SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)
(x) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Fiscal Year Ended July 31, 1998

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

For the Transition Period From ________________ to ________________

Commission File 0-22846

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

Delaware	04-2921333
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Brickstone Square Andover, Massachusetts	01810
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

(Title of Class)	(Name of each exchange on which registered)
Common Stock, $0.01 par value	NASDAQ

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

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of voting Common Stock held by non-affiliates of the Registrant was $774,291,912 as of October 20, 1998. The Registrant does not have any outstanding non-voting equity.

On October 20, 1998, the Registrant had outstanding 46,114,892 shares of voting Common Stock, $.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement (the "Definitive Proxy Statement") to be filed with the Securities and Exchange Commission relative to the Company's 1998 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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This Annual Report on Form 10-K/A ("Report") amends and supersedes, to the extent set forth herein, the Registrant's Annual Report on Form 10-K for the fiscal year ended July 31, 1998 previously filed on October 29, 1998. As more particularly set forth below, the following financial and related information has been updated in connection with the filing of the restated financial statements included herein. Additionally, all share amounts of the Registrant's common stock contained in this Report have been retroactively adjusted to reflect a 2-for-1 stock split effected by the Registrant in the form of a stock dividend on January 11, 1999.

This Report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including without limitation, those discussed in "Factors that May Affect Future Results" section of Item 7 of this Report. Such forward-looking statements speak only as of the date on which they are made, and the Company cautions readers not to place undue reliance on such statements.

PART I

ITEM 1. - BUSINESS

General

CMGI, Inc. ("CMGI" or "the Company", formerly CMG Information Services, Inc.), a Delaware corporation, develops and operates Internet and direct marketing companies as well as venture funds focused on the Internet.

CMGI's Internet strategy includes the internal development and operation of majority-owned subsidiaries within the "CMGI Internet Group" as well as the investment in other Internet companies, either directly by CMGI, or through venture capital fund arrangements. The Company's strategy also envisions and promotes opportunities for synergistic business relationships among the Internet companies within its portfolio. At July 31, 1998, the CMGI Internet Group included majority-owned subsidiaries ADSmart Corporation (ADSmart), Engage Technologies, Inc. (Engage), Accipiter, Inc. (Accipiter), InfoMation Publishing Corporation (InfoMation), NaviSite Internet Services Corporation (NaviSite), Planet Direct Corporation (Planet Direct) and Password Internet Publishing Corporation (The Password). At July 31, 1998, CMGI also directly held minority investments in Magnitude Network, LLC (Magnitude Network) and Open Market, Inc. ADSmart develops and markets online ad sales and ad serving solutions; Engage develops and markets precision online marketing solutions; Accipiter specializes in Internet advertising management solutions; InfoMation develops and markets a Web-based solution for corporate knowledge management; The Password provides tools for the creation of a personalized "mini-Web;" and Planet Direct is a personalized Web service with over 400 Internet Service Provider (ISP) partners which tailors members' online experience to their interests and local community. Subsequent to July 31, 1998, the Company announced that InfoMation would become a division of Planet Direct and that NaviSite would be split into two separate companies - NaviSite will continue to provide high-end server management and applications solutions, providing high-availability Internet outsourcing, and NaviNet will provide low cost, high-availability dial-up network connection through competitive local exchange carriers (CLECs).

The Company's first Internet venture fund, its limited liability company subsidiary, CMG@Ventures I, LLC (CMG@Ventures I, formerly CMG@Ventures L.P.), was formed in February, 1996. CMGI completed its $35 million commitment to this fund during fiscal year 1997. The Company owns 100% of the capital and is entitled to 77.5% of the net capital gains of CMG@Ventures I. At July 31, 1998, CMG@Ventures I held equity investments in five companies, including Blaxxun Interactive, Inc. (Blaxxun, 81% legal ownership), GeoCities (32%), Lycos, Inc. (Lycos, 25%), Parable LLC (Parable, 31%), and Vicinity Corporation (Vicinity, 50%). Lycos and GeoCities shares are publicly traded on the NASDAQ system under the symbols LCOS and GCTY, respectively. The Company's second Internet venture fund, its limited liability company subsidiary, CMG@Ventures II, LLC (CMG@Ventures II), was formed during fiscal year 1997. The Company owns 100% of the capital and is entitled to 80% of the net capital gains of CMG@Ventures II. At July 31, 1998, CMG@Ventures II held equity investments in fourteen companies, including Chemdex Corporation (Chemdex 16%), Critical Path (7%), GeoCities (2%), KOZ, Inc. (KOZ, 14%), Mother Nature's General Store, Inc. (Mother Nature, 24%), Parable (11%), Reel.com, Inc. (Reel.com, 36%), Sage Enterprises, Inc. (Sage Enterprises, 29%), Silknet Software, Inc. (Silknet, 24%), Softway Systems, Inc. (Softway Systems, 9%), Speech Machines plc (Speech Machines, 29%), TicketsLive Corporation (TicketsLive, 14%), Universal Learning Technology (12%), and Visto Corporation (Visto, 6%). CMG@Ventures II's holdings in Sage Enterprises and Reel.com were converted into shares of Amazon.com, Inc. and Hollywood Entertainment Corporation, respectively, pursuant to mergers of the respective companies subsequent to July 31, 1998.

CMGI recently formed its third venture capital fund, CMG@Ventures III, LLC (CMG@Ventures III), and has begun raising capital from outside investors for a corresponding outside investment fund, @Ventures III, L.P. The Company owns 100% of the capital and is entitled to 80% of the net capital gains of CMG@Ventures III, and will be entitled to 2% of the net capital gains of @Ventures III, L.P. These two funds will co-invest in all investment candidates based on a predetermined ratio. CMGI has committed to funding CMG@Ventures III up to the greater of $30 million or 19.9% of amounts committed to @Ventures III, L.P.

The Company provides fulfillment services through three wholly-owned subsidiaries, SalesLink Corporation (SalesLink, acquired in 1989), InSolutions Incorporated, (InSolutions, acquired June, 1998), and On-Demand Solutions, Inc. (acquired July, 1998). SalesLink's services are also provided through its subsidiary, Pacific Direct Marketing Corporation (Pacific Link), which was acquired in October, 1996. The Company's fulfillment services offerings include product and literature fulfillment, turnkey outsourcing, telemarketing, and sales/lead inquiry management. Traditional mailing list services are provided by the Company's subsidiary, CMG Direct Corporation (CMG Direct). Recently, CMG Direct has embarked on a strategy to also provide solutions for integrating traditional direct marketing with Internet marketing. On March 11, 1999, the Company announced the signing of a binding agreement to sell CMG Direct to Marketing Services Group, Inc. (MSGI).

The Company has adopted a strategy of seeking opportunities to realize significant gains through the selective sale of investments or having separate subsidiaries or affiliates sell minority interests to outside investors. The Company believes that this strategy provides the ability to significantly increase shareholder value as well as provide capital to support the growth in the Company's subsidiaries and investments. Additionally, in fiscal year 1999, the Company will continue to develop and refine the products and services of its businesses, with the goal of significantly increasing revenue as new products are commercially introduced, and will continue to pursue a strong pace of investing in new Internet opportunities.

Restatement Related to In-Process Research and Development Expense

The accompanying consolidated financial statements have been restated to reflect the impact of adjustments made by Lycos, Inc. (Lycos) to its previously reported in-process research and development charges associated with Lycos' acquisitions of Tripod, Inc., WiseWire Corporation and GuestWorld, Inc. during CMGI's third and fourth quarters of fiscal 1998. The accompanying consolidated financial statements have also been restated to reflect a change in the original accounting for the purchase price allocation related to CMGI's acquisition of Accipiter, Inc. (Accipiter) in the third fiscal quarter of 1998.

Lycos reduced the amount of its charges for in-process research and development in connection with the above noted acquisitions and, correspondingly, increased the amounts allocated to intangible assets by $74.0 million. During the periods effected, CMGI's ownership in Lycos ranged from approximately 46% to approximately 22%, and CMGI accounted for its investment in Lycos under the equity method of accounting, whereby CMGI's portion of the net operating performance of Lycos was reflected in equity in losses of affiliates. Additionally, during such periods CMGI recorded gains on sales of portions of its Lycos stock holdings, and recorded gains on issuances of stock by Lycos. As a result of the Lycos restatements, CMGI has accordingly restated previously reported equity in losses of Lycos, gains on sales of Lycos stock and gains on issuance of stock by Lycos for CMGI's fiscal quarters ended April 30, 1998 and July 31, 1998. Lycos' reduction of previously recorded in-process research and development charges resulted in higher gains on Lycos stock issuances recorded by the Company, thereby increasing CMGI's book basis in its Lycos investment and resulting in lower gains on sales of Lycos stock and reduced gains on Lycos stock issuances in subsequent quarters. Related higher amortization charges recorded by Lycos in subsequent quarters resulted in higher equity in loss of affiliates amounts recorded by CMGI.

Upon consummation of the Accipiter acquisition in the third fiscal quarter of 1998, CMGI, in its consolidated financial statements, reported an expense of approximately $18.0 million representing acquired in-process research and development that had not yet reached technological feasibility and had no alternative future use. On May 7, 1999, CMGI announced a voluntary restatement of the in-process research and development charge related to the Accipiter acquisition to address valuation methodologies suggested by the SEC in a letter dated September 9, 1998 to the American Institute of Certified Public Accountants SEC Regulations Committee and as clarified through subsequent practice. Upon consideration of this guidance and additional practice that has developed since the SEC letter was first made public, the $18.0 million charge as previously reported has been reduced to $9.2 million and amounts allocated to goodwill and other intangible assets have been increased from $11.5 million to $20.3 million.

The effect of this restatement on previously reported consolidated financial statements as of and for the year ended July 31, 1998 is as follows (in thousands, except per share amounts):

Statements of Operations:

	Year Ended July 31, 1998	
	As Reported	Restated
Cost of revenues	$ 72,843	$ 72,950
In-process research and development	19,135	10,325
General and administrative expenses	20,287	20,795
Operating loss	(78,454)	(70,259)
Gain on sale of Lycos, Inc. common stock	97,158	92,388
Gain on stock issuance by Lycos, Inc.	28,301	46,285
Equity in losses of affiliates	(11,821)	(12,871)
Income from continuing operations before income taxes	38,460	58,819
Income tax expense	26,547	31,555
Income from continuing operations	11,913	27,264
Net income	16,553	31,904
Basic income from continuing operations per share	0.29	0.65
Basic net income per share	0.40	0.76
Diluted income from continuing operations per share	0.27	0.61
Diluted net income per share	0.37	0.71

Balance Sheets:

	July 31, 1998	
	As Reported	Restated
Investments in affiliates	$ 66,187	$ 82,616
Cost in excess of net assets of subsidiaries acquired, net of accumulated amortization	49,301	55,770
Other assets	2,238	3,964
Total assets	235,194	259,818
Non-current deferred income tax liabilities	10,528	15,536
Minority interest	11,045	15,310
Retained earnings	28,173	43,524
Total stockholders' equity	117,785	133,136

NOTE: All "As Reported" and "As Restated" amounts in the above table have been retroactively adjusted to reflect the presentation of the Company's lists and database services segment as discontinued operations and to reflect a two-for-one stock split effected in the form of a stock dividend by the Company on January 11, 1999.

Interactive Marketing Industry

Direct marketing is undergoing rapid, fundamental change, as customers' needs evolve and technology advances. Marketing channels and media outlets are expanding in number and diversifying in scope, and powerful database technologies are able to target both broad markets and individual customers with ever-greater precision. The emergence of the Internet into homes and offices has provided direct marketers with a powerful new distribution mechanism - interactive media. Interactive marketing is a subset of direct marketing. It differentiates itself from traditional direct marketing channels in that the consumer has flexibility and control over what is being presented, when they view the products or services and which types of products or services they are viewing.

In contrast to conventional media, the Internet offers capabilities to target advertising to specific audiences, to measure the popularity of content, to reach worldwide audiences cost-effectively and to create innovative and interactive advertisements. By collecting customer feedback and demographic information, advertisers can direct highly customized marketing campaigns at defined targets. In addition, the Internet enables advertisers to transact with prospective customers much more rapidly than with conventional media. The Company believes that advertisers will continue to seek to advertise on Web sites that offer a high volume of traffic and feature flexible advertisement programs capable of reaching targeted audiences. Likewise, the Company believes that as advertisers increasingly embrace the Internet as an advertising vehicle, their participation will subsidize in part the creation and expansion of the information and resources available on the Web which in turn is expected to stimulate further traffic flow.

Interactive marketing provides direct marketers with the ability to create electronic databases of customer information. Using this information will enable direct marketers to develop more effective advertising, make better decisions about distribution methods and media selection and target customers more effectively. The dialogue created between the marketer and the consumer through interactive marketing creates advertising accountability, enabling marketers to track advertisement interaction, anticipate consumer needs and make changes immediately. It is expected that across scores of industries, the relationship between marketers and consumers will soon be direct, and one-to-one. When that day arrives, marketers will benefit from this newfound ability to establish deep, intimate relationships with their customers.

Products and Services

Products and services of the Company's majority-owned subsidiaries as of July 31, 1998 include the following:

Investment and Development
- --------------------------

NaviSite Internet Services Corporation

NaviSite provides the high-performance, Internet outsourcing solutions of Web hosting and server management, ensuring that a customer's Web presence, database and applications are continuously operational.

In order to save money and receive better performance, security, and availability, companies are outsourcing their Internet server management. NaviSite's carrier-class data centers, private transit Internet connectivity strategy, advanced monitoring tools, backup power and complete data and network redundancy ensures that customers or end-users are receiving quality performance and security. NaviSite monitors and supports the network and its customers' servers around the clock, and provides detailed reports to its customers regarding performance, availability, and activity related to their Web sites.

NaviSite's SiteHarbor Web hosting and application solutions provide customers with the benefits of NaviSite's infrastructure as well as service, expertise, and customization to fit a customer's unique needs. The SiteHarbor product line consists of SiteHarbor CL, SiteHarbor MC, SiteHarbor EM and SiteHarbor Application Solutions. SiteHarbor CL, NaviSite's co-location Web hosting solution, is a customer-managed option for companies who wish to maintain full responsibility for the monitoring and maintenance of their servers while utilizing the benefits of NaviSite's infrastructure. SiteHarbor MC is a managed co-location Web hosting solution. This option allows customers to maintain a role in their server maintenance, but also receive management support from NaviSite. SiteHarbor EM provides enhanced server management capabilities and offers customers the NaviSite support and Web server management tailored to the customer's unique needs. SiteHarbor Application Solutions provide hosting and management solutions for e-commerce, content management and ad-serving applications.

In addition to the SiteHarbor product line, NaviSite's NaviNet division focuses on building high quality, cost-effective wholesale dial-up networking services based on the NaviNet technology platform. NaviNet's product, GeoDial SP, enables ISPs to rapidly expand into new markets and offer the latest dial-up technologies to their customers, at a low per-user monthly cost for unlimited Internet access.

GeoDial SP aggregates multiple calling areas, deploys advanced switch bypass technology to eliminate busy signals due to port congestion, and relies on private transit Internet connectivity to bypass congested public peering points. In addition to building a unique technology solution, NaviNet is partnering with CLECs, a strategy that enables the offering of data services with minimal investment. By offering quality, low cost wholesale dial-up networking services for ISPs, GeoDial SP allows ISPs to focus on end user acquisition, technical support, and value-added services. ISPs can more easily grow and retain their subscriber base in an increasingly competitive Internet service marketplace.

In September, 1998 the Company announced that NaviSite's NaviNet division would be spun-off as a separate wholly-owned subsidiary of CMGI.

NaviSite has data centers in Andover, MA and Scotts Valley, CA and currently plans to expand its Andover data center in the near future. NaviSite currently generates revenues primarily from monthly per-server management fees, installation fees and bandwidth usage charges. In addition to other customers, NaviSite manages the Internet servers for many of CMGI's Internet and interactive media affiliates, including Planet Direct, Engage, Mother Nature and Parable.

Engage Technologies, Inc. and Accipiter, Inc.

In fiscal 1998, CMGI purchased Accipiter, Inc., a developer of online management solutions. In August, 1998, Engage Technologies, Inc. and Accipiter, Inc. (together, Engage/Accipiter) were combined, providing customers with integrated advertising management and profiling solutions. Also, in fiscal 1998, Engage transferred its ListLab division to CMG Direct and additionally, sold certain rights to its Engage.Fusion(TM) and Engage.Discover(TM) data warehouse products to Red Brick Systems, Inc. (Red Brick). These products had been developed to accelerate the design and creation of very large data warehouses and perform high-end data query and analysis. Certain rights were retained by the company to sell these products to interactive media markets as components of its Engage/Accipiter product line. With the sale of the certain data warehouse product rights and transfer of the ListLab division, Engage/Accipiter narrowed its focus to the Internet software solutions market.

Engage/Accipiter develops and markets Web advertising and marketing solutions, enabling customers to anonymously profile and reach online audiences. The company's Web visitor Precision Profiling technology helps customers increase the relevance of their Web site's advertising, editorial and commercial content for both first-time and repeat visitors. Engage/Accipiter delivers both Web-wide and enterprise-specific profiling of visitor interests and preferences without tracking their identity. Engage/Accipiter sets a benchmark for privacy on the Web, allowing Web sites to deliver messages to the targeted audiences, while protecting individual identity. Engage/Accipiter products include the recently developed Accipiter AdManager, Accipiter AdBureau, DecisionSupportServer, ProfileServer and Engage Knowledge Profiles.

Accipiter AdManager is a software solution which operates the delivery of online advertising campaigns. Accipiter AdBureau offers the database marketing and advertising features of AdManager software as a comprehensive turnkey service, providing an alternative to organizations who wish to outsource ad management, yet maintain control over advertising sales. Accipiter AdManager and Accipiter AdBureau manage the advertising processes for over 90 leading Web sites and online ad networks.

The DecisionSupportServer software helps online marketers better understand their Web audiences through detailed analysis and reports, enabling sites to conduct profile-based research on individual visitors and convert the multi-layered data into relevant marketing information. The ProfileServer software is a one-to-one Internet marketing solution, allowing online marketers to offer personalized advertising, custom promotions and relevant content to their customers and prospects. Engage/Accipiter's Precision Profiling technology allows the profiling of each Web visitor to best match the customer's marketing needs. The Engage Knowledge Profiles provide corporations with the ability to subscribe to in-depth anonymous profiles of over 30 million Web users to target advertising, custom promotions or personalized content.

Planet Direct Corporation

Planet Direct is a personal Web service that tailors users' online experience to their interests and local community. Planet Direct integrates brand name content, over 27,000 enhanced links to popular content, and other service sites across 15 major interest areas. Planet Direct provides mainstream consumers with information such as news, sports, weather, stock quotes and other financial information, as well as phone directories, driving directions and chat rooms, in a logical and intuitive manner for quick access to personal interests in a community atmosphere.

Planet Direct's personal Web service is provided to, and co-branded by, more than 420 ISPs and affinity partners nationwide. These organizations use Planet Direct's service to enhance their own Internet offerings, giving the local ISPs, in particular, the resources to compete with the commercial online services. Planet Direct's service is available free to the ISPs' and affinity partners' members, and is also directly accessible to all Web users without disks or downloads. Planet Direct generates revenues from advertising and commerce on its service, which it shares with its ISP and affinity partners.

Planet Direct offers advertisers a large demographic database of Internet customers and usage patterns. Combining technology with member supplied demographics, Planet Direct is a medium advertisers can use to target consumers with the information on their topics of interest, at the moment they are exploring that interest.

In September, 1998, Planet Direct announced the integration of InfoMation's Echo technology into its operations to serve Planet Direct's customers and business-to-business partners.

InfoMation Publishing Corporation

InfoMation seeks to solve the problem of information overload for companies, their employees and their partners by providing knowledge management applications. Further developing the core technology acquired under license from BBN Corporation, InfoMation's Echo software is a Web-based knowledge management application for filtering, organizing, and presenting information from a variety of sources to client individuals. Echo uses standard Web browsers to retrieve and integrate highly focused information to create customized intranet, Internet and extranet solutions.

In addition to product solutions, its services also include customer support and training as well as business partnerships. InfoMation has announced business partnerships with Financial Times Information, Hewlett-Packard, Lotus Development Corporation, News Alert, Quote.com, and Telecommunications Reports International, Inc. (TRI).

ADSmart Corporation

ADSmart designs, develops, markets and supports complete sales and serving solutions to manage the Internet advertising buying and selling processes. ADSmart participates in the growth of Internet advertising by providing comprehensive and automated expert sales representation, sales forecasting, campaign management and revenue reporting to advertisers and Web publishers.

For advertisers, the ADSmart Network, a leading Internet advertising network, provides direct access to key affinity audiences on quality sites. The ADSmart Network allows advertisers to associate their brands with quality content and build unique sponsorship and co-branding relationships. As of the end of fiscal 1998, the ADSmart Network represented 32 premium sites organized around key affinity areas (College, Generation X, Sports, Travel, Business/Finance and Technology). Selected premium properties represented by the ADSmart Network included Golf.com, The Mountain Zone, GORP and IUMA.

For Web publishers, ADSmart provides outsourced solutions for advertising sales representation and ad management services. ADSmart Management Services provides a turnkey solution for Web publishers to manage the infrastructure and logistics of running an online advertising business.

Password Internet Publishing Corporation

The Password is a Web service that packages content, commerce, community chat and bulletin boards around specific areas of interest. Organized into a library of over 630 subjects, The Password allows users to read, personalize and to publish back into the library. For readers, the Password library organizes the Web around personal interests. For personalizers, the technology allows consumers to organize their favorite Web content into a single space. For publishers, The Password is a place where consumers can share their view on the Web.

The Password's service includes the features of The Password Library, My Own Password and Password Publishing. The Password Library features magazines organizing the Web content on a given subject. Editors select Web sites and then define instructions for the filtering engine to ensure that pertinent, up-to-date information is retrieved. In addition, a special interest bulletin board allows users to access information on their special interest community. My Own Password allows consumers to collect information in a personalized magazine. Users can specifically build and define a single, personal gateway on the most up-to-date information on their interests, reducing the need for extensive Web surfing. Password Publishing allows users the tools to post their magazine on a personal Web site, distribute the URL via e-mail or include the magazine in The Password Library.

The Password uses the core Echo technology developed by CMGI subsidiary, InfoMation, and is complimentary to a traditional advertising strategy - namely the desire of advertisers to speak directly to special interest groups which they already know to be appropriate to their products. The Password offers a wide range of advertising, sponsorship and co-marketing opportunities for advertisers to enrich their relationship with consumers and affinity groups.

The company launched its Web site in February 1998. The Password service is free to its users, with over 150,000 visitors and over 500,000 page views a month as of October, 1998. The company seeks to generate revenues from advertising, sponsorships and commerce. The company also syndicates its content to other highly-visited Web sites.

Vicinity Corporation

Vicinity is a provider of integrated, e-retail solutions that help corporations tap into the power of the Internet, to bring Web shoppers to real-world store locations. Vicinity offers a practical, private-labeled solution that allows customers to find store locations and products quickly and conveniently using the Web. Vicinity is located in Palo Alto and San Francisco, California as well as Lebanon, New Hampshire.

For businesses, Vicinity develops and markets its corporate locator technology, content and services in four major product lines: Business Finder 4.0, Business Directory, Maps, and Driving Directions. Vicinity's content and services are delivered to Web users from Vicinity's servers, but appear to originate on the customers' Web sites under their own brand, look and feel. For consumer Web audiences, Vicinity offers a free consumer Web site called MapBlast!

Business Finder 4.0 provides businesses, particularly those with retail stores, dealerships or franchises with an effective Web-based locator solution to integrate into their sites to provide proximity and multi-attribute proximity search capabilities. With the exact address of each of the customer's locations, Business Finder 4.0 enhances the corporate Web site by allowing consumers to search for the retail outlet, branch or service provider according to their specifications (i.e., proximity, keyword, attribute or other). Upon finding the exact location they are looking for, the consumer can then generate maps and/or driving directions to get them there.

Business Directory provides up to 16 million U.S. business listings. Business Directory can be implemented by companies in whole or in part as a national Yellow Pages application or as a subject or geographically-specific directory of businesses, events or points of interest.

