				
eBusiness and Fulfillment				
Americas	$ 8,722	$ 5,616	$ 11,470	$ 5,745
Asia	5,737	8,634	11,228	15,541
Europe	(12,117)	1,105	(14,040)	(100)
Total eBusiness and Fulfillment	2,342	15,355	8,658	21,186
Other	(4,039)	(4,581)	(8,071)	(8,080)
	$ (1,697)	$ 10,774	$ 587	$ 13,106
Non-GAAP operating income (loss):				
eBusiness and Fulfillment				
Americas	$ 10,746	$ 8,933	$ 15,656	$ 11,268
Asia	7,451	10,310	14,465	19,489
Europe	(6,675)	2,322	(6,642)	2,769
Total eBusiness and Fulfillment	11,522	21,565	23,479	33,526
Other	(2,715)	(4,290)	(5,687)	(7,512)
	$ 8,807	$ 17,275	$ 17,792	$ 26,014
Non-GAAP operating income (loss)	$ 8,807	$ 17,275	$ 17,792	$ 26,014
Adjustments:				
Depreciation	(2,193)	(2,461)	(4,701)	(4,680)
Amortization of intangible assets	(1,206)	(1,305)	(2,412)	(2,612)
Stock-based compensation	(1,779)	(1,758)	(3,789)	(3,303)
Restructuring, net	(5,326)	(977)	(6,303)	(2,313)
GAAP operating income (loss)	$ (1,697)	$ 10,774	$ 587	$ 13,106
Other income (expense)	(452)	(568)	3,002	(2,029)
Income tax expense	758	1,020	1,701	2,546
Loss from discontinued operations	(3,408)	(1,950)	(6,071)	(1,848)
Net income (loss)	$ (6,315)	$ 7,236	$ (4,183)	$ 6,683

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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	January 31, 2006	July 31, 2005
	(in thousands)	
Total assets of continuing operations:		
eBusiness and Fulfillment		
Americas	$ 241,495	$ 236,459
Asia	203,404	188,738
Europe	191,116	160,699
Total eBusiness and Fulfillment	636,015	585,896
Other	119,504	127,876
	$ 755,519	$ 713,772

J. EARNINGS PER SHARE

The Company calculates earnings per share in accordance with 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 is included in the calculation of diluted earnings per share only when the effect of the inclusion would be dilutive. For the three months ended January 31, 2006, approximately 7.0 million common stock equivalent shares were excluded from the denominator in the diluted loss per share calculation as their inclusion would have been antidilutive. For the six months ended January 31, 2006, approximately 4.9 million weighted average common stock equivalents were included in the denominator in the calculation of diluted earnings per share. Approximately 3.8 million common stock equivalent shares and approximately 0.4 million nonvested shares were excluded from the denominator in the diluted earnings per share calculation as their inclusion would have been antidilutive. For the three and six months ended January 31, 2005, approximately 10.6 million and 8.4 million weighted average common stock equivalents, respectively, were included in the denominator in the calculation of diluted earnings per share.

K. COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2006	2005	2006	2005
	(in thousands)			
Net income (loss)	$ (6,315)	$ 7,236	$(4,183)	$ 6,683
Net unrealized holding gains on securities	2,865	28	2,909	9
Foreign currency translation adjustment arising during the period	1,943	1,093	1,327	4,023
Comprehensive income (loss)	$ (1,507)	$ 8,357	$ 53	$10,715

The components of accumulated other comprehensive income (loss) are as follows:

	January 31, 2006	July 31, 2005
	(in thousands)	
Net unrealized holding gains (losses)	$ 2,876	$ (33)
Cumulative foreign currency translation adjustment	3,689	2,362
Minimum pension liability adjustment	(338)	(338)
Accumulated other comprehensive income	$ 6,227	$1,991

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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L. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL INFORMATION

	Six Months Ended January 31,	
	2006	2005
	(in thousands)	
Cash paid for interest	$ 1,452	$ 558
Cash paid for income taxes	$ 771	$ 25
Restricted stock grant to certain executives and employees (excluding acquisition related grant)	$ 856	$ 5,859

Significant non-cash activities during the six months ended January 31, 2006 included the issuance of approximately 0.5 million shares of nonvested CMGI common stock (valued at approximately $0.9 million) to certain executives and employees of the Company.

Significant non-cash activities during the six months ended January 31, 2005 included the issuance of approximately 68.6 million shares of CMGI common stock and assumed or substituted options to purchase approximately 12.6 million shares of CMGI common stock in connection with the acquisition of Modus. In addition, the Company issued approximately 2.5 million shares of restricted CMGI common stock (valued at approximately $3.6 million) to certain executives and employees of Modus in connection with the acquisition.

M. INVENTORIES

Inventories at January 31, 2006 and July 31, 2005 consisted of the following:

	January 31, 2006	July 31, 2005
	(in thousands)	
Raw Materials	$ 63,655	$48,314
Work-in-process	980	1,172
Finished Goods	27,528	29,203
	$ 92,163	$78,689

N. BORROWING ARRANGEMENTS

On July 31, 2004, SalesLink replaced its outstanding bank facilities with a new Loan and Security Agreement (the Loan Agreement). The Loan Agreement provided a revolving credit facility not to exceed $30.0 million. CMGI was a guarantor of all indebtedness under the Loan Agreement. Interest on the revolving credit facility was based on Prime or LIBOR rates plus 1.75%. Advances under the credit facility could be in the form of loans or letters of credit. On December 31, 2004, the Loan Agreement was replaced with a new loan agreement to, among other things, include ModusLink as a borrower. On June 30, 2005, the scheduled maturity date, the loan was extended to September 30, 2005. On September 30, 2005, the scheduled loan maturity date, ModusLink and its lender agreed to extend the Loan Agreement one month to facilitate the finalization of a new revolving bank credit facility.

On October 31, 2005, ModusLink entered into a new revolving credit agreement (the New Loan Agreement) with a bank syndicate. The New Loan Agreement is a three-year $60.0 million revolving credit facility, with a scheduled maturity of October 31, 2008. Advances under the New Loan Agreement may be in the form of loans or letters of credit. Outstanding borrowings under the former Loan Agreement have been assumed by the new loan facility such that at January 31, 2006, approximately $35.8 million of borrowings were outstanding under the facility, and approximately $1.8 million had been reserved in support of outstanding letters of credit. Interest on the revolving credit facility is based on Prime or LIBOR plus an applicable margin (ranging from 1.25 – 1.75%). The New Loan Agreement includes certain restrictive financial covenants, all of which ModusLink was in compliance with at January 31, 2006. These covenants include balance sheet leverage, liquidity and profitability measures and restrictions that limit the ability of ModusLink, among other things, to merge, acquire or sell assets without prior approval from the lenders. CMGI is not a guarantor under the New Loan Agreement.

O. DISCONTINUED OPERATIONS AND DIVESTITURES

During the three months ended January 31, 2006, CMGI's Board of Directors authorized the divestiture of a business unit within the Company's Americas reporting segment. Management has determined that this planned divestiture meets the criteria for held for sale accounting for a discontinued operation in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". As such, the operating results of the business unit have been segregated from continuing operations and have been reported as discontinued operations in the accompanying condensed balance sheets, statements of operations, cash flows and related notes to the condensed consolidated financial statements for all periods presented.

Summarized financial information for the discontinued operations are as follows:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2006	2005	2006	2005
	(in thousands)			
Results of operations:				
Net revenue	$ 3,211	$ 3,699	$ 7,177	$ 7,601
Total expenses	3,816	5,649	7,860	9,449
Net loss from discontinued operations	(605)	(1,950)	(683)	(1,848)
Adjustment to loss on sale of Tallan	—	—	(2,585)	—
Estimated loss on a business unit	(2,803)	—	(2,803)	—
Net loss from discontinued operations	$(3,408)	$(1,950)	$(6,071)	$(1,848)

	January 31, 2006	July 31, 2005
	(in thousands)	
Financial position:		
Current assets	$ 1,733	$ 2,912
Property and equipment, net	513	2,284
Other assets	1,849	2,716
Total liabilities	(2,097)	(2,674)
Net assets of discontinued operations	$ 1,998	$ 5,238

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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P. CONTINGENCIES

From time to time, the Company may become involved in litigation relating to claims arising out of operations in the normal course of business, which it considers routine and incidental to its business. The Company currently is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, would have a material adverse effect on the Company's business, results of operation or financial condition.

Q. SUBSEQUENT EVENT

On February 28, 2006, Blackboard Inc. ("Blackboard") completed its acquisition of one of CMGI's @Ventures portfolio companies, WebCT, Inc. ("WebCT"). Under the terms of the merger agreement, Blackboard acquired WebCT for cash proceeds to shareholders of $178.3 million. Upon the closing, the Company received $21.2 million for @Ventures' ownership stake in WebCT and expects to record a pre-tax gain on this transaction of approximately $19.4 million in its third fiscal quarter ended April 30, 2006. The Company may also receive up to an additional $2.4 million of contingent consideration, subject to the satisfaction of certain indemnification provisions of the transaction. These indemnification provisions extend one year beyond the close of the transaction and the contingent consideration has not been included in our estimated gain of $19.4 million.

Item 2. ***Management's Discussion and Analysis of Financial Condition and 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 in this section under the heading “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.

Overview

CMGI, through its subsidiary, ModusLink, provides industry-leading global supply chain management services. ModusLink provides extended supply chain management services and solutions to the technology industry on a global basis. These services and solutions include supply base and inventory management, sourcing, manufacturing, configuration, assembly processes, EDI solutions offering direct connections with customers IT systems, distribution and fulfillment, e-commerce, order management, production, customer service and supply chain design and consulting. We also maintain interests in several venture capital funds which invest in emerging, innovative and promising technologies and industries. An aggregate of $5.8 million was invested by @Ventures, our venture capital affiliate, during the six months ended January 31, 2006.

Management evaluates operating performance based on net revenue, operating income (loss), and net income (loss), and, across its segments, on the basis of “non-GAAP operating income (loss),” which is defined as the operating income (loss) excluding net charges related to depreciation, long-lived asset impairment, restructuring, amortization of intangible assets, and stock-based compensation. See Note I of Notes to Condensed Consolidated Financial Statements for segment information, including a reconciliation of non-GAAP operating income (loss) to net income (loss).

In fiscal 2004, we articulated the following goals:

- Make strategic investments to expand globally;
- Narrow our losses;
- Preserve our cash; and
- Improve our operating efficiencies.

We believe our acquisition of Modus Media, Inc. (Modus) on August 2, 2004, our sales and marketing efforts, and our cost savings initiatives implemented throughout fiscal 2005 allowed us to make substantial progress in achieving these goals. The Modus acquisition increased our global footprint significantly, including multiple facilities in China, which has become an increasingly important region of the world for providing supply chain management services in support of many of our global customers and prospects. The integration of Modus with our existing supply chain management business to form ModusLink also improved our operating efficiency by eliminating redundancies, primarily in the areas of facilities and personnel, and by reducing our overall material and freight costs. These operating synergies provided approximately $19.0 million of cost savings in fiscal 2005, and over $28.0 million of annualized cost savings. In addition, in fiscal 2005, we reported our first annual operating profit in nine years.

For the six months ended January 31, 2006, CMGI reported net revenue of $622.3 million, an operating profit of $0.6 million and net loss of $4.2 million. Included in both our operating profit and net loss for the first six months of fiscal 2006 was incremental stock-based compensation of $2.8 million related to the implementation of SFAS 123(R). We currently conduct business in the United Kingdom, The Netherlands, Hungary, France, Singapore, Taiwan, China, Malaysia, Ireland, The Czech Republic, Mexico and other foreign locations, in addition to the Company's North American operations. We expect to continue to develop and expand our vertical markets and service offerings. At January 31, 2006, we had cash and cash equivalents and available for sale securities of $163.0 million, and working capital of $259.7 million. Our primary use of cash during the six months ended January 31, 2006 was for working capital requirements in support of new customer programs and seasonality-based demand.

During the three months ended January 31, 2006, CMGI's Board of Directors authorized the divestiture of a business unit within the Company's Americas reporting segment. Management has determined that this planned divestiture meets the criteria for held for sale accounting for a discontinued operation in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". As such, the operating results of the business unit have been segregated from continuing operations and have been reported as discontinued operations in the accompanying condensed balance sheets, statements of operations, cash flows and related notes to the condensed consolidated financial statements for all periods presented.

As a large portion of our revenue comes from outsourcing services provided to customers such as hardware manufacturers, software publishers, telecommunications carriers, broadband and wireless service providers and consumer electronics companies, our operating performance could be adversely affected by declines in the overall performance of the technology sector. The markets for our supply chain management services are very competitive. We also face pressure from our customers to continually realize efficiency gains in order to help our customers maintain their gross margins and profitability. Increased competition and customer demands for efficiency improvements may result in price reductions, reduced gross margins and in some cases loss of market share. As a result of these competitive and customer pressures, the gross margins in our business are low. Increased competition arising from industry consolidation and/or low demand for our customers' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We are reacting to margin and pricing pressures in several ways, including efforts to lower our cost to service customers, move work to lower-cost venues, establish facilities closer to our customers to gain efficiencies, and add other service offerings at higher margins.

Historically, a limited number of key clients have accounted for a significant percentage of our revenue. For the three and six months ended January 31, 2006, sales to Hewlett-Packard accounted for approximately 28% and 29%, respectively, of our consolidated net revenue, and sales to Kodak accounted for approximately 13% and 14% of our consolidated net revenue, respectively. We expect to continue to derive the vast majority of our operating revenue from sales to a small number of key customers. We currently do not have any agreements which obligate any customer to buy a minimum amount of products or services from us. Consequently, our sales are subject to demand variability by our customers. The level and timing of orders placed by our customers vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. Due to seasonality, we expect that revenues will be higher in the first and second fiscal quarters of the year, as our clients increase production for the holiday and calendar year-end season.

During the latter part of fiscal 2005, we developed a set of strategic initiatives and an operating plan focused on increasing both revenue and profitability. We view the continued development of our global operational infrastructure and footprint as a primary source of differentiation in the marketplace. We believe that by leveraging our global footprint we will be able to optimize our client's supply chains using multi-facility, multi-geographic solutions. In line with this focus, during fiscal 2005, we made our initial investment in the implementation of a new global systems infrastructure, the foundation of which will be run on SAP's enterprise resource planning system, and opened two new solution centers, one in West Valley City, Utah and one in Brno, Czech Republic.

In fiscal 2006, we are focused on executing against our strategic plan, including implementing the following initiatives to achieve our goals:

Drive sales growth through a combination of existing client penetration, and targeting new vertical markets; A significant portion of our revenues are currently generated from clients in the computing and software verticals. These verticals are mature and, as a result, gross margins in these verticals are low. To address this, we have expanded our sales focus to include three new markets, in addition to the computing and software verticals, that we believe can benefit from our supply chain expertise. We believe these verticals, including communications, broadband, storage devices, and consumer electronics, are experiencing faster growth than our historical markets, and represent opportunities to realize higher gross margins on our services. Companies in these markets often are early in their product life cycles and have significant need for a supply chain partner who will be an extension to their business models.

Increase the value delivered to clients through service expansion; In fiscal 2006, we expect to invest in expanding our e-commerce and logistics management services offerings, which we believe will increase the overall value of the supply chain solutions we deliver to our existing clients and to new clients. We expect these solutions will enhance our gross margins and drive greater profitability. Further, we believe that the addition of new services to existing clients will strengthen our relationship with these clients, and further integrate us with their business.

Drive operational efficiencies throughout our organization: As a result of the Modus acquisition, the Company has been running multiple information technology systems at a significant cost. Our strategy is to offer an integrated supply chain system infrastructure that extends from front-end order management through distribution and returns management. This end-to-end solution will enable clients to link supply and demand in real time, improve visibility and performance throughout the supply chain, and provide real-time access to information for greater collaboration and making informed business decisions. We believe our clients will benefit greatly from a global integrated business solution while we too reduce our operating costs. Over the next two years, we expect to invest approximately $23.7 million in this initiative. Another program that we expect will drive further operational efficiencies in fiscal 2006 and beyond is the implementation of a global shared services model utilizing centralized “hub” locations to service multiple “spoke” locations across the Americas, Asia and Europe regions (“Hub and Spoke”). We believe this initiative will yield improved process standardization and operating efficiency gains, as well as lower our operating costs.

We believe that successful execution of these initiatives will enable the Company to increase its gross margin percentage to approximately 13% – 14% by fiscal 2008, compared to the fiscal 2005 gross margins of approximately 11%. We also believe that these initiatives will allow us to reduce our overall selling, general and administrative and restructuring costs by $25.0 million within two years, by fiscal 2008. Among the key external factors that will influence our performance against these goals are successful execution and implementation of our strategic initiatives, global economic conditions, especially in the technology sector, demand for our customers' products, and demand for outsourcing services.

Results of Operations

Three months ended January 31, 2006 compared to the three months ended January 31, 2005

Net Revenue:

	Three Months Ended January 31, 2006	As a % of Total Net Revenue	Three Months Ended January 31, 2005	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 144,076	45%	$ 126,513	43%	$17,563	14%
Asia	62,951	20%	58,745	20%	4,206	7%
Europe	111,822	35%	106,761	37%	5,061	5%
Total eBusiness and Fulfillment	318,849	100%	292,019	100%	26,830	9%
Other	—	—	6	—	(6)	(100)%
Total	$ 318,849	100%	$ 292,025	100%	$26,824	9%

Net revenue within the Americas, Asia, and Europe segments increased for the three months ended January 31, 2006, as compared to the same period in the prior year, primarily as a result of approximately $53.1 million of net revenues from two significant new customer programs awarded during fiscal 2005. A portion of this incremental revenue related to seasonality-based demand for the holiday season. The year over year net revenue growth of $26.8 million or 9% is net of price reductions and form factor changes of approximately $12.9 million, of which approximately $9.3 million related to the Asia region, primarily in connection with the signing of a multi-year contract with a major customer during the spring of 2005. “Form factor” relates to the simplification or elimination of components from our clients’ final products, which in turn reduces the Company’s margin potential.

Two customers, Hewlett-Packard and Kodak, accounted for approximately 28% and 13%, respectively, of CMGI’s consolidated net revenue for the three months ended January 31, 2006. One customer, Hewlett-Packard, accounted for approximately 35% of CMGI’s consolidated net revenue for the three months ended January 31, 2005. We expect that a significant portion of our annual volume in fiscal 2006 with Kodak will be concentrated within the first six months of our fiscal year in support of seasonality based demand for Kodak’s consumer products during the holiday season.

The Company continues to see volatility in demand for our customers’ products and as such maintains a conservative view on order volumes and revenue. Our current ability to forecast the amount and timing of future order volumes is low, and we expect such condition to continue for the foreseeable future, as the Company is highly dependent upon the business needs of its customers, whose businesses, in turn, depend upon various factors related to the high tech sector generally and demand for products and services in that industry. The Company sells primarily on a purchase order basis, rather than pursuant to long-term contracts or contracts with minimum purchase requirements. These purchase orders are generally for quantities necessary to support near-term demand for our customers’ products. A significant portion of our customer base operates in the technology sector, which is intensely competitive and very volatile. Our customers’ order volumes vary from quarter-to-quarter for a variety of reasons, including market acceptance of their new product introductions and overall demand for their products. This business environment, and our mode of transacting business with our customers, does not lend itself to precise measurement of the amount and timing of future order volumes, and as a result, future sales volumes and revenues could vary significantly from period to period.

Cost of Revenue:

	Three Months Ended January 31, 2006	As a % of Segment Net Revenue	Three Months Ended January 31, 2005	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 127,498	88%	$ 111,819	88%	$15,679	14%
Asia	50,184	80%	42,713	73%	7,471	17%
Europe	110,763	99%	98,795	93%	11,968	12%
Total eBusiness and Fulfillment	$ 288,445	90%	$ 253,327	87%	$35,118	14%

Cost of revenue consists primarily of expenses related to the cost of products purchased for sale or distribution as well as salaries and benefit expenses, consulting and contract labor costs, fulfillment and shipping costs, and applicable facilities costs. Cost of revenue within the Americas, Asia, and Europe segments increased for the three months ended January 31, 2006 primarily as a result of the increase in revenues in each region as compared to the prior year. Overall net revenue increased 9% while cost of revenue increased 14%, as compared to the prior year. As a result, gross margins for the second quarter of fiscal 2006 were 10% as compared to 13% in the prior year, an $8.3 million decline. The decline in gross margins was primarily attributable to $5.1 million of additional costs incurred to support a larger than anticipated surge in demand for a significant clients products in Europe during the holiday season. These costs primarily included higher freight expediting fees, warehousing and assembly costs, and distribution costs. The remaining $3.2 million of margin decline reflects certain price reduction and form factor changes partially offset by cost of material savings and increased business volumes.