Vicinity Maps are interactive, high-quality, road-level detailed electronic maps that customers can incorporate into their Web sites to provide users with vivid, interactive maps of specific business facilities, landmarks and other locations of interest. Customer locations can also be plotted on maps with a logo or other symbol. The U.S. street level maps cover more than 130 major metropolitan areas. Street-level maps are also available for Canada. Driving Directions provide point-to-point, turn-by-turn directions to destinations in metropolitan areas throughout the U.S. and Canada.

MapBlast! enables users to generate interactive maps of residence or business locations, embed them in home pages and fax or e-mail them to friends and associates.

Blaxxun Interactive, Inc.

Blaxxun provides software infrastructure for 3-D online communities. Employing client/server architectures and distributed database technology, Blaxxun creates a 3-D environment infrastructure that allows individuals to meet, work, and play on the Web. Blaxxun is located in San Francisco, California and Munich, Germany.

Blaxxun uses open standards as a key element necessary for the rapid adoption of cyberspace technology. Virtual Reality Modeling Language, or VRML, a counterpart to HTML, enables the construction of virtual worlds. Like HTML, VRML is an open standard architecture that specifies formats and protocols for all aspects of virtual worlds including 3-D geometry, sound, video, interactive behavior, and avatars. Blaxxun's products, which include the Blaxxun Community Server, Community Client software and Developer packages, are VRML-compliant.

The Blaxxun Community Server, a high-performance, multi-user server allows companies to incorporate interaction into their Web sites, creating user communities for business, education and entertainment. Key features include member and place management, avatar and bot support, shared objects and various types of chat.

In addition, the Blaxxun Community Clients and several Community Developer software packages, allow integration of community technology with existing servers and databases. As a Community Client, users are able to access servers and interact with other users in the virtual 3-D environment. Community Developer software allows users to create their own customized 3-D virtual worlds.

Resellers build customer applications using Blaxxun's technology platform which range from online trade shows to shopping malls, customer support to entertainment, product promotion to corporate meetings.

Fulfillment Services

SalesLink Corporation

SalesLink, along with its subsidiary, Pacific Link, provides product and literature fulfillment, inventory and data warehouse management, turnkey outsourcing, sales lead/inquiry management, closed-loop telemarketing, customized software solutions and value added services for the client's marketing or manufacturing programs, primarily to high technology, biotechnology, financial services, and health-care markets. SalesLink's largest customer is Cisco Systems, Inc. (Cisco), which accounted for 64% and 47% of SalesLink's fiscal year 1998 and 1997 revenues, respectively.

Product and Literature Fulfillment. On behalf of its fulfillment clients, SalesLink receives orders for promotional literature and products and "fulfills" them by assembling and shipping the items requested. Product and literature fulfillment services begin with the receipt of orders by SalesLink's inbound telemarketing staff via phone or electronic transmission directly into SalesLink's computers. Orders are then generated and presented to the production floor where fulfillment packages are assembled and shipped to either the end-user or to a broker or distributor.

Inventory and Data Warehouse Management. As adjunct services to fulfillment, SalesLink provides product and literature inventory control and warehousing, offering its customer support and management reports detailing orders, shipments, billings, back orders and returns.

Turnkey Outsourcing. SalesLink's major products include supply-based management programs. Also known as "turnkey," these programs are a form of outsourced manufacturing, in which clients retain SalesLink to purchase components and manufacture customer bills of materials into products that are either shipped to customers, channels of distribution, or to the customer's factory for final manufacturing. These outsourced manufacturing services primarily assist companies in the areas of accessory kits, software, literature and promotional products.

Sales Lead/Inquiry Management. SalesLink provides prospects with information about a product or service that one of SalesLink's clients is marketing. In response, SalesLink receives sales inquiries and maintains central customer databases of the names and addresses of each person inquiring about the product. SalesLink's clients use the databases for market research, sales follow-up and management reports. Depending on the criteria supplied by the client, SalesLink eliminates non-productive leads, distributes sales inquiries to the client's sales force and ships fulfillment packages containing the client's literature or products. After the disposition of the inquiry, SalesLink is able to produce reports allowing the client to evaluate the effectiveness of the marketing program which generated the inquiry and evaluate the performance of the client's sales force in handling the inquiry.
Telemarketing. SalesLink's telemarketing group offers comprehensive inbound business-to-business telemarketing services to support its sales inquiry management and order processing activities. Telemarketing services include lead qualification, order processing fulfillment and marketing analysis. SalesLink also offers outbound business telemarketing services that are tailored to an individual client's needs. Outbound telemarketing programs can be used to update a client's existing database, survey possible markets or pre-qualify sales leads.

Customized Software Solutions. SalesLink's proprietary information management system, SL FlagShip, allows customers to better understand their sales and product ordering information. Stored at SalesLink and/or available on customers' file servers and PCs, the information is used by customers to evaluate inventory, market campaigns, and distribution channel success. SL FlagShip can solve geomarketing, budget, sales, and media problems through campaign analysis, market demographics, sales lead and territory management, source code analysis, market research and surveys.

InSolutions, Inc.

InSolutions was acquired by CMGI in fiscal 1998 as an addition to its fulfillment services product line. InSolutions is an integrated software manufacturer providing comprehensive turnkey solutions for clients in the high technology industry. InSolutions' services include:

- CD-ROM, DVD and diskette replication
- Product packaging and assembly
- Fulfillment
- Print management
- Electronic order processing and software distribution
- Inventory management
- Online operations including remote access to inventory, work-in-progress, order status and package tracking.

On-Demand Solutions, Inc.

On-Demand Solutions was also acquired by CMGI in fiscal 1998 as an addition to its fulfillment services product line. On-Demand Solutions provides online operations logistics solutions, offering outsourced program management that support all aspects of the "Web to Warehouse to Customer" process, and markets support programs for the high-tech, scholastic and sports industries. On-Demand Solutions online operations provide service and support in the following e-business value chain areas:

- Remote access to bills of material, "see through" inventory, work-in-progress, order status and online package tracking.
- Online inventory supply and e-mail order confirmation
- Complete turnkey product and software manufacturing and/or assembly services
- Real-time order processing and product fulfillment
- Secure online shopping and payment functionality
- Web site design, hosting and maintenance
- Marketing capabilities including campaign support, online survey/registration data capture for customer profiling, marketing collateral manufacturing & fulfillment to prospective clients and customer contact strategies

List and Database Services

NOTE: On March 11, 1999, the Company announced the signing of a binding agreement to sell its wholly-owned subsidiary, CMG Direct Corporation (CMG Direct) to Marketing Services Group, Inc. (MSGI). At the time, CMG Direct comprised the Company's entire lists and database services segment. As a result, the operations of the Company's lists and database services segment have been reflected as income (loss) from discontinued operations in the accompanying consolidated financial statements.

CMG Direct

CMG Direct offers solutions for integrating traditional direct marketing and Internet marketing. With extensive experience in direct marketing, sophisticated database management, analysis and targeted mailing lists, CMG Direct now provides clients with a range of direct and Internet marketing services.

CMG Direct's principle products are mailing lists derived from its databases and sold primarily to publishers. CMG Direct has three primary mailing list databases, the College List database, the InfoBuyers List database and the K-12 List database. The databases are highly segmented, permitting CMG Direct to use its application software to extract specifically defined lists of potential customers who are most likely to purchase products advertised by CMG Direct's clients. CMG Direct is continually working to expand the size and comprehensiveness of its database offerings based on the needs of its clients and the availability of new lists.

The College List Database. The College List database includes approximately 812,000 names and addresses of professors and college administrators, university deans, faculty and librarians at every college, university and junior college in North America. CMG Direct classifies each course taught, and the faculty teaching it, into over 4,000 subject codes, which permits CMG Direct to identify all faculty teaching any particular course or subject and create lists identifying the faculty so they can be targeted. The College List is compiled by CMG Direct from course schedules and other source documents published by colleges and universities and is updated continually for new semester information.

The InfoBuyers List Database. The InfoBuyers List includes over 14 million names and addresses of direct mail purchasers of books, journals and magazines, as well as other pertinent information. The InfoBuyers List is assembled from over 120 proprietary lists of over 100 publishers and other organizations. Combining these separate customer lists into a single database permits CMG Direct to offer its clients a larger group of potential customers across a broader range of target categories than could be obtained from any single list. The database is also valuable because it is limited primarily to those consumers who have actually purchased through mail order and are therefore thought to be more likely to do so in the future. The InfoBuyers List is segmented under the same 4,000 subject codes as the College List, plus additional consumer oriented segmentation.

The Kindergarten through Grade Twelve List Database (K-12 List). The K-12 List database consists of 5.8 million names including teachers, administrators and book buying families with K-12 children in the U.S. This list also includes the names of approximately 112,780 public and private schools and approximately 15,300 public school district offices. The K-12 List is segmented into over 30 public school district demographic categories and is used by publishers of textbooks, supplemental educational materials and magazines and school supply distributors, among others. The K-12 List is compiled from federal, state and local government files and the names of school administrators and staff are developed through state directories, mailings, telephone surveys and the Internet.

List Management and Brokerage. CMG Direct provides list management and list brokerage services to businesses that use direct marketing to promote their products. As a list manager, CMG Direct acts as the exclusive marketing agent for the postal mailing lists or e-mail lists of its list management clients. In conjunction with performing list management services, CMG Direct also provides list brokerage. This service allows CMG Direct to be a single source for virtually any brokered list requested by a customer and provides opportunity to generate additional sales of CMG Direct's other products.

Database Management and List Processing Services. CMG Direct's database management and list processing services provide database analysis, design, software development, testing, debugging, and maintenance for clients that want to build a customer database. These services include processing customer data, segmenting the processed information to provide the level of detail and selectivity desired, storing the information, and updating it to make it readily accessible for the client's promotional, analytical and list rental activities. Lists may be combined and enhanced with additional demographic information and other lists to form databases which can be used as the basis of additional client promotions or marketed to other list users. In combining lists, CMG Direct will offer merge/purge services to eliminate duplicate names. CMG Direct also offers private database management as a service for large volume mailers who mail to the same target lists regularly. A private database is a targeted collection of mailing lists that is used repeatedly by a restricted group of mailers.

CMGExpress.net(TM). CMGExpress.net(TM) is the Internet expansion initiative of CMG Direct Corporation. CMGExpress.net leverages CMG Direct's core competencies through its ExpressList(TM) and PermissionPlus(TM) services. ExpressList is an opt-in e-mail list service which allows marketers to purchase e-mail lists online by segments. CMG Direct's list sources are leading Web sites including InfoBeat, Yoyodyne and Roxy.com. CMG Direct's newest service, PermissionPlus(TM), is a Web site solution that enables companies to survey their customers online. It then gives the company the permission and also ability to e-mail market to their customers. This service is intended to allow clients to convert passive Web site visitors into buying customers.

Business Strategy

Each CMGI business unit's mission is to become the predominant services provider within its respective market niche. The critical success factors are: understanding, developing and applying information technology to the Internet, interactive media markets, and data access and software tools; narrowing market focus while consummating strategic alliances to complement product and service offerings; investing in strategic Internet or interactive media investments or acquisitions and, most importantly, a continued understanding of customers' needs.

With respect to the businesses of CMGI, the Company will seek to expand its participation in the direct marketing products and services, Internet, interactive media industries, and increase market share. Key elements of this strategy include:

Continue to enhance and expand the Company's products and services. The Company has invested significant resources in new subsidiaries or investments which seek to capitalize on opportunities surrounding the growth of the Internet and the interactive marketing industry. The Company intends to continue to pursue the growth and development of its technologies and services and continue to introduce its products commercially. Additionally, the Company intends to continue to evaluate new opportunities to further its investment in its direct marketing strategy and also to seek out opportunities to realize significant shareholder value through the sale of selected investments or technologies or having separate subsidiaries sell a minority interest to outsiders.

Pursue innovative advertising solutions. The Company is actively seeking to develop innovative ways for advertisers to reach their target audiences through the Internet effectively. The Company designs and offers customized packages which include the ability to change advertisements quickly and frequently, to conduct advertising test campaigns with rapid result delivery and to track daily usage statistics. The Company has developed and will continue developing software that provides the ability to target ads based on demographics and usage patterns.

Actively seek growth in the Company's fulfillment services segment. CMGI intends to continue to pursue the strategy of growing its fulfillment services segment through gaining market share in its existing markets, through acquisition, and through developing new IT based products and services for its client base. During fiscal 1998, CMGI built on its national fulfillment and turnkey businesses with the acquisitions of InSolutions, a turnkey provider with diskette and CD ROM manufacturing capabilities; and On-Demand Solutions, a provider of fulfillment, turnkey and Web-based catalogue and sports e-commerce services. These two new companies are being integrated with SalesLink's national turnkey and fulfillment operations, while creating an e-commerce fulfillment component that will seek to broaden the Company's market potential in the fast-growing Internet fulfillment industry.

Augment database offerings. The Company has expended significant resources to develop the most comprehensive and accurate databases of their kind available to publishers. The Company believes that its College List database is the dominant list of its kind and that the InfoBuyers List database is the only list of its kind, complemented by the K-12 List database, which is positioned to be cross sold to gain market share. The Company intends to maintain or improve its market position by expanding the number, size, nature, comprehensiveness and segmentation of its database offerings. The Company also intends to leverage its traditional direct marketing competencies through its CMGExpress.net(TM) Internet expansion initiative.

NOTE: On March 11, 1999, the Company announced the signing of a binding agreement to sell its wholly-owned subsidiary, CMG Direct to Marketing Services Group, Inc. (MSGI).

Cross-sell products and services. The Company is involved in many aspects of the direct marketing sales cycle. The Company has experienced success in fostering the cross-selling of products and services among the businesses and its portfolio, and will increasingly continue to pursue such cross-selling.

Sales and Marketing

The Company markets its products and services through a marketing staff using both telemarketing and direct sales. The Company maintains separate marketing staffs for each product and service area, enabling the marketing personnel to develop strong customer relationships and expertise in their respective areas. The Company has established direct sales forces experienced in the advertising business to address the new and evolving requirements of the Internet advertising market. The Company believes that an experienced sales staff is critical to initiating and maintaining relationships with advertisers and advertising agencies and therefore has hired a significant portion of its Internet advertising sales force from the advertising industry. The Company advertises its products and services through direct mail, space advertising, Internet banners, directory listings, trade shows and Company sponsored user groups. In addition, in certain instances, the Company, has complemented the activities of its direct sales force by retaining advertising sales agencies, to serve as a sales representatives on a commission basis.

The Company attends numerous trade shows in the Internet, high technology, direct marketing, mutual fund, book, and library markets, while further supplementing its sales efforts with space advertising and product and services listings in appropriate directories. In addition, the Company sponsors user group meetings for its mutual fund clients and major list participants in the InfoBuyers List database, where new products and services are highlighted.

The Company also conducts numerous mailings of list catalogs, flyers, newsletters and other product information throughout the year to primarily book, magazine, journal, newsletter and software publishers and resellers, seminar companies, professional associations, business supply catalogers, consumer electronic, high technology and financial service organizations.

NOTE: On March 11, 1999, the Company announced the signing of a binding agreement to sell its wholly-owned subsidiary, CMG Direct to Marketing Services Group, Inc. (MSGI).

Competition

CMGI's Internet investments compete in the electronic technology and Internet service arenas which are comprised of numerous small and large companies providing different new technologies, all with varying applications. The market for Internet products and services is highly competitive. In addition, the Company expects the market for Internet advertising, to the extent it further develops, to be intensely competitive. Although the Company believes that the diverse segments of the Internet market will provide opportunities for more than one supplier of products and services similar to those of the Company, it is possible that a single supplier may dominate one or more market segments. The Company believes the principal competitive factors in this market are name recognition, performance, ease of use, variety of value-added services, functionality and features and quality of support. CMG's products and services are being developed predominantly for direct marketing applications, on the Internet or through interactive media. Competitors would include a wide variety of companies and organizations, including Internet software, content, service and technology companies, telecommunication companies, cable companies and equipment/technology suppliers. In the future, the Company may encounter competition from providers of Web browser software and other Internet products and services that incorporate competing features into their offerings. Many of the Company's existing competitors, as well as a number of potential new competitors, have significantly greater financial, technical and marketing resources than the Company.

The Company may also be affected by competition from licensees of its products and technology. There can be no assurance that the Company's competitors will not develop Internet products and services that are superior to those of the Company or that achieve greater market acceptance than the Company's offerings. Moreover, a number of the Company's current advertising customers, licensees and partners have also established relationships with certain of the Company's competitors and future advertising customers, licensees and partners may establish similar relationships. The Company may also compete with online services and other Web site operators as well as traditional off-line media such as print and television for a share of advertisers' total advertising budgets. There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that competition will not have a material adverse effect on the Company's business, results of operations and financial condition.

CMGI's fulfillment services segment companies have several prominent competitors for the mutual fund literature fulfillment and turnkey manufacturing components of its businesses, and also compete with the internal fulfillment and manufacturing operations of manufacturing and mutual fund companies themselves. The companies in this segment also compete on the basis of pricing, geographic proximity to their clients and the speed and accuracy with which orders are processed. There are also many businesses that compete with SalesLink's, InSolutions' and On-Demand Solutions' other services.

CMG Direct competes on the basis of the accuracy, size, and comprehensiveness of its principal databases: the College List and the InfoBuyers List. The Company believes that the College List is the dominant database of its kind and has only one competitor, while the K-12 List is a relatively new product offering that will compete with the same competitor as the College List. The Company believes that the InfoBuyers List is also the dominant list of its kind. CMG Direct's database management and list processing services compete with numerous other service bureaus and compete on the basis of their effectiveness in processing customer and prospect list databases for publishers.

NOTE: On March 11, 1999, the Company announced the signing of a binding agreement to sell its wholly-owned subsidiary, CMG Direct to Marketing Services Group, Inc. (MSGI).

Research and Development

The Company develops and markets a variety of Internet related products and services, as well as a number of database software technologies. These industries are characterized by rapid technological development. The Company believes that its future success will depend in large part on its ability to continue to enhance its existing products and services and to develop other products and services which complement existing ones. In order to respond to rapidly changing competitive and technological conditions, the Company expects to continue to incur significant research and development expenses during the initial development phase of new products and services as well as on an on-going basis.

During fiscal years 1998, 1997 and 1996, the Company expended $19,223,000, $17,767,000 and $5,412,000, respectively, or 23.5%, 29.6% and 30.5%, respectively, of net revenues, on research and development. In addition, during fiscal years 1998, 1997 and 1996, the Company recognized $10,325,000, $1,312,000 and $2,691,000, respectively, of in-process research and development expenses in connection with acquisitions of subsidiaries and investments in affiliates. See further discussion of in-process research and development expenses in Item 7 below.

Intellectual Property and Proprietary Rights

The Company regards its software technologies, databases and database management software as proprietary. CMGI's lists are sold under terms and conditions which permit the Company's clients to use the list for a single mailing only and prohibit the further use or resale of the lists or the names included therein. The Company depends on trade secrets for protection of its software. It has entered into confidentiality agreements with its management and key employees with respect to this software, and limits access to, and distribution of this, and other proprietary information.

NOTE: On March 11, 1999, the Company announced the signing of a binding agreement to sell its wholly-owned subsidiary, CMG Direct to Marketing Services Group, Inc. (MSGI).

Employees

As of July 31, 1998, the Company employed a total of 1,024 persons on a full-time basis. In addition, depending on client demand, the Company utilizes manpower agencies to contract between 75 and 200 persons on a temporary, part-time basis. None of the Company's employees are represented by a labor union. The Company believes that its relations with its employees are good.

Segment Information

Segment information is set forth in Note 3 of the Notes to Consolidated Financial Statements referred to in Item 8(a) below and incorporated herein by reference.

Significant Customers

Significant customers information is set forth in Note 2(r) of the Notes to Consolidated Financial Statements referred to in Item 8(a) below and incorporated herein by reference.

ITEM 2. - PROPERTIES

Facilities

The location and general character of the Company's principal properties by industry segment as of July 31, 1998 are as follows:

Lists and Database Services and Corporate Headquarters

The Company leases approximately 34,000 square feet of administrative, engineering, sales and operations space in Wilmington, Massachusetts, under a lease which expires in 2000. The Company subleases 14,000 square feet of this facility to an outside party.

The Company also leases approximately 84,000 square feet of space in Andover, Massachusetts, under a lease which expires in 2002. This facility consists of executive office space for the Company's corporate headquarters, as well as administrative, engineering, sales and operations space for certain investment and development segment subsidiaries.

Fulfillment Services

The Company's east coast operations are conducted from an approximately 245,000 square foot leased facility in Boston, Massachusetts. The lease for this facility expires in 1998. The Company has recently leased a 155,000 square foot facility in Charlestown, Massachusetts, under an arrangement expiring in 2013. The Company plans to occupy the Charlestown space upon expiration of the Boston lease. Additionally, the Company leases 49,000 square feet in Wilmington, Massachusetts, under lease arrangements that expire through 2003.

The Company's west coast operations are conducted from leased facilities totaling approximately 325,000 and 100,000 square feet in Newark and Santa Clara, California, respectively. The leases for these facilities expire through 2012. Of the Newark, California facility, 39,000 square feet is subleased to an outside party.

Additionally, the Company leases an approximately 51,000 square foot operating facility in Bedford Park, Illinois under a lease which expires in 1999.

Investment and Development

The Company leases the following significant facilities in the investment and development segment:

- 22,000 square feet in Andover, Massachusetts, under a lease that expires in 2007.
- 14,000 square feet in Scotts Valley, California, under a lease that expires in 2002.
- 12,000 square feet in Raleigh, North Carolina, under agreements that expire through 2001.
- 9,500 square feet in Burlington, Massachusetts, under a lease that expires in 2000.
- 7,600 square feet in Palo Alto, California, under a lease that expires in 2000.

The facilities in this segment primarily consist of engineering, sales, operations and administrative offices.

This industry segment also shares a portion of the Company's Andover, Massachusetts facility described in the Corporate Headquarters section above.

ITEM 3. - LEGAL PROCEEDINGS

The Company is not a party to any material litigation.

ITEM 4. - SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this Report.

PART II

ITEM 5. - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market information is set forth in Note 18 of the Notes to Consolidated Financial Statements referred to in Item 8(a) below and incorporated herein by reference.

(b) On October 20, 1998, there were 374 holders of record of common stock.

(c) The Company has never paid cash dividends on its common stock, and the Company has no intention to pay cash dividends in the forseeable future.

(d) On June 16, 1998, the Company issued 370,662 shares of its common stock to shareholders of InSolutions in consideration for the acquisition of all of the issued and outstanding shares of capital stock of InSolutions. The shares issued by the Company are not registered under the Securities Act of 1933, as amended, and carry restrictions on transfer or sale for a period of one year.

On June 16, 1998, the Company issued 250,142 shares of its common stock to shareholders of On-Demand Solutions in consideration for the acquisition of all of the issued and outstanding shares of capital stock of On-Demand Solutions. The shares issued by the Company are not registered under the Securities Act of 1933, as amended, and carry restrictions on transfer or sale for a period of two years.

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

ITEM 6. - SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial information of the company for the five years in the period ended July 31, 1998. This selected financial information should be read in conjunction with the Company's Consolidated Financial Statements and related Notes.

(in thousands, except per share data)

	Years ended July 31,				
	1998 (Restated)	1997	1996	1995	1994
Consolidated Statement of Operations Data:					
Net revenues	$ 81,916	$ 60,056	$ 17,735	$11,091	$ 8,900
Cost of revenues	72,950	34,866	11,215	7,259	5,740
Research and development expenses	19,223	17,767	5,412	--	--
In-process research and development expenses	10,325	1,312	2,691	--	--
Selling, general and administrative expenses	49,677	47,031	16,812	2,722	1,735
Operating income (loss)	(70,259)	(40,920)	(18,395)	1,110	1,425
Interest income (expense), net	(870)	1,749	2,691	225	(52)
Gain on sale of Lycos, Inc. common stock	92,388	--	--	--	--
Gain on stock issuance by Lycos, Inc.	46,285	--	19,575	--	--
Gain on sale of available-for-sale securities	4,174	--	30,049	4,781	--
Gain on sale of investment in TeleT Communications	--	3,616	--	--	--
Gain on sale of NetCarta Corporation	--	15,111	--	--	--
Gain on dividend distribution of Lycos, Inc. common stock	--	8,413	--	--	--
Other income (expense), net	(12,899)	(769)	(746)	(292)	--
Income tax benefit (expense)	(31,555)	(2,034)	(17,566)	(2,113)	(474)
Income (loss) from continuing operations	27,264	(14,834)	15,608	3,711	899
Discontinued operations, net of income taxes	4,640	(7,193)	(1,286)	24,504	902
Net income (loss)	$ 31,904	$(22,027)	$ 14,322	$28,215	$ 1,801
Diluted earnings (loss) per share:					
Income (loss) from continuing operations	$0.61	$(0.39)	$0.40	$ 0.10	$ 0.03
Discontinued operations	0.10	(0.19)	(0.03)	0.65	0.03
Net income (loss)	$0.71	$(0.58)	$0.37	$ 0.75	$ 0.06
Shares used in computing diluted earnings (loss) per share	45,030	37,716	38,728	37,564	31,168
Consolidated Balance Sheet Data:					
Working capital	$ 12,784	$ 38,554	$ 72,009	$47,729	$ 5,925
Total assets	259,818	146,248	106,105	77,803	10,344
Long-term obligations	5,801	16,754	514	415	23
Stockholders' equity	133,136	29,448	53,992	55,490	8,867

ITEM 7. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion in this report contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below in "Factors that May Affect Future Results", as well as those discussed in this section and elsewhere in this report.

Overview

CMGI, Inc. ("CMGI" or "the Company", formerly CMG Information Services, Inc.) develops and operates Internet and direct marketing companies and venture funds focused on the Internet.

CMGI's Internet strategy includes the internal development and operation of majority-owned subsidiaries within the "CMGI Internet Group" as well as the investment in Internet companies through venture capital fund arrangements. The Company's strategy also envisions and promotes opportunities for synergistic business relationships among the Internet companies within its portfolio. At July 31, 1998, the CMGI Internet Group included majority-owned subsidiaries ADSmart Corporation (ADSmart), Engage Technologies, Inc. (Engage), Accipiter, Inc. (Accipiter), InfoMation Publishing Corporation (InfoMation), NaviSite Internet Services Corporation (NaviSite), Planet Direct Corporation (Planet Direct) and Password Internet Publishing Corporation (The Password), along with a minority investment in Magnitude Network, LLC (Magnitude Network). ADSmart develops and markets online ad sales and ad serving solutions; Engage develops and markets precision online marketing solutions; Accipiter specializes in Internet advertising management solutions; InfoMation develops and markets a Web-based solution for corporate knowledge management; Password provides tools for the creation of a personalized "mini-Web;" and Planet Direct is a personalized Web service with over 400 Internet Service Provider (ISP) partners which tailors members' online experience to their interests and local community. Subsequent to July 31, 1998, the Company announced that InfoMation would become a division of Planet Direct and that NaviSite would be split into two separate companies - NaviSite will continue to provide high-end server management and applications solutions, providing high-availability Internet outsourcing, and NaviNet will provide low cost, high-availability dial-up network connection through competitive local exchange carriers (CLECs).

The Company's first Internet venture fund, its limited liability company subsidiary, CMG@Ventures I, LLC (CMG@Ventures I, formerly CMG@Ventures L.P.), was formed in February, 1996. CMGI completed its $35 million commitment to this fund during fiscal year 1997. The Company owns 100% of the capital and is entitled to 77.5% of the net capital gains of CMG@Ventures I. At July 31, 1998, CMG@Ventures I held equity investments in five companies, including Blaxxun Interactive, Inc. (Blaxxun, 81% legal ownership), GeoCities (32%), Lycos, Inc. (Lycos, 25%), Parable LLC (Parable, 31%), and Vicinity Corporation (Vicinity, 50%). Lycos and GeoCities shares are publicly traded on the NASDAQ system under the symbols LCOS and GCTY, respectively. The Company's second Internet venture fund, its limited liability company subsidiary, CMG@Ventures II, LLC (CMG@Ventures II), was formed during fiscal year 1997. The Company owns 100% of the capital and is entitled to 80% of the net capital gains of CMG@Ventures II. At July 31, 1998, CMG@Ventures II held equity investments in fourteen companies, including Chemdex Corporation (Chemdex 16%), Critical Path (7%), GeoCities (2%), KOZ, inc. (KOZ, 14%), Mother Nature's General Store, Inc. (Mother Nature, 24%), Parable (11%), Reel.com Inc. (Reel.com, 36%), Sage Enterprises, Inc. (Sage Enterprises, 29%), Silknet Software, Inc. (Silknet, 24%), Softway Systems, Inc. (Softway Systems, 9%), Speech Machines plc (Speech Machines, 29%), TicketsLive Corporation (TicketsLive, 14%), Universal Learning Technology (12%), and Visto Corporation (Visto, 6%). CMG@Ventures II's investments in Sage Enterprises and Reel.com were converted into shares of Amazon.com, Inc. and Hollywood Entertainment Corporation, respectively, pursuant to mergers of the respective companies subsequent to July 31, 1998. (See note 19 of Notes to Consolidated Financial Statements.)

CMGI recently formed its third venture capital fund, CMG@Ventures III, LLC (CMG@Ventures III), and has begun raising capital from outside investors for a corresponding outside investment fund, @Ventures III, L.P. The Company owns 100% of the capital and is entitled to 80% of the net capital gains of CMG@Ventures III, and will be entitled to 2% of the net capital gains of @Ventures III, L.P. These two funds will co-invest in all investment candidates based on a predetermined ratio. CMGI has committed to funding CMG@Ventures III up to the greater of $30 million or 19.9% of amounts committed to @Ventures III, L.P.

The Company provides fulfillment services through three wholly-owned subsidiaries, SalesLink Corporation (SalesLink, acquired in 1989), InSolutions Incorporated, (InSolutions, acquired June, 1998), and On-Demand Solutions, Inc. (acquired July, 1998). SalesLink's services are also provided through its subsidiary, Pacific Direct Marketing Corporation (Pacific Link), which was acquired in October, 1996. The Company's fulfillment services offerings include product and literature fulfillment, turnkey outsourcing, telemarketing, and sales/lead inquiry management. Traditional mailing list services are provided by the Company's subsidiary, CMG Direct Corporation (CMG Direct). Recently, CMG Direct has embarked on a strategy to also provide solutions for integrating traditional direct marketing with Internet marketing. On March 11, 1999, the Company announced the signing of a binding agreement to sell CMG Direct to Marketing Services Group, Inc. (MSGI).

The Company has adopted a strategy of seeking opportunities to realize significant gains through the selective sale of investments or having separate subsidiaries or affiliates sell minority interests to outside investors. The Company believes that this strategy provides the ability to significantly increase shareholder value as well as provide capital to support the growth in the Company's subsidiaries and investments. Additionally, in fiscal year 1999, the Company will continue to develop and refine the products and services of its businesses, with the goal of significantly increasing revenue as new products are commercially introduced, and will continue to pursue a strong pace of investing in new Internet opportunities.

Restatement Related to In-Process Research and Development Expense

The accompanying consolidated financial statements have been restated to reflect the impact of adjustments made by Lycos, Inc. (Lycos) to its previously reported in-process research and development charges associated with Lycos' acquisitions of Tripod, Inc., WiseWire Corporation and GuestWorld, Inc. during CMGI's third and fourth quarters of fiscal 1998. The accompanying consolidated financial statements have also been restated to reflect a change in the original accounting for the purchase price allocation related to CMGI's acquisition of Accipiter, Inc. (Accipiter) in the third fiscal quarter of 1998.

Lycos reduced the amount of its charges for in-process research and development in connection with the above noted acquisitions and, correspondingly, increased the amounts allocated to intangible assets by $74.0 million. During the periods effected, CMGI's ownership in Lycos ranged from approximately 46% to approximately 22%, and CMGI accounted for its investment in Lycos under the equity method of accounting, whereby CMGI's portion of the net operating performance of Lycos was reflected in equity in losses of affiliates. Additionally, during such periods CMGI recorded gains on sales of portions of its Lycos stock holdings, and recorded gains on issuances of stock by Lycos. As a result of the Lycos restatements, CMGI has accordingly restated previously reported equity in losses of Lycos, gains on sales of Lycos stock and gains on issuance of stock by Lycos for CMGI's fiscal quarters ended April 30, 1998 and July 31, 1998. Lycos' reduction of previously recorded in-process research and development charges resulted in higher gains on Lycos stock issuances recorded by the Company, thereby increasing CMGI's book basis in its Lycos investment and resulting in lower gains on sales of Lycos stock and reduced gains on Lycos stock issuances in subsequent quarters. Related higher amortization charges recorded by Lycos in subsequent quarters resulted in higher equity in loss of affiliates amounts recorded by CMGI.

Upon consummation of the Accipiter acquisition in the third fiscal quarter of 1998, CMGI, in its consolidated financial statements, reported an expense of approximately $18.0 million representing acquired in-process research and development that had not yet reached technological feasibility and had no alternative future use. On May 7, 1999, CMGI announced a voluntary restatement of the in-process research and development charge related to the Accipiter acquisition to address valuation methodologies suggested by the SEC in a letter dated September 9, 1998 to the American Institute of Certified Public Accountants SEC Regulations Committee and as clarified through subsequent practice. Upon consideration of this guidance and additional practice that has developed since the SEC letter was first made public, the $18.0 million charge as previously reported has been reduced to $9.2 million and amounts allocated to goodwill and other intangible assets have been increased from $11.5 million to $20.3 million.

The effect of this restatement on previously reported consolidated financial statements as of and for the year ended July 31, 1998 is as follows (in thousands, except per share amounts):

Statements of Operations:

	Year Ended July 31, 1998	
	As Reported	Restated
Cost of revenues	$ 72,843	$ 72,950
In-process research and development	19,135	10,325
General and administrative expenses	20,287	20,795
Operating loss	(78,454)	(70,259)
Gain on sale of Lycos, Inc. common stock	97,158	92,388
Gain on stock issuance by Lycos, Inc.	28,301	46,285
Equity in losses of affiliates	(11,821)	(12,871)
Income from continuing operations before income taxes	38,460	58,819
Income tax expense	26,547	31,555
Income from continuing operations	11,913	27,264
Net income	16,553	31,904
Basic income from continuing operations per share	0.29	0.65
Basic net income per share	0.40	0.76
Diluted income from continuing operations per share	0.27	0.61
Diluted net income per share	0.37	0.71

Balance Sheets:

	July 31, 1998	
	As Reported	Restated
Investments in affiliates	$ 66,187	$ 82,616
Cost in excess of net assets of subsidiaries acquired, net of accumulated amortization	49,301	55,770
Other assets	2,238	3,964
Total assets	235,194	259,818
Non-current deferred income tax liabilities	10,528	15,536
Minority interest	11,045	15,310
Retained earnings	28,173	43,524
Total stockholders' equity	117,785	133,136

NOTE: All "As Reported" and "As Restated" amounts in the above table have been retroactively adjusted to reflect the presentation of the Company's lists and database services segment as discontinued operations and to reflect a two-for-one stock split effected in the form of a stock dividend by the Company on January 11, 1999.

Results of Operations

The following table sets forth, for the years indicated, certain items from the Company's Consolidated Statements of Operations expressed as a percentage of net revenues.

	Fiscal Year Ended July 31,		
	1998	1997	1996
Net revenues	100%	100%	100%
Cost of revenues	89	58	63
Research and development expenses	23	30	31
In-process research and development expenses	13	2	15
Selling, general and administrative expenses	61	78	95
Operating loss	(86)	(68)	(104)
Other income, net	158	46	291
Income tax expense	(39)	(3)	(99)
Income (loss) from continuing operations	33%	(25)%	88%

The Company's continuing operations have been classified into two business segments (i) investment and development and (ii) fulfillment services. (See note 3 of Notes to Consolidated Financial Statements.)

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

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

Deconsolidation of Lycos, Inc, Beginning November, 1997

During the second fiscal quarter ended January 31, 1998, the Company sold 340,000 shares of Lycos stock on the open market and distributed 216,034 Lycos shares to the profit members of CMG@Ventures I. Through the sale and distribution of Lycos shares, the Company's ownership percentage in Lycos was reduced from just in excess of 50% at October 31, 1997, to below 50% beginning in November, 1997. As such, starting in November, 1997, the Company began accounting for its remaining investment in Lycos under the equity method of accounting, rather than the consolidation method. Prior to these events, the operating results of Lycos were consolidated within the operating results of the Company's investment and development segment, and the assets and liabilities of Lycos were consolidated with those of CMGI's other majority-owned subsidiaries in the Company's Consolidated Balance Sheets. The Company's historical consolidated operating results for the fiscal years ended July 31, 1997 and 1996 included Lycos net revenues of $22,253,000 and $5,257,000, respectively, and Lycos operating losses of ($8,759,000) and ($5,802,000), respectively. The Company's consolidated operating results for the fiscal quarter ended October 31, 1997 included Lycos net revenues and operating loss of $9,303,000 and ($433,000), respectively. The Company's historical Consolidated Balance Sheets as of July 31, 1997 and October 31, 1997 included Lycos current assets and liabilities and total assets and liabilities as follows:

	Jul. 31, 1997	Oct. 31, 1997
Current assets	$ 60,745,000	$ 63,935,000
Total assets	$ 65,419,000	$ 67,694,000
Current liabilities	$ 22,615,000	$ 25,822,000
Total liabilities	$ 27,772,000	$ 29,259,000

Sale of Engage Data Warehouse Products, Restructuring of Engage Technologies and Discontinued Operations

From its inception in August, 1995, through July 31, 1997, the Company's wholly-owned subsidiary, Engage focused on providing traditional mailing list maintenance and database services (through its ListLab division), and on developing data mining, querying, analysis and targeting software products for use in large database applications. As such, the results of Engage's operations were classified in the Company's list and database services segment. During the first quarter of fiscal 1998, Engage sold certain rights to its Engage.Fusion(TM) and Engage.Discover(TM) data warehouse products to Red Brick Systems, Inc. (Red Brick) for $9.5 million and 238,160 shares of Red Brick common stock. These products had been developed to accelerate the design and creation of very large data warehouses and perform high-end data query and analysis. Engage retained certain rights to sell Engage.Fusion and Engage.Discover to interactive media markets as part of its Engage Product Suite. Additionally, during the first quarter of fiscal year 1998, Engage transferred its ListLab division to the Company's recently formed subsidiary, CMG Direct. With the sale of these rights and transfer of its ListLab division, Engage narrowed its focus to the Internet software solutions market, where it seeks to help companies individually distinguish, understand and interact with anonymous prospects and customers in personalized marketing, sales, and service relationships via the Internet. As a result of this repositioning, beginning in fiscal year 1998, the operating results of Engage are now classified in the Company's investment and development segment.

On March 11, 1999, the Company announced the signing of a binding agreement to sell its wholly-owned subsidiary, CMG Direct to MSGI. At the time, CMG Direct comprised the Company's entire lists and database services segment. As a result, the operations of the Company's lists and database services segment have been reflected as income (loss) from discontinued operations in

the accompanying consolidated financial statements. The gain on sale of certain data warehouse product rights by Engage in the first quarter of fiscal 1998 has also been reflected as discontinued operations. These data warehouse products were developed by Engage during fiscal 1996 and 1997, when Engage was included in the Company's lists and database services segment. CMG Direct's net assets, which included accounts receivable, prepaid expenses, net property and equipment, net goodwill, other assets, accounts payable, accrued expenses and other liabilities are reported as net current and non-current assets of discontinued operations at July 31, 1998. Certain prior period amounts in the consolidated financial statements have been reclassified in accordance with generally accepted accounting principles to reflect the Company's lists and database services segment as discontinued operations.

Fiscal 1998 Compared to Fiscal 1997

Net revenues increased $21,860,000, or 36%, to $81,916,000 in 1998 from $60,056,000 in 1997. The net increase reflects an increase of $27,068,000 in the Company's fulfillment services segment, partially offset by a decrease of $5,208,000 for the Company's investment and development segment. The increase in fulfillment services segment revenues reflects the acquisition of Pacific Link in October, 1996, the acquisition of InSolutions in June, 1998, and the subsequent addition of new customers and new turnkey business from existing customers. The investment and development segment results include $12,950,000 less consolidated revenues from the three months Lycos was consolidated in fiscal 1998 compared with the twelve months for which Lycos revenues were included in the prior year. Largely offsetting such decreases was the impact of consolidating Vicinity's results beginning in the fourth quarter of fiscal year 1997, the impact of the acquisition of Accipiter, Inc. (Accipiter) in April, 1998, and commencement of operations at the Company's NaviSite, Engage, Planet Direct and ADSmart subsidiaries. The Company believes that its portfolio of companies will continue to develop and introduce their products commercially, actively pursue increased revenues from new and existing customers, and look to expand into new market opportunities. Therefore, absent the impact of the change in accounting for Lycos, the Company expects to report future revenue growth.

Cost of revenues increased $38,084,000, or 109%, to $72,950,000 in 1998 from $34,866,000 in 1997, reflecting increases of $26,488,000 and $11,596,000 in the fulfillment services and investment and development segments, respectively. In the fulfillment services segment, cost of revenues increased as a result of revenue increases, and increased as a percentage of net revenues to 84% in fiscal 1998 from 74% in fiscal 1997. This percentage increase was due to a shift in mix of services from literature fulfillment towards lower margin turnkey business, as well as an increase in the material content percentage of turnkey sales, and operating inefficiencies experienced during a period of high volume growth. The increase in the investment and development segment primarily resulted from the commencement of operations at the Company's NaviSite, Engage, Planet Direct and ADSmart subsidiaries, and the impact of consolidating Vicinity beginning in fourth quarter fiscal 1997, partially offset by $2,843,000 lower cost of sales resulting from deconsolidating Lycos beginning in the second quarter of fiscal year 1998. The start-up of Internet operations at NaviSite, Engage, Planet Direct and ADSmart, with minimal revenues during early stages, and the deconsolidation of Lycos are the primary reasons cost of revenues as a percentage of revenues in the investment and development segment increased from 35% in fiscal 1997 to 106% in fiscal 1998.

Research and development expenses increased $1,456,000, or 8%, to $19,223,000 in fiscal 1998 from $17,767,000 in fiscal 1997, primarily reflecting an increase of $1,488,000 in the investment and development segment. Investment and development segment results include increases associated with the inclusion of Engage, expenditures for the development of NaviSite's NaviNet technology platform, the impact of consolidating Vicinity's results beginning in the fourth quarter of fiscal year 1997, the impact of the acquisition of Accipiter in April, 1998, and increased development costs for The Password. Partially offsetting such increases, investment and development segment results include a $2,868,000 reduction from deconsolidating Lycos, reduced development costs associated with the progression of Planet Direct, ADSmart and Blaxxun from initial development stages towards commercial operations, and reductions associated with NetCarta Corporation (NetCarta), whose results were included during the first half of fiscal year 1997, but have been excluded since the sale of NetCarta to Microsoft in January, 1997. In addition, the Company recorded $10,325,000 of in-process research and development expense during fiscal 1998 related to the Company's acquisition of Accipiter and investments in Speech Machines, Chemdex and Silknet compared to $1,312,000 in fiscal 1997 related to investments in Parable and Silknet (See further discussion in "In-Process Research and Development Charge Related to Acquisition of Accipiter, Inc." below). The Company anticipates it will continue to devote substantial resources to product development and that, absent the impact of the Company's change in accounting for Lycos, these costs may substantially increase in future periods.

Selling expenses decreased $4,346,000, or 13% to $28,882,000 in 1998 from $33,228,000 in 1997. The net decrease reflects a decrease of $5,470,000 in the Company's investment and development segment, partially offset by an increase of $1,124,000 for the Company's fulfillment services segment. Investment and development segment results include a $13,651,000 reduction from deconsolidating Lycos, reduced marketing expenses at Blaxxun, and reductions associated with NetCarta, FreeMark Communications, Inc. (FreeMark), and GeoCities, whose results were included during part of fiscal year 1997, but have not been included in fiscal 1998. These decreases were partially offset by increased sales and marketing expenses related to several product launches, continued growth of sales and marketing infrastructures, the addition of Engage to this segment, the acquisition of Accipiter, and the impact of

consolidating Vicinity's results beginning in the fourth quarter of fiscal year 1997. The fulfillment services segment increase primarily reflects the acquisitions of Pacific Link in October, 1996 and InSolutions in June, 1998. Selling expenses decreased as a percentage of net revenues to 35% in fiscal 1998 from 55% in fiscal 1997, primarily reflecting the impacts of the deconsolidation of Lycos and of increased revenues in the Company's fulfillment services segment. As the Company's subsidiaries continue to introduce new products and expand sales, the Company expects to incur significant promotional expenses, as well as expenses related to the hiring of additional sales and marketing personnel and increased advertising expenses, and anticipates that, absent the impact of the Company's change in accounting for Lycos, these costs will substantially increase in future periods.

General and administrative expenses increased $6,992,000, or 51%, to $20,795,000 in 1998 from $13,803,000 in 1997. The net increase reflects increases of $4,618,000 and $2,374,000 in the Company's investment and development, and fulfillment services segments, respectively. Investment and development segment results include increases due to the building of management infrastructures in several of the Company's Internet investments and at the CMGI corporate level, the addition of Engage and Accipiter to this segment, and the impact of consolidating Vicinity's results beginning in the fourth quarter of fiscal year 1997. Such increases were partially offset by a $1,913,000 reduction from deconsolidating Lycos, cost reductions at Blaxxun, and reductions associated with NetCarta, FreeMark, and GeoCities, whose results were included during part of fiscal year 1997, but have not been included in fiscal 1998. The fulfillment services segment increase reflects the acquisitions of Pacific Link in October, 1996 and InSolutions in June, 1998 and the addition of management and infrastructure in support of growth in the segment. General and administrative expenses increased as a percentage of net revenues to 25% in fiscal 1998 from 23% in fiscal 1997, primarily reflecting the impact of increased general and administrative expenses in the Company's investment and development segment, partially offset by increased revenues in the Company's fulfillment services segment. Absent the impact of the Company's change in accounting for Lycos, the Company anticipates that its general and administrative expenses will continue to increase significantly as the Company's subsidiaries, particularly in the investment and development segment, continue to grow and expand their administrative staffs and infrastructures.

Interest income decreased $942,000 to $2,426,000 in 1998 from $3,368,000 in 1997, reflecting a $1,590,000 decrease from the deconsolidation of Lycos, partially offset by increased income associated with higher average corporate cash equivalent balances compared with prior year. Interest expense increased $1,677,000 compared with fiscal 1997, primarily due to borrowings incurred to finance the Company's acquisitions of Pacific Link in October, 1996, and InSolutions in June, 1998, and the impact of higher average corporate borrowings related to the Company's $10 million collateralized corporate note payable which was issued in January, 1997 and increased to $20 million in January, 1998.

Gain on sale of Lycos, Inc. common stock reflects the Company's net gain realized on the sale of 1,955,015 shares of Lycos stock during fiscal 1998. Gain on stock issuance by Lycos, Inc. resulted primarily from the issuance of stock by Lycos in a secondary offering in June, 1998, and from the issuance of stock by Lycos for the fiscal 1998 acquisitions of Tripod and Wise Wire. Gain on sale of available-for-sale securities in fiscal 1998 reflects the Company's net gain realized on the sale of 224,795 shares of Premiere Technologies, Inc. (Premiere) stock. Gain on sale of investment in TeleT Communications in fiscal 1997 resulted when the Company sold its equity interest in TeleT to Premiere in exchange for $550,000 and 320,833 shares of Premiere stock in September 1996. Gain on sale of NetCarta Corporation in fiscal year 1997 reflects the Company's pre-tax gain on sale of CMG@Ventures' NetCarta subsidiary to Microsoft Corporation on January 31, 1997. Gain on distribution of Lycos stock in fiscal 1997 resulted from the dividend distribution of 603,000 shares of Lycos common stock to CMGI shareholders on July 31, 1997.

Equity in losses of affiliates resulted from the Company's ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's operating losses and amortization of the Company's net excess investment over its equity in each affiliate's net assets is included in equity in losses of affiliates. Equity in losses of affiliates for fiscal 1998 include the results from the Company's minority ownership in Ikonic Interactive, Inc. (Ikonic), Parable, Silknet, GeoCities, Reel.com, Speech Machines, Chemdex, Sage Enterprises, and Mother Nature, and the results from Lycos beginning in November, 1997. Equity in losses of affiliates for fiscal 1997 included the results from the Company's minority ownership in TeleT, Vicinity, Ikonic, Parable, Silknet, GeoCities, and Reel.com. The Company expects its portfolio companies to continue to invest in development of their products and services, and to recognize operating losses, which will result in future charges recorded by the Company to reflect its proportionate share of such losses.