For the three months ended January 31, 2006, the Company's gross margin percentages within the Americas, Asia and Europe regions were 12%, 20% and 1%, as compared to 12%, 27% and 7%, respectively, for the same period of the prior year. Within the Asia region, the seven-percentage point decline in gross margin percentage was attributable to $9.3 million of price reductions and form factor changes, primarily in connection with the signing of a multi-year contract with a major customer during the spring of 2005. These price reductions and form factor changes were partially offset by approximately $6.0 million of cost of material savings and increased business volumes. Within the Europe region, the six-percentage point decline in gross margins percentage was primarily attributable to $5.1 million of additional costs incurred to support a larger than anticipated surge in demand for a significant clients products in Europe during the holiday season. These costs primarily included higher freight expediting fees, warehousing and assembly costs, and distribution costs. In addition, gross margins in Europe were negatively impacted by $1.6 million of price reductions and form factor changes vs. the prior year. In recent years, the demand for supply chain management services in both the Americas and Europe has been adversely affected by customers' migration of their work to lower cost regions of the world, particularly Asia. Accordingly, as a result of the lower overall cost of delivering the Company's products and services in the Asia region, particularly China, and the increasing demand for supply chain management services in that region, we expect gross margin levels in Asia to continue to exceed those earned in the Americas and Europe regions. We expect that there will be pressure on gross margin levels in Asia as the market, particularly China, matures. Our gross margins are impacted by a number of factors, including competition, order volumes, pricing, customer and product mix and configuration, and overall demand for our customers' products. A significant portion of the costs required to deliver our products and services is fixed in nature.

As outlined in our strategic initiative discussion in the Overview section above, the Company remains focused on margin improvement through several revenue and operating efficiency initiatives designed to improve the profitability of our business and maintain our competitive position. We are reacting to margin and pricing pressures in several ways, including efforts to lower our cost to service customers, move work to lower-cost venues, establish facilities closer to our customers to gain efficiencies and add other service offerings at higher margins.

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Selling Expenses:

	Three Months Ended January 31, 2006	As a % of Segment Net Revenue	Three Months Ended January 31, 2005	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 2,357	2%	$ 1,938	2%	$ 419	22%
Asia	1,202	2%	1,758	3%	(556)	(32)%
Europe	1,734	2%	1,609	2%	125	8%
Total eBusiness and Fulfillment	5,293	2%	5,305	2%	(12)	—
Other	—	—	(3)	50%	3	100%
Total	$ 5,293	2%	$ 5,302	2%	$ (9)	—

Selling expenses consist primarily of compensation and employee-related expenses, sales commissions, facilities costs, marketing expenses and travel costs. Selling expenses during the three months ended January 31, 2006 were consistent with that of the prior year. During the three months ended January 31, 2006, employee-related costs were higher than the same period in the prior fiscal year by approximately $0.5 million. This increase was offset primarily by lower travel related costs of approximately $0.2 million and lower advertising and marketing expenses of approximately $0.2 million. For the three months ended January 31, 2006 and 2005, employee-related costs represented approximately 65.9% and 56.7% of the total selling expense, respectively. The Company expects its selling expenses to continue to approximate 2% of net revenue for the foreseeable future.

General and Administrative Expenses:

	Three Months Ended January 31, 2006	As a % of Segment Net Revenue	Three Months Ended January 31, 2005	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 4,538	3%	$ 5,790	5%	$(1,252)	(22)%
Asia	5,073	8%	4,986	8%	87	2%
Europe	6,852	6%	5,000	5%	1,852	37%
Total eBusiness and Fulfillment	16,463	5%	15,776	5%	687	4%
Other	3,813	—	4,564	76,067%	(751)	(16)%
Total	$ 20,276	6%	$ 20,340	7%	$ (64)	—

General and administrative expenses within the Americas, Asia, and Europe operating segments consist primarily of compensation and other employee-related costs, facilities costs, depreciation expense and fees for professional services. General and administrative expenses, within these operating segments, increased during the three months ended January 31, 2006, as compared to the same period in the prior fiscal year, primarily as a result of approximately $2.0 million of costs associated with the Company's migration to a new ERP platform as well as approximately $0.4 of higher employee-related costs. These costs were partially offset by approximately $0.7 million of lower stock-based compensation, $0.5 million of lower legal and accounting costs and $0.3 million of lower IT infrastructure costs, primarily software and hardware maintenance. Within the Europe region, the $1.9 million increase in general and administrative expenses was primarily associated with the ERP initiative of approximately $0.7 million and higher employee-related costs of approximately $0.7 million. Within the

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Americas region, the $1.3 million decrease in general and administrative expenses was primarily associated with lower IT related costs of approximately $0.5 million, lower employee-related costs of approximately $0.2 million and lower professional fees of approximately $0.2 million.

The general and administrative expenses within the Other category primarily reflect the cost of the Company's directors and officers insurance, costs associated with certain corporate administrative functions such as legal and finance which are not fully allocated to the Company's subsidiary companies, and administration costs related to the Company's venture capital affiliates. General and administrative expenses within the Other category decreased compared to the same period in the prior fiscal year, primarily as a result of approximately $0.6 million of lower consulting costs, $0.4 million of lower accounting and legal fees, $0.2 million of lower directors and officers insurance and $0.3 million of lower costs associated with the Company's annual meeting. This decrease was partially offset by approximately $0.8 million of stock-based compensation expense recorded in connection with the Company's adoption of SFAS No. 123(R). The Company expects its general and administrative costs to approximate 8% to 9% of net revenue for the remainder of fiscal 2006 due primarily to higher information technology expenditures associated with the Company's migration to a common ERP platform, and increased stock compensation expense related to the continued application of SFAS No. 123(R). These increased general and administrative costs are expected to be partially offset by cost savings in connection with the implementation of the Hub and Spoke shared services model.

Amortization of Intangible Assets

	Three Months Ended January 31, 2006	As a % of Segment Net Revenue	Three Months Ended January 31, 2005	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 531	—	$ 581	—	$ (50)	(9)%
Asia	510	1%	641	1%	(131)	(20)%
Europe	165	—	83	—	82	99%
Total eBusiness and Fulfillment	$ 1,206	—	$ 1,305	—	$ (99)	(8)%

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of Modus. These intangible assets are being amortized over lives ranging from 1 to 7 years.

Restructuring, net:

	Three Months Ended January 31, 2006	As a % of Segment Net Revenue	Three Months Ended January 31, 2005	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 430	—	$ 769	1%	$ (339)	(44)%
Asia	245	—	13	—	232	1,785%
Europe	4,425	4%	169	—	4,256	2,518%
Total eBusiness and Fulfillment	5,100	2%	951	—	4,149	436%
Other	226	—	26	433%	200	769%
Total	$ 5,326	2%	$ 977	—	$ 4,349	445%

During the three months ended January 31, 2006, the Company recorded net restructuring charges of approximately $5.3 million. These charges consisted of approximately $3.5 million relating to a workforce reduction of 47 employees, primarily due to the elimination of redundant positions in Europe. In addition, the Company recorded approximately $1.1 million relating to unutilized lease facilities for which the Company expects to realize no future economic benefit primarily due to the consolidation of two plants in the Netherlands, as well as approximately $0.3 million relating to the impairment of certain assets no longer in service. The Company also recorded adjustments of $0.4 million to previously recorded restructuring estimates for facility lease obligations, primarily based on changes to the underlying assumptions.

Included in the $5.3 million charge mentioned above, is a charge of $1.0 million related mainly to termination benefits entitled to employees affected by the closure of a site in Europe. The Company expects to reach the cease-use date of the facility during the quarter ended April 30, 2006, at which time additional restructuring charges will be recorded related to the obligation remaining on the facility lease post the cease-use date, as well as, other qualifying costs associated with the exit activity. As of January 31, 2006, the undiscounted obligation remaining on the facility lease, which runs through July 2010, is approximately $2.7 million.

During the three months ended January 31, 2005, the Company recorded net restructuring charges of approximately $1.0 million. These charges consisted of approximately $0.5 million relating to a workforce reduction of 29 employees, $0.3 million relating to unutilized lease facilities for which the Company expects to realize no future economic benefit, and $0.2 million relating to the impairment of certain assets no longer in service.

Interest Income/Expense:

During the three months ended January 31, 2006, interest income increased $0.5 million to $1.4 million from $0.9 million for the same period in the prior fiscal year. The increase in interest income was the result of higher average interest rates during the current period compared to the same period in the prior fiscal year. The increase in interest income resulting from the higher interest rates was partially offset by an overall decrease in the average cash balances.

Interest expense totaled approximately $0.7 million and $0.6 million for the three months ended January 31, 2006 and 2005, respectively. In both periods, interest expense of approximately $0.2 million related to the Company's stadium obligation, and the remaining interest expense related primarily to outstanding borrowings on a revolving bank credit facility.

Other Gains (losses), net:

Other gains (losses) net, totaled a loss of $1.1 million for the three months ended January 31, 2006 as compared to a loss of $1.2 million for the same period of the prior fiscal year. During the three months ended January 31, 2006, the Company recorded an adjustment to increase a previously recorded gain on the sale of Molecular (an @Ventures portfolio company) of approximately $0.5 million due to the release of funds held in escrow. In addition, the Company incurred foreign exchange losses of approximately $1.5 million during the three months ended January 31, 2006, primarily related to unhedged foreign currency exposures in Asia. During the three months ended January 31, 2005, the Company incurred foreign exchange losses of approximately $1.3 million, primarily related to unhedged foreign currency exposures in Asia.

Equity in income (losses) of affiliates, net:

Equity in income (losses) of affiliates, net, 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 income (losses) is included in equity in income (losses) of affiliates. Equity in income of affiliates was approximately $5,000 for the three months ended January 31, 2006 compared to equity in income of affiliates of approximately $0.3 million for the same period in the prior fiscal year, primarily as a result of a decrease in net income recognized by certain of the affiliate companies.

Income Taxes:

The Company does not record any income tax benefit for losses generated in the U.S. as it is more likely than not that the Company will not realize such benefits and the fact that the Company has fully utilized its tax loss carryback benefits. The Company provides income tax expense related to certain foreign and state taxes. During the three months ended January 31, 2006, the Company recorded income tax expense of approximately $0.8 million, as compared to $1.0 million for the same period of the prior year.

Six months ended January 31, 2006 compared to the six months ended January 31, 2005

Net Revenue:

	Six Months Ended January 31, 2006	As a % of Total Net Revenue	Six Months Ended January 31, 2005	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 273,440	44%	$ 229,877	42%	$43,563	19%
Asia	123,668	20%	110,074	20%	13,594	12%
Europe	225,150	36%	205,214	38%	19,936	10%
Total eBusiness and Fulfillment	622,258	100%	545,165	100%	77,093	14%
Other	—	—	84	—	(84)	(100)%
Total	$ 622,258	100%	$ 545,249	100%	$77,009	14%

Net revenue within the Americas, Asia, and Europe segments increased for the six months ended January 31, 2006, as compared to the same period in the prior year, primarily as a result of approximately $115.0 million of net revenue contributions from two significant new customer programs awarded during fiscal 2005. A portion of this net revenue increase includes seasonality-based demand for the holiday season. The year over year net revenue growth of $77.0 million or 14% is net of price reductions and form factor changes of approximately $24.1 million, of which approximately $18.0 million related to the Asia region.

During the six months ended January 31, 2006, sales to Hewlett-Packard and Kodak accounted for approximately 29% and 14% of the Company's consolidated net revenues, respectively. During the six months ended January 31, 2005, sales to Hewlett-Packard accounted for approximately 38% of the Company's consolidated net revenues.

Cost of Revenue:

	Six Months Ended January 31, 2006	As a % of Segment Net Revenue	Six Months Ended January 31, 2005	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 245,584	90%	$ 206,398	90%	$39,186	19%
Asia	98,996	80%	79,174	72%	19,822	25%
Europe	216,302	96%	190,252	93%	26,050	14%
Total eBusiness and Fulfillment	$ 560,882	90%	$ 475,824	87%	$85,058	18%

Cost of revenue consists primarily of expenses related to the cost of products purchased for sale or distribution as well as salaries and benefit expenses, consulting and contract labor costs, fulfillment and shipping costs, and applicable facilities costs. Cost of revenue within the Americas, Asia, and Europe segments increased for the six months ended January 31, 2006 primarily as a result of the increase in revenues in each region as compared to the prior year. Overall net revenue increased 14% while cost of revenue increased 18%, as compared to the prior year. As a result, gross margins for the six months ended January 31, 2006 were 10% as compared to 13% in the prior year quarter, an $8.0 million decline. The decline in gross margins was primarily attributable to $5.1 million of additional costs incurred in the second quarter to support a larger than anticipated surge in demand for a significant clients products in Europe during the holiday season. These costs primarily included higher freight expediting fees, warehousing and assembly costs, and distribution costs. The remaining $2.9 million of margin decline reflects certain price reduction and form factor changes partially offset by cost of material savings and increased business volumes.

For the six months ended January 31, 2006, the Company's gross margin percentages within the Americas, Asia and Europe regions were 10%, 20% and 4%, as compared to 10%, 28% and 7%, respectively, for the same period of the prior year. Within the Asia region, the eight-percentage point decline in gross margin percentage was attributable to $18.0 million of price reductions and form factor changes which were partially offset by approximately $11.8 million of cost of material savings and increased business volumes. Within the Europe region, the three-percentage point decline in gross margins percentage was primarily attributable to $5.1 million of additional costs incurred in the second quarter to support a larger than anticipated surge in demand for a significant clients products in Europe during the holiday season. These costs primarily included higher freight expediting fees, warehousing and assembly costs, and distribution costs. In addition, gross margins in Europe were negatively impacted by $3.2 million of price reductions and form factor changes versus the prior year, partially offset by approximately $2.2 million of cost of material savings and increased business volumes.

Selling Expenses:

	Six Months Ended January 31, 2006	As a % of Segment Net Revenue	Six Months Ended January 31, 2005	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 4,320	2%	$ 3,880	2%	$ 440	11%
Asia	2,590	2%	3,514	3%	(924)	(26)%
Europe	3,771	2%	3,568	2%	203	6%
Total eBusiness and Fulfillment	10,681	2%	10,962	2%	(281)	(3)%
Other	—	—	(3)	(4)%	3	100%
Total	$ 10,681	2%	$ 10,959	2%	$ (278)	(3)%

Selling expenses consist primarily of compensation and employee-related expenses, sales commissions, facilities costs, marketing expenses and travel costs. Selling expenses decreased during the six months ended January 31, 2006 as compared to the same period in the prior fiscal year, primarily as a result of lower travel related costs of approximately $0.3 million, lower advertising and marketing expenses of approximately $0.2 million and lower stock-based compensation of approximately $0.3 million. This decrease was partially offset by higher employee-related costs of approximately $0.5 million. Of the Company's total selling expenses for the six months ended January 31, 2006 and 2005, employee-related costs represented approximately 66.2% and 59.6% of the total selling expense in each period. The Company expects its selling expenses to continue to approximate 2% of net revenue for the foreseeable future.

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General and Administrative Expenses:

	Six Months Ended January 31, 2006	As a % of Segment Net Revenue	Six Months Ended January 31, 2005	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 10,213	4%	$ 11,949	5%	$(1,736)	(15)%
Asia	9,589	8%	9,845	9%	(256)	(3)%
Europe	13,533	6%	10,500	5%	3,033	29%
Total eBusiness and Fulfillment	33,335	5%	32,294	6%	1,041	3%
Other	8,058	—	8,141	9,692%	(83)	(1)%
Total	$ 41,393	7%	$ 40,435	7%	$ 958	2%

General and administrative expenses within the Americas, Asia, and Europe operating segments consist primarily of compensation and other employee-related costs, facilities costs, depreciation expense and fees for professional services. The total general and administrative expenses for these operating segments increased during the six months ended January 31, 2006, as compared to the same period in the prior fiscal year, primarily as a result of approximately $4.2 million of costs associated with the Company's migration to a new ERP platform and approximately $0.3 million of higher consulting costs. These costs were partially offset by approximately $1.2 million of lower employee-related costs, approximately $1.2 million of lower stock-based compensation, $0.6 million of lower legal and accounting costs and $0.7 million of lower IT infrastructure costs, primarily software and hardware maintenance. Within the Europe region, the $3.0 million increase in general and administrative expenses was primarily associated with the ERP initiative of approximately $1.4 million and higher employee-related costs of approximately $0.8 million. Within the Americas region, the $1.7 million decrease in general and administrative expenses was primarily associated with lower employee-related costs of approximately $1.0 million and lower consulting fees of approximately $0.2 million.

The general and administrative expenses within the Other category primarily reflect the cost of the Company's directors and officers insurance, costs associated with certain corporate administrative functions such as legal and finance which are not fully allocated to the Company's subsidiary companies, and administration costs related to the Company's venture capital affiliates. General and administrative expenses within the Other category were consistent with the same period in the prior fiscal year. General and administrative expenses increased from the prior year primarily as a result of approximately $1.8 million of stock based compensation expense recorded in connection with the Company's adoption of SFAS No. 123(R). This increase was offset by approximately $0.6 million of lower consulting costs, $0.4 million of lower accounting and legal fees, $0.4 million of lower directors and officers insurance and $0.3 million of lower costs associated with the Company's annual meeting. The Company expects its total general and administrative costs to approximate 8% to 9% of net revenue for the remainder of fiscal 2006 due primarily to higher information technology expenditures associated with the Company's migration to a common ERP platform, and increased stock compensation expense related to the continued application of SFAS No. 123(R). These increased general and administrative costs are expected to be partially offset by cost savings in connection with the implementation of the Hub and Spoke shared services model.

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Amortization of Intangible Assets:

	Six Months Ended January 31, 2006	As a % of Segment Net Revenue	Six Months Ended January 31, 2005	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 1,062	—	$ 1,131	—	$ (69)	(6)%
Asia	1,020	1%	1,074	1%	(54)	(5)%
Europe	330	—	407	—	(77)	(19)%
Total eBusiness and Fulfillment	$ 2,412	—	$ 2,612	—	$ (200)	(8)%

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of Modus. These intangible assets are being amortized over lives ranging from 1 to 7 years.

Restructuring, net:

	Six Months Ended January 31, 2006	As a % of Segment Net Revenue	Six Months Ended January 31, 2005	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 791	—	$ 774	—	$ 17	2%
Asia	245	—	926	1%	(681)	(74)%
Europe	5,254	2%	587	—	4,667	795%
Total eBusiness and Fulfillment	6,290	1%	2,287	—	4,003	175%
Other	13	—	26	31%	(13)	(50)%
Total	$ 6,303	1%	$ 2,313	—	$ 3,990	173%

During the six months ended January 31, 2006, the Company recorded net restructuring charges of approximately $6.3 million. These charges consisted of approximately $4.2 million relating to a workforce reduction of 81 employees, primarily due to the elimination of redundant positions in Europe. In addition, the Company recorded approximately $1.4 million of contractual obligations primarily related to the consolidation of two plants in the Netherlands, as well as approximately $0.3 million relating to the impairment of certain assets no longer in service. The Company also recorded adjustments of $0.4 million to previously recorded restructuring estimates for facility lease obligations and employee severance, primarily based on changes to the underlying assumptions.

During the six months ended January 31, 2005, the Company recorded net restructuring charges of approximately $2.3 million. These charges consisted of approximately $0.9 million related to a workforce reduction of 56 employees, approximately $1.2 million relating to unutilized lease facilities for which the Company expects to realize no future economic benefit, and $0.2 million relating to the impairment of certain assets no longer in service.

Interest Income/Expense:

During the six months ended January 31, 2006, interest income increased $1.1 million to $2.6 million from $1.5 million for the same period in the prior fiscal year. The increase in interest income was the result of higher average interest rates during the current period compared to the same period in the prior fiscal year. The increase in interest income resulting from the higher interest rates was partially offset by an overall decrease in the average cash balances.

Interest expense totaled approximately $1.3 million and $1.0 million for the six months ended January 31, 2006 and 2005, respectively. In both periods, interest expense of approximately $0.4 million related to the Company's stadium obligation, and the remaining interest expense related primarily to outstanding borrowings on a revolving bank credit facility.

Other Gains (losses), net:

Other gains (losses) net, totaled a gain of $2.1 million for the six months ended January 31, 2006 as compared to a loss of $2.6 million for the same period of the prior fiscal year. During the six months ended January 31, 2006, the Company recorded a gain of approximately $2.7 million related to the sale of a building in Europe and an adjustment to a previously recorded gain on the sale of Molecular (an @Ventures portfolio company) of approximately $0.5 million. In addition, the Company incurred foreign exchange losses of approximately $1.0 million during the six months ended January 31, 2006, primarily related to unhedged foreign currency exposures in Asia. During the six months ended January 31, 2005, the Company incurred foreign exchange losses of approximately $3.1 million, primarily related to unhedged foreign currency exposures in Asia.

Equity in income (losses) of affiliates, net:

Equity in losses of affiliates, net, 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 income (losses) is included in equity in income (losses) of affiliates. Equity in losses of affiliates was approximately $0.4 million for the six months ended January 31, 2006 compared to equity in income of affiliates of $0.1 million for the same period in the prior fiscal year, primarily as a result of an increase in net losses recognized by certain of the affiliate companies. Equity in income of affiliates totaled $0.1 million for the six months ended January 31, 2005, primarily as a result of a realized gain of $0.6 million associated with the acquisition of one of CMG @Ventures III, LLC's portfolio investments, Classmates Online, Inc. by United Online.

Income Taxes:

The Company does not record any income tax benefit for losses generated in the U.S. due to the uncertainty of realizing such benefits and the fact that the Company has fully utilized its tax loss carryback benefits. The Company provides income tax expense related to certain foreign and state taxes. During the six months ended January 31, 2006, the Company recorded income tax expense of approximately $1.7 million, as compared to $2.5 million for the same period of the prior year.