Minority interest decreased to ($28,000) in 1998 from $4,787,000 in 1997, primarily reflecting the deconsolidation of Lycos results beginning in the second quarter of fiscal year 1998, and the impact associated with FreeMark and GeoCities, whose results were included within the Company's consolidated statements of operations during a portion of fiscal year 1997, but excluded in fiscal year 1998.

The Company's effective tax rates for fiscal 1998 and 1997 were 54% and (16%), respectively. The Company's effective tax rate differs materially from the federal statutory rate primarily due to valuation allowances provided on certain deferred tax assets, the provision for state income taxes, and non-deductible goodwill amortization and in-process research and development charges.

Loss from discontinued operations of lists and database services segment, net of income taxes, decreased $6,855,000 to ($338,000) in 1998 from ($7,193,000) in 1997 as a result of the transfer of Engage to the Company's investment and development segment. Gain on sale of data warehouse product rights occurred in fiscal 1998 when Engage sold certain rights to its Engage.Fusion(TM) and Engage.Discover(TM) data warehouse products to Red Brick for $9.5 million and 238,160 shares of Red Brick common stock. These data warehouse products had been developed by Engage during fiscal 1996 and 1997, when Engage was included in the Company's lists and database services segment.

In-Process Research and Development Expense Related to Acquisition of Accipiter, Inc.

CMGI acquired Accipiter on April 8, 1998 for total purchase consideration of $30.2 million. The portion of the purchase price allocated to in-process research and development was $9.2 million, or approximately 31% of the total purchase price. In August, 1998, Accipiter was merged with Engage, a subsidiary of the Company. At the acquisition date, Accipiter's major in-process project was the development of AdManager version 4.0, which was intended to provide the ad serving functionality that customers were requiring as the use of the Internet rapidly increased and customer Web sites became more complex. In general, previous AdManager releases did not provide for the fault tolerance, redundancy and scalability that customers began to seek after AdManager versions 1.0 and 2.0 were released. Accordingly, customers' long-term product needs required Accipiter to substantially redesign the AdManager architecture (later released as version 4.0) to develop new technologies in the areas of: (1) fault tolerance and scalability, (2) an object-oriented user interface, (3) application programming interfaces and (4) a new report engine.

At the date of the acquisition, management estimated that completion of the AdManager version 4.0 technology would be accomplished by June 1998. The initial development effort had commenced in late 1997. At the acquisition date, the new AdManager technology had not reached a completed prototype stage and beta testing had not yet commenced. At the time of the Accipiter purchase, the AdManager version 4.0 project was approximately 71% complete.

The value of in-process research and development was determined using an income approach. This approach takes into consideration earnings remaining after deducting from cash flows related to the in-process technology, the market rates of return on contributory assets, including developed technology, assembled workforce, working capital and fixed assets. The cash flows are then discounted to present value at an appropriate rate. Discount rates are determined by an analysis of the risks associated with each of the identified intangible assets. The discount rate used for in-process research and development was 24.5%, a slight premium over the estimated weighted-average cost of capital of 24%, and the discount rate used for developed technology was 21%.

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

Accipiter recorded revenue in 1997 of less than $1 million. Because of the absence of meaningful historical revenue of Accipiter, management projected revenue for the initial year of the forecast period based on its assessment of future market potential and the ability of Accipiter to successfully launch its new product offering. After the initial year of the forecast period, revenue was predicted to grow at rates comparable to the growth of Internet users and online activity and the impact such growth would have on Internet advertising. These projections are based on management's estimates of the significant growth in the number of companies engaged in e-commerce (which is supported by independent market data), the need for e-commerce companies to serve ads over the Internet, expected trends in technology (such as increased speed of the Internet, reduced hardware costs and the resulting increase in new Internet users to whom ads will be served) and the nature and expected timing of new product introductions by Engage and its competitors. These estimates also include growth related to the use of certain Accipiter technologies in conjunction with Engage's products, the marketing and distribution of the resulting products through Engage's sales force and the benefits of Engage's incremental financial support and stability.

Engage's estimated cost of sales as a percentage of revenue is expected to be slightly lower than Accipiter's (classified as support and royalties by Accipiter) on a stand-alone basis (16% in 1997), as certain fixed costs included in cost of sales are spread over a larger revenue base and provide for the realization of efficiencies due to economies of scale through combined operations. Due to these savings, the estimated cost of sales as a percentage of revenue is expected to decrease by 1% each year from Accipiter's historical percentage, to a low of 11% in the fifth forecast year.

Engage's selling, general and administrative costs are expected to be higher than Accipiter's on an absolute basis, but lower as a percentage of revenue. Due to the small revenue base in 1997 and the impact of significant costs associated with building a corporate infrastructure and building a workforce for future operations, Accipiter's selling, general and administrative costs in 1997, as a percent of revenue, are not representative of the expected costs for the combined operations of Engage and Accipiter.

Efficiencies due to economies of scale through combined operations, such as consolidated marketing and advertising programs, are expected to be realized immediately.

Fiscal 1997 Compared to Fiscal 1996

Net revenues increased $42,321,000, or 239%, to $60,056,000 in 1997 from $17,735,000 in 1996. The increase was attributable to increases of $24,069,000 and $18,252,000 in net revenues for the Company's fulfillment services and investment and development segments, respectively. The fulfillment services segment increase was primarily due to the acquisition of Pacific Link on October 24, 1996 as well as the addition of several new SalesLink accounts closed in the second half of fiscal year 1996. The increase in net revenues for the investment and development segment primarily reflects increased revenues by Lycos, (which was a consolidated subsidiary in both fiscal 1997 and 1996), whose net revenues for the 1997 fiscal year increased by $16,996,000 in comparison with 1996.

Cost of revenues increased $23,651,000, or 211%, to $34,866,000 in 1997 from $11,215,000 in 1996, due to increases of $18,740,000 and $4,911,000 in the fulfillment services and investment and development segments, respectively, resulting from higher revenues. In the fulfillment services segment, cost of revenues as a percentage of net revenues increased to 74% in 1997 from 65% in 1996 due to the mix of services associated with the acquisition of Pacific Link at the end of the first quarter of fiscal 1997. In the investment and development segment, cost of revenues as a percentage of net revenues decreased to 35% in 1997 from 60% in 1996 due to the ability to spread fixed costs, such as facilities and equipment costs, over a larger revenue base.

Research and development expenses increased $12,355,000, or 228%, to $17,767,000 in fiscal 1997 from $5,412,000 in fiscal 1996. The increase consists primarily of an increase of $12,516,000 in research and development expenses for the investment and development segment as product development activities continued at all of the Company's consolidated Internet investments. The Company recorded $1,312,000 of in-process research and development expenses related to investments in Parable and Silknet during 1997, compared with $2,691,000 of in-process research and development expenses recorded in 1996 related to the acquisition of several Internet investments during 1996.

Selling expenses increased $23,935,000, or 258% to $33,228,000 in 1997 from $9,293,000 in 1996. This increase was primarily attributable to a $22,609,000 selling expense increase in the Company's investment and development segment, reflecting the sales and marketing efforts related to several product launches and continued growth of sales and marketing infrastructures by the subsidiaries of this segment. Also, during 1997, Lycos launched a national television advertising campaign which contributed to the increased selling expenses in the investment and development segment. Selling expenses in the fulfillment services segment increased by $1,326,000 in comparison with 1996 due to the acquisition of Pacific Link. Selling expenses increased as a percentage of net revenues to 55% in 1997 from 52% in 1996.

General and administrative expenses increased $6,284,000, or 84%, to $13,803,000 in 1997 from $7,519,000 in 1996. The investment and development segment experienced an increase of $4,884,000 due to the addition of management personnel and administrative infrastructure in several of the Company's Internet investments. General and administrative expenses in the fulfillment services segment increased by $1,400,000 in comparison with fiscal 1996 due to the acquisition of Pacific Link, including approximately $804,000 of goodwill amortization charges. General and administrative expenses decreased as a percentage of net revenues to 23% in 1997 from 42% in 1996 due to the significant increase in net revenues in fiscal year 1997.

Gain on sale of NetCarta Corporation in fiscal 1997 reflects the Company's pre-tax gain on the sale of this subsidiary to Microsoft Corporation on January 31, 1997. Gain on distribution of Lycos stock in fiscal 1997 resulted from the dividend distribution of 603,000 shares of Lycos common stock to CMGI shareholders on July 31, 1997. Gain on sale of investment in TeleT Communications in fiscal 1997 resulted when the Company sold its equity interest in TeleT to Premiere in exchange for $550,000 and 320,833 shares of Premiere stock in September, 1996. Gain on sale of available-for-sale securities in fiscal 1996 occurred when the Company sold its remaining 1,020,000 shares of America Online, Inc. common stock in October, 1995. Gain on stock issuance by Lycos, Inc. in fiscal 1996 arose as a result of the sale of stock by Lycos in an initial public offering in April, 1996.

Interest income increased $618,000 to $3,368,000 in 1997 from $2,750,000 in 1996. The increase in interest income primarily reflects income earned by Lycos from the investment of the proceeds of their initial public offering, which occurred in April 1996, partially offset by the impact of lower corporate cash balances in fiscal 1997 as compared with fiscal 1996. Interest expense increased $1,560,000 to $1,619,000 in 1997 from $59,000 in 1996. The increase in interest expense was primarily due to borrowings incurred to finance the Company's acquisition of Pacific Link and interest expense related to the Company's $10,000,000 collateralized corporate note payable to a bank which was issued in January, 1997.

Equity in losses of affiliates resulted from the Company's minority ownership in certain investments that are accounted for under the equity method. The results for fiscal 1996 reflect five minority investments: FreeMark, Ikonic, GeoCities, Vicinity and TeleT. During the fourth quarter of fiscal 1996, the Company increased its ownership in FreeMark and GeoCities above 50% and, accordingly, began including their operating results in the Company's consolidated operating results. FreeMark was consolidated through December 1996 when it suspended operations. Equity in losses of affiliates for fiscal 1997 include the results from the Company's minority ownership in Ikonic, Vicinity, Parable, Silknet, Reel.com and TeleT (through the date of the sale of TeleT in September 1996). Also, in January 1997, when GeoCities successfully completed an equity financing round, CMG@Ventures I's ownership in GeoCities decreased from approximately 61% to approximately 41%, and the Company began accounting for its investment in GeoCities under the equity method of accounting, rather than the consolidation method. In the fourth quarter of fiscal 1997, the Company began consolidating the operating results of Vicinity when the Company's ownership in Vicinity was increased to above 50%.

Minority interest increased to $4,787,000 in 1997 from $2,169,000 in 1996 reflecting minority interest in net losses of consolidated subsidiaries within the Company's investment and development segment.

The Company's effective tax rates for fiscal 1997 and 1996 were (16%) and 53%, respectively. The Company's effective tax rate differed from the federal statutory rates in fiscal years 1997 and 1996 primarily due to valuation allowances provided on certain deferred tax assets, the provision for state income taxes, and non-deductible goodwill amortization charges.

Loss from discontinued operations of lists and database services segment, net of income taxes, increased $5,907,000 to ($7,193,000) in 1997 from ($1,286,000) in 1996 primarily as a result of increased development expenses associated with Engage's data mining, querying, analysis and targeting products and services, as well as growth in sales, marketing and administrative infrastructures at Engage.

Liquidity and Capital Resources

Working capital at July 31, 1998 decreased to $12.8 million compared to $38.6 million at July 31, 1997, predominately as a result of the expenditure of cash for operations and the impact of deconsolidating Lycos, offset in large part by proceeds from sales of Lycos stock. The Company's July 31, 1997 consolidated working capital included Lycos working capital of $38.1 million. The Company's principal uses of capital during fiscal 1998 were $69.3 million for funding of continuing operations, primarily those of start-up activities in the Company's investment and development segment, $34.5 million for investments in affiliates and acquisitions, largely by CMG@Ventures II in several Internet companies, and $8.0 million for purchases of property and equipment. The Company's principal sources of capital during fiscal 1998 were $108.9 million received from the sale of 1,955,015 shares of Lycos stock, $10.9 million received from the sale of 2,012,008 CMGI common shares to Intel Corporation (Intel), $10 million received from the sale of 1,250,000 CMGI common shares to Sumitomo Corporation (Sumitomo), $9.5 million from the sale of Engage's data warehouse product rights, and $7.6 million received from the sale of 224,795 shares of Premiere stock. The Company intends to continue to fund existing and future Internet and interactive media investment and development efforts. Additionally, at July 31, 1998, the Company had approximately $68 million of remaining future noncancelable minimum payments under operating leases for its facilities and certain other equipment.

During fiscal year 1998, the Company completed the acquisition of four companies for purchase prices valued at a combined total of $53.8 million, including Accipiter ($30.2 million purchase price in April, 1998), InSolutions ($15.2 million in June, 1998), Servercast ($1million in July, 1998), and On-Demand Solutions ($7.4 million on July 31, 1998). The combined consideration for these acquisitions consisted of 3,148,188 shares of the Company's common stock valued at a total of $44.6 million, $6.7 million in cash, and $2.5 million financed through sellers' notes. The shares issued by the Company were not registered under the Securities Act of 1933 and were subject to restrictions on transferability for periods ranging from six to twenty-four months. The values of the Company's shares included in the purchase prices of these acquisitions were recorded net of market value discounts ranging from 12% to 22%, based on independent appraisal, to reflect the restrictions on transferability. Additional consideration of up to $2.8 million could be paid related to the acquisition of InSolutions if certain future performance goals are met. Of the combined purchase prices of Accipiter and Servercast, $19.4 million was allocated to goodwill, which will be amortized on a straight-line basis over five years and $1.9 million was allocated to other intangible assets which will be amortized on a straight-line basis over periods ranging from 2 to 5 years. Of the combined purchase prices of InSolutions and On-Demand Solutions, $22.3 million was allocated to goodwill, which will be amortized on a straight-line basis over fifteen years. Additionally, $9.2 million of the purchase price of Accipiter was allocated to in-process research and development which was charged to operations during fiscal 1998.

CMG@Ventures II invested a total of $27.6 million in fifteen companies during fiscal year 1998, including $100,000 in Blaxxun, $1.8 million in GeoCities, $200,000 in Vicinity, $3 million in Silknet, $2.1 million in Parable, $150,000 in KOZ, $3.5 million in Sage Enterprises, $4.6 million in Reel.com, $1.8 million in Speech Machines, $2.6 million in Chemdex, $2 million in

Tickets Live, $1 million in Critical Path, $2 million in Mother Nature, $1.5 million in Visto, and $1.25 million in Universal Learning Technology. At July 31, 1998, CMG@Ventures I held equity investments in five companies, including Blaxxun (81% legal ownership), GeoCities (32%), Lycos (25%), Parable (31%), and Vicinity (50%). At July 31, 1998, CMG@Ventures II held equity investments in fourteen companies, including Chemdex (16%), Critical Path (7%), GeoCities (2%), KOZ (14%), Mother Nature (24%), Parable (11%), Reel.com (36%), Sage Enterprises (29%), Silknet (24%), Softway Systems (9%), Speech Machines (29%), TicketsLive (14%), Universal Learning Technology (12%), and Visto (6%). The Company owns 100% of the capital interest and has all voting rights with respect to CMG@Ventures I and CMG@Ventures II investments. The Company is entitled to 77.5% and 80% of the net capital gains, as defined, on investments made by CMG@Ventures I and CMG@Ventures II, respectively. The remaining interest in the net capital gains on these investments are attributed to profit partners, including the President and Chief Executive Officer and the Chief Financial Officer of the Company. The Company is responsible for all operating expenses of CMG@Ventures I and CMG@Ventures II. CMG@Ventures I's interest in Lycos is subject to further reduction because CMG@Ventures I is obligated to sell to Lycos a portion of its shares of common stock of Lycos, as necessary, to provide for shares issuable upon exercise of options granted by Lycos under its 1995 stock option plan. As of July 31, 1998, (retroactively adjusted to reflect Lycos' two-for-one stock split affected in August, 1998), CMG@Ventures I was obligated to sell up to 391,296 shares to Lycos at a price of $0.01 per share and up to 458,048 shares at prices ranging from $0.14 to $4.80 per share. After accounting for Lycos shares subject to option funding and shares attributable to profit partners, approximately 6.5 million Lycos shares, (also on a post-split basis), were attributable to CMGI as of July 31, 1998. CMG@Ventures II's investments in Sage Enterprises and Reel.com were converted into shares of Amazon.com, Inc. and Hollywood Entertainment Corporation, respectively, pursuant to mergers of the respective companies subsequent to July 31, 1998. (See note 19 of Notes to Consolidated Financial Statements.)

On January 20, 1998, the Company renewed its collateralized corporate borrowing for an additional term of one year and increased the outstanding principal amount under this facility from $10 million to $20 million. This borrowing is secured by 2,511,578 of the Company's shares of Lycos common stock and is payable in full on January 20, 1999. Under this agreement, the Company could become subject to additional collateral requirements under certain circumstances. The Company is considering either seeking the renewal of this note, or repaying it using future proceeds from the sale of stock of certain investee companies. SalesLink had an outstanding balance of $6.2 million at July 31, 1998 and an additional $800,000 reserved in support of outstanding letters of credit for operating leases. SalesLink also has a $15.5 million bank term note outstanding as of July 31, 1998, which provides for repayment in quarterly installments beginning January, 1999 through November, 2002. The Company's bank borrowing arrangements are subject to normal banking terms and conditions, including financial covenants requiring the Company or SalesLink to maintain certain levels of net worth and income, certain financial position ratios, as well as limitations on indebtedness and capital expenditures. As of July 31, 1998, SalesLink did not comply with certain covenants of their borrowing arrangements. SalesLink is working with the bank to cure the non-compliance, as of July 31, 1998 and prospectively, through waivers or amendments to the covenant terms. SalesLink has not yet received such waivers or amendments and, accordingly, all of SalesLink's bank borrowings have been classified as current liabilities in the July 31, 1998 Consolidated Balance Sheet.

The Company's consolidated capital expenditures were $8.0 million in fiscal 1998. Concurrent with its growth and the commencement of start-up operations, the Company has experienced a substantial increase in its capital expenditures and operating lease arrangements in fiscal year 1998 and anticipates that this will continue in the future. The Company's accounts receivable, current deferred revenues, long-term deferred revenues, and minority interest decreased $4.6 million, $8.7 million, $5.1 million, and $10.2 million, respectively, primarily as a result of the change in the Company's method of accounting for Lycos. Investments in affiliates increased $73.5 million, primarily as a result of the change in the Company's method of accounting for Lycos, the impact of gains recorded on stock issuances by Lycos, and the investment in new affiliates during fiscal 1998, partially offset by the impact of the sales of Lycos stock and the recording of equity in losses of affiliates during the year. Costs in excess of net assets of subsidiaries acquired, net of accumulated amortization, in the Company's July 31, 1998 Consolidated Balance Sheet increased $39.1 million in comparison with July 31, 1997, primarily due to $41.7 million of goodwill recorded relating to the acquisitions of Accipiter, InSolutions, Servercast and On-Demand Solutions during fiscal 1998, offset by amounts amortized during fiscal 1998. Accrued income tax liabilities of $10.1 million at July 31, 1998 reflect current tax payments due, largely as a result of income earned in fiscal year 1998. Additional paid-in capital increased $74.5 million, primarily as a result of the issuance of stock for acquisitions and the sales of stock to Intel and Sumitomo.

Subsequent to fiscal 1998 year-end, in August, 1998, CMG@Ventures II's holdings in Sage Enterprises were converted into 225,558 shares of restricted Amazon.com, Inc. common stock as part of a merger wherein Amazon.com, Inc. acquired Sage Enterprises. CMG@Ventures II had invested $4.5 million in Sage Enterprises beginning in June, 1997. In October, 1998, CMG@Ventures II's holdings in Reel.com were converted into 1,943,783 restricted common and 485,946 restricted, convertible preferred shares of Hollywood Entertainment Corporation (Hollywood Entertainment) as part of a merger wherein Hollywood Entertainment acquired Reel.com. The Hollywood Entertainment preferred shares are convertible into common shares on a 1-for-1 basis, subject to approval by Hollywood Entertainment shareholders. CMG@Ventures II had invested $6.9 million in Reel.com beginning in July, 1997. Also in October, 1998, in a separate transaction, the Company purchased 1,524,644 restricted common and

803,290 restricted, convertible preferred shares of Hollywood Entertainment for a total purchase price of $31.1 million. The preferred shares are convertible into common shares on a 1-for-1 basis, subject to approval by Hollywood Entertainment shareholders.

In August, 1998, the Company's affiliate, GeoCities, completed its initial public offering of common stock, issuing approximately 5 million shares at a price of $17.00 per share. The Company, through its subsidiaries, CMG@Ventures I and II, has invested a total of $5.9 million in GeoCities beginning in January, 1996. CMG@Ventures I and II own a combined 8.8 million shares of GeoCities common stock and options to purchase an additional 1 million shares at a price of $0.89 per share. The Company expects to record a gain on the issuance of stock by GeoCities during its fiscal quarter ended October 31, 1998, representing the increase in the book value of the Company's net equity in GeoCities as a result of the initial public offering. The gain will be recorded net of the interests attributable to CMG@Ventures I's and II's profit members.

The Company recently formed its third venture capital fund, CMG@Ventures III, LLC (CMG@Ventures III), and has begun raising capital from outside investors for a corresponding outside investment fund, @Ventures III, L.P. The Company owns 100% of the capital and is entitled to 80% of the net capital gains of CMG@Ventures III, and will be entitled to 2% of the net capital gains of @Ventures III, L.P. These two funds will invest side by side in all investment candidates. CMGI has committed to fund CMG@Ventures III the greater of $30 million or 19.9% of amounts committed to @Ventures III, L.P.

The Company intends to continue to fund existing and future Internet and interactive media investment and development efforts, and to actively seek new CMG@Ventures investment opportunities. The Company believes that existing working capital and the availability of additional Lycos, GeoCities, Amazon.com and Hollywood Entertainment shares which could be sold or posted as collateral for additional loans, will be sufficient to fund its operations, investments and capital expenditures for the foreseeable future. Additionally, the Company is currently attempting to raise additional equity capital through private placement. Should further capital be needed to fund future investment and acquisition activity, the Company may seek to raise capital through additional public or private offerings of the Company's or its subsidiaries' stock, or through debt financings.

Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. These date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, many companies' software and computer systems may need to be upgraded or replaced in order to comply with such "Year 2000" requirements. CMGI is in the process of evaluating and correcting the Year 2000 compliance of its proprietary products and services and third party equipment and software that it uses, as well as its non-information technology systems, such as building security, voice mail and other systems. The Company's Year 2000 compliance efforts will consist of the following phases: (i) identification of all software products, information technology systems and non-information technology systems; (ii) assessment of repair or replacement requirements; (iii) repair or replacement; (iv) testing; (v) implementation; and (vi) creation of contingency plans in the event of Year 2000 failures. The Company has substantially completed phase (i) and has begun phases (ii) and (iii) of its Year 2000 efforts. The Company expects to complete its Year 2000 compliance efforts by the end of June, 1999.

To date, the Company has not incurred any material expenditures in connection with identifying or evaluating Year 2000 compliance issues. Preliminary estimates regarding expected costs to CMGI for evaluating and correcting Year 2000 issues are in the range of $3 million to $5 million, but there can be no assurance that the costs will not exceed such amounts. The Company's expectations regarding Year 2000 remediation efforts will evolve as it continues to analyze and correct its systems. The Company has not yet developed a formal Year 2000-specific contingency plan. The Company expects that a formal Year 2000 contingency plan will evolve as it completes its Year 2000 compliance efforts. Failure by the Company to resolve Year 2000 issues with respect to its proprietary products and services could have a material adverse effect on the Company's business, results of operations and financial condition. Furthermore, failure of third-party equipment or software to operate properly with regard to the year 2000 and thereafter could require CMGI to incur significant unanticipated expenses to remedy any problems.

Factors That May Affect Future Results

The Company operates in a rapidly changing environment that involves a number of risks, some of which are beyond the Company's control. Forward-looking statements in this document and those made from time to time by the Company through its senior management are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements concerning the expected future revenues or earnings or concerning projected plans, performance, product development, product release or product shipment, as well as other estimates related to future operations are necessarily only estimates of future results and there can be no assurance that actual results will not materially differ from expectations. The Company undertakes no obligation to publicly release the results of any revisions to forward-looking statements which may be made to reflect events or circumstances occurring after the date such statements were made or to reflect the occurrence of unanticipated events.

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

Future Capital Needs - In recent years CMGI has generated significant operating losses which have been partially funded by gains on sales of its interests in other companies. In the future, CMGI may need to access outside sources of financing. There can be no assurance that any such financing will be available. If such financing is available, furthermore, it may involve issuing securities senior to the Common Stock or equity financings which are dilutive to holders of the Common Stock.

Dependence on a Single Customer - During fiscal year 1998 a significant portion of the Company's revenues were derived from a limited number of customers, including Cisco Systems, Inc. (Cisco), which accounted for 47% of total revenues and 61% of fulfillment services segment fiscal year 1998 revenues. While the Company is actively pursuing increasing the number of fulfillment services customers, the Company believes that its dependence on Cisco will continue. This concentration of customers may cause net sales and operating results to fluctuate from quarter to quarter based on Cisco's requirements and the timing of their orders and shipments. The Company does not have agreements in place with Cisco to ensure minimum purchase commitments or exclusivity for purchase of a particular product or service. The Company's operating results could be materially affected if Cisco were to choose to reduce its level of orders, were to change to another vendor, were to experience financial, operational, or other difficulties, or were to delay paying or fail to pay amounts due to the Company.

Dependence on Continued Growth of the Internet and Internet Infrastructure - - CMGI's future success is highly dependent upon continued growth in the use of the Internet generally and, in particular, as a medium for advertising, marketing, services and commerce. Commercial use of the Internet is at an early stage of development, and market acceptance of the Internet as a medium for advertising, information services and commerce is subject to a high level of uncertainty. The relative effectiveness of the Internet as an advertising medium as compared to traditional advertising media, for example, has not been determined. Further, there can be no assurance that the required infrastructure to support future Internet user and traffic growth or complementary products or services necessary to make the Internet a viable commercial marketplace will be developed, or, if they are developed, that the Internet will become a viable commercial marketplace for products and services such as those offered by CMGI. If commercial use of the Internet fails to continue to expand, CMGI's business, results of operations and financial condition would be adversely affected.

Dependence on Key Personnel - CMGI's performance is substantially dependent on the performance of its executive officers and other key employees and its ability to attract, train, retain and motivate high quality personnel, especially highly qualified technical and managerial personnel. The loss of the services of any of its executive officers or key employees could have a material adverse effect on its business, results of operations or financial condition. Competition for talented personnel is intense, and there can be no assurance that CMGI will be able to continue to attract, train, retain or motivate other highly qualified technical and managerial personnel in the future.

Privacy Issues with Cookies - CMGI's Internet services use "cookies" to deliver targeted advertising and marketing initiatives, help compile demographic information about users and limit the frequency with which an ad is shown to a user. Cookies are bits of information keyed to a specific computer hard drive and passed to an Internet site server automatically without the user's knowledge or consent, but can be removed by the user at any time through the modification of the user's browser settings. Due to privacy concerns, Germany has imposed laws restricting the use of cookies, and several Internet commentators, advocates and governmental bodies have suggested that the use of cookies be restricted or eliminated. In addition, certain currently available Internet browsers readily allow a user to delete cookies or prevent cookies from being stored on the user's drive. Any reduction or limitation in the use of cookies could limit the effectiveness of CMGI's ad targeting and marketing initiatives which could result not only in reduced marketplace demand for products and services offered by CMGI to operators of Web sites, but also in CMGI experiencing lower rates for its advertisements which could have a material adverse effect on CMGI's business, results of operations and financial condition.

Government Regulation and Legal Uncertainties - CMGI is not currently subject to direct regulation by any government agency, other than regulations applicable to businesses generally. However, governmental regulators may apply such regulations to Internet activities. There are currently few laws or regulations directly applicable to access to or commerce on the Internet. Due to increasing popularity and use of the Internet, however, it is possible that a number of laws and regulations may be adopted with respect to the Internet, covering issues such as user privacy, pricing, characteristics and quality of products and services. The adoption of any additional laws or regulations may also decrease the growth of the Internet, which could in turn decrease the demand for CMGI's products and services or could increase CMGI's cost of doing business. Moreover, the applicability to the Internet of a range of existing laws in domestic and international jurisdictions governing issues such as commerce, taxation, property ownership, defamation and personal privacy is uncertain and will likely evolve over the course of many years. Any such new legislation or

regulation or application or interpretation of existing laws, including tax laws, could have an adverse effect on CMGI's business, results of operations and financial condition.

Rapid Change in Technology and Distribution Channels - Because the use of the Internet as a commercial medium is relatively recent and continues to evolve, the market for CMGI's products and services is characterized by rapidly changing technology, evolving industry standards, frequent new product and service introductions, shifting distribution channels, and changing customer demands. Accordingly, CMGI's future success will depend on its ability to adapt to this rapidly evolving marketplace. There can be no assurance that CMGI will be able to adequately adapt its products and services or to acquire new products and services that can compete successfully or that CMGI will be able to establish and maintain effective distribution channels. Failure to maintain competitive product and service offerings and distribution channels would have an adverse affect on CMGI's business, results of operations and financial condition. In addition, responding to these rapid technological changes could require substantial expenditures by CMGI, and there can be no assurance that such expenditures will yield a positive investment return.

Intense Competition - The market for Internet products and services is highly competitive and lacks significant barriers to entry. CMGI expects competition to intensify in the future. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with CMGI's products and services. There can be no assurance that CMGI will be able to compete successfully or that competitive pressures, including possible downward pressure on the prices it charges for its products and services, will not adversely affect its business, results of operations and financial condition.

Risks Inherent to CMGI's Acquisition Strategy - CMGI has in the past, and intends in the future, to expand through the acquisition of businesses, technologies, products and services, such as the recent acquisitions of Accipiter, InSolutions and On-Demand Solutions. Acquisitions may result in the potentially dilutive issuance of equity securities, the incurrence of additional debt, the write-off of in-process research and development of software acquisition and development costs, and the amortization of goodwill and other intangible assets. For example, for the year ended July 31, 1998, the Company recorded in-process research and development expense of approximately $10.3 million, primarily in connection with the acquisition of Accipiter. In September, 1998, a representative of the Securities and Exchange Commission (the SEC) advised the American Institute of Certified Public Accountants with respect to factors to be considered in the valuation of in-process research and development. Although the release of this new guidance presents the potential risk of adjustments to reported amounts, if the Company's valuation methodology were to be challenged by the SEC, the Company believes that its recorded in-process research and development expenses were determined in compliance with such guidance. Any such adjustment could result in an increase in the amount of goodwill recorded, which would result in higher amortization expenses and, therefore, adversely affect the Company's operating results. Further, acquisitions involve a number of special problems, including difficulty integrating technologies, operations and personnel and diversion of management attention in connection with both negotiating the acquisitions and integrating the assets. There can be no assurance that CMGI will be successful in addressing such problems. In addition, growth associated with numerous acquisitions places significant strain on CMGI's managerial and operational resources. CMGI's future operating results will depend to a significant degree on its ability to successfully manage growth and integrate acquisitions. Furthermore, many of CMGI's investments are in early-stage companies, with limited operating histories and limited or no revenues; there can be no assurance that CMGI will be successful in developing such companies.

Uncertainties Associated with Selling Assets - A significant element of CMGI's business plan involves selling, in public or private offerings, portions of the companies it has acquired and developed. CMGI's ability to engage in any such transactions, the timing of such transactions and the amount of proceeds from such transactions are dependant on market and other conditions largely beyond CMGI's control. Accordingly, there can be no assurance that CMGI will be able to engage in such transactions in the future or that when CMGI is able to engage in such transactions they will be at favorable prices. If CMGI were unable to liquidate portions of its portfolio companies at favorable prices, CMGI's business, financial condition and results of operations would be adversely affected.

Fluctuating Value of Certain Stock Assets - A portion of the Company's assets includes the equity securities of both publicly traded and non-publicly traded companies. Such assets include a large number of shares of common stock of Lycos and GeoCities, both publicly traded companies. Fluctuations in the market price and valuations of the Company's holdings in such other companies, which are partially dependent on market and other conditions that are beyond the Company's control, may result in fluctuations of the market price of the Company's Common Stock.

Management of Growth - CMGI's growth has placed, and is expected to continue to place, a significant strain on CMGI's managerial, operational and financial resources. Further, as the number of CMGI's users, advertisers and other business partners grows, CMGI is required to manage multiple relationships with various customers, strategic partners and other third parties. These requirements will be exacerbated in the event of further growth of CMGI or in the number of its strategic relationships or sponsorship arrangements. There can be no assurance that CMGI's systems, procedures or controls will be adequate to support CMGI's operations or that CMGI management will be able to achieve the rapid execution necessary to successfully offer its services and implement its business plan. CMGI's future operating results will also depend on its ability to expand its sales and marketing organization and expand its support organization commensurate with the growth of its business and the Internet. If CMGI is unable to manage growth effectively, CMGI's business, results of operations and financial condition will be adversely affected.

Risks Associated with Brand Development - The Company believes that establishing and maintaining its brand names is a crucial aspect of its effort to continue to expand and attract Internet business and that the importance of brand recognition will increase in the future due to the growing number of Internet companies. Promotion and enhancement of the Company's brand names will depend largely on the Company's ability to provide consistently high-quality products and services, which cannot be assured. If consumers do not perceive the Company's existing products and services to be of high quality, or if the Company introduces new products and services or enters into new business ventures that are not favorably received by consumers, the value of the Company's brand names could be diminished.

Dependence on Third-Party Relationships - CMGI is currently, and expects to be in the future, dependent on a number of third-party relationships. These relationships include arrangements relating to the creation of traffic on CMGI-affiliated Web sites and resulting generation of advertising and commerce-related revenue. The termination of, or the failure of such CMGI-affiliated Web sites to renew on reasonable terms, such relationships could have an adverse effect on CMGI's business, results of operations and financial condition. CMGI also is generally dependent on other third-party relationships with advertisers, sponsors and partners. Most of these arrangements do not require future minimum commitments to use CMGI's services, are often not exclusive and are often short-term or may be terminated at the convenience of the other party. There can be no assurance that these third parties will not reassess their commitment to CMGI at any time in the future, or that they will not develop their own competitive services or products. Further, there can be no assurance that the services of these companies will achieve market acceptance or commercial success and therefore there can be no assurance that CMGI's existing relationships will result in sustained or successful business partnerships or significant revenues for CMGI.

Fluctuations in Quarterly Results - CMGI's operating results have fluctuated widely on a quarterly basis during the last several years, and the Company expects to experience significant fluctuations in future quarterly operating results. Such fluctuations have been, and may in the future be, caused by numerous factors, many of which are outside CMGI's control, including demand for CMGI's products and services, incurrence of costs associated with acquisitions, divestitures and investments, the timing of divestitures, market acceptance of new products and services, specific economic conditions in the Internet and direct marketing industries, and general economic conditions. The emerging nature of commercial use of the Internet makes predictions concerning future revenues difficult. CMGI believes that period-to-period comparisons of its results of operations will not necessarily be meaningful and should not be relied upon as indicative of future performance.

Computer Operations - The Company's operations are dependent in part upon its ability to protect its computer operating systems against physical damage from fire, floods, earthquakes, power loss, telecommunications failures, break-ins and similar events. The Company's data centers are equipped with generator back up equipment, multiple fiber lines and other liquid and fire protection systems for protection in case of disaster. Despite the implementation of physical and network security measures by the Company, its servers are also vulnerable to computer viruses, break-ins and similar disruptive problems. The occurrence of any of these events could result in interruptions, delays or cessations in service to users of the Company's products and services which could have a material adverse effect on the Company's business, results of operations and financial condition.

Dependence on Proprietary Rights; Risk of Infringement - CMGI's success depends in part on its proprietary technology and its ability to protect such technology under applicable patent, trademark, copyright and trade secret laws. Accordingly, CMGI seeks to protect the intellectual property rights underlying its products and services by filing applications and registrations, as appropriate, and through its agreements with employees, suppliers, customers and partners. However, there can be no assurance that measures adopted by CMGI to protect its proprietary technology will prevent infringement or misappropriation of such technology. Further, legal standards relating to the validity, enforceability and scope of protection of certain proprietary rights in the context of the Internet industry currently are not resolved. CMGI licenses certain components of its products and services from third parties. The failure by CMGI to maintain such licenses, or to find replacement components in a timely and cost effective manner, could have a material adverse effect on CMGI's business, results of operation and financial condition. From time to time CMGI has been, and expects to continue to be, subject to claims in the ordinary course of its business, including claims of alleged infringement of intellectual property rights of third parties by CMGI. Any such claim could subject CMGI to significant liability for damages and could result in invalidation of CMGI's proprietary rights and, even if not meritorious, could be time-consuming and expensive to defend, and could result in the diversion of management time and attention, any of which could have an adverse effect on CMGI's business, results of operations or financial condition.

ITEM 7A. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Company uses derivative financial instruments primarily to reduce exposure to adverse fluctuations in interest rates on its borrowing arrangements. The Company does not enter into derivative financial instruments for trading purposes. As a matter of policy all derivative positions are used to reduce risk by hedging underlying economic exposure. The derivatives the Company uses are straightforward instruments with liquid markets. At July 31, the Company was primarily exposed to the London Interbank Offered Rate (LIBOR) interest rate on the outstanding borrowings under its line of credit and other bank borrowing arrangements. Information about the Company's borrowing arrangements including principal amounts and related interest rates appears in Note 12 to the Consolidated Financial Statements included herein.

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

ITEM 8. - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) Consolidated Financial Statements:

(b) Selected Quarterly Financial Data (unaudited) is set forth in Note 18 of the Notes to Consolidated Financial Statements (Restated) referred to in Item 8 (a) above and incorporated herein by reference.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
CMGI, Inc. (formerly "CMG Information Services, Inc."):

We have audited the accompanying consolidated balance sheets of CMGI, Inc. and subsidiaries as of July 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended July 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CMGI, Inc. and subsidiaries as of July 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended July 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG LLP
KPMG LLP

Boston, Massachusetts
September 22, 1998, except for Note 19
which is as of October 27, 1998, and except
for the restatement referred to in Notes 2, 3
and 14, as to which the date is May 7, 1999.

CMGI, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	July 31, 1998 (Restated)	July 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 61,537	$ 59,762
Available-for-sale securities	5,764	5,945
Accounts receivable, trade, less allowance for doubtful accounts of $900 and $946 in 1998 and 1997	21,431	26,055
Inventories	8,250	3,077
Prepaid expenses	2,991	5,738
Net current assets of discontinued operations	482	1,225
Other current assets	2,364	2,798
Total current assets	102,819	104,600
Property and equipment	20,990	11,981
Less accumulated depreciation and amortization	7,587	5,351
Net property and equipment	13,403	6,630
Investments in affiliates	82,616	9,160
Costs in excess of net assets of subsidiaries acquired, net of accumulated amortization of $3,379 in 1998 and $878 in 1997	55,770	16,680
Net non-current assets of discontinued operations	1,246	5,482
Other assets	3,964	3,696
	$259,818	$146,248
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 27,656	$ 22,494
Current installments of long-term debt	16,594	3,221
Accounts payable	10,809	9,830
Accrued income taxes	10,085	--
Accrued expenses	18,731	16,405
Deferred revenues	4,932	13,665
Other current liabilities	1,228	431
Total current liabilities	90,035	66,046
Long-term debt, less current installments	1,373	9,550
Long-term deferred revenues	--	5,100
Deferred income taxes	15,536	8,481
Other long-term liabilities	4,428	2,104
Minority interest	15,310	25,519
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; none issued	--	--
Common stock, $0.01 par value per share. Authorized 100,000,000 shares; issued and outstanding 46,067,886 shares at July 31, 1998 and 38,638,172 shares at July 31, 1997	461	386
Additional paid-in capital	91,029	16,590
Net unrealized gain (loss) on available-for-sale securities	(436)	852
Deferred compensation	(1,442)	--
Retained earnings	43,524	11,620
Total stockholders' equity	133,136	29,448
	$259,818	$146,248

see accompanying notes to consolidated financial statements

CMGI, Inc. and Subsidiaries
Consolidated Statements of Operations

(in thousands, except per share amounts)	Years ended July 31, 1998 (Restated)	1997	1996
Net revenues	$ 81,916	$ 60,056	$ 17,735
Operating expenses:			
Cost of revenues	72,950	34,866	11,215
Research and development	19,223	17,767	5,412
In-process research and development	10,325	1,312	2,691
Selling	28,882	33,228	9,293
General and administrative	20,795	13,803	7,519
Total operating expenses	152,175	100,976	36,130
Operating loss	(70,259)	(40,920)	(18,395)
Other income (deductions):			
Interest income	2,426	3,368	2,750
Interest expense	(3,296)	(1,619)	(59)
Gain on sale of Lycos, Inc. common stock	92,388	--	--
Gain on stock issuance by Lycos, Inc.	46,285	--	19,575
Gain on sale of available-for-sale securities	4,174	--	30,049
Gain on sale of investment in TeleT Communications	--	3,616	--
Gain on sale of NetCarta Corporation	--	15,111	--
Gain on dividend distribution of Lycos, Inc. common stock	--	8,413	--
Equity in losses of affiliates	(12,871)	(5,556)	(2,915)
Minority interest	(28)	4,787	2,169
	129,078	28,120	51,569
Income (loss) from continuing operations before income taxes	58,819	(12,800)	33,174
Income tax expense	31,555	2,034	17,566
Income (loss) from continuing operations	27,264	(14,834)	15,608
Discontinued operations, net of income taxes:			
Loss from operations of lists and database services segment	(338)	(7,193)	(1,286)
Gain on sale of data warehouse product rights	4,978	--	--
Net income (loss)	$ 31,904	$(22,027)	$ 14,322

CMGI, Inc. and Subsidiaries
Consolidated Statements of Operations -- (Continued)

(in thousands, except per share amounts)	Years ended July 31, 1998 (Restated)	1997	1996
Earnings (loss) per share:			
Basic:			
Income (loss) from continuing operations	$ 0.65	$ (0.39)	$ 0.43
Loss from discontinued operations of lists and database services segment	(0.01)	(0.19)	(0.03)
Gain on sale of data warehouse product rights	0.12	--	--
Net income (loss)	$ 0.76	$ (0.58)	$ 0.40
Diluted:			
Income (loss) from continuing operations	$ 0.61	$ (0.39)	$ 0.40
Loss from discontinued operations of lists and database services segment	(0.01)	(0.19)	(0.03)
Gain on sale of data warehouse product rights	0.11	--	--
Net income (loss)	$ 0.71	$ (0.58)	$ 0.37
Weighted average shares outstanding:			
Basic	41,666	37,716	36,016
Diluted	45,030	37,716	38,728

see accompanying notes to consolidated financial statements

CMGI, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

(in thousands, except share amounts)

	Common stock	Additional paid-in capital	Net unrealized gain (loss) on available-for-sale securities	Deferred compensation
Balance at July 31, 1995				
(35,354,880 shares)	$354	$ 6,796	$ 18,005	$ --
Net income	--	--	--	--
Issuance of common stock				
(1,312,108 shares)	13	358	--	--
Tax benefit of stock option exercises	--	695	--	--
Effect of subsidiaries' equity transactions	--	1,119	--	--
Sale of available-for-sale securities	--	--	(18,005)	--
Balance at July 31, 1996				
(36,666,988 shares)	367	8,968	--	--
Net loss	--	--	--	--
Dividend of Lycos, Inc. common Stock	--	--	--	--
Net unrealized gain on available-for-sale securities	--	--	852	--
Purchase of treasury stock (400,000 shares)	--	--	--	--
Issuance of common stock				
(2,371,184 shares)	19	7,167	--	--
Tax benefit of stock option exercises	--	277	--	--
Effect of subsidiaries' equity transactions	--	178	--	--
Balance at July 31, 1997				
(38,638,172 shares)	386	16,590	852	--
Net income (Restated)	--	--	--	--
Issuance of common stock				
(7,429,714 shares)	75	67,725	--	--
Deferred compensation related to acquisition of Accipiter, Inc.	--	1,731	--	(1,731)
Amortization of deferred compensation	--	--	--	289
Sale of available-for-sale securities	--	--	(852)	--
Net unrealized loss on available-for-sale securities	--	--	(436)	--
Tax benefit of stock option exercises	--	3,114	--	--
Effect of subsidiaries' equity transactions	--	1,869	--	--
Balance at July 31, 1998 (Restated)				
(46,067,886 shares)	$ 461	$91,029	$ (436)	$(1,442)

	Retained earnings	Treasury stock	Total stockholders' equity
Balance at July 31, 1995			
(35,354,880 shares)	$ 30,335	$ --	$ 55,490
Net income	14,322	--	14,322
Issuance of common stock			
(1,312,108 shares)	--	--	371
Tax benefit of stock option exercises	--	--	695
Effect of subsidiaries' equity transactions	--	--	1,119
Sale of available-for-sale securities	--	--	(18,005)
Balance at July 31, 1996			
(36,666,988 shares)	44,657	--	53,992
Net loss	(22,027)	--	(22,027)
Dividend of Lycos, Inc. common Stock	(11,010)	--	(11,010)
Net unrealized gain on available-for-sale securities	--	--	852
Purchase of treasury stock (400,000 shares)	--	(984)	(984)
Issuance of common stock			
(2,371,184 shares)	--	984	8,170
Tax benefit of stock option exercises	--	--	277
Effect of subsidiaries' equity transactions	--	--	178
Balance at July 31, 1997			

(38,638,172 shares)	11,620	--	29,448
Net income (Restated)	31,904	--	31,904
Issuance of common stock (7,429,714 shares)	--	--	67,800
Deferred compensation related to acquisition of Accipiter, Inc.	--	--	--
Amortization of deferred compensation	--	--	289
Sale of available-for-sale securities	--	--	(852)
Net unrealized loss on available-for-sale securities	--	--	(436)
Tax benefit of stock option exercises	--	--	3,114
Effect of subsidiaries' equity transactions	--	--	1,869
Balance at July 31, 1998 (Restated) (46,067,886 shares)	$ 43,524	$ --	$133,136

see accompanying notes to consolidated financial statements

CMGI, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(in thousands)	Years ended July 31, 1998	1997	1996
	(Restated)		
Cash flows from operating activities:			
Income (loss) from continuing operations	$ 27,264	$(14,834)	$ 15,608
Adjustments to reconcile income (loss) from continuing operations to net cash used for continuing operations:			
Depreciation and amortization	6,953	4,044	2,006
Deferred income taxes	4,206	(871)	8,283
Non-operating gains	(142,847)	(27,140)	(49,624)
Equity in losses of affiliates	12,871	5,556	2,915
Minority interest	28	(4,787)	(2,169)
In-process research and development	10,325	1,312	2,691
Changes in operating assets and liabilities, excluding effects from acquisitions and divestitures of subsidiaries:			
Trade accounts receivable	(8,977)	(11,985)	(7,110)
Inventories	(3,873)	(2,390)	--
Prepaid expenses	(1,322)	(4,065)	(1,442)
Accounts payable and accrued expenses	8,019	11,536	7,210
Deferred revenues	3,618	12,851	4,595
Refundable and accrued income taxes, net	15,031	(3,157)	(7,678)
Other assets and liabilities	(636)	(460)	(685)
Net cash used for operating activities of continuing operations	(69,340)	(34,390)	(25,400)
Net cash provided by (used for) operating activities of discontinued operations	(2,385)	(7,263)	74
Net cash used for operating activities	(71,725)	(41,653)	(25,326)
Cash flows from investing activities:			
Additions to property and equipment - continuing operations	(8,043)	(4,809)	(3,928)
Additions to property and equipment - discontinued operations	(146)	(2,130)	(3,140)
Investments in affiliates and acquisitions of subsidiaries, net of cash acquired	(34,512)	(23,566)	(6,010)
Proceeds from sale of data warehouse product rights - discontinued operations	9,543	--	--
Proceeds from sales of Lycos, Inc. common stock	108,876	--	--
Proceeds from sale or maturities of available-for-sale securities	7,555	13,069	69,918
Purchases of available-for-sale securities	(5,000)	--	(25,526)
Proceeds from sales of NetCarta Corporation and investment in TeleT Communications	--	19,018	--
Reduction in cash due to deconsolidation of Lycos, Inc.	(41,017)	--	--
Other, net	(338)	(734)	(67)
Net cash provided by investing activities	36,918	848	31,247
Cash flows from financing activities:			
Proceeds from issuance of notes payable, net of repayments	4,456	22,630	--
Proceeds from issuance of long-term debt	10,250	6,500	--
Repayments of long-term debt	(7,521)	(1,230)	--
Sale of common and treasury stock	23,206	8,170	371
Purchase of treasury stock	--	(984)	--
Net proceeds from issuance of stock by subsidiaries	3,526	--	48,058
Other	2,665	2,094	(386)
Net cash provided by financing activities	36,582	37,180	48,043
Net increase (decrease) in cash and cash equivalents	1,775	(3,625)	53,964
Cash and cash equivalents at beginning of year	59,762	63,387	9,423
Cash and cash equivalents at end of year	$ 61,537	$ 59,762	$ 63,387

see accompanying notes to consolidated financial statements

(1) Nature of Operations

CMGI, Inc. ("CMGI" or "the Company", formerly CMG Information Services, Inc.) is a direct marketing service provider that invests in, develops and integrates advanced, Internet, interactive, and database management technologies. CMGI and its subsidiaries offer their clients a wide variety of direct marketing opportunities to choose from, including: Internet and interactive media direct marketing software technologies, product and literature fulfillment and turnkey outsourcing, sales lead/inquiry management, business-to-business telemarketing services, highly segmented and accurate mailing lists, database management, design and development capabilities, consultative list management and brokerage services. The Company is advancing products and services that will both create and profit from direct marketing opportunities on the Internet.