Liquidity and Capital Resources

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the issuance of CMGI common stock, the sale of investments in subsidiary and affiliate entities and borrowings from lending institutions. As of January 31, 2006, the Company's primary sources of liquidity consisted of cash and cash equivalents of $159.7 million. In addition, on October 31, 2005, ModusLink entered into a new revolving credit agreement (the New Loan Agreement) with a bank syndicate. The New Loan Agreement is a three-year $60.0 million revolving credit facility, with a scheduled maturity of October 31, 2008. Advances under the New Loan Agreement may be in the form of loans or letters of credit. Outstanding borrowings under the former Loan Agreement have been assumed by the new loan facility such that at January 31, 2006, approximately $35.8 million of borrowings were outstanding under the facility, and approximately $1.8 million had been reserved in support of outstanding letters of credit. Interest on the revolving credit facility is based on Prime or LIBOR plus an applicable margin (ranging from 1.25 – 1.75%). The credit facility includes certain restrictive financial covenants, which include balance sheet leverage, liquidity and profitability measures and restrictions that limit the ability of ModusLink, among other things, to merge, or acquire or sell assets without prior approval from the lenders. The Company's working capital at January 31, 2006 was approximately $259.7 million.

Net cash used for operating activities of continuing operations was $31.7 million for the six months ended January 31, 2006, compared to $11.5 million for the six months ended January 31, 2005. Net cash used for operating activities of continuing operations includes an increase in accounts receivable and inventory of $52.3 million and $13.4 million, respectively, related to increased sales for certain customer's products as a result of seasonality based demand. Cash used for operating activities of continuing operations is adjusted for non-cash items. During the six months ended January 31, 2006, non-cash items primarily included $4.7 million of depreciation expense, $2.4 million of amortization of intangible assets, and $3.8 million of stock-based compensation expense. During the six months ended January 31, 2005, non-cash items primarily included $4.7 million of depreciation expense, $2.6 million of amortization of intangible assets, $3.3 million of stock-based compensation expense and non-operating gains, net of $0.6 million.

The Company believes that the reduction in the net cash used for operating activities of continuing operations is dependent on several factors, including increased profitability, effective inventory management practices, and optimization of the credit terms of certain vendors of the Company. Our cash flows from operations are dependent on several factors including the overall performance of the technology sector, and the market for outsourcing services. The intensity of the competition in our markets is expected to continue to increase and this increased competition may result in price reductions, reduced gross margins and loss of market share. A one-percentage point decline in our gross margins earned during the six months ended January 31, 2006, would have resulted in a $6.2 million decline in our cash flows from operating activities. We continue to focus on margin improvement, through cost reductions and asset and employee productivity gains in order to improve the profitability and cash flows of our business and maintain our competitive position. As outlined in our discussion on strategic initiatives in the Overview section above, we are reacting to margin and pricing pressures in several ways, including efforts to lower our cost to service customers, move work to lower-cost venues, establish facilities closer to our customers to gain efficiencies, and add other service offerings at higher margins.

Investing activities of continuing operations used cash of $11.0 million for the six months ended January 31, 2006 and used cash of $75.9 million for the six months ended January 31, 2005. The $11.0 million of cash used for investing activities consists of $8.5 million of capital expenditures and $5.8 million of investments in affiliates, partially offset by $2.7 million of proceeds from the sale of a building in Europe and $0.5 million of proceeds from affiliate distributions. During the six months ended January 31, 2005, the Company's primary use of cash for investing activities included the acquisition of Modus, for which the Company made a net cash payment of approximately $66.2 million to retire Modus' debt and pay certain deal related costs. Also during the six months ended January 31, 2005, the Company paid additional acquisition related costs of approximately $1.8 million. As of January 31, 2006, the Company has $28.0 million of investments in affiliates, which may be a potential source of future liquidity. However, the Company does not anticipate being dependent on liquidity from these investments to fund either its short-term or long-term operating activities. During the six months ended January 31, 2006, the Company invested approximately $6.9 million in a new Enterprise Resource Planning System in connection with its strategy to create a global integrated supply-chain system infrastructure that extends from front-end order management through distribution returns management. During the remainder of fiscal 2006 the Company expects to invest approximately $8.1 million of additional capital in its new ERP system. The total investment in the new ERP system through fiscal 2007 is expected to approximate $23.7 million.

Subsequent to January 31, 2006, the Company received $21.2 million in cash as a result of a merger of WebCT, an @Ventures' portfolio company, with Blackboard.

Financing activities of continuing operations provided cash of $9.8 million and used cash of $3.3 million for the six months ended January 31, 2006 and 2005, respectively. The $9.8 million of cash provided for financing activities of continuing operations during the six months ended January 31, 2006 includes $11.0 million of borrowings under the revolving line of credit in order to support the demand for certain customer products, $0.6 million of proceeds from the issuance of common stock and approximately $1.6 of cash used for the repayment of a mortgage in connection with the sale of a building in Europe. The $3.3 million of cash provided by financing activities of continuing operations during the six months ended January 31, 2005 includes $3.9 million of proceeds from the issuance of common stock and $0.6 million of payments of long-term debt and capital lease obligations. The Company is not dependent on liquidity from its financing activities to fund either its short-term or long-term operating activities.

Cash used for discontinued operations totaled $0.2 million and $0.6 million for the six months ended January 31, 2006 and 2005, respectively.

Given the Company's cash resources as of January 31, 2006, the Company believes that it has sufficient working capital and liquidity to support its operations, as well as continue to make investments through its venture capital affiliates over the next fiscal year and for the foreseeable future. However, should additional capital be needed to fund future investment and acquisition activity, the Company may seek to raise additional capital through offerings of the Company's 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, or at all.

Off-Balance Sheet Financing Arrangements

The Company does not have any off-balance sheet financing arrangements other than operating leases that are recorded in accordance with accounting principles generally accepted in the United States of America.

Contractual Obligations

The Company leases facilities and certain other machinery and equipment under various non-cancelable operating leases and executory contracts expiring through June 2015.

In August 2000, the Company announced it had acquired the exclusive naming and sponsorship rights to the New England Patriots' new stadium for a period of fifteen years. In August 2002, the Company finalized an agreement with the owner of the stadium to amend the sponsorship agreement. Under the terms of the amended agreement, the Company relinquished the stadium naming rights and remains obligated for a series of annual payments of $1.6 million per year through 2015.

ModusLink has a revolving credit facility of $60.0 million. As of January 31, 2006, approximately $35.8 million of borrowings were outstanding under the facility, and approximately $1.8 million had been reserved in support of outstanding letters of credit.

Purchase obligations represent an estimate of all open purchase orders and contractual obligations in the ordinary course of business for which the Company has not received the goods or services. Although open purchase orders are considered enforceable and legally binding, the terms generally allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to the delivery of goods or performance of services.

Future minimum payments, including previously recorded restructuring obligations, as of January 31, 2006 are as follows:

Contractual Obligations	Total	Less than 1 year	1–3 years	3–5 years	After 5 years
			(in thousands)		
Operating leases	$ 86,653	$ 20,884	$ 32,382	$ 19,569	$ 13,818
Stadium obligations	16,000	2,400	3,200	3,200	7,200
Long-term debt	139	67	72	—	—
Purchase obligations	53,681	53,681	—	—	—
Revolving line of credit	35,785	—	35,785	—	—
Total	$ 192,258	$ 77,032	$ 71,439	$ 22,769	$ 21,018

Total future minimum lease payments have been reduced by future minimum sublease rentals of approximately $1.2 million.

Total rent and equipment lease expense charged to continuing operations was approximately $11.2 million and $10.6 million for the six months ended January 31, 2006 and 2005, respectively.

From time to time the Company provides guarantees of payment to vendors doing business with certain of the Company's subsidiaries. These guarantees require that in the event that the subsidiary cannot satisfy its obligations with certain of its vendors, the Company will be required to settle the obligation. As of January 31, 2006, the Company had guarantees related to a facility lease of a former subsidiary and guarantees of indebtedness totaling approximately $1.3 million. As of January 31, 2006, the Company had no recorded liabilities with respect to these arrangements.

From time to time, the Company agrees to provide indemnification to its customers in the ordinary course of business. Typically, the Company agrees to indemnify its customers for losses caused by the Company with respect to certain intellectual property, such as databases, software masters, certificates of authenticity and similar valuable intellectual property. As of January 31, 2006, the Company had no recorded liabilities with respect to these arrangements.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, inventories, investments, intangible assets, income taxes, restructuring, impairment of long-lived assets and contingencies and litigation. Of the accounting estimates we routinely make relating to our critical accounting policies, those estimates made in the process of: preparing investment valuations; determining discounted cash flows for purposes of evaluating goodwill and intangible assets for impairment; determining future lease assumptions related to restructured facility lease obligations; and establishing income tax liabilities are the estimates most likely to have a material impact on our financial position and results of operations. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. However, because these estimates inherently involve judgments and uncertainties, there can be no assurance that actual results will not differ materially from those estimates.

The Company has identified the accounting policies below as the policies most critical to its business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. Our critical accounting policies are as follows:

- *Revenue recognition*
- *Restructuring expenses*
- *Loss contingencies*
- *Stock-Based Compensation Expense*
- *Accounting for impairment of long-lived assets, goodwill and other intangible assets*
- *Investments*
- *Income taxes*

Revenue Recognition. The Company derives its revenue primarily from the sale of products, supply chain management services, marketing distribution services and other services. Revenue is recognized as product is shipped and related services are performed in accordance with all applicable revenue recognition criteria.

The Company recognizes revenue when there is persuasive evidence of an arrangement, title and risk of loss have passed, product is shipped or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. The Company also applies the provisions of Emerging Issues Task Force (EITF) Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." The Company's application of EITF 99-19 includes evaluation of the terms of each major customer contract relative to a number of criteria that management considers in making its determination with respect to gross vs. net reporting of revenue for transactions with its customers. Management's criteria for making these judgments place particular emphasis on determining the primary obligor in a transaction and which party bears general inventory risk. The Company records all shipping and handling fees billed to customers as revenue, and related costs as cost of sales, when incurred, in accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs."

The Company follows the Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting.

For those contracts which contain multiple deliverables, management must first determine whether each service, or deliverable, meets the separation criteria of EITF 00-21. In general, a deliverable (or a group of deliverables) meets the separation criteria if the deliverable has standalone value to the customer and if there is objective and reliable evidence of the fair value of the remaining deliverables in the arrangement. Each deliverable that meets the separation criteria is considered a "separate unit of accounting." Management allocates the total arrangement consideration to each separate unit of accounting based on the relative fair value of each separate unit of accounting. The amount of arrangement consideration that is allocated to a unit of accounting that has already been delivered is limited to the amount that is not contingent upon the delivery of another separate unit of accounting. After the arrangement consideration has been allocated to each separate unit of accounting, management applies the appropriate revenue recognition method for each separate unit of accounting as described previously based on the nature of the arrangement. All deliverables that do not meet the separation criteria of EITF 00-21 are combined into one unit of accounting, and the appropriate revenue recognition method is applied.

Restructuring Expenses. For restructuring plans implemented prior to December 31, 2002, the Company assessed the need to record restructuring charges in accordance with EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF 94-3). The Company also applies EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" and Staff Accounting Bulletin (SAB) No. 100, "Restructuring and Impairment Charges." In accordance with this guidance, management must execute an exit plan that will result in the incurrence of costs that have no future economic benefit. Also under the terms of EITF 94-3, a liability for the restructuring charges is recognized in the period management approves the restructuring plan. The Company records liabilities that primarily include the estimated severance and other costs related to employee benefits and certain estimated costs to exit equipment and facility lease obligations, bandwidth agreements and other service contracts. These estimates are based on the remaining amounts due under various contractual agreements, adjusted for any anticipated contract cancellation penalty fees or any anticipated or unanticipated event or changes in circumstances that would reduce these obligations. In the past, certain of our restructuring estimates relating to contractual obligations have been settled for amounts less than our initial estimates. As of January 31, 2006, the Company's accrued restructuring balance totaled $16.5 million, of which remaining contractual obligations represented $13.2 million. These contractual obligations principally represent future obligations under non-cancelable real estate leases. Restructuring estimates relating to real estate leases involve consideration of a number of factors including: potential sublet rental rates, estimated vacancy period for the property, brokerage commissions and certain other costs. Estimates relating to potential sublet rates and expected vacancy periods are most likely to have a material impact on the Company's results of operations in the event that actual amounts differ significantly from estimates. These estimates involve judgment and uncertainties, and the settlement of these liabilities could differ materially from recorded amounts. As such, in the course of making such estimates management often uses third party real estate experts to assist management in its assessment of the marketplace for purposes of estimating sublet rates and vacancy periods. A 10%–20% unfavorable settlement of our remaining restructuring liabilities, as compared to our current estimates, would decrease our income from continuing operations by $1.7–$3.3 million.

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3. The statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the statement include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operations, plant closing, or other exit or disposal activity. The provisions of this Statement have been applied by the Company to exit or disposal activities that were initiated after December 31, 2002.

Loss Contingencies. The Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Company considers the likelihood of the loss or impairment of an asset or the incurrence of a liability as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred or an asset has been impaired and the amount of the loss can be reasonably estimated. The Company regularly evaluates the current information available to us to determine whether such accruals should be adjusted.

Stock-Based Compensation Expense. On August 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS No. 123(R)") which requires the measurement and recognition of compensation expense for all stock-based payment awards made to employees and directors including employee stock options and employee stock purchases related based on estimated fair values. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS No. 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS No. 123(R).

SFAS No. 123(R) requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations. SFAS No. 123(R) supersedes the Company's previous accounting under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." As permitted by SFAS No. 123, the Company measured options, granted prior to August 1, 2005, compensation cost in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" 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 Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of August 1, 2005, the first day of the Company's fiscal year 2006. In accordance with the modified prospective transition method, the Company's condensed consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R). Stock-based compensation expense recognized under SFAS No. 123(R) for the six months ended January 31, 2006 consisted of stock-based compensation expense related to employee stock options and employee stock purchases of approximately $1.4 million, excluding approximately $0.4 million of stock-based compensation for nonvested stock. There was no stock-based compensation expense related to employee stock options and employee stock purchases recognized during the six months ended January 31, 2005.

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's condensed consolidated statement of operations for the six months ended January 31, 2006 included compensation expense for stock-based payment awards granted prior to, but not yet vested as of July 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 123 and compensation expense for the stock-based payment awards granted subsequent to July 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). As stock-based compensation expense recognized in the condensed consolidated statement of operations for the six months ended January 31, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS No. 123 for the periods prior to August 1, 2005, the Company established estimates for forfeitures.

Upon adoption of SFAS No. 123(R), the Company also changed its method of valuation for stock-based awards granted after August 1, 2005 to a lattice-binomial option-pricing model ("lattice-binomial model") from the Black-Scholes option-pricing model ("Black-Scholes model") which was previously used for the Company's pro forma information required under SFAS No. 123. The Company uses third party analyses to assist in developing the assumptions used in its lattice-binomial model and the resulting fair value used to record compensation expense. The Company's determination of fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Any changes in these assumptions may materially affect the estimated fair value of the stock-based award. A 10% increase in the volatility used for determining the fair value of the options granted during the six months ended January 31, 2006 would have resulted in an approximately $0.2 million increase in the total estimated stock-based compensation for these options.

On November 10, 2005, the FASB issued FASB Staff Position No. FAS No. 123(R)-3 "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the additional paid-in capital pool and the consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R).

Accounting for Impairment of Long-Lived Assets, Goodwill and Other Intangible Assets. The Company follows SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under SFAS No. 144, the Company tests certain long-lived assets or group of assets for recoverability whenever events or changes in circumstances indicate that the Company may not be able to recover the asset's carrying amount. SFAS No. 144 defines impairment as the condition that exists when the carrying amount of a long-lived asset or groups exceeds its fair value. When events or changes in circumstances dictate an impairment review of a long-lived asset or group, the Company evaluates recoverability by determining whether the undiscounted cash flows expected to result from the use and eventual disposition of that asset or group cover the carrying value at the evaluation date. If the undiscounted cash flows are not sufficient to cover the carrying value, the Company measures any impairment loss as the excess of the carrying amount of the long-lived asset or group over its fair value. Management predominantly uses third party valuation reports in its determination of fair value.

The Company follows SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires the Company to evaluate its existing intangible assets and goodwill that were acquired in prior purchase business combinations, and to make any necessary reclassifications in order to conform to the new criteria in SFAS No. 141 for recognition apart from goodwill. Accordingly, the Company is required to reassess the useful lives and residual values of all identifiable intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments. In addition, to the extent an intangible asset is then determined to have an indefinite useful life, the Company is required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142. The Company's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. Management predominantly uses third party valuation reports to assist in its determination of the fair value of reporting units subject to impairment testing. These valuation reports, used to determine the fair value of reporting units for purposes of impairment testing, rely heavily on projections of future operating performance. The preparation of these projections takes into consideration both past performance and management's expectations for future performance based on its experience. Further, in accordance with the provisions of SFAS No. 142, the Company has designated reporting units for purposes of assessing goodwill impairment. The standard defines a reporting unit as the lowest level of an entity that is a business and that can be distinguished, physically and operationally and for internal reporting purposes, from the other activities, operations, and assets of the entity. As of July 31, 2004, based on the provisions of SFAS No. 142, the Company had two reporting units for purposes of goodwill impairment testing. Upon completion of its acquisition of Modus Media on August 2, 2004, the Company concluded that it had three reporting units (Americas, Asia, and Europe) for purposes of goodwill impairment testing. Additionally, the Company's policy is to perform its annual impairment testing for all reporting units in the fourth quarter of each fiscal year. The Company performed its annual impairment test during the fourth quarter of fiscal 2005 and concluded goodwill was not impaired. At January 31, 2006, the Company's carrying value of goodwill and other intangible assets totaled $181.9 million and $19.0 million, respectively. The Company operates in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. Future operating results and cash flows from operations are dependent on several factors including the overall performance of the technology sector, and the market for outsourcing services. The intensity of the competition is expected to continue to increase and this increased competition may result in price reductions, reduced gross margins and loss of market share. If our assumptions regarding our ability to maintain our competitive position in the marketplace or our assumptions of the future demand for our customers' products and services used in preparing our valuations of the Company's reporting units differ materially from actual future results, the Company may record impairment charges in the future.

Investments. The Company maintains interests in several privately held companies primarily through its various venture capital affiliates. These venture affiliates ("CMGI @Ventures") invest in early-stage technology companies. These investments are generally made in connection with a round of financing with other third-party investors. At January 31, 2006, the Company had approximately $28.0 million of investments in privately held companies. 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 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 investee company as they occur, limited to the extent of the Company's investment in, advances to and commitments for the investee. These adjustments are reflected in "Equity in losses of affiliates, net" in the Company's Consolidated Statements of Operations.

The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular equity investment's net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee's cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes, and competition. This valuation process is based primarily on information that the Company requests from these privately held companies and is not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the reliability and accuracy of the data may vary.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to significant volatility in our reported results of operations in the past and it may negatively impact our results of operation in the future. We may incur additional impairment charges to our equity investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our $28.0 million of investments in affiliates at January 31, 2006 ranging from 10%–20%, respectively, would decrease our income from continuing operations by $2.8–$5.6 million.

At the time an equity method investee sells its common 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, or a research and development company, start-up or development stage company, and if there is no 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.

Income Taxes. Income taxes are accounted for under the provisions of SFAS No. 109, "Accounting for Income Taxes," using 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. SFAS No. 109 also requires that the deferred tax assets be reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This methodology requires estimates and judgments in the determination of the recoverability of deferred tax assets and in the calculation of certain tax liabilities. At January 31, 2006 and 2005, respectively, a full valuation allowance has been recorded against the gross deferred tax assets since management believes that after considering all the available objective evidence, both positive and negative, historical and prospective, with greater weight given to historical evidence, it is more likely than not that these assets will not be realized. In each reporting period, we evaluate the adequacy of our valuation allowance on our deferred tax assets. In the future, if the Company is able to demonstrate a consistent trend of pre-tax income, then at that time management may reduce its valuation allowance, accordingly. At January 31, 2006, the Company's net operating loss carryforwards for federal, state and foreign purposes totaled $2.0 billion, $2.1 billion and $15.1 million, respectively. A 5% reduction in the Company's current valuation allowance on these federal, state and foreign net operating loss carryforwards would result in an income tax benefit of approximately $40.0 million.

In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions. The Company records liabilities for estimated tax obligations in the U.S. and other tax jurisdictions. These estimated tax liabilities include the provision for taxes that may become payable in the future.

Recent Accounting Pronouncements

In November 2005, the FASB issued FSP FAS123(R)-3, Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards. This FSP requires an entity to follow either the transition guidance for the additional-paid-in-capital pool as prescribed in SFAS No. 123(R), Share-Based Payment , or the alternative transition method as described in the FSP. An entity that adopts SFAS No. 123(R) using the modified prospective application may make a one-time election to adopt the transition method described in this FSP. An entity may take up to one year from the later of its initial adoption of SFAS No. 123(R) or the effective date of this FSP to evaluate its available transition alternatives and make its one-time election. This FSP became effective in November 2005. We continue to evaluate the impact that the adoption of this FSP could have on our financial statements.

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards SFAS No. 154, Accounting Changes and Error Corrections which replaces APB Opinion No. 20 Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principal unless it is not practicable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by the Company in the first quarter of fiscal 2007. Although the Company will continue to evaluate the application of SFAS No. 154, management does not currently believe adoption will have a material impact on the Company's results of operations or financial position.