(2) Summary of Significant Accounting Policies

Principles of Consolidation and Presentation

The consolidated financial statements of the Company include its wholly-owned and majority-owned subsidiaries which at July 31, 1998 include, Engage Technologies, Inc. (Engage), Accipiter, Inc. (Accipiter), CMG Direct Corporation (CMG Direct, see Note 3), SalesLink Corporation (SalesLink), InSolutions, Inc. (InSolutions), On-Demand Solutions, Inc. (On-Demand Solutions), CMG@Ventures, Inc., CMG@Ventures I, LLC (CMG@Ventures I, formerly CMG@Ventures, L.P.), CMG@Ventures Capital Corporation, CMG Securities Corporation, CMG@Ventures II, LLC (CMG@Ventures II), Blaxxun Interactive, Inc. (Blaxxun), ADSmart Corporation (ADSmart), InfoMation Publishing Corporation (Infomation), Planet Direct Corporation (Planet Direct), Navisite Internet Services Corporation (NaviSite), Password Internet Publishing Corporation (Password) and Vicinity Corporation (Vicinity). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company accounts for investments in businesses in which it owns between 20% and 50% using the equity method and accounts for investments in which it owns less than 20% at original cost. Certain amounts for prior periods have been reclassified to conform with current year presentations.

Restatement Related to In-Process Research and Development Expense

The accompanying consolidated financial statements have been restated to reflect the impact of adjustments made by Lycos, Inc. (Lycos) to its previously reported in-process research and development charges associated with Lycos' acquisitions of Tripod, Inc., WiseWire Corporation and GuestWorld, Inc. during CMGI's third and fourth quarters of fiscal 1998. The accompanying consolidated financial statements have also been restated to reflect a change in the original accounting for the purchase price allocation related to CMGI's acquisition of Accipiter, Inc. (Accipiter) in the third fiscal quarter of 1998.

Lycos reduced the amount of its charges for in-process research and development in connection with the above noted acquisitions and, correspondingly, increased the amounts allocated to intangible assets by $74.0 million. During the periods effected, CMGI's ownership in Lycos ranged from approximately 46% to approximately 22%, and CMGI accounted for its investment in Lycos under the equity method of accounting, whereby CMGI's portion of the net operating performance of Lycos was reflected in equity in losses of affiliates. Additionally, during such periods CMGI recorded gains on sales of portions of its Lycos stock holdings, and recorded gains on issuances of stock by Lycos. As a result of the Lycos restatements, CMGI has accordingly restated previously reported equity in losses of Lycos, gains on sales of Lycos stock and gains on issuance of stock by Lycos for CMGI's fiscal quarters ended April 30, 1998 and July 31, 1998. Lycos' reduction of previously recorded in-process research and development charges resulted in higher gains on Lycos stock issuances recorded by the Company, thereby increasing CMGI's book basis in its Lycos investment and resulting in lower gains on sales of Lycos stock and reduced gains on Lycos stock issuances in subsequent quarters. Related higher amortization charges recorded by Lycos in subsequent quarters resulted in higher equity in loss of affiliates amounts recorded by CMGI.

Upon consummation of the Accipiter acquisition in the third fiscal quarter of 1998, CMGI, in its consolidated financial statements, reported an expense of approximately $18.0 million representing acquired in-process research and development that had not yet reached technological feasibility and had no alternative future use. On May 7, 1999, CMGI announced a voluntary restatement of the in-process research and development charge related to the Accipiter acquisition to address valuation methodologies suggested by the SEC in a letter dated September 9, 1998 to the American Institute of Certified Public Accountants SEC Regulations Committee and as clarified through subsequent practice. Upon consideration of this guidance and additional practice that has developed since the SEC letter was first made public, the $18.0 million charge as previously reported has been reduced to $9.2 million and amounts allocated to goodwill and other intangible assets have been increased from $11.5 million to $20.3 million.

The effect of this restatement on previously reported consolidated financial statements as of and for the year ended July 31, 1998 is as follows (in thousands, except per share amounts):

Statements of Operations:

	Year Ended July 31, 1998	
	As Reported	Restated
Cost of revenues	$ 72,843	$ 72,950
In-process research and development	19,135	10,325
General and administrative expenses	20,287	20,795
Operating loss	(78,454)	(70,259)
Gain on sale of Lycos, Inc. common stock	97,158	92,388
Gain on stock issuance by Lycos, Inc.	28,301	46,285
Equity in losses of affiliates	(11,821)	(12,871)
Income from continuing operations before income taxes	38,460	58,819
Income tax expense	26,547	31,555
Income from continuing operations	11,913	27,264
Net income	16,553	31,904
Basic income from continuing operations per share	0.29	0.65
Basic net income per share	0.40	0.76
Diluted income from continuing operations per share	0.27	0.61
Diluted net income per share	0.37	0.71

Balance Sheets:

	July 31, 1998	
	As Reported	Restated
Investments in affiliates	$ 66,187	$ 82,616
Cost in excess of net assets of subsidiaries acquired, net of accumulated amortization	49,301	55,770
Other assets	2,238	3,964
Total assets	235,194	259,818
Non-current deferred income tax liabilities	10,528	15,536
Minority interest	11,045	15,310
Retained earnings	28,173	43,524
Total stockholders' equity	117,785	133,136

NOTE: All "As Reported" and "As Restated" amounts in the above table have been retroactively adjusted to reflect the presentation of the Company's lists and database services segment as discontinued operations and to reflect a two-for-one stock split effected in the form of a stock dividend by the Company on January 11, 1999.

Revenue Recognition

Revenue from the sale of mailing lists is recognized when the mailing labels are shipped. Revenue for services is recognized upon completion of the service.

The Company's advertising revenues are derived principally from short-term Internet advertising contracts in which the Company guarantees a minimum number of impressions for a fixed fee or on a per-impression basis with an established minimum fee. Revenues from advertising are recognized as the services are performed.

The Company's license and product revenues are derived principally from product licensing fees and fees from maintenance and support of its products. License and product revenues are generally recognized upon delivery provided that no significant Company obligations remain and collection of the receivable is probable. In cases where there are significant remaining obligations, the Company defers such revenue until those obligations are satisfied. Fees from maintenance and support of the Company's products, including those fees bundled with the initial licensing fees, are deferred and recognized ratably over the service period.

Gain on Issuances of Stock by Subsidiaries

At the time a subsidiary sells its stock to unrelated parties at a price in excess of its book value, the Company's net investment in that subsidiary increases. If at that time, the subsidiary is an operating entity and not engaged principally in research and development, the Company records the increase as a gain in its Consolidated Statements of Operations. Otherwise, the increase is reflected in "effect of subsidiaries' equity transactions" in the Company's Consolidated Statements of Stockholders' Equity.

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

Cash Equivalents and Statement of Cash Flows Supplemental Information

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

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

	Year ended July 31, 1998	1997	1996
Interest	$ 2,856,000	$1,429,000	$ 26,000
Income taxes	$15,720,000	$1,856,000	$16,069,000

During fiscal year 1998, significant non-cash investing activities included the sale of data warehouse product rights by the Company's subsidiary, Engage, in exchange for available-for-sale securities in addition to $9.5 million in cash (see note 3). Also, portions of the consideration for acquisitions of businesses by the Company, or its subsidiary, during fiscal 1998 included the issuance of shares of the Company's common stock and the issuance of seller's notes (see note 7).

During fiscal year 1997, significant non-cash investing activities included the sale of the Company's equity interest in TeleT Communications, LLC (TeleT) in exchange for available-for-sale securities in addition to $550,000 in cash (see note 10) and the acquisition of one subsidiary, Pacific Direct Marketing Corporation (Pacific Link), for consideration which included $7.5 million financed through a seller's note (see note 7). Significant non-cash financing activities in fiscal 1997 consisted of the dividend distribution of 603,000 shares of Lycos stock to CMGI shareholders (see note 14).

During fiscal year 1996, in a non-cash investing transaction, the Company's then consolidated subsidiary, Lycos, Inc. (Lycos), acquired Point Communications Corporation in exchange for 526,316 shares of Lycos stock.

Fair Value of Financial Instruments

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

Marketable Securities

The Company determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. Marketable securities have been classified as available-for-sale and are carried at fair value, based on quoted market prices, net of market value discount to reflect any restrictions on transferability, with unrealized gains and losses reported as a separate component of stockholders' equity.

Inventories

Inventories consist primarily of raw materials used in the Company's fulfillment services segment and are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Accounting for Impairment of Long-Lived Assets

The Company assesses the need to record impairment losses on long-lived assets used in operations when indicators of impairment are present. On an on-going basis, management reviews the value and period of amortization or depreciation of long-lived assets, including costs in excess of net assets of subsidiaries acquired. During this review, the Company reevaluates the significant assumptions used in determining the original cost of long-lived assets. Although the assumptions may vary from transaction to transaction, they generally include revenue growth, operating results, cash flows and other indicators of value. Management then determines whether there has been a permanent impairment of the value of long-lived assets based upon events or circumstances which have occurred since acquisition.

Property and Equipment

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

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

Investments in Affiliates

The Company's investments in affiliated companies for which its ownership exceeds 20%, but which are not majority-owned or controlled, are accounted for using the equity method. Under the equity method, the Company's proportionate share of each affiliate's net income or loss and amortization of the Company's net excess investment over its equity in each affiliate's net assets is included in "equity in losses of affiliates". Amortization is recorded on a straight-line basis over periods ranging from five to ten years.

At the time an affiliate sells its stock to unrelated parties at a price in excess of its book value, the Company's net investment in that affiliate increases. If at that time, the affiliate is an operating entity and not engaged principally in research and development, the Company records the increase as a gain in its Consolidated Statements of Operations.

Costs in Excess of Net Assets of Subsidiaries Acquired

The costs in excess of net assets of subsidiaries acquired (goodwill) are principally being amortized over periods expected to be benefited, ranging from five to twenty years.

Deferred Revenues

Deferred revenues are comprised of license fees to be earned in the future on license agreements existing at the balance sheet date and billings in excess of earnings on both license and advertising contracts.

Research and Development Costs and Software Costs

Expenditures related to the development of new products and processes, including significant improvements and refinements to existing products and the development of software, are expensed as incurred, unless they are required to be capitalized. Software development costs are required to be capitalized when a product's technological feasibility has been established by completion of a detailed program design or working model of the product, and ending when a product is available for general release to customers. To date, the establishment of technological feasibility and general release have substantially coincided. As a result, capitalized software development costs have not been significant. Additionally, at the date of acquisition or investment, the Company evaluates the components of the purchase price of each acquisition or investment to identify amounts allocated to in-process research and development. Upon completion of acquisition accounting and valuation, such amounts are charged to expense if technological feasibility had not been reached at the acquisition date. In September, 1998, a representative of the Securities and Exchange Commission (the SEC) advised the American Institute of Certified Public Accountants with respect to factors to be considered in the valuation of in-process research and development. Based on a review of the valuation methodologies applied, the Company believes it has taken these factors into consideration in determining amounts recorded in the current fiscal year ended July 31, 1998.

Accounting for Income Taxes

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

Earnings (Loss) Per Share

During the second quarter of fiscal 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share". SFAS No. 128 required the Company to change the method formerly used to compute earnings per share and to restate all prior periods presented. Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. Weighted average common equivalent shares outstanding during the period, using the "treasury stock method", are included in the calculation of diluted earnings per share only when the effect of their inclusion would be dilutive. Accordingly, since the Company reported a net loss for the year ended July 31, 1997, common equivalent shares have not been included in the calculation of diluted earnings per share for that period.

If a subsidiary has dilutive stock options or warrants outstanding, diluted earnings per share is computed by first deducting from net income (loss), the income attributable to the potential exercise of the dilutive stock options or warrants of the subsidiary. The effect of income attributable to dilutive subsidiary stock equivalents was immaterial during the years ended July 31, 1998, 1997 and 1996.

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

	Years Ended July 31, 1998	1997	1996
Weighted average number of common shares outstanding - basic	41,666,000	37,716,000	36,016,000
Weighted average number of dilutive common stock equivalents outstanding	3,364,000	--	2,712,000
Weighted average number of common shares outstanding -- diluted	45,030,000	37,716,000	38,728,000

Stock-Based Compensation Plans

The Company has adopted SFAS No. 123, "Accounting for Stock-Based Compensation." As permitted by SFAS No. 123, the Company measures compensation cost in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" 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. Therefore, the adoption of SFAS No. 123 was not material to the Company's financial condition or results of operations; however, the pro forma impact on earnings per share has been disclosed in the Notes to Consolidated Financial Statements as required by SFAS No. 123 (see note 15).

Use of Estimates

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

Diversification of Risk

Sales to one customer, Cisco Systems, Inc. (Cisco), accounted for 47% and 28% of net revenues and 61% and 47% of fulfillment services segment net revenues for fiscal year 1998 and 1997, respectively. Accounts receivable from this customer amounted to approximately 29% and 11% of total trade accounts receivable at July 31, 1998 and July 31, 1997, respectively. The Company's products and services are provided to customers primarily in North America.

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

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

New Accounting Pronouncements

In June, 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 130 establishes standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income is a measure of all changes in stockholders' equity that result from recognized transactions and other economic events of a period, other than transactions with owners in their capacity as owners. SFAS No. 131 establishes standards for the way that public business enterprises report selected information about operating segments in annual and interim financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS No. 131 requires the use of the "management approach" in disclosing segment information, based largely on how senior management generally analyzes the business operations. SFAS No. 130 and 131 become effective for the Company in fiscal 1999. The Company is in the process of determining the impact of these standards, if any, on its consolidated financial statements and related disclosures.

In December, 1997, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 97-2, "Software Revenue Recognition." SOP 97-2 establishes standards relating to the recognition of all aspects of software revenue. SOP 97-2 is effective for transactions entered into beginning in the Company's fiscal year 1999 and may require the Company to modify certain aspects of its revenue recognition policies. The Company does not expect the adoption of SOP 97-2 to have a material impact on the Company's consolidated results of operations.

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

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

(3) Segment Information and Discontinued Operations

The Company's continuing operations have been classified in two primary business segments, (i) investment and development and (ii) fulfillment services. Investment and development is a business segment formed during the third quarter of fiscal year 1995 to focus on strategic investment and development opportunities afforded by the Internet and interactive media markets. Fulfillment services include product and literature fulfillment and turnkey outsourcing, telemarketing, and sales/lead inquiry management. Corporate and other includes available-for-sale securities, certain cash equivalents and certain other assets which are not identifiable to the operations of the Company's primary business segments.

From its inception in August, 1995, through July 31, 1997, the Company's subsidiary, Engage, focused on providing traditional mailing list maintenance and database services (through its ListLab division), and on developing data mining, querying, analysis and targeting software products for use in large database applications. As such, the results of Engage's operations were classified in the Company's list and database services segment through July 31, 1997. During the first quarter of fiscal 1998, Engage sold certain rights to its Engage.Fusion(TM) and Engage.Discover(TM) data warehouse products to Red Brick Systems, Inc. (Red Brick) for $9.5 million and 238,160 shares of Red Brick common stock, and recorded a pre-tax gain of $8,437,000 on the sale. These products had been developed to accelerate the design and creation of very large data warehouses and perform high-end data query and analysis. Engage retained certain rights to sell Engage.Fusion and Engage.Discover to interactive media markets as part of its Engage Product Suite. Additionally, during the first quarter of fiscal year 1998, Engage transferred its ListLab division to the Company's recently formed subsidiary, CMG Direct. With the sale of these rights and transfer of its ListLab division, Engage has narrowed its focus to the Internet software solutions market, where it seeks to help companies individually distinguish, understand and interact with anonymous prospects and customers in personalized marketing, sales, and service relationships via the Internet. As a result of this repositioning, beginning in fiscal year 1998, the operating results of Engage are now classified in the Company's investment and development segment.

On March 11, 1999, the Company announced the signing of a binding agreement to sell its wholly-owned subsidiary, CMG Direct to Marketing Services Group, Inc. At the time, CMG Direct comprised the Company's entire lists and database services segment. As a result, the operations of the Company's lists and database services segment have been reflected as income (loss) from discontinued operations in the accompanying consolidated financial statements. The gain on sale of certain data warehouse product rights by Engage in the first quarter of fiscal 1998 has also been reflected as discontinued operations. These data warehouse products were developed by Engage during fiscal 1996 and 1997, when Engage was included in the Company's lists and database services segment. Certain prior period amounts in the consolidated financial statements have been reclassified in accordance with generally accepted accounting principles to reflect the Company's lists and database services segment as discontinued operations. Summarized financial information for discontinued operations is as follows:

	Years Ended July 31,		
Results of operations:	1998	1997	1996
Net revenues	$ 9,568,000	$ 10,551,000	$10,750,000
Operating expenses	10,125,000	22,740,000	12,929,000
Operating loss	(557,000)	(12,189,000)	(2,179,000)
Gain on sale of data warehouse product rights	8,437,000	--	--
Income (loss) before income taxes	7,880,000	(12,189,000)	(2,179,000)
Income tax expense (benefit)	3,240,000	(4,996,000)	(893,000)

Net income (loss) from discontinued operations	$ 4,640,000	$ (7,193,000)	$(1,286,000)

Financial Position:	As of July 31, 1998	1997
Current assets	$ 2,748,000	$ 3,316,000
Property and equipment, net	570,000	4,514,000
Other assets	676,000	983,000
Current liabilities	(2,266,000)	(2,091,000)
Non-current liabilities	--	(15,000)
Net assets of discontinued operations	$ 1,728,000	$ 6,707,000

During fiscal 1998, Cisco accounted for approximately 61% of net revenues in the fulfillment services segment. Previously, Cisco accounted for 47% of fulfillment services segment net revenues in fiscal 1997 and three customers individually accounted for 15%, 15% and 13% of segment net revenues in fiscal 1996. Summarized financial information of the Company's continuing operations by business segment for the fiscal years ended July 31, 1998, 1997 and 1996 is as follows:

	Years Ended July 31, 1998	1997	1996
Net revenues:			
Investment and development	$ 18,709,000	$ 23,917,000	$ 5,665,000
Fulfillment services	63,207,000	36,139,000	12,070,000
	$ 81,916,000	$ 60,056,000	$ 17,735,000
Operating income (loss):			
Investment and development	$(71,703,000)	$(45,250,000)	$(19,961,000)
Fulfillment services	1,444,000	4,330,000	1,566,000
	$(70,259,000)	$(40,920,000)	$(18,395,000)
Total assets:			
Investment and development	$120,759,000	$ 87,626,000	$ 68,256,000
Fulfillment services	67,356,000	32,734,000	6,366,000
Corporate and other	69,975,000	19,181,000	26,786,000
	$258,090,000	$139,541,000	$101,408,000
Capital expenditures:			
Investment and development	$ 3,710,000	$ 3,745,000	$ 3,128,000
Fulfillment services	4,333,000	1,064,000	800,000
	$ 8,043,000	$ 4,809,000	$ 3,928,000
Depreciation and amortization:			
Investment and development	$ 4,397,000	$ 2,410,000	$ 1,546,000
Fulfillment services	2,556,000	1,634,000	460,000
	$ 6,953,000	$ 4,044,000	$ 2,006,000

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

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

(4) Deconsolidation of Lycos, Inc.

During the second fiscal quarter ended January 31, 1998, the Company sold 340,000 shares of Lycos stock on the open market and distributed 216,034 Lycos shares to the profit members of CMG@Ventures I. Through the sale and distribution of Lycos shares, the Company's ownership percentage in Lycos was reduced from just in excess of 50% at October 31, 1997, to below 50% beginning in November, 1997. As such, starting in November, 1997, the Company began accounting for its remaining investment in Lycos under the equity method of accounting, rather than the consolidation method. Prior to these events, the operating results of Lycos were consolidated within the operating results of the Company's investment and development segment, and the assets and liabilities of Lycos were consolidated with those of CMGI's other majority-owned subsidiaries in the Company's Consolidated Balance Sheets. The Company's historical consolidated operating results for the fiscal years ended July 31, 1997 and 1996 included Lycos net revenues of $22,253,000 and $5,257,000, respectively, and Lycos operating losses of ($8,759,000) and ($5,802,000), respectively. The Company's consolidated operating results for the fiscal quarter ended October 31, 1997 included Lycos net revenues and operating loss of $9,303,000 and ($433,000), respectively. The Company's historical Consolidated Balance Sheets as of July 31, 1997 and October 31, 1997 included Lycos amounts as follows:

	Jul. 31, 1997	Oct. 31, 1997
Current assets	$60,745,000	$63,935,000
Total assets	$65,419,000	$67,694,000
Current liabilities	$22,615,000	$25,822,000
Total liabilities	$27,772,000	$29,259,000

The following table contains the summarized financial information for Lycos subsequent to deconsolidation in November, 1997, as restated to reflect Lycos' adjustments to in-process research and development charges and amortization of acquisition related intangible assets:

Condensed Statement of Operations:

	Nine Months Ended July 31, 1998
Net revenues	$ 46,757,000
Operating loss	$(31,058,000)
Net loss	$(28,547,000)

Note: Lycos' operating and net loss for the nine months ended July 31, 1998 includes in-process research and development and other one-time merger related charges of $18,480,000.

Condensed Balance Sheet:

	July 31, 1998
Current assets	$200,797,000
Noncurrent assets	116,438,000
Total assets	$317,235,000
Current liabilities	$ 53,875,000
Noncurrent liabilities	26,196,000
Stockholders' equity	237,164,000
Total liabilities and stockholders' equity	$317,235,000

(5) Available-for-Sale Securities

At July 31, 1998, available-for-sale securities consist of 334,728 shares of Open Market, Inc. common stock and 238,160 shares of Red Brick common stock, carried at fair value and based on quoted market prices, net of a market value discount to reflect the remaining restriction on transferability for the Red Brick common shares. A $314,000 unrealized holding gain and a $750,000 unrealized holding loss was recorded on the Open Market, Inc. and Red Brick shares, respectively, based on the change in market value of the respective stocks from dates of acquisition to July 31, 1998. The net $436,000 unrealized holding loss is presented in the equity section of the July 31, 1998 Consolidated Balance Sheet.

During the first quarter of fiscal year 1998, CMG@Ventures I distributed 224,795 of its shares of Premiere Technologies, Inc. (Premiere) common stock to the Company, and allocated 58,538 Premiere shares to CMG@Ventures I's profit members. The Company sold its 224,795 shares during fiscal 1998 for proceeds of $7,555,000, realizing a net gain of $4,174,000 on the sale.

At July 31, 1997, available-for-sale securities consist of 283,333 shares of Premiere common stock carried at fair value, based on quoted market price, net of a market value discount to reflect restrictions on transferability through September 19, 1997. An $852,000 unrealized gain, based on the change in market value of the stock from date of acquisition to July 31, 1997, is presented in the equity section of the July 31, 1997 Consolidated Balance Sheet, net of deferred income taxes.