Factors That May Affect Future Results

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. Forward-looking statements in this document and those we make from time to time through our 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, or development of products and services, as well as other estimates related to future operations are necessarily only estimates of future results. We cannot assure you that actual results will not materially differ from expectations. Forward-looking statements represent our current expectations and are inherently uncertain. We do not undertake any obligation to update forward-looking statements. Factors that could cause actual results to differ materially from results anticipated in forward-looking statements include, but are not limited to, the following:

We may have difficulty achieving and sustaining operating profitability.

During the three months ended January 31, 2006, we reported an operating loss of approximately $1.7 million. While we have reported operating profitability in past periods, as a result of a variety of factors discussed in this report, our revenue for a particular quarter is difficult to predict and may fluctuate significantly. We anticipate that we will continue to incur significant operating expenses in the future, including significant costs of revenue and general and administrative expenses. We also have significant commitments and contingencies, including borrowings under a revolving line of credit, real estate leases, continuing stadium sponsorship obligations, and inventory purchase obligations. Therefore, we cannot assure you that we will achieve and sustain operating profitability in the future. We may also use significant amounts of cash to grow and expand our operations, including through additional acquisitions. At January 31, 2006, we had a consolidated cash, cash equivalents and marketable securities balance of approximately $163.0 million and fixed contractual obligations of $192.3 million. If we are unable to sustain operating profitability, we risk depleting our working capital balances and our business will be materially adversely affected.

We derive substantially all of our revenue from a small number of customers and adverse industry trends or the loss of any of those customers could significantly damage our business.

We derive substantially all of our revenue by providing supply chain management services to a small number of customers. Our business and future growth will continue to depend in large part on the industry trend towards outsourcing supply chain management and other business processes. If this trend does not continue or declines, demand for our supply chain management services would decline and our financial results could suffer.

In addition, the loss of any one or more of our customers would cause our revenues to decline, perhaps below expectations. For the three months ended January 31, 2006, sales to two customers, Hewlett-Packard and Kodak, accounted for approximately 28% and 13%, respectively, of our consolidated net revenue. During the three months ended January 31, 2006, five customers accounted for approximately 58% of our net revenues. We do not have any agreements which obligate any customer to buy a minimum amount of products or services. We do not have any agreements which designate us as the sole supplier of any particular products or services. The loss of a significant amount of business with Hewlett-Packard, Kodak or any other key customers, or a decision by any one of our key customers to significantly change or reduce the services we provide, would have a material adverse effect on our business. We cannot assure you that our revenue from key customers will not decline in future periods.

In addition, ModusLink has been designated as an authorized replicator for Microsoft. This designation provides a license to replicate Microsoft software products and documentation for clients who want to bundle licensed software with their hardware products. This designation is annually renewable at Microsoft's discretion. A failure to maintain authorized replicator status could result in a reduction in our business and our revenues.

Our quarterly results may fluctuate significantly.

Our operating results have fluctuated widely on a quarterly basis during the last several years. We expect that we may experience significant fluctuations in future quarterly operating results. Many factors, some of which are beyond our control, have contributed to these quarterly fluctuations in the past and may continue to contribute to fluctuations. Therefore, operating results for future periods are difficult to predict, and prior results are not necessarily indicative of results to be expected in future periods. These factors include:

- how well we execute on our strategy and operating plans;
- implementation of our strategic initiatives and achievement of expected results of these initiatives;
- demand for our products and services;
- timing of new product introductions or software releases by our customers or their competitors;
- payment of costs associated with our acquisitions, sales of assets and investments;
- timing of sales of assets and marketable securities;
- market acceptance of new products and services;
- seasonality;

- temporary shortages in supply from vendors;
- charges for impairment of long-lived assets and/or restructuring in future periods;
- political instability or natural disasters in the countries in which we operate;
- specific economic conditions in the industries in which we compete;
- general economic conditions;
- actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates reflected in our Consolidated Financial Statements; and
- changes in accounting rules, such as recording expenses for employee stock option grants.

As a result of the acquisition of Modus and due to the nature of the business of some of our supply chain management customers, we experience a seasonal increase in business in the first and second fiscal quarters of the year. This increase yields higher revenue in these quarters than in other quarters of the year.

We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful or indicative of our future performance. In some fiscal quarters our operating results may be below the expectations of securities analysts and investors, which may cause the price of our common stock to decline.

We may encounter problems in our efforts to increase operational efficiencies.

Following our acquisition of Modus in August 2004, we continue to identify ways to increase efficiencies and productivity and effect cost savings. We have started projects designed to increase our operational efficiencies, including the standardization to a global business solutions platform through the investment of approximately $23.7 million in an Enterprise Resource Planning system. We have also begun the implementation of a shared services model utilizing centralized "hub" locations to service multiple "spoke" locations across the Americas, Asia and Europe regions. We cannot assure you that the completion of these projects will result in the realization of the expected benefits that we anticipate in a timely manner or at all. We may encounter problems with these projects that will divert the attention of management and/or result in additional costs. If we are unable to complete these projects in a timely manner and without significant problems, or do not achieve expected results, our business, financial position and operating results may be adversely affected.

We are subject to risks of operating internationally.

We maintain operations outside of the United States, and we will likely continue to expand these operations. Our success depends, in part, on our ability to manage and expand our international operations. This international expansion requires significant management attention and financial resources. Our operations will continue to be subject to numerous and varied regulations worldwide, some of which may have an adverse effect on our ability to develop our international operations in accordance with our business plans or on a timely basis.

We currently conduct business in Mexico, China, Taiwan, Singapore, Malaysia, the United Kingdom, Hungary, Ireland, The Czech Republic, France, The Netherlands and other foreign locations, in addition to our United States operations. Sales outside the United States accounted for 56% of our total revenue for the three months ended January 31, 2006. A portion of our international revenue, cost of revenue and operating expenses are denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. There is also additional risk if the currency is not freely traded. Some currencies, such as the Chinese Renminbi, are subject to limitations on conversion into other currencies, which can limit or delay our ability to repatriate funds or engage in hedging activities. While we often enter into forward currency exchange contracts to manage exposure to foreign currencies, future exchange rate fluctuations may have a material adverse effect on our business and operating results.

There are other risks inherent in conducting international operations, including:

- added fulfillment complexities in operations, including multiple languages, currencies, bills of materials and stock keeping units;
- longer payment cycles;
- greater difficulties in accounts receivable collections;
- the complexity of ensuring compliance with multiple U.S. and foreign laws, particularly differing laws on intellectual property rights, export control, taxation and duties; and
- labor practices, difficulties in staffing and managing foreign operations, political and social instability, health crises or similar issues, and potentially adverse tax consequences.

Our international operations increase our exposure to international laws and regulations. Noncompliance with foreign laws and regulations, which are often complex and subject to variation and unexpected changes, could result in unexpected costs and potential litigation. For example, the governments of foreign countries might attempt to regulate our products and services or levy sales or other taxes relating to our activities. In addition, foreign countries may impose tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers, any of which could make it more difficult to conduct our business.

In addition, a substantial portion of our business is now conducted in China, where we face additional risks, including the following:

- the challenge of navigating a complex set of licensing requirements and restrictions affecting the conduct of business in China by foreign companies;
- difficulties and limitations on the repatriation of cash;
- currency fluctuation and exchange rate risks;
- protection of intellectual property, both for us and our customers; and
- difficulty retaining management personnel and skilled employees.

If we are unable to manage these risks, we may face significant liability, our international sales may decline and our financial results may be adversely affected.

We may have problems raising capital we need in the future.

Historically, we have financed our operations and met our capital requirements primarily through funds generated from operations, the issuance of common stock, the sale of investments in subsidiary and portfolio companies, and borrowings from lending institutions. Market and other conditions largely beyond our control may affect our ability to engage in future sales of our securities, the timing of any sales, and the amount of proceeds we receive from sales of our securities. Even if we are able to sell our securities in the future, we may not be able to sell at favorable prices or on favorable terms. In addition, this funding source may not be sufficient in the future, and we may need to obtain funding from outside sources. However, we may not be able to obtain funding from outside sources. In addition, even if we find outside funding sources, we may be required to issue to those outside sources securities with greater rights than those currently possessed by holders of our common stock. We may also be required to take other actions, which may lessen the value of our common stock or dilute our common stockholders, including borrowing money on terms that are not favorable to us or issuing additional shares of common stock. If we experience difficulties raising capital in the future, our business could be materially adversely affected.

A decline in the technology sector could reduce our revenues.

A large portion of our supply chain management revenue comes from customers in the technology sector, which is intensely competitive and very volatile. Declines in the overall performance of the technology sector have in the past and could in the future adversely affect the demand for supply chain management services and reduce our revenues and profitability from these customers.

The gross margins in the supply chain management business are low, which magnifies the impact of variations in revenue and operating costs on our financial results.

As a result of intense price competition in the technology products marketplace, the gross margins in our supply chain management business are low, and we expect them to continue to be low in the future. These low gross margins magnify the impact of variations in revenue and operating costs on our financial results. Although we have identified initiatives designed to increase our gross margins, increased competition arising from industry consolidation and/or low demand for products may hinder our ability to maintain or improve our gross margins. Portions of our operating expenses are relatively fixed, and planned expenditures are based in part on anticipated orders. Our current ability to forecast the amount and timing of future order volumes is low, and we expect this to continue because we are highly dependent upon the business needs of our customers, which are highly variable. As a result, we may not be able to reduce our operating expenses as a percentage of revenue to mitigate any further reductions in gross margins. We may also be required to spend money to restructure our operations should future demand fall significantly in any one facility. If we cannot proportionately decrease our cost structure in response to competitive price pressures, our business and operating results could suffer.

We will continue to be subject to intense competition.

The markets for our products and services are highly competitive and often lack significant barriers to entry, enabling new businesses to enter these markets relatively easily. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with our products and services. The market for supply chain management products and services is very competitive, and the intensity of the competition is expected to continue to increase. Any failure to maintain and enhance our competitive position would limit our ability to maintain and increase market share, which would result in serious harm to our business. Increased competition may also result in price reductions, reduced gross margins and loss of market share. In addition, many of our current and potential competitors will continue to have greater financial, technical, operational and marketing resources. We may not be able to compete successfully against these competitors. Competitive pressures may also force prices for supply chain management products and services down and these price reductions may reduce our revenues.

Because we sell to supply chain management customers on a purchase order basis, we are subject to uncertainties and variability in demand by customers, which could decrease revenue and adversely affect our financial results.

We sell to our supply chain management customers on a purchase order basis rather than pursuant to long-term contracts or contracts with minimum purchase requirements. Therefore, our sales are subject to demand variability by our supply chain management customers, which is difficult to predict and may fluctuate significantly. The level and timing of orders placed by these customers vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. Customers submitting a purchase order may cancel, reduce or delay their orders. If we are unable to anticipate and respond to the demands of our supply chain management customers, we may lose customers because we have an inadequate supply of products, or we may have excess inventory, either of which may harm our business, financial position and operating results.

We must maintain adequate levels of inventory in our supply chain management business in order to meet customer needs, which presents risks to our financial position and operating results.

We often purchase and maintain adequate levels of inventory in our supply chain management business in order to meet customer needs rapidly and on a timely basis. The technology sector served by our customers is subject to rapid technological change, new and enhanced product specification requirements, and evolving industry standards. These changes may cause inventory on hand to decline substantially in value or to rapidly become obsolete. Our customers offer limited protection, if any, from the loss in value of inventory. In addition, our customers may become unable or unwilling to fulfill their protection obligations. The decrease or elimination of price protection or the inability of our customers to fulfill their protection obligations could lower our gross margins and cause us to record inventory write-downs. If we are unable to manage our inventory with our customers with a high degree of precision, we may have insufficient product supplies or we may have excess inventory, resulting in inventory write-downs, which may harm our business, financial position and operating results. In addition, we may not be able to recover fully the credit costs we would face with the financing of inventory.

Our ability to obtain particular products or components in the required quantities and to fulfill customer orders on a timely basis is critical to our success. We have no guaranteed price or delivery agreements with our suppliers. We may occasionally experience a supply shortage of some products as a result of strong demand or problems experienced by their suppliers. If shortages or delays persist, the price of those products may increase, or the products may not be available at all. Accordingly, if we are not able to secure and maintain an adequate supply of products or components to fulfill our customer orders on a timely basis, our business, financial position and operating results may be adversely affected.

Our failure to meet client demands could result in lost revenues, increased expenses and negative publicity.

Our supply chain management customers face significant uncertainties in forecasting the demand for their products. Limitations on the size of facilities, number of personnel and availability of materials could make it difficult to meet customers’ unforecasted demand for additional production. Any failure to meet customers’ specifications, capacity requirements or expectations could result in lost revenue, lower client satisfaction, negative perceptions in the marketplace and potential claims for damages.

If we are not able to establish customer sites where requested, or if we fail to retain key customers at established sites, our customer relationships, revenue and expenses could be seriously harmed.

Our supply chain management customers have, at times, requested that we add capacity or open a facility in locations near their sites. If we elect not to add required capacity at sites near existing customers or establish sites near existing or potential customers, customers may decide to seek alternate service providers. In addition, if we lose a significant customer of a particular site or open or expand a site with the expectation of business that does not materialize, operations at that site could become unprofitable or significantly less efficient. Any of these events could have a material adverse effect on our business, expenses and revenues.

We may be affected by strikes, work stoppages and slowdowns by our employees.

Some of our international employees are covered by collective bargaining agreements or represented by labor unions. We believe our relations with our employees are generally good; however, we may experience strikes, work stoppages or slowdowns by employees. A strike, work stoppage or slowdown may affect our ability to meet our clients’ needs, which may result in the loss of business and clients and have a material adverse effect on our financial condition and results of operations. The terms of future collective bargaining agreements also may affect our competitive position and results of operations.

The intellectual property of our supply chain management customers may be damaged, misappropriated, stolen or lost while in our possession, subjecting us to litigation and other adverse consequences.

In the course of providing supply chain management services to our customers, we have possession of or access to their intellectual property, including databases, software masters, certificates of authenticity and similar valuable intellectual property. If our customers' intellectual property is damaged, misappropriated, stolen or lost, we could suffer:

- claims under customer agreements or applicable law, or other liability for damages;
- delayed or lost revenue due to adverse customer reaction;
- negative publicity; and
- litigation that could be costly and time consuming.

We depend on third-party software, systems and services.

Our business and operations rely on third parties to provide products and services, including IT products and services, and shipping and transportation services. We cannot assure you that we will not experience operational problems attributable to the installation, implementation, integration, performance, features or functionality of third-party software, systems and services. Any interruption in the availability or usage of the products and services provided by third parties could have a material adverse effect on our business or operations.

We depend on important employees, and the loss of any of those employees may harm our business.

Our performance is substantially dependent on the performance of our executive officers and other key employees, as well as management of our operating companies. The familiarity of these individuals with technology and service-related industries makes them especially critical to our success. Our success is also dependent on our ability to attract, train, retain and motivate high quality personnel, especially for our operating companies' management teams. Competition for personnel is intense. The loss of the services of any of our executive officers or key employees may harm our business.

There may be conflicts of interest among CMGI, CMGI's subsidiaries, and their respective officers, directors and stockholders.

Some of CMGI's officers and directors also serve as officers or directors of one or more of CMGI's subsidiaries. In addition, David S. Wetherell, CMGI's Chairman of the Board, has significant compensatory interests in some of CMGI's @Ventures venture capital affiliates. As a result, CMGI, CMGI's officers and directors, and CMGI's subsidiaries and venture capital affiliates may face potential conflicts of interest with each other and with stockholders. Specifically, CMGI's officers and directors may be presented with situations in their capacity as officers, directors or management of one of CMGI's subsidiaries and venture capital affiliates that conflict with their fiduciary obligations as officers or directors of CMGI or of another subsidiary or affiliate.

Our strategy of expanding our business through acquisitions of other businesses and technologies presents special risks.

We intend to continue to expand our business in certain areas through the acquisition of businesses, technologies, products and services from other businesses. Acquisitions involve a number of special problems, including:

- the need to incur additional indebtedness, issue stock or use cash in order to complete the acquisition;
- 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;
- the funding requirements for acquired companies may be significant;
- exposure to unforeseen liabilities of acquired companies;
- increased risk of costly and time-consuming litigation, including stockholder lawsuits; and
- potential issuance of securities in connection with an acquisition with rights that are superior to the rights of our common stockholders, or which may have a dilutive effect on our common stockholders.

We may not be able to successfully address these problems. Our future operating results will depend to a significant degree on our ability to successfully integrate acquisitions and manage operations while also controlling expenses and cash burn.

The price of our common stock has been volatile and may fluctuate, in part, based on the value of our assets.

The market price of our common stock has been and is likely to continue to be volatile. 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 technology-related products and services. Some of these fluctuations appear to be unrelated or disproportionate to the operating performance of these companies. Future market movements may adversely affect the market price of our common stock. In addition, should the market price of our common stock be below $1.00 per share for an extended period, we risk Nasdaq delisting, which would have an adverse effect on our business and on the trading of our common stock. In order to maintain compliance with Nasdaq listing standards, we may consider several strategies, such as a reverse stock split.

In addition, a portion of our assets includes the equity securities of both publicly traded and privately held companies. The market price and valuations of the securities that we hold may fluctuate due to market conditions and other conditions over which we have no control. Fluctuations in the market price and valuations of the securities that we hold in other companies may result in fluctuations of the market price of our common stock and may reduce the amount of working capital available to us.

We could be subject to infringement claims and other liabilities.

From time to time, we have been, and will continue to be, subject to third-party claims in the ordinary course of business, including claims of alleged infringement of intellectual property rights. These claims may damage our business by:

- subjecting us to significant liability for damages;
- resulting in invalidation of our proprietary rights;
- resulting in costly license fees in order to settle the claims;
- being time-consuming and expensive to defend even if the claims are not meritorious; and
- resulting in the diversion of our management's time and attention.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

The Company is exposed to the impact of interest rate changes, foreign currency fluctuations and changes in the market values of its investments. The carrying values of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and the revolving line of credit, approximate fair value because of the short-term nature of these instruments. The carrying value of long-term debt and capital lease obligations approximates 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. As a matter of policy, the Company does not enter into derivative financial instruments for trading purposes. All derivative positions are used to reduce risk by hedging underlying economic or market exposure and are valued at their fair value on our condensed consolidated balance sheet.

Interest Rate Risk

The Company has from time to time used derivative financial instruments to reduce exposure to adverse fluctuations in interest rates on its borrowing arrangements. The derivatives the Company uses are straightforward instruments with liquid markets. At January 31, 2006, the Company was primarily exposed to the Prime Rate, London Interbank Offered Rate (LIBOR) and Euro Interbank Offered Rates (EURIBOR) on its outstanding borrowing arrangements, and the Company had no open derivative positions with respect to its borrowing arrangements. A hypothetical 100 basis point increase in our interest rates would result in an approximate 12%, or $0.1 million, increase in our interest expense for the three months ended January 31, 2006.

Foreign Currency Risk

Prior to the Modus acquisition, the Company had minimal exposure to changes in foreign currency exchange rates, and as such, it had not used derivative financial instruments to manage foreign currency fluctuation risk. As a result of the acquisition of Modus, the Company has added operations in various countries and currencies throughout the world and its operating results and financial position are subject to greater exposure from significant fluctuations in foreign currency exchange rates. Modus historically used derivative financial instruments, principally foreign currency exchange contracts, to manage the exposure that results from such fluctuations, and the Company continues such practice.

International revenues from our foreign operating segments accounted for approximately 55% of total revenues during the three months ended January 31, 2006. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

Primary currencies include Euros, Singapore Dollars, British Pounds, Chinese Yuan Renminbi and Taiwan Dollars. The income statements of our international operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenues, operating expenses and net income for our international operations. Similarly, our revenues, operating expenses and net income will decrease for our international operations when the U.S. dollar strengthens against foreign currencies.

Using the foreign currency exchange rates from the beginning of our fiscal year, our Europe revenues for the three months ended January 31, 2006 would have been higher than we reported using the actual exchange rates by approximately $0.7 million and operating income would have been lower by approximately $0.2 million.

We are also exposed to foreign exchange rates fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. When there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the three months ended January 31, 2006, we recorded foreign currency translation gains of approximately $1.9 million. In addition, certain of our foreign subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. For the three months ended January 31, 2006, we recorded foreign currency transaction losses of approximately $1.5 million which are recorded in other gains (losses), net in our consolidated statements of operations.

Our international business is subject to risks, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility when compared to the United States. Accordingly, our future results could be materially adversely impacted by changes in these or other factors. As exchange rates vary, our international financial results may vary from expectations and adversely impact our overall operating results.

Item 4. *Controls and Procedures.*

Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

From time to time, the Company may become involved in litigation relating to claims arising out of operations in the normal course of business, which it considers routine and incidental to its business. The Company currently is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, would have a material adverse effect on the Company's business, results of operation or financial condition.

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

At the 2005 Annual Meeting of Stockholders of the Company (the "Annual Meeting") on December 7, 2005, the following matters were acted upon by the stockholders of the Company:

1. The election of one Class III Director, David S. Wetherell, for the ensuing three years;
2. The approval of the Company's 2005 Non-Employee Director Plan;
3. The authorization of the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company's Restated Certificate of Incorporation, as amended, to effect a reverse split of the Company's issued and outstanding shares of Common Stock by a ratio of 1-for-5, without further approval or authorization of the Company's stockholders;
4. The authorization of the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company's Restated Certificate of Incorporation, as amended, to effect a reverse split of the Company's issued and outstanding shares of Common Stock by a ratio of 1-for-10, without further approval or authorization of the Company's stockholders;
5. The authorization of the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company's Restated Certificate of Incorporation, as amended, to effect a reverse split of the Company's issued and outstanding shares of Common Stock by a ratio of 1-for-15, without further approval or authorization of the Company's stockholders;
6. The authorization of the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company's Restated Certificate of Incorporation, as amended, to effect a reverse split of the Company's issued and outstanding shares of Common Stock by a ratio of 1-for-20, without further approval or authorization of the Company's stockholders; and
7. The ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for the current fiscal year.

The number of shares of Common Stock issued, outstanding and eligible to vote as of the record date of October 21, 2005 was 485,634,686. The other directors of the Company, whose terms of office as directors continued after the Annual Meeting, are Anthony J. Bay, Virginia G. Breen, Francis J. Jules, Michael J. Mardy and Joseph C. Lawler. The results of the voting on each of the matters presented to stockholders at the Annual Meeting are set forth below:

	VOTES FOR	VOTES WITHHELD	VOTES AGAINST	ABSTENTIONS	BROKER NON-VOTES
1. Election of David S. Wetherell as a Class III Director	385,763,579	9,928,687	N.A.	N.A.	N.A.
2. Approval of 2005 Non-Employee Director Plan	98,917,560	N.A.	12,879,806	2,068,633	281,826,267
3. Authorization of 1-for-5 reverse stock split	378,116,648	N.A.	16,889,971	685,495	152
4. Authorization of 1-for-10 reverse stock split	374,666,065	N.A.	20,359,679	666,370	152
5. Authorization of 1-for-15 reverse stock split	372,151,549	N.A.	22,859,517	681,047	153
6. Authorization of 1-for-20 reverse stock split	373,026,940	N.A.	21,991,516	673,658	152
7. Ratification of KPMG LLP	390,271,894	N.A.	4,239,955	1,180,267	150

Item 5. ***Other Information.***

During the quarter ended January 31, 2006, we made no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors, as described in our most recent proxy statement.

Item 6. ***Exhibits.***

The Exhibits listed in the Exhibit Index immediately preceding such Exhibits are filed with or incorporated by reference in this report.

SIGNATURE

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

CMGI, INC.

Date: March 10, 2006

By: /S/ THOMAS OBERDORF

Thomas Oberdorf
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

10.1	Amendment No. 3 to Amended and Restated 1995 Employee Stock Purchase Plan.
10.2	Amended and Restated Limited Liability Company Agreement of @Ventures V, LLC dated as of January 24, 2006
10.3	Termination/Amicable Settlement Agreement by and between ModusLink Tilburg B.V., CMGI, Inc., ModusLink Corporation and ModusLink Corporation's direct and indirect subsidiaries and Rudolph J. Westerbos, dated December 14, 2005, is incorporated herein by reference to the Registrant's Current Report on Form 8-K dated December 14, 2005 (File No. 000-23262).
10.4	Letter Agreement, dated January 9, 2006, by and between ModusLink Corporation and William R. McLennan is incorporated hereby by reference to the Registrant's Current Report on Form 8-K dated January 9, 2006 (File No. 000-23262).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 10.1

CMGI, INC.

AMENDMENT NO. 3 TO
AMENDED AND RESTATED 1995 EMPLOYEE STOCK PURCHASE PLAN

The Amended and Restated 1995 Employee Stock Purchase Plan (the "Plan") of CMGI, Inc., a Delaware corporation (the "Corporation"), is hereby amended as follows:

The first paragraph of Section 6 of the Plan is hereby amended by deleting the dollar amount "$10.00" and substituting in lieu thereof the dollar amount "$20.00".

******

Adopted by the Board of Directors on
December 7, 2005

Exhibit 10.2

AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF
@VENTURES V, LLC

THIS AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT of @Ventures V, LLC (the "LLC") effective as of January 24, 2006, is by and among the persons named on Schedule A attached hereto, each of whom is designated as a Managing Member or an Associate Member.

WHEREAS, CMG @Ventures Capital Corp. formed the LLC as a limited liability company pursuant to the Delaware Limited Liability Company Act, by the filing, on May 14, 2004, in the Office of the Secretary of State of the State of Delaware, of a Certificate of Formation for the LLC (the "Certificate"); and

WHEREAS, on May 14, 2004, the Managing Member and certain Associate Members executed and delivered a Limited Liability Company Agreement dated as of May 14, 2004, which agreement has been amended through the date hereof by one amendment thereto (as amended to date, the "Original Agreement");

WHEREAS, the Managing Member and the Associate Members desire to amend and restate in its entirety the Original Agreement, to modify certain of the provisions thereof.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and in consideration of the agreements hereinafter set forth, the Original Agreement is hereby amended and restated to read in its entirety as follows:

ARTICLE I
DEFINITIONS

The following capitalized terms used in this Agreement shall have the respective meanings ascribed to them below:

"Act" means the Delaware Limited Liability Company Act, in effect at the time of the initial filing of the Certificate in the Office of the Secretary of State of the State of Delaware, and as thereafter amended from time to time.

"Affiliate" shall mean, with respect to any specified person or entity, (i) any person or entity that directly or indirectly controls, is controlled by, or is under common control with such specified person or entity; (ii) any person or entity that directly or indirectly controls 10% or more of the outstanding equity securities of the specified entity or of which the specified person or entity is directly or indirectly the owner of 10% or more of any class of equity securities; (iii) any person or entity that is an officer of, director of, manager of, partner in, or trustee of, or serves in a similar capacity with respect to, the specified person or entity or of which the specified person or entity is an officer, director, partner, manager or trustee, or with respect to which the specified person or entity serves in a similar capacity; or (iv) any person that is a spouse, mother, father, brother, sister or lineal descendant of the specified person.

"Agreement" means this Amended and Restated Limited Liability Company Agreement as it may be amended, supplemented, or restated from time to time.

"Appropriate Amount" has the meaning ascribed thereto in Section 3.01(b).

"Associate Member" shall refer severally to any person named as an Associate Member in this Agreement and any person who becomes an additional, substitute or replacement Associate Member as permitted by this Agreement, in such person's capacity as an Associate Member of the LLC. "Associate Members" shall refer collectively to all such persons in their capacities as Associate Members.

"Budget" shall have the meaning ascribed thereto in Section 6.05(a).

"Capital Account" means a separate account maintained for each Member and adjusted in accordance with Treasury Regulations under Section 704 of the Code. To the extent consistent with such Treasury Regulations, the adjustments to such accounts shall include the following:

(i) There shall be credited to each Member's Capital Account the amount of any cash actually contributed by such Member to the capital of the LLC, the fair market value of any property contributed by such Member to the capital of the LLC, the amount of liabilities of the LLC assumed by the Member or to which property distributed to the Member was subject, and such Member's share of the Net Profits of the LLC and of any items in the nature of income or gain separately allocated to the Members; and there shall be charged against each Member's Capital Account the amount of all cash distributions to such Member, the fair market value of any property distributed to such Member by the LLC, the amount of liabilities of the Member assumed by the LLC or to which property contributed by the Member to the LLC was subject, and such Member's share of the Net Losses of the LLC and of any items in the nature of losses or deductions separately allocated to the Members.

(ii) In the event any interest in the LLC is transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest.

"Capital Contribution" means the aggregate amount of cash and the fair market value (as determined in accordance with Section 6.08 hereof) of any property contributed to the LLC by a Member.

"Carrying Value" means, with respect to any asset, the asset's adjusted basis for federal income tax purposes; provided, however, that (i) the initial Carrying Value of any asset contributed to the LLC shall be adjusted to equal its gross fair market value at the time of its contribution and (ii) the Carrying Values of all assets held by the LLC shall be adjusted to equal their respective gross fair market values (taking Code Section 7701(g) into account) upon an election by the LLC to revalue its property in accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(*f*). The Carrying Value of any asset whose Carrying Value was adjusted pursuant to the preceding sentence thereafter shall be adjusted in accordance with the provisions of Treasury Regulation Section 1.704-1(b)(2)(iv)(*g*).

"Cause" shall mean, in connection with the termination of the Associate Member's relationship with the Employer:

(a) indictment of the Associate Member for commission, conviction of, or plea of nolo contendere to (A) a felony, whether or not business related, which may injure the business or reputation of the Employer or any of its Affiliates, or (B) a crime of moral turpitude;

(b) the Associate Member's theft, embezzlement of assets of, or other financial fraud against, the Employer or any of its Affiliates;

(c) a material breach of any agreement between the Associate Member, on the one hand, and the Employer and/or any of its Affiliates (as that term is defined in clauses (i) and (ii) of the definition of "Affiliate" contained herein), on the other hand, including, without limitation, this Agreement, which breach is not cured within 30 days after written notice of such breach is given to the Associate Member by the Employer or any of Employer's Affiliates;

(d) the willful and continued failure by the Associate Member to substantially perform his or her duties (other than as a result of incapacity due to physical or mental illness), which failure is not cured within 30 days after written notice of such breach is given to the Associate Member by Employer;

(e) misappropriation for personal use by the Associate Member of any material asset or business opportunity of the Employer or any of its Affiliates (as that term is defined in clauses (i) and (ii) of the definition of "Affiliate" contained herein); or

(f) willful misconduct of the Associate Member which adversely affects the business of the Employer or any of its Affiliates (as that term is defined in clauses (i) and (ii) of the definition of "Affiliate" contained herein).

The matters described in clauses (d) and (f) above shall be determined by CMGI, acting in good faith, prior to, or within 10 days following, the termination of the Associate Member's employment.

"Certificate" means the Certificate of Formation creating the LLC, as it may, from time to time, be amended in accordance with the Act.

"CMGI" means CMGI, Inc., a Delaware corporation.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Employer" shall mean, for any Associate Member, CMGI or any of its Affiliates that employs the Associate Member on a full-time basis. For purposes of this Agreement, a Portfolio Company shall not constitute an Affiliate of any of the LLC or CMGI (and an Associate Member shall not be deemed to be employed by an Employer if such Associate Member is employed by a Portfolio Company).

"Event of Forfeiture" shall mean and shall be deemed to have occurred with respect to an Associate Member in the event that there occurs with respect to such Associate Member a Separation Event.

"Follow-on Investment" shall mean an Investment in securities of a Portfolio Company in which the LLC owns securities or debt instruments.

"Former Associate Member" shall mean any person holding an interest in the LLC as an Associate Member as to whom a Separation Event has occurred.

"Good Reason" means a termination by an Associate Member of his or her relationship with an Employer within 90 days following any of the following:

(a) a material reduction in the compensation of such Associate Member (as hereinafter defined);

(b) the relocation of the principal place at which the Associate Member is to provide services to the Employer to a location which is (1) in the case of Associate Members in Massachusetts, greater than 60 miles from Andover, Massachusetts, and (2) in the case of Associate Members in California, greater than 60 miles from Menlo Park, California;

(c) any failure of CMGI to continue in effect with respect to the Associate Member any material compensation or benefit plan or program, including life insurance, medical, dental, vision, disability or vacation programs ("Benefits"), which is provided to active and similarly situated CMGI employees.

(d) modification of the duties of the Associate Member without Associate Member's consent so that they no longer relate primarily to working with CMGI's venture capital operating unit, and instead relate to operating and/or administrative roles within other CMGI Affiliates;

(e) the occurrence of any Vesting Event described in section (i) or (ii) of the definition of "Vesting Event" herein, provided that, Associate Member shall not be deemed to have "Good Reason" until the earlier to occur of (1) the date which is six months following the date of such occurrence or (2) the date on which the LLC shall have completed the liquidation of the assets of the LLC and the winding up of the LLC's business; or

(f) the occurrence of the Vesting Event described in section (iii) of the definition of "Vesting Event" herein.

The Associate Member's compensation shall be deemed to have been materially reduced in the event that the Associate Member's paid base salary from the Employer for any 12-month period beginning on or after May 14, 2004 (based on payment of base salary on a normal payroll cycle) is reduced below the annualized base salary amount as was in effect when such Associate Member became an Associate Member of the LLC.

“Invested Capital” means, at any point in time, for the Managing Member, the excess of (i) the aggregate amount of the Capital Contributions of the Managing Member over (ii) the aggregate amount distributed to such Member pursuant to Section 4.01(b)(i).

“Investment” means an investment in a Portfolio Company made by the LLC, including without limitation a Follow-on Investment. The term “Investment” shall include any short-term investments, if any, made by the LLC.

“Investment Receipts” shall mean, the amount of any cash and the fair market value (as determined in accordance with Section 6.08 hereof) of any property received by the LLC with respect to Investments and any cash and the fair market value (as determined in accordance with Section 6.08 hereof) of any property received by the LLC in accordance to Section 6.06(a) hereof with respect to any Portfolio Company. For this purpose, any Investment held by the LLC shall be considered to give rise to an Investment Receipt at the time it is distributed to the Members.

“LLC” means the limited liability company formed pursuant to the Certificate and this Agreement, as it may from time to time be constituted and amended.

“Majority in Interest of the Associate Members” means, with respect to a particular action or matter, Associate Members whose Percentage Interests equal a majority of the Percentage Interests of all Associate Members then entitled to vote on the action.

“Managing Member” shall refer severally to any person named as a Managing Member in this Agreement and any person who becomes an additional, substitute or replacement Managing Member as permitted by this Agreement, in such person’s capacity as a Managing Member of the LLC. “Managing Members” shall refer collectively to all such persons in their capacities as Managing Members.

“Marketable Securities” means securities of the LLC (i) that are freely tradeable pursuant to a registration under the Securities Act, or an exemption therefrom, (ii) that immediately after giving effect to their distribution will not be subject to any contractual restriction on transfer or restrictions on transfer imposed by applicable laws, (iii) that will be traded on a national securities exchange or reported on the Nasdaq Stock Market of Securities Dealers Automated Quotation System, and (iv) that may be sold without regard to volume or other limitations.

“Member” shall refer severally to any person named as an Associate Member or Managing Member in this Agreement and any person who becomes an additional, substitute or replacement Associate or Managing Member as permitted by this Agreement, in such person’s capacity as a Member of the LLC. “Members” shall refer collectively to all such persons in their capacities as Members.

“Net Investment Receipts” shall mean, with respect to any particular Investment, the excess of all Investment Receipts of the LLC with respect to such Investment over the sum (i) the aggregate amount of the unreimbursed third party transaction costs, if any, associated with the realization of such Investment Receipts, including without limitation, brokerage commissions, finders fees, and attorneys fees, investment banking fees and accountants fees and (ii) such reserves as may be reasonably established by the Managing Member (and the LLC shall be permitted to dispose of Marketable Securities to the extent necessary to fund any such reserves), provided that no such reserves shall be established for payment of expenses of the types included in the Budget described in Section 6.05. Amounts released from the reserves described in clause (ii) of the preceding sentence shall be considered to be Investment Receipts attributable to the same Investments which produced the Investment Receipts originally used to fund such reserves in proportion of the respective gross amounts of Investment Receipts from Investments used to fund such reserves at any time since the inception of the LLC.

"Net Profits" and "Net Losses" mean the taxable income or loss, as the case may be, for a period as determined in accordance with Code Section 703(a) computed with the following adjustments:

(i) Items of gain, loss, and deduction shall be computed based upon the Carrying Values of the LLC's assets (in accordance with Treasury Regulation Sections 1.704-1(b)(2)(iv)(*g*) and/or 1.704-3(d)) rather than upon the assets' adjusted bases for federal income tax purposes;

(ii) Any tax-exempt income received by the LLC shall be included as an item of gross income;

(iii) The amount of any adjustments to the Carrying Values of any assets of the LLC pursuant to Code Section 743 shall not be taken into account except to the extent provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(*m*);

(iv) Any expenditure of the LLC described in Code Section 705(a)(2)(B) (including any expenditures treated as being described in Section 705(a)(2)(B) pursuant to Treasury Regulations under Code Section 704(b)) shall be treated as a deductible expense;

(v) The amount of items of income, gain, loss or deduction specially allocated to any Members pursuant to Section 5.02 or Section 5.03 shall not be included in the computation;

(vi) The amount of any unrealized gain or unrealized loss attributable to an asset at the time it is distributed in-kind to a Member shall be included in the computation as an item of income or loss, respectively; and

(vii) The amount of any unrealized gain or unrealized loss with respect to the assets of the LLC that is reflected in an adjustment to the Carrying Values of the LLC's assets pursuant to clause (ii) of the definition of "Carrying Value" shall be included in the computation as items of income or loss, respectively.

"Percentage Interest" means the Percentage Interest of each Member as specified on Schedule A hereto, as such Percentage Interest may be adjusted from time to time in accordance with this Agreement.

"Performance Cause" means, in the case of the termination of an Associate Member's employment by Employer without Cause, that such termination of employment has followed receipt by such Associate Member of notice (which notice need not be in writing) from the Technology Committee of CMGI that the Technology Committee has concerns about such Associate Member's performance, which performance concerns have not, in the good faith determination of a majority in number of the members of the Technology Committee, been remedied by such Associate Member within 30 days following receipt of such notice.

"Permitted Transferee" means (A) any Member; (B) any spouse, parent, lineal descendant (including a natural or adopted child, grandchild, etc.), brother, sister, or spouse of a brother or sister of a Member; (C) any trust, corporation or partnership or other entity in which any Member and/or one of the persons designated in clause (B) is a principal, beneficiary, majority stockholder, member or limited or general partner with an aggregate interest in profits and losses of greater than fifty percent; (D) grantors or beneficiaries of a trust which is (or of which the trustees thereof are, in their capacities as trustees) a Member; or (E) charitable foundations created or primarily endowed by a Member or a member of his or her family.

"Portfolio Company" means the issuer of any security in which the LLC has invested, other than issuers in which the LLC has made short-term investments pending the making of long-term investments.

"Securities Act" means the Securities Act of 1933, as amended.

"Separation Event " shall mean and shall be deemed to have occurred in the event that:

(w) an Associate Member dies or becomes mentally or physically disabled (as determined by a physician selected by the Managing Member) or a conservator or guardian is appointed for the benefit of any Associate Member or his property;

(x) the employment of such Associate Member with the Employer is terminated by such Member without Good Reason (subject to clause (z) below), or for any reason other than the reasons specified in clauses (w), (y) or (z) of this definition; or

(y) the employment of such Associate Member with the Employer is terminated by such Member with Good Reason, or by the Employer without Cause and without Performance Cause; or

(z) the employment of such Associate Member with the Employer is (A) terminated by the Employer with Cause, or (B) terminated by the Associate Member without Good Reason, following which termination it is determined, in good faith, by CMGI within 10 days following such termination, that there was Cause to terminate such Member (any of the foregoing, a "Clause Z Event").

"Target Balance" means, for each Member at any point in time, either (i) a positive amount equal to the net amount, if any, the Member would be entitled to receive or (ii) a negative amount equal to the net amount the Member would be required to pay or contribute to the LLC or to any third party, assuming, in each case, that (A) the LLC sold all of its assets for an aggregate purchase price equal to their aggregate Carrying Value; (B) all liabilities of the LLC were paid in accordance with their terms from the amounts specified in clause (A) of this sentence; (C) any Member that was obligated to contribute any amount to the LLC pursuant to this Agreement or otherwise (including the amount a Member would be obligated to pay to any third party pursuant to the terms of any liability or pursuant to any guaranty, indemnity or similar ancillary agreement or arrangement entered into in connection with any liability of the LLC) contributed such amount to the LLC; (D) all liabilities of the LLC that were not completely repaid pursuant to clause (B) of this sentence were paid in accordance with their terms from the amounts specified in clause (C) of this sentence; and (E) the balance, if any, of any amounts held by the LLC was distributed in accordance with Section 4.01(b) hereof.

"Vested Percentage" means for any Associate Member, a fraction (expressed as a percentage) the numerator of which is the number of whole calendar quarters that have elapsed between such Associate Member's Vesting Commencement Date and the date of determination and the denominator of which is 20; provided that:

(i) in no event shall an Associate Member's Vested Percentage exceed 100%, and

(ii) upon the occurrence of a Vesting Event, each Associate Member's Vested Percentage shall equal 100%.

"Vesting Commencement Date" means, for each Associate Member, the Vesting Commencement Date specified on Schedule A attached hereto.

"Vesting Escrow" shall have the meaning ascribed thereto in Section 4.02.

"Vesting Event" shall mean the occurrence of any of the following:

(i) The adoption of a resolution by the Board of Directors of CMGI to dissolve or liquidate the LLC or the Managing Member;

(ii) The dissolution of the LLC; and

(iii) The dissolution of CMGI.

ARTICLE II
GENERAL PROVISIONS

2.01 Formation of Limited Liability Company; Foreign Qualification. The Managing Member formed the LLC as a limited liability company under the Act on May 14, 2004, by the filing of the Certificate in the Office of the Secretary of State of the State of Delaware. The LLC shall comply, to the extent procedures are available, with all requirements necessary to qualify the LLC as a foreign limited liability company in each jurisdiction in which such qualification is either necessary or appropriate. Each Member shall execute, acknowledge, swear to and deliver all certificates and other instruments conforming to this Agreement that are necessary or appropriate to qualify, or, as appropriate, to continue or terminate the foreign qualification of, the LLC as a limited liability company in all such jurisdictions in which the LLC may conduct business.

2.02 Name of the LLC. The name of the LLC is @Ventures V, LLC. The Managing Member may change the name of the LLC at any time and from time to time. No Member other than the Managing Member shall have any right or interest in or to the name "@Ventures" and all rights and interest in such name shall belong exclusively to the LLC during the term of the LLC, and, upon termination of the LLC, shall be assigned and transferred to the Managing Member. Each Associate Member hereby agrees and acknowledges that it shall have no right in or to the name "@Ventures", as a result of its interest in the LLC or otherwise.