(6) Property and Equipment

Property and equipment consists of the following:

	July 31, 1998	July 31, 1997
Machinery and equipment	$11,990,000	$ 7,373,000
Software	3,558,000	760,000
Leasehold improvements	2,825,000	1,752,000
Office furniture and equipment	1,959,000	1,438,000
Other equipment	658,000	658,000
	$20,990,000	$11,981,000

(7) Business Combinations

On October 24, 1996, the Company's subsidiary, SalesLink, acquired Pacific Link, a company specializing in high technology product and literature fulfillment and turnkey outsourcing. The consideration for the acquisition was $17,000,000, $8,500,000 of which was paid in cash at the date of acquisition, $1,000,000 of which SalesLink paid (along with interest at the annual rate of 7%) in February 1997, and the remaining $7,500,000 of which was financed through a seller's note (see note 12). The sources of the cash portion of the purchase price were $3,000,000 from corporate funds provided by the Company to SalesLink for the acquisition and $5,500,000 from a bank loan.

On April 9, 1998, the Company acquired Accipiter, a company specializing in Internet advertising management solutions, in exchange for 2,527,384 shares of the Company's common stock. The shares issued by the Company in the acquisition of Accipiter are not registered under the Securities Act of 1933 and are subject to restrictions on transferability for periods ranging from six to twenty-four months from the date of issuance. The total purchase price for Accipiter was valued at $30,178,000, including costs of acquisition of $198,000. The value of the Company's shares included in the purchase price was recorded net of a weighted average 15% market value discount to reflect the restrictions on transferability. Of the purchase price, $9,200,000 was allocated to in-process research and development which has been charged to operations during fiscal 1998.

Approximately $1.7 million of deferred compensation was recorded during fiscal 1998 relating to approximately 86,000 of the Company's common shares issued to employee stockholders of Accipiter which are being held in escrow. These shares are subject to forfeiture upon termination of employment over a two-year period. Deferred compensation expense will be recognized over the two-year service period.

Also during fiscal 1998, the Company, or its subsidiaries, completed the acquisition of three other companies for purchase prices valued at a combined total of $23,630,000, including InSolutions ($15,218,000 purchase price in June, 1998), Servercast Communications, LLC (Servercast, $1,020,000 in July, 1998) and On-Demand Solutions ($7,392,000 on July 31, 1998). The combined consideration for these acquisitions consisted of 620,804 shares of the Company's common stock valued at $14,585,000, $6,578,000 in cash and $2,467,000 financed through seller's notes. The shares issued by the Company were not registered under the Securities Act of 1933 and were subject to restrictions on transferability for periods ranging from twelve to twenty-four months. The value of the Company's shares included in the purchase prices of these acquisitions were recorded net of market value discounts ranging from 12% to 22% to reflect the restrictions on transferability. $5,000,000 of the cash consideration was provided through additional bank borrowings by the Company's subsidiary, SalesLink. Additional consideration of up to $2,783,000 could be paid related to the acquisition of InSolutions if certain future performance goals are met.

The acquisitions during fiscal 1997 and 1998 have been accounted for using the purchase method, and, accordingly, the purchase prices have been allocated to the assets purchased and liabilities assumed based upon their fair values at the dates of acquisition. The portion of the purchase prices allocated to goodwill will be amortized on a straight line basis over five years for Accipiter and Servercast and over 15 years for Pacific Link, InSolutions and On-Demand Solutions. The acquired companies are included in the Company's consolidated financial statements from the dates of acquisition.

The purchase prices of the acquisitions during fiscal 1998 and 1997 were allocated as follows:

	1998		1997
	Accipiter	All Others	Pacific Link
Working capital, including cash acquired	$ 441,000	$ (989,000)	$(1,204,000)
Property, plant and equipment	262,000	1,484,000	713,000
Other assets	2,000	173,000	385,000
In-process research and development	9,200,000	--	--
Goodwill	18,393,000	23,357,000	17,229,000
Developed technology	1,600,000	--	--
Other identifiable intangible assets	280,000	--	--
Other long-term liabilities	--	(395,000)	(123,000)
Purchase price	$30,178,000	$23,630,000	$17,000,000

The following unaudited pro forma financial information presents the consolidated operations of the Company and the acquired companies as if the acquisitions had occurred as of the beginning of fiscal 1997, after giving effect to certain adjustments including increased amortization of goodwill related to the acquisitions, increased interest expense related to long-term debt issued in conjunction with the acquisitions and decreased compensation for certain officers to reflect contractual post-acquisition compensation. The one-time in-process research and development charge of $9,200,000 which was recorded in fiscal 1998 related to the acquisition of Accipiter is not included in the pro forma results as it is unusual and not indicative of normal operating results. The unaudited pro forma information excludes the impact of the acquisition of Servercast since it is not material to the Company's consolidated financial statements. The unaudited pro forma financial information is provided for informational purposes only and should not be construed to be indicative of the Company's consolidated results of operations had the acquisitions been consummated on the dates assumed and do not project the Company's results of operations for any future period:

	Year ended July 31, 1998	1997
Net revenues	$107,816,000	$ 87,658,000
Net income (loss)	$ 34,402,000	$(29,635,000)
Basic net income (loss) per share	$ 0.78	$ (0.74)
Diluted net income (loss) per share	$ 0.73	$ (0.74)

(8) CMG@Ventures Investments

During fiscal year 1996, the Company, through CMG@Ventures I, invested $19.2 million in eight companies, including $2 million in Vicinity, $750,000 in TeleT, $2 million in GeoCities, $4 million in Blaxxun, $4.5 million in NetCarta Corporation (NetCarta), $1 million in Lycos, $1.75 million in Ikonic Interactive, Inc., and $3.2 million in FreeMark Communications, Inc. (FreeMark).

CMG@Ventures I invested a total of $10.8 million in five companies during fiscal year 1997, including $2 million in Parable LLC (Parable), $1.2 million in Lycos, $3.8 million in NetCarta, $1.8 million in Vicinity and $2 million in GeoCities. During fiscal 1997, the Company completed its minimum funding commitment of $35 million to CMG@Ventures I, and formed a new limited liability company subsidiary, CMG@Ventures II, to continue the Company's Internet venture capital investment model. CMG@Ventures II invested a total of $8.3 million in five companies during fiscal year 1997, including $2 million in Silknet Software, Inc. (Silknet), $2 million in KOZ, inc. (KOZ) $1 million in Softway Systems, Inc. (Softway Systems), $1 million in Sage Enterprises, Inc. (Sage Enterprises), and $2.3 million in Reel.com LLC (Reel.com). CMG@Ventures II invested a total of $27.6 million in fifteen companies during fiscal year 1998, including $100,000 in Blaxxun, $1.8 million in GeoCities, $200,000 in Vicinity, $3 million in Silknet, $2.1 million in Parable, $150,000 in KOZ, $3.5 million in Sage Enterprises, $4.6 million in Reel.com, $1.8 million in Speech Machines plc (Speech Machines), $2.6 million in Chemdex Corporation (Chemdex), $2 million in TicketsLive Corporation (TicketsLive), $1 million in Critical Path, $2 million in Mother Nature's General Store, Inc. (Mother Nature), $1.5 million in Visto Corporation (Visto), and $1.25 million in Universal Learning Technology.

At July 31, 1998, CMG@Ventures I held equity investments in five companies, including Blaxxun (81% legal ownership), GeoCities (32%), Lycos (25%), Parable (31%), and Vicinity (50%). At July 31, 1998, CMG@Ventures II held equity investments in fourteen companies, including Chemdex (16%), Critical Path (7%), GeoCities (2%), KOZ (14%), Mother Nature (24%), Parable (11%), Reel.com (36%), Sage Enterprises (29%), Silknet (24%), Softway Systems (9%), Speech Machines (29%), TicketsLive (14%), Universal Learning Technology (12%), and Visto (6%). The Company owns 100% of the capital interest and has all voting rights with respect to CMG@Ventures I and CMG@Ventures II investments. The Company is entitled to 77.5% and 80% of the net capital gains, as defined, on investments made by CMG@Ventures I and CMG@Ventures II, respectively. The remaining interest in the net capital gains on these investments are attributed to profit partners, including the President and Chief Executive Officer and the Chief Financial Officer of the Company. The Company is responsible for all operating expenses of CMG@Ventures I and CMG@Ventures II. CMG@Ventures I's interest in Lycos is subject to further reduction because CMG@Ventures I is obligated to sell to Lycos a portion of its shares of common stock of Lycos, as necessary, to provide for shares issuable upon exercise of options granted by Lycos under its 1995 stock option plan. As of July 31, 1998, (retroactively adjusted to reflect Lycos' two-for-one stock split affected in August, 1998), CMG@Ventures I. was obligated to sell up to 391,296 shares to Lycos at a price of $0.01 per share and up to 458,048 shares at prices ranging from $0.14 to $4.80 per share. After accounting for Lycos shares subject to option funding and shares attributable to profit partners, approximately 6.5 million Lycos shares, (also on a post-split basis), were attributable to CMGI as of July 31, 1998. CMG@Ventures II's investments in Sage Enterprises and Reel.com were converted into shares of Amazon.com, Inc. and Hollywood Entertainment Corporation, respectively, pursuant to mergers of the respective companies subsequent to July 31, 1998 (see note 19).

The acquisition accounting and valuation for the Company's or its subsidiaries' investments in Speech Machines, Chemdex and Silknet in fiscal 1998, Parable and Silknet in fiscal year 1997, and FreeMark, NetCarta, GeoCities, Point Communications Corporation, and Vicinity in fiscal 1996, resulted in totals of $1,125,000, $1,312,000 and $2,691,000 in fiscal years 1998, 1997 and 1996, respectively, being identified as in-process research and development, which were expensed because technological feasibility had not been reached at the dates the investments were made.

(9) Gain on Stock Issuance by Lycos, Inc. and Effect of Subsidiaries' Equity Transactions

Gain on stock issuance by Lycos, Inc. represents the net increase in the Company's proportionate share of the dollar amount of Lycos' equity resulting from stock issuances by Lycos, a developer and provider of online guides to the Internet. The Company recorded a pre-tax gain of $19,575,000 in fiscal 1996 relating to Lycos' initial public offering of 3,135,000 shares of common stock at $16 per share, which raised $46,021,000 in net proceeds for Lycos. With this transaction, the Company's ownership in Lycos was reduced from approximately 76% to approximately 58%. The Company provided $8,026,000 in deferred income taxes resulting from the gain.

The Company recorded net pre-tax gains totaling $46,285,000 in fiscal 1998 resulting from stock issuances by Lycos. In February, 1998, the Company recorded a pre-tax gain of $16,756,000 relating to Lycos' issuance of 1,268,709 shares of its common stock, valued at approximately $61 million, in its acquisition of Tripod, Inc. With this transaction, the Company's ownership in Lycos was reduced from approximately 46% to approximately 42%. The Company's pre-tax gain was recorded net of the impact of a $7.2 million in-process research development charge recorded by Lycos in conjunction with the acquisition of Tripod, Inc. In June, 1998, the Company recorded a pre-tax gain of $22,963,000 relating to Lycos' secondary public offering of 2,337,500 shares of common stock at $50 per share, which raised net proceeds of $111,191,000 for Lycos. With this transaction, the Company's ownership in Lycos was reduced from approximately 35% to approximately 31%. The Company also recorded net pre-tax gains totaling $6,566,000 on other issuances of stock by Lycos during fiscal 1998, which included stock issued by Lycos in its acquisitions of WiseWire Corporation and GuestWorld, Inc., net of the impact of in-process research and development charges recorded by Lycos related to these acquisitions; stock issued by Lycos for its minority investments in GlobeComm, Inc. and Sage Enterprises; and shares issued by Lycos as a result of employee stock option exercises. The Company provided $19,008,000 in deferred income taxes resulting from the gains on stock issuances by Lycos during fiscal 1998.

On July 31, 1996, the Company's subsidiary, Blaxxun, a developer of three dimensional interactive software, successfully completed an equity financing, issuing 400,000 shares of preferred stock to an outside party in exchange for $2,000,000. With this transaction, the Company's ownership in Blaxxun was reduced from 100% to 92% and its net equity in Blaxxun increased by $1,302,000. During fiscal 1998, Blaxxun issued 166,000 shares of common stock for net proceeds of $41,000 and 649,000 shares of preferred stock for net proceeds of $3,478,000. Included in the fiscal 1998 amounts were 93,000 shares of preferred stock purchased by the Company for $500,000. As a result of the fiscal 1998 transactions, the Company's ownership in Blaxxun was reduced from 92% to 81% and its net equity in Blaxxun increased by $3,054,000. Since at the time of the transactions Blaxxun was engaged principally in research and development, the fiscal 1996 and fiscal 1998 increases in the Company's proportionate share of the dollar amount of Blaxxun's equity of $768,000 and $1,757,000, net of $534,000 and $1,297,000 of deferred income taxes, respectively, have been reflected as an equity transaction included in "Effect of subsidiaries' equity transactions" in the accompanying Consolidated Statements of Stockholders' Equity.

The above gains on stock issuances by Lycos and effects of subsidiaries' equity transactions are reported net of the interest, if any, attributed to CMG@Ventures I's profit members.

(10) Sale of CMG@Ventures Investments

On September 19, 1996, the Company sold its equity interest in TeleT to Premiere for $550,000 in cash and 320,833 shares of Premiere stock. The Company, through CMG@Ventures I, acquired its 46% equity interest in TeleT for $750,000 during April 1996. As a result of the sale, the Company recognized a pre-tax gain of $3,616,000, reported net of the 22.5% interest attributed to CMG@Ventures I's profit members, reflected as "Gain on sale of investment in TeleT Communications" in the accompanying Consolidated Statements of Operations. Of the Premiere shares received, 37,500 are to be held in escrow for a six-year period, subject to certain customary conditions, and have been classified in other assets with a carrying value of $450,000. The remaining shares received were subject to an average one-year restriction on transferability, and were classified in available-for-sale securities, with a carrying value at the time of acquisition of $4,080,000, net of market value discount to reflect the restriction on transferability.

On December 9, 1996, Microsoft Corporation (Microsoft) entered into a definitive agreement to acquire one of the Company's subsidiaries, NetCarta, for $20,000,000 in cash, subject to certain conditions. On January 31, 1997, the sale of NetCarta was finalized, with the Company receiving proceeds of $18,468,000, net of proceeds to former NetCarta employees who exercised employee stock options. As a result of the sale, the Company recognized a pre-tax gain of $15,111,000, reported net of the 22.5% interest attributed to CMG@Ventures I's profit members, reflected as "Gain on sale of NetCarta Corporation" in the accompanying Consolidated Statements of Operations.

During fiscal 1998, CMG@Ventures I distributed 3,333,334 of its shares of Lycos common stock to the Company, and 593,164 shares to CMG@Ventures I's profit members. The Company sold 1,955,015 of its Lycos shares during fiscal 1998, including 1,705,015 sold on the open market throughout the year and 250,000 shares sold as part of Lycos' secondary public offering in June, 1998. The Company received net proceeds of $108,876,000 from its sales of Lycos shares in fiscal 1998 and recorded pre-tax gains on the sales totaling $92,388,000. The gains on the Company's sales of Lycos shares are reported net of the associated interest attributed to CMG@Ventures I's profit members.

(11) Accrued Expenses

Accrued expenses consist of the following:

	July 31, 1998	July 31, 1997
Accrued compensation and benefits	$ 3,244,000	$ 2,058,000
Accrued professional services	3,194,000	2,060,000
Accrued customer deposits	2,084,000	2,204,000
Accrued promotional expenses	87,000	4,178,000
Other	10,122,000	5,905,000
	$18,731,000	$16,405,000

(12) Borrowing Arrangements

Notes payable at July 31, 1998 consisted of $20 million in collateralized corporate borrowings, $6.2 million owed by SalesLink under its revolving line of credit facility and $1.5 million owed by other subsidiaries of the Company under line of credit facilities. Notes payable at July 31, 1997 consisted of $10 million in collateralized corporate borrowings, $10 million borrowed under the Company's corporate line of credit, and $2,494,000 owed by SalesLink under its line of credit.

The Company's collateralized corporate borrowings were secured by 1,255,789 and 784,314 of the Company's shares of Lycos stock at July 31, 1998 and 1997, respectively. Under this agreement, the Company could become subject to additional collateral requirements under certain circumstances. The $10 million in borrowings outstanding at July 31, 1997 were payable in full in January, 1998. On January 20, 1998, the Company renewed this agreement for an additional term of one year and increased the outstanding principal amount to $20 million. Interest under this facility is payable quarterly at the London Interbank Offered Rate (LIBOR) plus 1.75% (7.44% and 7.52% effective rates at July 31, 1998 and 1997, respectively). The Company has entered into an interest rate swap agreement with the lender that effectively fixed the interest rate on this $20 million debt at a rate of 7.40% beginning April 20, 1998 through January 20, 1999. During fiscal 1997, the Company had entered into an interest rate swap agreement with the lender that had effectively fixed the interest rate on the $10 million principal at 7.52% through January 17, 1998.

SalesLink's borrowings were made under a revolving credit agreement with a bank. The revolving credit agreement provided for the option of interest at LIBOR or the higher of 1) the rate announced by BankBoston, N.A. as its base rate (Prime), or 2) 0.5% above the Federal Funds Effective Rate plus, in any case, an applicable margin based on SalesLink's leverage ratio (7.65% and 7.66% effective rates at July 31, 1998 and 1997, respectively).

The $10 million balance outstanding at July 31, 1997 under the Company's corporate line of credit agreement with a bank was repaid during fiscal 1998 and there are no outstanding borrowings under this facility as of July 31, 1998.

Long-term debt consists of the following:

	July 31, 1998	July 31, 1997
Term notes payable to a bank issued by SalesLink	$15,500,000	$ 5,500,000
Note payable to former shareholder of InSolutions	1,467,000	--
Notes payable to former members of Servercast issued by NaviSite	1,000,000	--
Note payable to former shareholder of Pacific Link issued by SalesLink	--	7,271,000
	17,967,000	12,771,000
Less: Current portion	16,594,000	3,221,000
	$ 1,373,000	$ 9,550,000

SalesLink's term notes payable to a bank provide for the option of interest at LIBOR or the higher of 1) Prime, or 2) 0.5% above the Federal Funds Effective Rate plus, in any case, an applicable margin based on SalesLink's leverage ratio (7.65% and 7.66% effective rates at July 31, 1998 and 1997, respectively). During fiscal 1998, SalesLink repaid $250,000 of principal under its $5.5 million bank term note and refinanced the remaining portion into an amended term note which included an increased principal amount of $10.25 million. Of the additional principal amounts borrowed, $5 million was used as consideration for the Company's acquisition of InSolutions and $4.9 million was used to prepay the remaining balance on SalesLink's note payable to a former shareholder of Pacific Link. The bank term note outstanding at July 31, 1998 provides for repayment in quarterly installments beginning January 31, 1999 through October 31, 2002, with the remaining balance to be repaid on November 11, 2002.

The Company's note payable to a former shareholder of InSolutions was issued in June, 1998 as consideration for the Company's acquisition of InSolutions. This note bears interest at 5.71% and is repayable in twelve monthly installments beginning November 30, 1998. Additional principal amounts totaling $2.8 million could become due under this note if InSolutions meets certain future performance goals (see note 7). The contingent principal amounts owed, if any, would bear interest at 5.71% and would be payable in twenty-four monthly installments beginning November 30, 1999. The Company's subsidiary, NaviSite, issued $1 million in notes payable to former members of Servercast as consideration for the acquisition of Servercast in July, 1998. These notes bear interest at 5.50% and are repayable on January 2, 2000.

Maturities of long-term debt for the next five fiscal years are as follows: 1999, $16,594,000; 2000, $1,373,000; Thereafter, none.

As of February 24, 1997, the Company had entered into an interest rate swap agreement with the lender providing SalesLink's bank borrowing arrangements. The agreement effectively set a maximum LIBOR interest rate base on debt for a notional principal amount of $8 million at a rate of 8.5% through February 26, 2002. This swap was purchased to provide protection to the Company from exposure to higher interest rates in the future (above 8.5%), and requires additional payments by the Company should LIBOR fall below 5% or should LIBOR be above 6%, but below 8.5%. At July 31, 1998, based on prices quoted from the bank, interest rate hedge agreement values would indicate an obligation of $78,000 to terminate this contract.

The Company's bank borrowing arrangements are subject to normal banking terms and conditions, including financial covenants requiring the Company or SalesLink to maintain certain levels of net worth and income, certain financial position ratios, as well as limitations on indebtedness and capital expenditures. As of July 31, 1998, SalesLink did not comply with certain covenants of their borrowing arrangements. SalesLink is working with the bank to cure the non-compliance, as of July 31, 1998 and prospectively, through waivers or amendments to the covenant terms. SalesLink has not yet received such waivers or amendments and, accordingly, all of SalesLink's bank borrowings have been classified as current liabilities in the July 31, 1998 Consolidated Balance Sheet. Further, as a result of such non-compliance, beginning August 1, 1998 until the non-compliance is cured, SalesLink's $15.5 million bank term note payable and its outstanding line of credit borrowings are subject to interest at Prime plus 3.5% and 4.5%, respectively.

(13) Commitments

The Company leases facilities and certain other machinery and equipment under various noncancelable operating leases expiring through June 2013. Future minimum lease payments as of July 31, 1998 are as follows:

Year ending July 31:	
1999	$16,752,000
2000	11,969,000
2001	7,454,000
2002	5,037,000
2003	4,107,000
Thereafter	22,841,000
	$68,160,000

Total rent and equipment lease expense charged to continuing operations was $10,454,000, $5,528,000 and $1,683,000 for the years ended July 31, 1998, 1997 and 1996, respectively.

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

(14) Stockholders' Equity

On January 11, 1999, May 11, 1998, February 2, 1996 and March 17, 1995, the Company effected 2-for-1, 2-for-1, 2-for-1 and 3-for-2 common stock splits, respectively, in the form of stock dividends. Accordingly, all data shown in the accompanying consolidated financial statements has been retroactively adjusted to reflect these events.

During the first quarter of fiscal 1997, the Company's Board of Directors authorized the Company to buy back up to 2,000,000 shares of its common stock. During the first and second quarters of fiscal 1997, 400,000 shares were repurchased at an average cost of $2.46 per share, for a total of $984,000. Pursuant to a stock purchase agreement entered into as of December 10, 1996, the Company sold 1,881,908 shares of its common stock (the "CMGI Shares"), including the 400,000 treasury shares acquired in fiscal 1997, to Microsoft on January 31, 1997, representing 4.9% of CMGI's total outstanding shares of common stock following the sale. The CMGI Shares purchased by Microsoft were priced at $3.625 per share, with proceeds to CMGI totaling $6,821,917. The CMGI Shares purchased by Microsoft are not registered under the Securities Act of 1933 and carried a one-year prohibition on transfer or sale. Under the terms of the agreement and following the one-year period, Microsoft is entitled to two demand registration rights as well as piggy back registration rights. Additionally, Microsoft is subject to "stand still" provisions, whereby it is prohibited for a period of three years, without the consent of CMGI, (i) from increasing its ownership in CMGI above ten percent of CMGI's outstanding shares, (ii) from exercising any control or influence over CMGI, and (iii) from entering into any voting agreement with respect to its CMGI Shares.

On May 28, 1997, the Company announced a new venture dividend program in connection with the Company's CMG@Ventures Internet investments. Subject to restrictions on transfer, the program envisions that it may distribute up to 10% of the stock held by CMG@Ventures following an initial public offering by any one of the companies in which it holds an investment. The Company may also announce from time to time other stock dividends in connection with its Internet investments. Such dividends are subject to approval of the Company's Board of Directors and subject to holding requirements by regulatory agencies such as the Securities and Exchange Commission. The program may be altered or discontinued at the discretion of the Company. The Company also announced its first dividend under the new program, distributing 603,000 shares of Lycos common stock, with a market value of $11,008,000 at the date of distribution, to the Company's stockholders on July 31, 1997. The distribution resulted in a pre-tax gain of $8,413,000 in fiscal 1997 reflected as "Gain on dividend distribution of Lycos, Inc. common stock" in the accompanying Consolidated Statements of Operations.