2.03 Business of the LLC. The general character of the business of the LLC is to (a) make equity and equity-related investments (including debt and warrants to purchase equity securities) in business enterprises of all types; (b) manage, supervise, vote, hold and dispose of such investments, and receive the profits and losses therefrom; and (c) engage in any activities directly or indirectly related or incidental thereto which may be lawfully conducted by a limited liability company formed under the laws of the State of Delaware.

2.04 Place of Business of the LLC; Resident Agent. The address of the principal place of business of the LLC, and the office at which the LLC will maintain its records is c/o CMGI, Inc., 1100 Winter Street, Suite 4600, Waltham, Massachusetts 02451. The LLC's registered office in Delaware is c/o Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware, 19810, and the LLC's registered agent for service of process in Delaware is Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware, 19810. The Managing Member, may at any time and from time to time change the LLC's principal place of business, establish additional places of business, and/or change the LLC's registered agent or registered office in Delaware, and in each case shall promptly provide notice of any such actions (identifying all such offices and agents) to all Members.

2.05 Duration of the LLC. The term of the LLC commenced on the date hereof, and the LLC shall have perpetual existence, unless earlier terminated in accordance with Article IX hereof.

2.06 Members' Names and Addresses. The name and address of each Member are set forth on Schedule A. Additional Members may be admitted in accordance with the procedures specified in Article VIII. A Member may not resign from the LLC at any time.

2.07 No Partnership. The LLC is not intended to be a general partnership, limited partnership or joint venture, and no Member shall be considered to be a partner or joint venturer of any other Member, for any purposes other than foreign and domestic federal, state, and local income tax purposes, and this Agreement shall not be construed to suggest otherwise.

2.08 Title to LLC Property. All property owned by the LLC, whether real or personal, tangible or intangible, shall be deemed to be owned by the LLC as an entity, and no Member, individually, shall have any ownership of such property. The LLC may hold any of its assets in its own name or in the name of its nominee, which nominee may be one or more trusts. Any property held by a nominee trust for the benefit of the LLC shall, for purposes of this Agreement, be treated as if such property were directly owned by the LLC.

2.09 Nature of Member's Interest. The interests of all of the Members in the LLC are personal property and shall not, under any circumstances, be considered real property.

2.10 Investment Representations. Each Member, by execution of this Agreement or an amendment hereto reflecting such Member's admission to the LLC, hereby represents and warrants to the LLC that:

(a) It is acquiring an interest in the LLC for its own account for investment only, and not with a view to, or for sale in connection with, any distribution thereof in violation of the Securities Act or any rule or regulation thereunder.

(b) It understands that (i) the interest in the LLC it is acquiring has not been registered under the Securities Act or applicable state securities laws and cannot be resold unless subsequently registered under the Securities Act and such laws or unless an exemption from such registration is available, (ii) such registration under the Securities Act and such laws is unlikely at any time in the future and neither the LLC nor the Members are obligated to file a registration statement under the Securities Act or such laws, and (iii) the assignment, sale, transfer, exchange, or other disposition of the interests in the LLC is restricted in accordance with the terms of this Agreement.

(c) It has had such opportunity as it has deemed adequate to ask questions of and receive answers from representatives of the LLC concerning the LLC, and to obtain from representatives of the LLC such information which the LLC possesses or can acquire without unreasonable effort or expense, as is necessary to evaluate the merits and risks of an investment in the LLC.

(d) It has, either alone or with its professional advisers, sufficient experience in business, financial and investment matters to be able to evaluate the merits and risks involved in investing in the LLC and to make an informed investment decision with respect to such investment.

(e) It can afford a complete loss of the value of its investment in the LLC and is able to bear the economic risk of holding such investment for an indefinite period.

(f) If it is an entity, (i) it is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (ii) it has full organizational power to execute and deliver this Agreement and to perform its obligations hereunder, (iii) its execution, delivery and performance of this Agreement has been authorized by all requisite action on behalf of the entity, and (iv) it has duly executed and delivered this Agreement.

(g) In the case of each Associate Member, its interest in the LLC is subject to vesting and forfeiture, as provided in this Agreement.

ARTICLE III
CAPITAL CONTRIBUTIONS

3.01 Capital Contributions.

(a) The Managing Member shall contribute capital to the LLC, subject to and in accordance with the provisions of this Section 3.01(a).

(i) As and when the LLC requires capital to make a proposed Investment, the Associate Members shall provide a notice (which notice may be given in writing or by electronic mail) to the Managing Member which describes in reasonable detail (A) the proposed Investment, (B) the aggregate purchase price of such proposed Investment, (C) the material terms of the proposed Investment, (D) the unreimbursed expenses, if any, expected to be incurred in connection with such proposed Investment, and (E) the expected date on which such Investment is proposed to be made. If any Associate Member or any Affiliate of an Associate Member owns any direct or indirect interest in any proposed Investment, such interest shall be described in detail in any such notice. If, and only if, the Managing Member (acting at the direction of the Technology Committee of the Board of Directors of CMGI, or such other governing body of CMGI as regularly makes investment decisions for CMGI (the "Technology Committee")) approves the making of such Investment in writing, it shall contribute to the capital of the LLC the aggregate purchase price specified in the notice, on or before the date of the anticipated purchase of the Investment. The Managing Member may approve or disapprove the making of any proposed Investment (including a Follow-on Investment) in its sole and absolute discretion. If the Managing Member fails to notify the Associate Members of its decision with respect to the proposed Investment, it shall be deemed to have disapproved the proposed Investment.

(ii) The Managing Member shall contribute capital to the LLC to the extent required under Section 6.04(h) below, subject to the limitation stated therein.

(iii) The Managing Member may contribute capital of up to $50,000,000 to the LLC (and such $50,000,000 shall include amounts contributed pursuant to Section 6.04(h), if any). For the avoidance of doubt, but subject to Section 6.04(h), the Members acknowledge that the Managing Member's decision to make capital contributions to the LLC will be in the Managing Member's sole and absolute discretion.

(b) Notwithstanding any other provision of this Agreement, in the event that following dissolution of the LLC and (i) liquidation of all LLC assets and distributions of the proceeds thereof, and/or (ii) distributions of Investments in kind, any Associate Member shall have received aggregate distributions (valuing all distributions in kind for this purpose as of their respective dates of distribution in accordance with Section 6.08) from the LLC in an amount which exceeds the Appropriate Amount (as hereinafter defined) for such Associate Member, such Associate Member shall contribute to the LLC in cash or securities previously received from the LLC (valued in accordance with Section 6.08 as of the business day next preceding the date of delivery to the LLC) an amount equal to such excess. If the LLC is at the time holding any amount in a Vesting Escrow for such Associate Member, the Managing Member may cause the amount in such Vesting Escrow to be applied towards the Associate Member's obligation to pay the excess over the Appropriate Amount (and shall be permitted to select from among the assets held in such Vesting Escrow which assets shall be so applied). Amounts contributed to the LLC by any Associate Member pursuant to this Section 3.01(b) shall be promptly distributed to the Managing Member. Thereafter, the LLC will be terminated.

As used herein, the "Appropriate Amount" means with respect to an Associate Member an amount equal to the amount which such Associate Member would have received had all distributions from the LLC to the Members been made on the same date (valuing all distributions of securities for this purpose as of the actual date of distribution and assuming for this purpose that the distributions to the Members are made in the same order as the actual distributions to the Members during the term of the LLC), as follows:

(i) first, to the Managing Member, in an amount equal to the aggregate amount of the Capital Contributions actually made by it to the LLC; and

(ii) the balance, to the Members in proportion to their respective Percentage Interests as of the date of dissolution, but subject to the proviso at the end of Section 4.01(b) (i.e., no Former Associate Member shall be entitled to participate in any distributions of Net Investment Receipts with respect to any Investment (including a Follow-on Investment) made by the LLC after the date of a Separation Event with respect to such Former Associate Member, with such amounts being instead distributed to the Managing Member).

(c) The LLC shall maintain written records indicating the amount of capital contributed by the Managing Member to the LLC.

3.02 <u>No Additional Capital</u>. Except as provided in this Article III and Section 6.04(h) herein, no Member shall be obligated or permitted to contribute any additional capital to the LLC. No interest shall accrue on any Capital Contributions of the LLC, and no Member shall have the right to withdraw or to be repaid any Capital Contribution made by it or to receive any other payment in respect of its interest in the LLC, including without limitation as a result of the withdrawal or resignation of such Member from the LLC, except as specifically provided in this Agreement.

3.03 <u>Event of Forfeiture</u>.

(a) Each Associate Member’s Percentage Interest in the LLC shall be adjusted upon the occurrence of an Event of Forfeiture with respect to such Associate Member, as provided in this Section 3.03. In no event shall the provisions of this Section 3.03 be applicable to the interest of the Managing Member.

(b) Upon the occurrence of an Event of Forfeiture with respect to an Associate Member:

(i) If the Event of Forfeiture is not a Clause Z Event, such Associate Member’s Percentage Interest in the LLC shall, from and after the date of the Event of Forfeiture, be reduced to the percentage determined by multiplying such Member’s Percentage Interest immediately prior to the Event of Forfeiture by such Associate Member’s Vested Percentage determined as of the date of the Event of Forfeiture, and the Percentage Interest in the LLC of the Managing Member shall be increased by an aggregate amount equal to the amount by which the Associate Member’s Percentage Interest is so reduced.

(ii) If the Event of Forfeiture is a Clause Z Event, such Associate Member’s Percentage Interest shall be reduced to zero, and the Percentage Interest in the LLC of the Managing Member shall, from and after the date of the Clause Z Event, be increased by an aggregate amount equal to the amount by which the Associate Member’s Percentage Interest is so reduced.

(iii) Any amount held in any Vesting Escrow for the benefit of such Associate Member shall be forfeited. Amounts so forfeited shall be distributed to the Managing Member.

(iv) The Associate Member shall not be entitled to any distributions of Net Investment Receipts with respect to any Investment (including a Follow-on Investment) made by the LLC after the date of the Event of Forfeiture, and any distributions of Net Investment Receipts in respect of such Investments which would otherwise be payable to such Associate Member shall instead be paid to the Managing Member.

(c) Upon the occurrence of an Event of Forfeiture, the Managing Member shall amend Schedule A hereto and the records of the LLC to reflect (i) the modification of the Members' Percentage Interests in accordance with this Section 3.03 and (ii) the date of any Separation Event of an Associate Member. No such amendment shall require the consent of any other Member.

3.04 Separation Event. Upon the occurrence of any Separation Event with respect to an Associate Member, such Associate Member (and/or his legal representative, if applicable) shall have no right to vote on or participate in any decision or matter on or in which Associate Members are entitled to vote or participate and such Associate Member (and his or her Percentage Interest) shall be disregarded for all purposes in determining the number or percentage of Associate Members which constitute a Majority in Interest of the Associate Members, as applicable, or the number or percentage of Associate Members entitled to vote on any matter, as the case may be. Without limiting the foregoing, no Former Associate Member shall be entitled to vote on any proposed amendment to this Agreement, unless such proposed amendment specifically and disproportionately adversely affects such Former Associate Member, provided that any amendment made in order to effectuate the provisions of Sections 3.03 and 3.04 shall not require the consent of any Former Member. Following the occurrence of a Separation Event with respect to an Associate Member, such Associate Member shall not be entitled to any distributions of Net Investment Receipts with respect to any Investment (including a Follow-on Investment) made by the LLC after the date of the Separation Event, and any distributions of Net Investment Receipts in respect of such Investments which would otherwise be payable to such Associate Member shall instead be paid to the Managing Member.

ARTICLE IV
DISTRIBUTIONS

4.01 Distribution of Net Investment Receipts and Other Cash Receipts.

(a) Net Investment Receipts of the LLC shall be distributed as realized, including upon a partial liquidation or partial disposition of an Investment. To the extent that such Net Investment Receipts consist of (x) Marketable Securities, or (y) cash realized from the sale or disposition of an Investment, such Net Investment Receipts shall be distributed to the Members (i) in the case of Marketable Securities, as soon as reasonably practicable after they become Marketable Securities, and (ii) in the case of such cash, as soon as reasonably practicable following receipt by the LLC thereof. Any other receipts of cash or securities received by the LLC shall be distributed at such times and in such amounts as the Managing Member may determine in its sole and absolute discretion. Any non-cash distributions made to the Members shall be valued, as of the date of distribution, at their respective fair market values, as determined by the Managing Member in good faith and in a manner consistent with the valuation procedures contained in Section 6.08.

(b) Subject to the provisions of Sections 4.02 and 9.02(b), Net Investment Receipts and all other distributions of cash or securities of the LLC shall be distributed as follows:

(i) First, to the Managing Member, until the Invested Capital has been reduced to zero; and

(ii) The balance, if any, to the Members in proportion to their respective Percentage Interests as of the date of the distribution;

provided, however, that an Associate Member with respect to whom a Separation Event has occurred shall not be entitled to any distributions of Net Investment Receipts with respect to any Investment (including a Follow-on Investment) made by the LLC after the date of the Separation Event, and any distributions of Net Investment Receipts in respect of such Investments which would otherwise be payable to such Associate Member shall instead be paid to the Managing Member.

4.02 Vesting Escrow.

(a) Notwithstanding the provisions of Section 4.01 above, the LLC shall distribute to each Associate Member on the date of any distribution (a "Distribution") only that portion of any Net Investment Receipts to which he is entitled which is equal to his Vested Percentage of such amount. Any portion of any Distribution which is not distributed as a result of the operation of this Section 4.02(a) shall be held in escrow by the LLC, in accordance with this Section 4.02. Any escrow established pursuant to this Section 4.02 is herein referred to as a "Vesting Escrow." Subject to Section 3.03, (i) on the last day of each calendar quarter, one-twentieth of the amount of the original Distribution shall be disbursed from such Vesting Escrow to such Associate Member, (ii) upon the occurrence of an Event of Forfeiture with respect to such Associate Member, all amounts then held in such Vesting Escrow shall be distributed to the Managing Member; and (iii) subject to Section 3.01(b) with respect to amounts held in a Vesting Escrow which may be applied towards the Associate Member's capital contribution obligation in connection with a dissolution or impending dissolution of the LLC, upon the occurrence of a Vesting Event with respect to such Associate Member, all amounts then held in such Vesting Escrow shall be distributed to such Associate Member.

(b) The interest of the Managing Member shall not be subject to the provisions of this Section 4.02, and it shall at all times be entitled to receive 100% of any distributions of Net Investment Receipts allocable to it pursuant to and in accordance with Section 4.01.

(c) Each of the Associate Members hereby agrees and acknowledges that (i) for all purposes, but subject to the terms of this Agreement, he shall be deemed to be the legal owner of the assets held in a Vesting Escrow established for him and (ii) as a result of the operation of this Section 4.02, an Associate Member may be allocated Net Profits or Net Losses of the LLC without corresponding distributions of Net Investment Receipts.

(d) Each Associate Member is authorized to and may (but shall not be required to) invest cash amounts that are held in a Vesting Escrow for such Associate Member in short-term investments pending distribution of such amounts to such Associate Member. Any income earned with respect to such investments shall be deposited into the Vesting Escrow and shall be released at the same time and in the same proportions as the underlying cash amount is released.

(e) As a result of this Section 4.02, there may be held in a Vesting Escrow securities which would otherwise have been distributed to such Associate Member. The Associate Member shall be entitled to vote all such securities. The Associate Member shall be entitled to transfer or sell any such securities for a cash purchase price no less than the fair value of such securities (as determined as of the date of the proposed sale by the Managing Member in accordance with Section 6.08) prior to their distribution to the Associate Member from the Vesting Escrow in accordance with this Section 4.02, provided that the proceeds of any such sale or transfer shall be deposited into the Vesting Escrow and shall be subject to this Agreement as if originally held pursuant to this Agreement, and released in accordance with Section 4.02(a) above at the same time such property would have been released from such Vesting Escrow. Dividends earned on and other distributions with respect to securities held in a Vesting Escrow shall be deposited into the Vesting Escrow and released at the same time and in the same proportions as the underlying securities are released.

In addition, the LLC may, at the request and on behalf of any Associate Member, engage in hedging activities with respect to securities held in the Vesting Escrow of such Associate Member, provided that (i) a Majority in Interest of the Associate Members approves in advance any such hedging activities; (ii) the Associate Member for whose benefit the hedging activities were undertaken bears all of the costs incurred in connection with such activities and indemnifies the LLC in writing with respect to any costs or losses incurred by the LLC in connection with any such activities; and (iii) the securities held in such Associate Member’s Vesting Escrow may not be used to settle any “hedged” position until such time as such securities are released to such Associate Member from such Vesting Escrow. In no event shall the Managing Member or the LLC bear any of the costs associated with any hedging activities permitted by this paragraph.

(f) Amounts held in escrow pursuant to this Section 4.02 shall be irrevocably forfeited by an Associate Member from and after the date of any Event of Forfeiture with respect to such Associate Member.

(g) For purposes of maintaining the Capital Accounts of the Members and computing and allocating Net Profits, Net Losses and all items thereof pursuant to this Agreement, the amount of any Distribution retained and credited to the Vesting Escrow of an Associate Member shall be considered to have been actually distributed to such Associate Member at the time so credited. As a result, all items of Net Profits and Net Losses attributable to such Member's Vesting Escrow shall be considered to be realized directly by such Associate Member, all amounts disbursed to such Associate Member shall not be treated as Distributions, and all amounts disbursed to the Managing Member or used to satisfy the capital contribution obligation of the Associate Member shall be treated as having been contributed to the LLC by the Associate Member on the date so disbursed or used.

4.03 Certain Payments to the Internal Revenue Service Treated as Distributions. Notwithstanding anything to the contrary herein, to the extent that the LLC is required (as determined in the discretion of the Managing Member), or elects, pursuant to applicable law, either (i) to pay tax (including estimated tax) on a Member's allocable share of LLC items of income or gain, whether or not distributed, or (ii) to withhold and pay over to the tax authorities any portion of a distribution otherwise distributable to a Member, the LLC may pay over such tax or such withheld amount to the tax authorities, and such amount shall be treated as a distribution to such Member at the time it is paid to the tax authorities. In the event that the amount paid (or paid over) to the tax authorities on behalf of a Member exceeds the amount that would have been distributed to such Member absent such tax obligation, such excess shall be treated as a demand loan from the LLC to such Member, which loan shall bear interest at the prime rate announced from time to time by *The Wall Street Journal*, until paid in full.

4.04 Distributions in Kind. A Member, regardless of the nature of his contribution to the LLC, shall have no right to demand or receive any distribution from the LLC in any form other than cash, provided that, with respect to Net Investment Receipts in the form of Marketable Securities, the LLC shall make distributions to the Members in the form of such Marketable Securities. Any Member entitled to any interest in such assets shall, unless otherwise determined by the Members, receive separate assets of the LLC and not an interest as a tenant-in-common with other Members so entitled in any asset being distributed.

ARTICLE V
ALLOCATION OF PROFITS AND LOSSES

5.01 Basic Allocations.

(a) Net Profits and Net Losses of the LLC for any fiscal period shall be allocated among the Members in such proportions and in such amounts as may be necessary so that following such allocations, the Capital Account balance of each Member equals such Member's then Target Balance.

(b) If the amount of Net Profits or Net Losses allocable to the Members pursuant to Section 5.01(a) for a period is insufficient to allow the Capital Account balance of each Member to equal such Member's Target Balance, such Net Profits or Net Losses shall be allocated among the Members in such a manner as to decrease the differences between the Members' respective Capital Account balances and their respective Target Balances in proportion to such differences.

5.02 Allocations of Nonrecourse Deductions and Minimum Gain. Notwithstanding the provisions of Section 5.01, if at any time the LLC incurs any "nonrecourse debt" (i.e., debt that is treated as nonrecourse for purposes of Treasury Regulation Section 1.1001-2), the following provisions will apply notwithstanding anything to the contrary expressed elsewhere in this Agreement:

(a) "Nonrecourse deductions" (as defined in Treasury Regulation Sections 1.704-2(b) and (c)) other than deductions attributable to "partner nonrecourse debt" (as defined in Treasury Regulation Section 1.704-2(b)(4)) shall be allocated to the Members in proportion to their respective Percentage Interests;

(b) Nonrecourse deductions attributable to partner nonrecourse debt shall be specially allocated to the Member or Members that bear the economic risk of loss associated with the debt;

(c) If in any year there is a net decrease in "partnership minimum gain" (as defined in Treasury Regulation Section 1.704-2(d)) or "partner nonrecourse debt minimum gain" (as defined in Treasury Regulation Section 1.704-2(i)(3), Members will be specially allocated items of income or gain for such year (and/or subsequent years to the extent necessary) in accordance with the "minimum gain chargeback" provisions of Treasury Regulation Section 1.704-2(f) and/or Treasury Regulation Section 1.704-2(i)(5).

(d) The aggregate selling price of the assets of the LLC referenced in clause (A) of the definition of "Target Balance" shall be increased by the amount of any "partnership minimum gain" or "partner nonrecourse debt minimum gain."

(e) For purposes of Sections 5.01 and 5.03, each Member's Capital Account balance shall be increased by the Member's share of minimum gain and of partner nonrecourse debt minimum gain.

5.03 Overriding Allocations of Net Profits and Net Losses. Notwithstanding the provisions of Section 5.01 above, but subject to the provisions of Section 5.02 above, the following allocations shall be made:

(a) Items of income or gain (computed with the adjustments contained in the definition of "Net Profits and Net Losses") for any taxable period shall be allocated to the Members in the manner and to the extent required by the "qualified income offset" provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(*d*).

(b) In no event shall Net Losses of the LLC be allocated to a Member if such allocation would cause or increase a negative balance in such Member's Capital Account (determined for purposes of this Section 5.03(b) only, by increasing the Member's Capital Account balance by (i) the amount the Member is obligated to restore to the LLC pursuant to Treasury Regulation Section 1.704-1(b)(2)(ii)(*c*) and (ii) such Member's share of "minimum gain" and of "partner nonrecourse debt minimum gain" as determined pursuant to Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5), respectively).

(c) Except as otherwise provided herein or as required by Code Section 704, for tax purposes, all items of income, gain, loss, deduction or credit shall be allocated to the Members in the same manner as are Net Profits and Net Losses; provided, however, that if the Carrying Value of any property of the LLC differs from its adjusted basis for tax purposes, then items of income, gain, loss, deduction or credit related to such property for tax purposes shall be allocated among the Members so as to take account of the variation between the adjusted basis of the property for tax purposes and its Carrying Value in the manner provided for under Code Section 704(c).

5.04 Timing of Allocations. Allocations of Net Profits, Net Losses and other items of income, gain, loss and deduction pursuant to this Article V shall be made for each fiscal year of the LLC as of the end of such fiscal year; provided, however, that if the Carrying Value of the assets of the LLC are adjusted in accordance with clause (ii) of the definition of "Carrying Value," the date of such adjustment shall be considered to be the end of a fiscal year for purposes of computing and allocating such Net Profits, Net Losses and other items of income, gain, loss and deduction.

5.05 Allocations Upon Transfer or Admission. In the event that a Member acquires an interest in the LLC either by transfer from another Member or by acquisition from the LLC, the LLC shall close its books as of the date of the acquisition and Net Profits, Net Losses and similar items computed for the portion of the year ending on the date of the acquisition shall be allocated among the Members without regard to such acquisition, and Net Profits, Net Losses and similar items computed for the portion of the year commencing on the day following the date of the acquisition shall be allocated among the Members taking into account such acquisition. For purposes of this Section 5.04, any modifications to an Associate Member's or Managing Member's Percentage Interest shall be treated as if a Member acquired or disposed of (as applicable) an interest in the LLC.

ARTICLE VI
MANAGEMENT

6.01 Management of the LLC.

(a) Subject to the provisions of this Agreement and the Act, all powers shall be exercised by or under the authority of, and the business and affairs of the LLC shall be controlled by the Members.

(b) Except to the extent that this Agreement specifically provides otherwise, all decisions respecting any matter set forth herein or otherwise affecting or arising out of the conduct of the business of the LLC, shall be made exclusively by the Managing Member, and any decision which, pursuant to the terms of this Agreement is to be taken or approved by the Members, shall be taken by the Managing Member, acting alone. The Associate Members shall have no right to vote on or participate in any matter or decision or to otherwise manage the business of the LLC, except to the extent expressly provided in this Agreement.

(c) Subject to the foregoing, the Managing Member shall have the exclusive right and full authority to manage, conduct and operate the LLC business. Specifically, but not by way of limitation, the Managing Member shall be authorized, for and on behalf of the LLC:

(i) to borrow money, to issue evidences of indebtedness and to guarantee the debts of others for whatever purposes they may specify, and, as security therefor, to pledge or otherwise encumber the assets of the LLC, provided that any such borrowings, indebtedness and guarantees are reasonably related to the conduct of the business of the LLC;

(ii) to cause to be paid on or before the due date thereof all amounts due and payable by the LLC to any person or entity;

(iii) to employ such agents, employees, managers, accountants, attorneys, consultants and other persons necessary or appropriate to carry out the business and affairs of the LLC, whether or not any such persons so employed are Members or are affiliated or related to any Member, and to pay such fees, expenses, salaries, wages and other compensation to such persons as the Members shall in their sole discretion determine;

(iv) to pay, extend, renew, modify, adjust, submit to arbitration, prosecute, defend or compromise, upon such terms as it may determine and upon such evidence as it may deem sufficient, any obligation, suit, liability, cause of action or claim, including taxes, either in favor of or against the LLC;

(v) to pay any and all fees and to make any and all expenditures which the Managing Member, in its discretion, deems necessary or appropriate in connection with the organization of the LLC, and the carrying out of its obligations and responsibilities under this or any other Agreement;

(vi) to invest the assets of the LLC, and to lease, sell, finance, refinance or dispose of all or any portion of the LLC's property, provided that the LLC shall not make any Investment or Follow-on Investment which has not been recommended by a Majority in Interest of the Associate Members;

(vii) to cause the LLC to make or revoke any of the elections referred to in Sections 108, 704, 709, 754 or 1017 of the Code or any similar provisions enacted in lieu thereof, or in any other Section of the Code;

(viii) to establish and maintain reserves for such purposes and in such amounts as it deems appropriate from time to time;

(ix) to pay all organizational expenses and general and administrative expenses of the LLC;

(x) to deal with, or otherwise engage in business with, or provide services to and receive compensation therefor from, any person who has provided or may in the future provide any services to, lend money to, sell property to, or purchase property from the LLC, including without limitation, a Member;

(xi) to engage in any kind of activity and to perform and carry out contracts of any kind necessary to, or in connection with, or incidental to the accomplishment of the purposes of the LLC;

(xii) to cause to be paid any and all taxes, charges and assessments that may be levied, assessed or imposed upon any of the assets of the LLC, unless the same are contested by the Managing Member;

(xiii) to exercise all powers and authority granted by the Act to members, except as otherwise specifically provided in this Agreement; and

(xiv) to exercise all other rights, powers, privileges and other incidents of ownership with respect to the interest of the LLC in each Portfolio Company.

(d) The Managing Member is authorized to execute, deliver and file on behalf of the LLC any documents to be filed with the Secretary of State of the State of Delaware. The signature of one Managing Member (if at any time there is more than one Managing Member) on any agreement, contract, instrument or other document shall be sufficient to bind the LLC in respect thereof and conclusively evidence the authority of such Managing Member and the LLC with respect thereto, and no third party need look to any other evidence or require the joinder or consent of any other party.

(e) The Associate Members who have been designated in writing by the Managing Member as "Managing Directors" (as of the date hereof Peter H. Mills and Marc D. Poirier) (other than any Former Associate Members) shall be granted the authority to act on behalf of the LLC with respect to making and managing each Investment of the LLC (including but not limited to voting securities held in such Investment) at the time the Managing Member approves such Investment pursuant to Section 3.01(a), and such authority shall be specified in the resolution of the Managing Member approving such Investment.

6.02 Tax Matters Partner. The Managing Member, or such other Member as the Managing Member may designate, shall be the tax matters partner for the LLC pursuant to Code Sections 6221 through 6231.

6.03 Liability of the Members; Exculpation.

(a) No Member shall be liable to the LLC or any other Member for any act or omission taken by the Member in good faith and in a manner reasonably believed to be within the scope of the authority conferred on the Member by this Agreement; provided that such act or omission is not in violation of this Agreement and does not constitute gross negligence, willful misconduct, fraud or a willful violation of law by the Member. No Member shall be liable to the LLC or any other Member for any action taken by any other Member, nor shall any Member (in the absence of gross negligence, willful misconduct, fraud or a willful violation of law by the Member) be liable to the LLC or any other Member for any action of any employee or agent of the LLC provided that the Member shall have exercised appropriate care in the selection and supervision of such employee or agent.

(b) Except as otherwise provided by the Act, the debts, obligations and liabilities of the LLC, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the LLC, and no Member shall be obligated personally for any such debt, obligation or liability of the LLC solely by reason of being a Member.

(c) The liability of the Members for the losses, debts and obligations of the LLC shall be further limited to their capital contributions; provided, however, that under applicable law, the Members may under certain circumstances be liable to the LLC to the extent of previous distributions made to them in the event that the LLC does not have sufficient assets to discharge its liabilities.

(d) A Member shall be fully protected in relying in good faith upon the records of the LLC and upon such information, opinions, reports or statements presented to the Member by any third party professional as to matters the Member reasonably believes are within such third party's professional or expert competence.

(e) The Members' respective obligations to each other are limited to the express obligations described in this Agreement, which obligations the Members shall carry out with ordinary prudence and in a manner characteristic of business persons in similar circumstances. To the fullest extent permitted by the Act and other applicable law, no Member shall be a fiduciary of, or have any fiduciary duties or obligations to, the other Members in connection with the LLC or this Agreement or such Member's performance of its obligations under this Agreement, and each Member hereby waives to the fullest extent permitted by the Act and other applicable law any rights it may have to claim any breach of any standard of care or duty (fiduciary or other) under this Agreement or in connection with the LLC.

6.04 Indemnification.

(a) Each Member and its respective partners, agents, employees and Affiliates (the "Indemnitees") shall be and hereby are (i) indemnified and held harmless by the LLC and (ii) released by the other Members from and against any and all claims, demands, liabilities, costs, expenses, damages, losses, suits, proceedings and actions for which such Indemnitee has not otherwise been reimbursed (collectively, "Liabilities"), whether judicial, administrative, investigative or otherwise, of any nature whatsoever, known or unknown, liquidated or unliquidated, that may accrue to the LLC or any other Member or in which any of the Indemnitees may become involved, as a party or otherwise, arising out of the conduct of the business or affairs of the LLC by the respective Indemnitee or otherwise relating to this Agreement, including without limitation, in connection with the Indemnitee's service at the request or with the authorization of the Managing Member as a board member, officer or employee of any Portfolio Company, provided that an Indemnitee shall not be entitled to indemnification or release hereunder if it shall have been determined by (i) in the case of the Managing Member or an Indemnitee claiming by or through the Managing Member, final adjudication by a court of competent jurisdiction, or (ii) in the case of any Associate Member or an Indemnitee claiming by or through the Associate Member, the Managing Member acting in good faith, that (x) such person did not act in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the LLC and, in the case of a criminal proceeding, had reasonable cause to believe that its conduct was unlawful, or (y) such Liabilities shall have arisen from a violation of this Agreement or the gross negligence, willful misconduct, fraud or willful violation of law by such Indemnitee, or actions of such Indemnitee outside the scope of and unauthorized by this Agreement.

(b) Promptly after receipt by any Member from any third party of notice of any demand, claim or circumstance that would reasonably be expected to give rise to a claim or the commencement (or threatened commencement) of any action, proceeding or investigation (an "Asserted Liability") that could reasonably be expected to result in any loss, damage or claim with respect to which the Member might be entitled to indemnification from the LLC under Section 6.04(a), the Member shall give notice thereof (the "Claims Notice") to the Managing Member; provided, however, that a failure to give such notice shall not prejudice the Member's right to indemnification hereunder except to the extent that the LLC is actually prejudiced thereby. The Claims Notice shall describe the Asserted Liability in such reasonable detail as is practicable under the circumstances, and shall, to the extent practicable under the circumstances, indicate the amount (estimated, if necessary) of the loss or damage that has been or may be suffered by the Member.

(c) The LLC may elect to compromise or defend, at its own expense and by its own counsel, any Asserted Liability; provided, however, that if the named parties to any action or proceeding include (or could reasonably be expected to include) both the LLC and a Member, or more than one Member, and the LLC is advised by counsel that representation of both parties by the same counsel would be inappropriate under applicable standards of professional conduct, the Member may engage separate counsel at the expense of the LLC (subject to the Member's obligation to reimburse the LLC if it is ultimately determined that the Member is not entitled to indemnification in accordance with this Section 6.04). If the LLC elects to compromise or defend such Asserted Liability, it shall within twenty (20) business days (or sooner, if the nature of the Asserted Liability so requires) notify the Member of its intent to do so, and the Member shall cooperate, at the expense of the LLC, in the compromise of, or defense against, such Asserted Liability. If the LLC elects not to compromise or defend such Asserted Liability, fails to notify the Member of its election as herein provided, contests its obligation to provide indemnification under this Agreement, or fails to make or ceases making a good faith and diligent defense, the Member may defend, compromise or pay such Asserted Liability in accordance with the provisions of Section 6.04(d) below. Except as set forth in the preceding sentence, neither the LLC nor the Managing Member may settle or compromise any claim against a Member over the objection of such Member; provided, however, that consent to settlement or compromise shall not be unreasonably withheld. In any event, the LLC and/or the Member may participate at their own expense, in the defense of such Asserted Liability. If the Member chooses to defend any claim, the LLC shall make available to the Member any books, records or other documents within its control that are necessary or appropriate for such defense, all at the expense of the LLC.

(d) If the LLC elects not to compromise or defend an Asserted Liability, or fails to notify the Member of its election as herein provided, contests its obligation to provide indemnification, or fails to make or ceases making a good faith and diligent defense, then the Member shall be entitled to assume the defense and all expenses (including legal fees) incurred by a Member in defending any Asserted Liability shall promptly be advanced by the LLC prior to the final disposition of such claim, demand, action, suit or proceeding following receipt by the LLC of an undertaking by or on behalf of the Member to repay such amount if it shall be determined that the Member is not entitled to be indemnified as authorized in Section 6.04(a) hereof.

(e) The termination of any proceeding by settlement shall not, of itself, create a presumption that the Indemnitee did not act in good faith and in a manner that such person reasonably believed to be in the best interests of the LLC or that the Indemnitee did not have reasonable cause to believe that its conduct was lawful.

(f) The right of indemnification hereby provided shall not be exclusive of, and shall not affect, any other rights to which a Member may be entitled. Nothing contained in this Section 6.04 shall limit any lawful rights to indemnification existing independently of this Section. The obligations of the LLC under this Section 6.04 shall be satisfied only after any applicable insurance proceeds have been exhausted and then only out of LLC assets and, to the extent required by law, distributions made by the LLC to the Members, the Members shall otherwise have no personal liability to fund any indemnification payment hereunder.

(g) The indemnification rights provided by this Section 6.04 shall also inure to the benefit of the heirs, executors, administrators, successors and assigns of a Member and any officers, directors, partners, members, shareholders, employees and Affiliates of such Member (and any former officer, director, partner, member, shareholder or employee of such Member, if the loss, damage or claim was incurred while such person was an officer, director, partner, member, shareholder or employee of such Member). The Managing Member or the LLC may extend the indemnification called for by this Section 6.04 to non-employee agents of the LLC.

(h) As and when the LLC requires funds to discharge any indemnification obligation under this Section 6.04, if funds of the LLC are not otherwise available therefor, the Managing Member shall promptly contribute to the LLC the amount required to discharge such indemnification obligation, provided, however, the Managing Member shall have no obligation to contribute capital to the LLC pursuant to this Section 6.04(h) and/or Section 3.01 in an aggregate amount in excess of $50,000,000.

6.05 Budget; Certain Fees and Expenses; Office Facilities and Services.

(a) On or before August 1 of each year, the Managing Member shall adopt a budget (herein referred to as the “Budget”), setting forth the estimated expenditures (capital, operating, and other) of (x) the LLC and (y) of CMGI (as described in Section 6.05(d) below), in each case for the 12-month period covered by the Budget (which shall be the 12 months commencing on the next succeeding August 1). Any Budget may be amended at any time by the Managing Member. The Managing Member shall have complete discretion in preparing the Budget, taking into account, among other things and without limitation, the strategic importance of the LLC’s activities to CMGI, the financial needs of CMGI and its affiliates, and market conditions (in general and for venture capital investing). Subject to its right to approve all Investments, as specified in Section 3.01, and compliance by the Associate Members with Section 6.05(c) below, the Managing Member shall make available to the LLC all amounts specified in the Budget for the purposes specified therein.

(b) If the Managing Member does not adopt a Budget with respect to any period, during such period the operating Budget adopted for the comparable portion of the preceding fiscal year shall be applicable until such time as the Managing Member adopts a Budget with respect to such period.

(c) All out-of-pocket expenses reasonably incurred by any Member in connection with the LLC’s business shall be paid by the Managing Member or reimbursed by the

Managing Member, provided that the Associate Members shall be entitled to reimbursement only in accordance with CMGI's standard policies and only to the extent that the expenses for which reimbursement is sought are of the types and consistent with the amounts specified in the then applicable Budget. The payment or reimbursement of such expenses shall not be treated as Capital Contributions of the Managing Member to the LLC.

(d) The Associate Members, for so long as they are employees of CMGI or a CMGI Affiliate, shall be provided with offices, facilities, computer and telephone equipment, administrative support and similar services that are reasonably necessary to the business of the LLC, as described in Section 2.03 herein (consistent with the then applicable Budget), at CMGI's principal place of business or at such other places as the Managing Member may determine. The cost of such facilities and services shall not be treated as a Capital Contribution of the Managing Member to the LLC.

(e) All amounts expended or made available by the Managing Member pursuant to this Section 6.05 shall be treated as incurred directly by the Managing Member outside of the LLC and shall not be treated as Capital Contributions to the LLC or expenditures by the LLC.

6.06 Other Activities.

(a) Subject to Sections 6.06(b) and (c) and Section 6.07 below, certain Nondisclosure and Developments Agreements (one between each Associate Member and CMGI), and any other written agreement between an Associate Member, on the one hand, and CMGI or an Affiliate of CMGI on the other hand, the Members and their respective Affiliates may engage in and possess interests in other business ventures and investment opportunities of every kind and description, independently or with others, including serving as directors, officers, stockholders, managers, members and general or limited partners of corporations, partnerships or other limited liability companies with purposes similar to or the same as those of the LLC. Each Associate Member shall be required to pay over to the LLC any cash or non-cash compensation or remuneration to which such Associate Member becomes entitled from any Portfolio Company for services rendered to such Portfolio Company (or, in the case of options or similar compensation, to hold the same as nominee for the LLC).

(b) Each Associate Member agrees that (I) during his or her employment by the Employer, and (II) for a period of 18 months following termination of his or her employment relationship with the Employer if such employment is terminated: (A) by the Associate Member voluntarily, or (B) by the Employer for Cause, such Associate Member will not, directly or indirectly:

(x) recruit, solicit or induce, or attempt to induce, any employee of CMGI or of any Portfolio Company or of any Affiliate of any of them to terminate his or her employment with, or otherwise cease any relationship with, CMGI or any Portfolio Company or any Affiliate of any of them; or

(y) solicit, divert, take away, or attempt to divert or take away, any investment opportunity with respect to any Portfolio Company or any investment opportunity with respect to any prospective investment or prospective portfolio company which the LLC contacted or solicited (or by whom the LLC was contacted or solicited) during such Member's employment relationship with the Employer.

If any restriction set forth herein is found by any court to be unenforceable because it extends for too long a period of time, or over too great a range of activities, or over too broad a geographic area, the restriction shall be interpreted to extend only over the maximum period of time, range of activities, or geographic area which the court finds to be enforceable. Each Associate Member acknowledges and agrees that the restrictions contained in this Section 6.06(b) are necessary for the protection of the business and goodwill of the Employer, the Portfolio Companies and the Affiliates of any of them and are considered by such Associate Member to be reasonable for such purpose and that his or her interest in the LLC is being received partly in consideration for the foregoing covenant. The provisions of this Section 6.06(b) shall terminate upon the occurrence of any Vesting Event.

(c) Each Associate Member agrees that, without the prior written consent of the Managing Member, during his or her employment by the Employer, he shall not invest in any Qualified Investment Opportunity (as hereinafter defined) which is made available to him unless such Associate Member has notified the Managing Member of such opportunity and the LLC has elected not to undertake such Qualified Investment Opportunity. The Associate Member shall provide to the Managing Member, together with such notice, all information as may be reasonably necessary to enable the Managing Member to evaluate such Qualified Investment Opportunity. If, within 30 days following the notice from the Associate Member to the Managing Member of such opportunity, the Managing Member fails to notify the Associate Member that it has determined to cause the LLC to undertake such opportunity, the Managing Member and the LLC shall be deemed to have elected not to undertake such opportunity. In addition, each Associate Member agrees that, without the prior written consent of the Managing Member, he shall not invest in any Portfolio Company in which the LLC has invested or in which the LLC is contemplating making an investment. As used herein, a “Qualified Investment Opportunity” shall mean any venture capital investment in which (x) any one Associate Member intends to invest more than $100,000 or (y) two or more Associate Members intend to invest more than $200,000 in the aggregate, exclusive of any investment in a pooled investment vehicle sponsored or controlled by unaffiliated persons. Each Associate Member shall notify the Managing Member each time he invests in a Qualified Investment Opportunity, which notice shall include a brief description of the Qualified Investment Opportunity and the amount invested therein by such Associate Member.

(d) Without limiting Section 6.06(a) above, the Managing Member, CMGI and any of their respective Affiliates shall be permitted to make investments in business enterprises either directly or indirectly through vehicles other than the LLC, including without limitation, investments which are similar to those made by the LLC or suitable for the LLC, and shall have no obligation to offer to the LLC the opportunity to make any such investments, provided, however, that neither CMGI, the Managing Member nor any of their Affiliates shall be permitted to make any investment which the Associate Members have proposed, pursuant to Section 3.01(a)(i), that the LLC make, if the Managing Member has rejected any such proposal.

6.07 Commitment of Members. Each of the Associate Members hereby agrees, during his employment by the Employer, to use his best efforts in connection with the purposes and objectives of the LLC and to devote to such purposes and objectives, and to the purposes and objectives of any other venture capital investment vehicles affiliated with CMGI, his full business time and resources. Without limiting the foregoing, each Associate Member may serve on the board of directors of any portfolio company of any other venture capital investment vehicles which are affiliated with CMGI, provided however, each Associate Member hereby agrees and acknowledges that, with respect to service on the board of directors (or similar governing bodies) of any other entity or company, he is subject to CMGI's policy with respect to service on boards of directors or similar governing bodies of any entity.

6.08 Valuation of Investments.

(a) Whenever valuation of the LLC's net worth or any particular asset, including an Investment, of the LLC is required by this Agreement, the Managing Member shall, as of a reasonable valuation date established by it, make a good faith determination of the "fair value" of all noncash assets of the LLC (if net worth is to be evaluated) or of such particular asset. Such determination of "fair value" with respect to any noncash asset shall be based upon all relevant factors, including, without limitation, type of security, marketability, liquidity, restrictions on disposition, recent purchases of the same or similar securities by other investors, pending mergers or acquisitions, current financial position and operating results, and risks and potential of the security.

(b) The fair value of any Marketable Securities owned by the LLC shall be equal to the average of: (i) if applicable, the median of the "bid" and "asked" prices for such securities in the market on which such securities are regularly traded; or (ii) if applicable, the closing price on the market on which such securities are regularly traded; in each case, on the ten trading days immediately preceding the date of valuation of such securities.

(c) Subject to the foregoing, any determination of LLC net worth or of the value of a particular asset required by this Agreement to be made pursuant to this Section 6.08 shall be made in accordance with generally accepted accounting principles, as from time to time applicable to the LLC or similar entities; provided, however, that no value whatsoever shall be assigned to the LLC name and goodwill or to the office records, files, statistical data or any similar intangible assets of the LLC not normally reflected in the LLC's accounting records; and provided further, that liabilities of the LLC shall be taken in the amounts at which they are carried on the books of the LLC and reasonable provision shall be made for contingent or other liabilities not reflected on such books and, in the case of valuation in connection with the liquidation of the LLC, for the expenses (to be borne by the LLC) of the liquidation and winding up of the LLC's affairs.

(d) In the event that a valuation of one or more assets (excluding Marketable Securities, to which this Section 6.08(d) shall not apply) in accordance with this Section 6.08 is made by the Managing Member for purposes of Section 9.02, the Managing Member will review such valuation with the Associate Members. If less than a Majority in Interest of the Associate Members approve the aggregate fair market value determination of the LLC's noncash assets for such purpose, then the LLC will engage an independent appraiser to value such assets. The appraiser will be selected by the Managing Member and a Majority in Interest of the Associate Members. If the Managing Member and a Majority in Interest of the Associate Members are not able to agree on an appraiser, then they shall each select an appraiser, and those appraisers will select a third appraiser, who will perform the valuation of the such noncash assets.

6.09 Public Announcements. The Associate Members shall have no authority to make any press release or similar public announcement concerning the affairs and activities of the LLC without the prior written approval of the Managing Member.

ARTICLE VII
BOOKS, RECORDS AND BANK ACCOUNTS

7.01 Books and Records. The Managing Member shall keep or cause to be kept just and true books of account with respect to the operations of the LLC. Such books shall be maintained at the LLC's principal place of business, or at such other place as the Managing Member shall determine, and all Members, and their duly authorized representatives, shall at all reasonable times have access to such books as well as any information required to be made available to the Members under the Act, in each case for any purpose reasonably related to the LLC. The Managing Member shall not be required to deliver or mail copies of the LLC's Certificate of Formation or copies of certificates of amendment thereto or cancellation thereof to the Members, although such documents shall be available for review and/or copying by the Members at the LLC's principal place of business.

7.02 Accounting Basis and Fiscal Year. The LLC's books shall be kept on the accrual method of accounting, or on such other method of accounting as the Managing Member may from time to time determine, and shall be closed and balanced at the end of each fiscal year of the LLC. The fiscal year of the LLC shall be the 12-month period ending on July 31 of each year.

7.03 Bank Accounts. The Managing Member shall be responsible for causing one or more accounts to be maintained in a bank (or banks), which accounts shall be used for the payment of the expenditures incurred by the Managing Member in connection with the business of the LLC, and in which shall be deposited any and all cash receipts (including cash, and, to the extent practicable, property and securities received by the LLC with respect to Investments) of the LLC. All such amounts shall be and remain the property of the LLC, and shall be received, held and disbursed by the Managing Member for the purposes specified in this Agreement. There shall not be deposited in any of said accounts any funds other than funds belonging to the LLC, and no other funds shall in any way be commingled with such funds.

7.04 Reports to Members. Within 90 days after the end of each LLC fiscal year, the Managing Member shall cause the LLC to furnish to each Member (i) such information as may be needed to enable the Members to file their federal income tax returns and any required state income tax returns, and (ii) a balance sheet of the LLC as of the last day of such fiscal year, and financial statements of the LLC for such fiscal year (which balance sheet and financial statements may, in the discretion of the Managing Member, be audited). The cost of such reporting shall be paid by the LLC as a LLC expense. Any Member may, at any time, at its own expense, cause an audit of the LLC books to be made by a certified public accountant of its own selection. All expenses incurred by such accountant shall be borne by such Member. The Associate Members shall provide such assistance to the Managing Member as may be reasonably requested in connection with the management and maintenance of the books and records of the LLC, and the preparation of any and all reports to be provided hereunder.

ARTICLE VIII
TRANSFERS OF INTERESTS OF MEMBERS

8.01 Substitution and Assignment of Member’s Interest.

(a) Subject to Section 8.01(b) below, no Associate Member may sell, transfer, assign, pledge, hypothecate or otherwise dispose of all or any part of its interest in the LLC (whether voluntarily, involuntarily or by operation of law), unless (i) the Managing Member and (ii) a Majority in Interest of the Associate Members (exclusive of the transferor) shall have previously consented to such transfer, assignment, pledge, hypothecation or disposition in writing, the granting or denying of which consent shall be in such Members’ absolute discretion. Subject to Section 8.01(b) below, the provisions of this Section 8.01(a) shall not be applicable to any assignment of the interest of an Associate Member to a Permitted Transferee (provided that no such Permitted Transferee may be admitted to the LLC as a substitute Member except as provided in Section 8.01(c) below) and any interest so assigned to a Permitted Transferee shall continue to be subject to the forfeiture provisions of Section 3.03 as if it had not been assigned. Subject to Section 8.01(b) below, the Managing Member may sell, transfer, assign, pledge, hypothecate or otherwise dispose of all or any part of its interest in the LLC without the consent or approval of any other Member, provided that the transferee of any such interest may not be admitted to the LLC as a substitute Member except as provided in Section 8.01(c) below.

(b) No assignment of the interest of a Member shall be made if, in the opinion of counsel to the LLC, such assignment (i) may not be effected without registration under the Securities Act of 1933, as amended, (ii) would result in the violation of any applicable state securities laws, (iii) would result in a termination of the LLC under Section 708 of the Code, unless such a transfer is consented to by the Managing Member, (iv) would result in the treatment of the LLC as an association taxable as a corporation or as a “publicly-traded limited partnership” for tax purposes, unless such a transfer is consented to by all Members or (v) would require the LLC to register as an investment company under the Investment Company Act of 1940, as amended, or as an investment advisor under the Investment Advisors Act of 1940, as amended. The LLC shall not be required to recognize any assignment until the instrument conveying such interest has been delivered to the LLC for recordation on the books of the LLC. Unless an assignee becomes a substituted Member in accordance with the provisions of Section 8.01(c), it shall not be entitled to any of the rights granted to a Member hereunder, other than the right to receive all or part of the share of the Net Profits, Net Losses, distributions of cash or property or returns of capital to which his assignor would otherwise be entitled.

(c) An assignee of the interest of a Member, or any portion thereof, shall become a substituted Member entitled to all the rights of a Member if, and only if:

(i) the assignor gives the assignee such right;

(ii) in the case of an assignee of an Associate Member, the Managing Member consents to such substitution, the granting or denying of which consent shall be in the Managing Member’s absolute discretion;

(iii) in the case of an assignee of the Managing Member, the Managing Member consents to such substitution;

(iv) the assignee or the assignor pays to the LLC all costs and expenses incurred in connection with such substitution, including specifically, without limitation, costs incurred in the review and processing of the assignment and in amending this Agreement; and

(v) the assignee executes and delivers such instruments, in form and substance satisfactory to the LLC, as may be necessary or desirable to effect such substitution and to confirm the agreement of the assignee to be bound by all of the terms and provisions of this Agreement.

(d) The LLC and the Members shall be entitled to treat the record owner of any interest in the LLC as the absolute owner thereof in all respects, and shall incur no liability for distributions of cash or other property made in good faith to such owner until such time as a written assignment of such interest has been received and accepted by the Managing Member and recorded on the books of the LLC. The Managing Member may refuse to accept an assignment until the end of the next successive quarterly accounting period. In no event shall any interest in the LLC, or any portion thereof, be sold, transferred or assigned to a minor or incompetent, and any such attempted sale, transfer or assignment shall be void and ineffectual and shall not bind the LLC.

(e) If a Member who is an individual dies or a court of competent jurisdiction adjudges him to be incompetent to manage his person or his property, the Member’s executor, administrator, guardian, conservator or other legal representative may exercise all of the Member’s rights hereunder, but solely for the purpose of settling his estate or administering his property, and in no event shall such executor, administrator, guardian, conservator or legal representative participate in any way in the conduct of the business of the LLC, or in the making of any decision or the taking of any action provided for hereunder for any other purpose. If a Member is a corporation, trust or other entity, and is dissolved or terminated, the powers of that Member may be exercised by its legal representative or successor.

8.02 Additional Members.

(a) Except as provided in Section 8.01, additional Members may be admitted to the LLC only in accordance with this Section 8.02.

(b) The Managing Member shall not cause any person to be admitted as an additional Associate Member without the consent of a Majority in Interest of the Associate Members, and, if any such admission dilutes, modifies or adversely alters the economic interest of any Associate Member or Former Associate Member, the consent of such Associate Member or Former Associate Member shall be required in connection with such admission.

(c) In connection with any admission of an additional Member in accordance with this Section 8.02, this Agreement (including Schedule A) shall be amended by the Managing Member to reflect the additional Member, its capital contribution, if any, its Percentage Interest, its Vesting Commencement Date (if applicable), the portion of its interest, if any, which is vested, and any other rights and obligations of the additional Member.

(d) Each Member, and each person who is hereinafter admitted to the LLC as a Member in accordance with this Section 8.02, hereby consents to the admission to the LLC of any such third party on such terms as may be approved by the Members in accordance with this Section 8.02, and to any amendment to this Agreement which may be necessary or appropriate to reflect the admission of any such third party and the terms of its interest in the LLC.

(e) Any amendment to this Agreement which shall be made in order to effectuate the provisions of this Section 8.02 shall be executed by the additional Member and the Managing Member, and any such amendment shall be binding upon all of the Members.

ARTICLE IX
DISSOLUTION AND TERMINATION

9.01 Events of Dissolution.

(a) The LLC shall be dissolved:

(i) at any time, on a date designated in writing by the Managing Member;

(ii) upon the sale or other disposition of all of the LLC's assets; or

(iii) upon the entry of a decree of judicial dissolution under Section 18-802 of the Act.

(b) Dissolution of the LLC shall be effective on the day on which the event occurs giving rise to the dissolution, but the LLC shall not terminate until the LLC's Certificate of Formation shall have been cancelled and the assets of the LLC shall have been distributed as provided herein. Notwithstanding the dissolution of the LLC, prior to the termination of the LLC, as aforesaid, the business of the LLC and the affairs of the Members, as such, shall continue to be governed by this Agreement. A liquidator appointed by the Managing Member (who may be a Member), shall liquidate the assets of the LLC, and distribute the proceeds thereof as contemplated by this Agreement and cause the cancellation of the LLC's Certificate of Formation.

9.02 Distributions Upon Liquidation.

(a) After payment of liabilities owing to creditors, the liquidator shall set up such reserves as it deems reasonably necessary for any contingent or unforeseen liabilities or obligations of the LLC. Said reserves may be paid over by such liquidator to a bank, to be held in escrow for the purpose of paying any such contingent or unforeseen liabilities or obligations and, at the expiration of such period as such liquidator may deem advisable, such reserves shall be distributed to the Members or their assigns in the manner set forth in paragraph (b) below.

(b) After paying such liabilities and providing for such reserves, the liquidator shall cause the remaining net assets of the LLC to be distributed to all Members in accordance with Section 3.01(b) and Section 4.01 hereof. In the event that any part of such net assets consists of notes or accounts receivable or other non-cash assets, the liquidator may take whatever steps it deems appropriate to convert such assets into cash or into any other form which would facilitate the distribution thereof. If any assets of the LLC are to be distributed in kind, such assets shall be distributed on the basis of their fair market value, determined in accordance with Section 6.08 herein.

ARTICLE X
MISCELLANEOUS

10.01 Notices. Except as otherwise specifically provided in this Agreement, any and all notices, requests, elections, consents or demands permitted or required to be made under this Agreement shall be in writing, signed by the Member giving such notice, request, election, consent or demand, and shall be delivered personally, or sent by registered or certified mail, or by overnight mail, Federal Express or other similar commercial overnight courier, to the other Member or Members at their addresses set forth in Schedule A, and, in the case of a notice to the LLC, at the address of its principal office as set forth in Article I hereof, or at such other address as may be supplied by written notice given in conformity with the terms of this Section 10.01. The date of personal delivery, three days after the date of mailing, the business day after delivery to an overnight courier, as the case may be, or the date of actual delivery if sent by any other method, shall be the date of such notice.

10.02 Successors and Assigns. Subject to the restrictions on transfer set forth herein, this Agreement, and each and every provision hereof, shall be binding upon and shall inure to the benefit of the Members, their respective successors, successors-in-title, heirs and assigns, and each and every successor-in-interest to any Member, whether such successor acquires such interest by way of gift, purchase, foreclosure, or by any other method, shall hold such interest subject to all of the terms and provisions of this Agreement.

10.03 Amendments. Except as otherwise specifically provided in this Agreement (including without limitation, Section 3.03 and Article VIII), this Agreement may be amended or modified only by (i) the Managing Member and (ii) a Majority in Interest of the Associate Members; provided that (x) no such amendment shall increase the liability of, increase the obligations of or disproportionately adversely affect the interest of, any Associate Member without the specific approval of such Member (other than upon the occurrence of an Event of Forfeiture), and no amendment shall reduce the Percentage Interest or Vested Percentage of any Former Associate Member without the specific approval of such Former Associate Member (except for such a reduction upon the occurrence of a Clause Z Event); (y) if any provision of this Agreement provides for the approval or consent of a greater number of Members or of Members holding a higher percentage of the total Percentage Interests of the Members, any amendment effectuated pursuant to such provision, and any amendment to such provision, shall require the approval or consent of such greater number of Members or of Members holding such higher percentage of Percentage Interests; and (z) subject to clauses (x) and (y) above, any amendment to this Section 10.03 shall require the approval of (i) the Managing Member and (ii) Associate Members holding not less than two-thirds of all Percentage Interests held by all Associate Members.

10.04 Partition. The Members hereby agree that no Member nor any successor-in-interest to any Member, shall have the right while this Agreement remains in effect to have the property of the LLC partitioned, or to file a complaint or institute any proceeding at law or in equity to have the property of the LLC partitioned, and each Member, on behalf of himself, his successors, representatives, heirs and assigns, hereby waives any such right. It is the intention of the Members that during the term of this Agreement, the rights of the Members and their successors-in-interest, as among themselves, shall be governed by the terms of this Agreement, and that the right of any Member or successor-in-interest to assign, transfer, sell or otherwise dispose of his interest in the LLC shall be subject to the limitations and restrictions of this Agreement.

10.05 No Waiver. The failure of any Member to insist upon strict performance of a covenant hereunder or of any obligation hereunder, irrespective of the length of time for which such failure continues, shall not be a waiver of such Member's right to demand strict compliance in the future. No consent or waiver, express or implied, to or of any breach or default in the performance of any obligation hereunder, shall constitute a consent or waiver to or of any other breach or default in the performance of the same or any other obligation hereunder.

10.06 Entire Agreement. This Agreement (together, in the cases of Peter H. Mills and Marc D. Poirier, with the Amended and Restated Retention Agreement and General Release, among CMGI, CMG @Ventures, Inc. and CMG @Ventures Capital Corp. and each such individual, dated May 14, 2004) constitutes the full and complete agreement of the parties hereto with respect to the subject matter hereof.

10.07 Captions. Titles or captions of Articles or sections contained in this Agreement are inserted only as a matter of convenience and for reference, and in no way define, limit, extend or describe the scope of this Agreement or the intent of any provision hereof.

10.08 Counterparts. This Agreement may be executed in a number of counterparts, all of which together shall for all purposes constitute one Agreement, binding on all the Members notwithstanding that all Members have not signed the same counterpart.

10.09 Applicable Law. This Agreement and the rights and obligations of the parties hereunder shall be governed by and interpreted, construed and enforced in accordance with the laws of the State of Delaware, without regard to principles of conflicts of laws.

10.10 Gender, Etc. In the case of all terms used in this Agreement, the singular shall include the plural and the masculine gender shall include the feminine and neuter, and vice versa, as the context requires.

10.11 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of any Member or of the LLC other than a Member who is such a creditor of the LLC. Notwithstanding the foregoing, any Indemnitee not a party hereto shall be entitled to rely on the provisions of Section 6.04 as if a party to this Agreement.

10.12 Power of Attorney. By signing this Agreement, each Associate Member hereby designates and appoints the Managing Member his true and lawful attorney, in his name, place, and stead to make, execute, sign, and file the Certificate and any amendment thereto and such other instruments, documents, or certificates that may from time to time be required of the LLC by the laws of the United States of America, the laws of the state of the LLC's formation, or any other state in which the LLC shall do business in order to qualify or otherwise enable the LLC to do business in such jurisdictions. Such attorney is hereby granted any authority on behalf of the Associate Members to execute (i) any amendment to this Agreement on behalf of the Associate Members if such amendment has been adopted pursuant to Section 10.03 or otherwise effectuated in accordance with this Agreement, (ii) any amendment to this Agreement reflecting a transfer of an interest or admission of a new Member in accordance with this Agreement and (iii) any amendment to this Agreement or instruments to effectuate the modification of the interests of the Members pursuant to Section 3.03. This power of attorney granted by each Associate Member shall expire as to such Associate Member immediately after the amendment of the LLC's records to reflect the complete withdrawal of such Associate Member as a Member of the LLC. It is expressly intended by each Associate Member that the power of attorney granted hereby is coupled with an interest, shall be irrevocable, and shall survive and not be affected by the subsequent disability or incapacity of such Associate Member.

[Signature pages follow.]

IN WITNESS WHEREOF, the Members have signed and sworn to this Agreement under penalties of perjury as of the date first above written.

MANAGING MEMBER:

CMG @VENTURES CAPITAL CORP.

By: /s/ Peter L. Gray
Name: Peter L. Gray
Title: Secretary

ASSOCIATE MEMBERS:

/s/ Peter H. Mills
Peter H. Mills

/s/ Marc D. Poirier
Marc D. Poirier

/s/ Matthew R. Horton
Matthew R. Horton

CMGI, Inc. (for the limited purpose of CMGI's obligations under Section 6.05(d))

By: /s/ Peter L. Gray
Name: Peter L. Gray
Title: Executive Vice President and General Counsel

@VENTURES V, LLC

SCHEDULE A

NAMES AND ADDRESSES OF THE MEMBERS, PERCENTAGE INTERESTS
AND VESTING COMMENCEMENT DATES

Managing Members	**Percentage Interest**	**Vesting Commencement Date**
CMG @Ventures Capital Corp. 1100 Winter Street, Suite 4600 Waltham, MA 02451	92.834%*	NA

Associate Members	**Percentage Interest**	**Vesting Commencement Date**
Peter H. Mills 2 Sierra Lane Portola Valley, CA 94028	3.333%*	01/01/04
Marc D. Poirier 160 Christian Way North Andover, MA 01845	3.333%*	01/01/04
Matthew R. Horton 265 Olive Ave. Palo Alto, CA 94306	0.500%*	12/1/05

* Provided, however, that the Percentage Interests of the Members with respect to the LLC’s investment in Open Channel Solutions, Inc. (“OCS”) shall be: CMGI 95.223%, Peter H. Mills 2.222%, Marc D. Poirier 2.222%, and Matthew R. Horton 0.333% for all purposes, including computing the Appropriate Amount and determining the distributions under Article IV.

EXHIBIT 31.1

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph C. Lawler, President and Chief Executive Officer of CMGI, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of CMGI, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2006

By: /s/ JOSEPH C. LAWLER

Joseph C. Lawler
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas Oberdorf, Chief Financial Officer and Treasurer of CMGI, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of CMGI, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2006

By: /s/ THOMAS OBERDORF
Thomas Oberdorf
Chief Financial Officer and Treasurer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of CMGI, Inc. (the “Company”) for the fiscal quarter ended January 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Joseph C. Lawler, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2006

By: /s/ JOSEPH C. LAWLER

Joseph C. Lawler
President and Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of CMGI, Inc. (the "Company") for the fiscal quarter ended January 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Thomas Oberdorf, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2006	By: /s/ THOMAS OBERDORF **Thomas Oberdorf** **Chief Financial Officer and Treasurer**