Pursuant to a stock purchase agreement entered into as of December 19, 1997, the Company sold 2,012,008 shares of its common stock to Intel Corporation (Intel), representing 4.9% of CMGI's total outstanding shares of common stock following the sale. The CMGI shares sold to Intel were priced at $5.436 per share, with proceeds to CMGI totaling $10,937,000. The CMGI shares purchased by Intel are not registered under the Securities Act of 1933. Under the terms of the agreement, Intel is entitled to two demand registration rights as well as piggyback registration rights. Additionally, Intel is subject to "stand still" provisions, whereby it is prohibited for a period of three years, without the consent of CMGI, (i) from increasing its ownership in CMGI above ten percent of CMGI's outstanding shares, (ii) from exercising any control or influence over CMGI, and (iii) from entering into any voting agreement with respect to its CMGI shares.

Pursuant to a stock purchase agreement entered into as of February 15, 1998, the Company sold 1,250,000 shares of its common stock to Sumitomo Corporation ("Sumitomo") on February 27, 1998. The CMGI shares sold to Sumitomo were priced at $8.00 per share, with proceeds to CMGI totaling $10,000,000. The CMGI shares purchased by Sumitomo are not registered under the Securities Act of 1933 and carry a one-year restriction on transfer or sale. Under the terms of the agreement and following the one-year period, Sumitomo is entitled to two demand registration rights as well as piggyback registration rights. Additionally, Sumitomo is subject to "stand still" provisions, whereby it is prohibited for a period of three years, without the consent of CMGI, from (i) increasing its ownership in CMGI above ten percent of CMGI's outstanding shares, (ii) proposing or soliciting any person to propose a business combination with, or change of control of, CMGI, (iii) making, proposing or soliciting any person to propose a tender offer for CMGI stock, and (iv) entering into any voting agreement with respect to its CMGI shares.

(15) Stock Option Plans

The Company has two stock option plans currently in effect: the 1986 Stock Option Plan (the "1986 Plan") and the 1995 Stock Option Plan For Non-Employee Directors (the "Directors' Plan"). Options under both plans are granted at fair market value on the date of the grant. Options granted under the 1986 Plan are generally exercisable in equal cumulative installments over a four-to-ten year period beginning one year after the date of grant. Options under the Directors' Plan become exercisable in five equal annual installments beginning immediately after each Annual Stockholders Meeting following grant. Outstanding options under both Plans at July 31, 1998 expire through 2008.

Under the 1986 Plan, non-qualified stock options or incentive stock options may be granted to the Company's or its subsidiaries' employees, as defined. The Board of Directors administers this plan, selects the individuals to whom options will be granted, and determines the number of shares and exercise price of each option. The Company has reserved 9,000,000 shares of common stock for issuance under the 1986 Plan. The number of shares reserved for issuance pursuant to the 1986 Plan is reduced by the number of shares issued under the Company's 1995 Employee Stock Purchase Plan (see note 16).

Pursuant to the Directors' Plan, 1,128,000 shares of the Company's common stock were initially reserved. Options for 188,000 shares are to be granted to each Director who is neither an officer or full time employee of the Company, nor an affiliate of an institutional investor which owns shares of common stock of the Company. Options were granted to existing Directors with five years of continuous service at the date the Plan was adopted, and are granted to subsequent Directors at the time of election to the Board.

The status of the plans during the three fiscal years ended July 31, 1998, was as follows:

	1998		1997	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding, beginning of year	3,870,760	$1.90	4,087,432	$1.94
Granted	1,762,500	8.68	676,200	3.97
Exercised	(953,126)	2.44	(434,508)	2.09
Canceled	(225,376)	2.91	(458,364)	5.08
Options outstanding, end of year	4,454,758	$4.42	3,870,760	$1.90
Options exercisable, end of year	1,292,470	$1.24	1,479,544	$1.49
Options available for grant, end of year	1,959,044		3,562,560	

	1996	
	Number of shares	Weighted average exercise price
Options outstanding, beginning of year	4,812,296	$0.82
Granted	913,824	4.94
Exercised	(1,283,368)	0.20
Canceled	(355,320)	0.83
Options outstanding, end of year	4,087,432	$1.94
Options exercisable, end of year	571,584	$1.24

Options available for grant, end of year	3,826,472
	==========

The following table summarizes information about the Company's stock options outstanding at July 31, 1998:

	Options Outstanding		
Range of exercise prices	Number of shares	Weighted average remaining contractual life	Weighted average exercise price
\$ 0.39 - \$ 0.92	1,841,948	3.8 years	\$ 0.75
\$ 1.53 - \$ 2.53	274,668	3.7	1.91
\$ 3.22 - \$ 5.44	1,750,404	4.6	4.70
\$ 6.13 - \$ 8.91	178,238	3.4	7.17
\$20.00 - \$25.44	409,500	9.2	20.17
\$ 0.39 - \$25.44	4,454,758	4.6 years	\$ 4.42

	Options Exercisable	
Range of exercise prices	Number of shares	Weighted average exercise price
\$ 0.39 - \$ 0.92	1,066,518	\$0.80
\$ 1.53 - \$ 2.53	102,794	1.75
\$ 3.22 - \$ 5.44	98,046	3.55
\$ 6.13 - \$ 8.91	25,112	8.79
\$20.00 - \$25.44	--	--
\$ 0.39 - \$25.44	1,292,470	\$1.24

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

	Years Ended July 31, 1998	1997	1996
Pro forma net income (loss)	\$28,604,000	\$(23,907,000)	\$13,666,000
Pro forma net income (loss) per share:			
Basic	\$ 0.69	\$ (0.63)	\$ 0.38
Diluted	\$ 0.64	\$ (0.63)	\$ 0.35

The fair value of each stock option grant has been estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for fiscal 1998, 1997 and 1996, respectively: volatility of 90.07%, 66.69% and 80.30%; risk-free interest rate of 5.50%, 6.19% and 5.81%; expected life of options of 4.2, 6.2 and 4.0 years; and 0% dividend yield for all years. The weighted average fair value per share of options granted during fiscal 1998, 1997 and 1996 was \$5.86, \$2.64 and \$2.53, respectively.

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

(16) Employee Stock Purchase Plan

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

At the beginning of each of the Company's fiscal quarters, commencing with February 1, 1995, employees are granted an option to purchase shares of the

Company's common stock at an option price equal to 85% of the fair market value of the Company's common stock on either the first business day or last business day of the applicable quarterly period, whichever is lower.

Employees purchased 66,392, 46,076 and 33,296 shares of common stock of the Company under the Plan during fiscal 1998, 1997 and 1996, respectively.

(17) Income Taxes

The provision (benefit) for income taxes from continuing operations for the years ended July 31, consists of the following:

	Current	Deferred	Total
July 31, 1996:			
Federal	$ 8,444,000	$ 6,448,000	$14,892,000
State	839,000	1,835,000	2,674,000
	$ 9,283,000	$ 8,283,000	$17,566,000
July 31, 1997:			
Federal	$ 724,000	$ (849,000)	$ (125,000)
State	2,181,000	(22,000)	2,159,000
	$ 2,905,000	$ (871,000)	$ 2,034,000
July 31, 1998:			
Federal	$17,229,000	$ 7,424,000	$24,653,000
State	10,120,000	(3,218,000)	6,902,000
	$27,349,000	$ 4,206,000	$31,555,000

Excluded from the tax provision in fiscal 1998 are deferred tax assets and liabilities of $187,000 (net of valuation allowance of $1,704,000) and $130,000, respectively, which were acquired through the acquisitions of certain subsidiaries during fiscal 1998. Also excluded from the tax provision in fiscal 1998, but included in deferred tax liabilities are $1,297,000 provided for the effect of subsidiaries' equity transactions. In addition, during fiscal 1998, the Company sold available-for-sale securities for which $593,000 of deferred taxes were provided in fiscal 1997 relating to the unrealized holding gain recorded on these securities at July 31, 1997.

Included in deferred tax assets at July 31, 1998 is approximately $950,000, which has been fully offset by a valuation allowance, related to the acquisition of net operating loss carryforwards of certain subsidiaries acquired during fiscal 1998. If utilized, the tax benefit of the acquired net operating loss carryforwards will result in a reduction of recorded goodwill in lieu of an income tax benefit in the Consolidated Statement of Operations.

Excluded from the tax benefit in fiscal 1997 but included in deferred income tax liabilities and assets are $593,000 provided for unrealized holding gains from the increase in the market value of available-for-sale securities and $260,000 related to deferred tax assets acquired with the acquisition of Pacific Link, respectively. Excluded from the tax provision in fiscal 1996 but included in deferred income tax liabilities are $666,000 provided for the effect of subsidiaries' equity transactions and $78,000 related to the difference in bases of assets acquired.

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

	July 31, 1998			July 31, 1997		
	Current	Non-current	Total	Current	Non-current	Total
Deferred tax assets:						
Accruals and reserves	$ 3,322,000	$ --	$ 3,322,000	$1,630,000	$ --	$ 1,630,000
Tax basis in excess of financial basis of investments in subsidiaries and affiliates	--	9,731,000	9,731,000	--	6,990,000	6,990,000
Tax basis in excess of financial basis of available-for-sale securities	740,000	--	740,000	--	--	--
Net operating loss carryforward of acquired subsidiary	--	957,000	957,000	--	--	--
Other	22,000	1,361,000	1,383,000	--	866,000	866,000
Total gross deferred tax assets	4,084,000	12,049,000	16,133,000	1,630,000	7,856,000	9,486,000
Less valuation allowance	(1,617,000)	(11,253,000)	(12,870,000)	(985,000)	(7,716,000)	(8,701,000)
Net deferred tax assets	2,467,000	796,000	3,263,000	645,000	140,000	785,000
Deferred tax liabilities:						
Financial basis in excess of tax basis of investments in subsidiaries and affiliates	--	(15,897,000)	(15,897,000)	--	(7,994,000)	(7,994,000)
Differences in tax depreciation and amortization	--	(293,000)	(293,000)	--	(570,000)	(570,000)
Financial basis in excess of tax basis of available-for-sale securities	--	--	--	(534,000)	--	(534,000)
Other	(102,000)	(142,000)	(244,000)	--	(57,000)	(57,000)
Total gross deferred tax liabilities	(102,000)	(16,332,000)	(16,434,000)	(534,000)	(8,621,000)	(9,155,000)
Net deferred tax asset (liability)	$ 2,365,000	$(15,536,000)	$(13,171,000)	$ 111,000	$(8,481,000)	$(8,370,000)

The net change in the total valuation allowance for the year ended July 31, 1998 was an increase of $2,465,000, net of the impact of acquired valuation allowances. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at July 31, 1998.

The following table reconciles the income tax expense (benefit) based on the federal statutory income tax rate to the Company's actual income tax expense:

	Years Ended July 31, 1998	1997	1996
Provision (benefit) for income taxes at federal statutory rate	$20,587,000	$(4,480,000)	$11,611,000
Difference in income tax expense (benefit) resulting from:			
Non-deductible goodwill amortization	859,000	294,000	112,000
Valuation allowance, net of impact of acquisitions	2,465,000	4,903,000	3,798,000
Non-deductible in-process research and development charge related to acquisition of subsidiary	3,220,000	--	--
Utilization of research and development credits	(612,000)	--	--
State income taxes, net of federal benefit	4,486,000	1,403,000	1,738,000
Other	550,000	(86,000)	307,000
Actual income tax expense (benefit)	$31,555,000	$ 2,034,000	$17,566,000

(18) Selected Quarterly Financial Information (unaudited)

The following table sets forth selected quarterly financial and stock price information for the years ended July 31, 1998 and 1997. The operating results for any given quarter are not necessarily indicative of results for any future period. The Company's common stock is traded on the NASDAQ National Market System ("NASDAQ/NMS") under the symbol CMGI. Included below are the high and low sales prices (adjusted for 2-for-1 stock splits effected on May 11, 1998 and January 11, 1999) during each quarterly period for the shares of common stock as reported by NASDAQ/NMS.

(in thousands, except per share data)

	Fiscal 1998 Quarter ended			
	Oct. 31	Jan. 31	Apr. 30 (Restated)	Jul. 31 (Restated)
Net revenues	$ 22,595	$ 15,230	$ 18,145	$ 25,946
Cost of revenues	13,675	14,275	17,230	27,770
Research and development expenses	6,047	4,513	3,849	4,814
In-process research and development expenses	--	875	9,250	200
Selling, general and administrative expenses	15,071	9,204	11,317	14,085
Operating loss	(12,198)	(13,637)	(23,501)	(20,923)
Interest income (expense), net	73	(420)	(202)	(321)
Gain on sale of Lycos, Inc. common stock	6,324	10,764	24,850	50,450
Gain on issuance of stock by Lycos, Inc.	(94)	8	24,294	22,077
Gain on sale of available-for-sale securities	4,174	--	--	--
Gain on sale of investment in TeleT	--	--	--	--
Gain on sale of NetCarta Corporation	--	--	--	--
Gain on distribution of Lycos, Inc. common stock	--	--	--	--
Equity in losses of affiliates	(1,529)	(2,987)	(4,247)	(4,108)
Minority interest	(28)	--	--	--
Income tax benefit (expense)	1,019	336	(13,125)	(19,785)
Income (loss) from continuing operations	(2,259)	(5,936)	8,069	27,390
Discontinued operations, net of income taxes	4,944	102	(147)	(259)
Net income (loss)	$ 2,685	$ (5,834)	$ 7,922	$ 27,131
Market Price				
High	$ 7.13	$ 9.25	$ 26.88	$ 45.88
Low	$ 3.69	$ 4.78	$ 9.14	$ 16.63

	Fiscal 1997 Quarter ended			
	Oct. 31	Jan. 31	Apr. 30	Jul 31
Net revenues	$ 7,540	$ 16,058	$ 16,602	$19,856
Cost of revenues	3,638	9,510	9,755	11,963
Research and development expenses	3,720	4,997	4,444	4,606
In-process research and development expenses	1,312	--	--	--
Selling, general and administrative expenses	11,896	11,774	10,724	12,637
Operating loss	(13,026)	(10,223)	(8,321)	(9,350)
Interest income (expense), net	924	260	328	237
Gain on sale of Lycos, Inc. common stock	--	--	--	--
Gain on issuance of stock by Lycos, Inc.	--	--	--	--
Gain on sale of available-for-sale securities	--	--	--	--
Gain on sale of investment in TeleT	3,616	--	--	--
Gain on sale of NetCarta Corporation	--	15,111	--	--
Gain on distribution of Lycos, Inc. common stock	--	--	--	8,413
Equity in losses of affiliates	(1,008)	(1,081)	(1,924)	(1,543)
Minority interest	2,422	1,025	492	848
Income tax benefit (expense)	515	(2,900)	1,176	(825)
Income (loss) from continuing operations	(6,557)	2,192	(8,249)	(2,220)
Discontinued operations, net of income taxes	(840)	(1,526)	(2,027)	(2,800)
Net income (loss)	$ (7,397)	$ 666	$(10,276)	$(5,020)
Market Price				
High	$ 4.57	$ 5.10	$ 4.41	$4.66
Low	$ 2.28	$ 2.39	$ 2.75	$3.10

(19) Subsequent Events

In August, 1998, CMG@Ventures II's holdings in Sage Enterprises were converted into 225,558 shares of restricted Amazon.com, Inc. common stock as part of a merger wherein Amazon.com, Inc. acquired Sage Enterprises. CMG@Ventures II had invested $4.5 million in Sage Enterprises beginning in June, 1997. The Company expects to record a gain on the conversion of its investment in Sage Enterprises during its fiscal quarter ended October 31, 1998. Such gain will be recorded net of the 20% interest attributable to CMG@Ventures II's profit members.

In August, 1998, the Company's affiliate, GeoCities, completed its initial public offering of common stock, issuing approximately 5 million shares at a price of $17.00 per share. The Company, through its subsidiaries, CMG@Ventures I and II, has invested a total of $5.9 million in GeoCities beginning in January, 1996. CMG@Ventures I and II own a combined 8.8 million shares of GeoCities common stock and options to purchase an additional 1 million shares at a price of $0.89 per share. The Company expects to record a gain on the issuance of stock by GeoCities during its fiscal quarter ended October 31, 1998, representing the increase in the book value of the Company's net equity in GeoCities as a result of the initial public offering. The gain will be recorded net of the interests attributable to CMG@Ventures I's and II's profit members.

In October, 1998, CMG@Ventures II's holdings in Reel.com were converted into 1,943,783 restricted common and 485,946 restricted, convertible preferred shares of Hollywood Entertainment Corporation (Hollywood Entertainment) as part of a merger wherein Hollywood Entertainment acquired Reel.com. The preferred shares are convertible into common shares on a 1-for-1 basis, subject to approval by Hollywood Entertainment shareholders. CMG@Ventures II had invested $6.9 million in Reel.com beginning in July, 1997. The Company expects to record a gain on the conversion of its investment in Reel.com during its fiscal quarter ended October 31, 1998. The gain will be reported net of the 20% interest attributable to CMG@Ventures II's profit members.

Also in October, 1998, in a separate transaction, the Company purchased 1,524,644 restricted common and 803,290 restricted, convertible preferred shares of Hollywood Entertainment for a total purchase price of $31.1 million. The preferred shares are convertible into common shares on a 1-for-1 basis, subject to approval by Hollywood Entertainment shareholders.

The Company recently formed its third venture capital fund, CMG@Ventures III, LLC (CMG@Ventures III), and has begun raising capital from outside investors for a corresponding outside investment fund, @Ventures III, L.P. The Company owns 100% of the capital and is entitled to 80% of the net capital gains of CMG@Ventures III, and will be entitled to 2% of the net capital gains of @Ventures III, L.P. These two funds will co-invest in all investment candidates based on a predetermined ratio. CMGI has committed to funding CMG@Ventures III up to the greater of $30 million or 19.9% of amounts committed to @Ventures III, L.P.

ITEM 9. - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference from the portions of the Definitive Proxy Statement entitled "Proposal 1--Election of Directors," "Additional Information," and "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. - EXECUTIVE COMPENSATION

Incorporated by reference from the portions of the Definitive Proxy Statement entitled "Executive Compensation,"and "Additional Information Compensation of Directors."

ITEM 12. - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from the portion of the Definitive Proxy Statement entitled "Security Ownership by Management and Principal Stockholders."

ITEM 13. - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from the portion of the Definitive Proxy Statement entitled "Certain Relationships and Related Transactions."

PART IV

ITEM 14. - EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) Financial Statements, Financial Statement Schedule, and Exhibits

1. Financial Statements. The financial statements as set forth under Item 8 of this report on Form 10-K/A are incorporated herein by reference. The following restated consolidated financial statements of Lycos, Inc. as required by Regulation S-X, Rule 3-09 are filed herewith as Exhibit 99.1:

    - Independent Auditors' Report
    - Consolidated Balance Sheets as of July 31, 1998 (Restated) and 1997
    - Consolidated Statements of Operations for the three years ended July 31, 1998 (Restated), 1997 and 1996
    - Consolidated Statements of Stockholders' Equity for the three years ended July 31, 1998 (Restated), 1997 and 1996
    - Consolidated Statements of Cash Flows for the three years ended July 31, 1998 (Restated), 1997 and 1996
    - Notes to Consolidated Financial Statements (Restated)

2. Financial Statement Schedule. Financial Statement Schedule II of the Company and the corresponding Report of Independent Auditors on Financial Statement Schedule are included in this Report.

    All other financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

3. Exhibits. The following Exhibits are required to be filed with this Report by Item 14 and are incorporated by reference to the source cited in the Exhibit Index below or are filed herewith.

EXHIBIT INDEX

Exhibit No.	Title	Method of Filing
3 (i)(1)	Amendment to the Restated Certificate of Incorporation.	Incorporated by reference to Exhibit 3 (i) (1) to the Registrant's quarterly report on Form 10-Q for the quarter ended April 30, 1996
3 (i) (2)	Restated Certificate of Incorporation.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518)
3 (ii)	Restated By-Laws.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518)
4	Specimen Stock Certificate representing the Common Stock.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.01	Form of Indemnification Agreement executed between the Company and each of the members of its Board of Directors (David S. Wetherell, William H. Berkman, Craig D. Goldman, John A. McMullen and Robert J. Ranalli) in June 1998.	Previously filed.
10.02	Lease, dated November 21, 1991, Between the Registrant and Ballardvale Park Associates II Limited Partnership.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.03	Lease Agreement, dated September 2, 1992, between SalesLink Corporation, the subsidiary of the Registrant, and American National Bank & Trust Company of Chicago as Trustee under Trust No. 1001971-01.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.04	Amendment to Lease, dated May 10, 1992, between SalesLink Corporation, the subsidiary of the Registrant, and Drydock Associates Limited Partnership.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.05*	Employment Agreement, dated August 1, 1993, between the Registrant and David S. Wetherell.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.06	Fulfillment and Inventory Management Agreement between SalesLink Corporation, the subsidiary of the Registrant, and MFS Financial Services, Inc.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.07	Fulfillment and Mailing Agreement, dated January 1, 1993, between SalesLink Corporation, the subsidiary of the Registrant and Kemper Financial Services, Inc.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).

Exhibit No.	Title	Method of Filing
10.08	Agreement, dated January 15, 1991, between ListLab, a division of the Registrant, and Prentice-Hall, Business and Professional Publishing Division.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.09	Account Indebtedness Letter Agreement, dated as of November 9, 1993, between the Registrant and David S. Wetherell.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.10	Amendment to Account Indebtedness Letter Agreement, dated as of January 10, 1994, between the Registrant and David S. Wetherell.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.11*	Amendment No. 1 to the Employment Agreement, dated January 20, 1994, between the Registrant and David S. Wetherell.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.12	Amendment No. 2 to Account Indebtedness Letter Agreement, dated January 25, 1994 between the Registrant and David S. Wetherell.	Incorporated by reference from Registration Statement on Form S-1, as amended, filed on November 10, 1993 (Registration No. 33-71518).
10.13	Extension Agreement dated August 4, 1995 to Fulfillment and Mailing Agreement dated January 1, 1993, between SalesLink Corporation and Kemper Financial Services, Inc.	Incorporated by reference to Exhibit 10.24 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995 .
10.14	Fulfillment Master Purchase Agreement dated March 28, 1994, between SalesLink Corporation and Fidelity Investments Institutional Service Company, Inc.	Incorporated by reference to Exhibit 10.25 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.
10.15	Literature Fulfillment Agreement dated August 1, 1995, between SalesLink Corporation and Vista Capital Management.	Incorporated by reference to Exhibit 10.26 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.
10.16	License Agreement dated June 16, 1995, as amended, between the Registrant, CMG@Ventures, L.P., Carnegie Mellon University, and Lycos, Inc.	Incorporated by reference to Exhibit 10.27 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.
10.17	Agreement and Plan of Reorganization dated as of November 8, 1994, as amended, among the Registrant, BookLink Technologies, Inc., America Online, Inc. and BLT Acquisition Corporation.	Incorporated by reference from report on Form 8-K as filed with the Commission 01/01/95 (File No. 0-22846).
10.18*	1995 Employee Stock Purchase Plan, as amended.	Incorporated by reference to Exhibit 10.1 to the Registrant's quarterly report on Form 10-Q for the quarter ended October 31, 1997.
10.19*	1986 Stock Option Plan, as amended.	Incorporated by reference to Exhibit 10.2 to the Registrant's quarterly report on Form 10-Q for the quarter ended October 31, 1997.

Exhibit No.	Title	Method of Filing
10.20	Master Agreement dated as of February 13, 1996 between BBN Corporation and the Registrant.	Incorporated by reference to Exhibit 10.33 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1996.
10.21*	1995 Stock Option Plan for Non-Employee Directors, as amended.	Incorporated by reference to Exhibit 10.3 to the Registrant's quarterly report on Form 10-Q for the quarter ended October 31, 1997.
10.22	Amendments dated February 9, 1996 and March 4, 1996 to License Agreement dated June 16, 1995, between the Registrant, CMG@Ventures L.P., Carnegie Mellon University and Lycos, Inc.	Incorporated by reference to Exhibit 10.35 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1996.
10.23	Sublease, dated September 26, 1996 between the Registrant and FTP Software, Inc.	Incorporated by reference to Exhibit 10.1 to the Registrant's quarterly report on Form 10-Q for the quarter ended October 31, 1996.
10.24*	Amendment No. 2 to Employment Agreement, dated October 25, 1996, between the Registrant and David S. Wetherell.	Incorporated by reference to Exhibit 10.2 to the Registrant's quarterly report on Form 10-Q for the quarter ended October 31, 1996.
10.25	Supplement #1 to Sublease, dated September 26, 1996 between the Registrant and FTP Software, Inc.	Incorporated by reference to Exhibit 10.1 to the Registrant's quarterly report or Form 10-Q for the quarter ended January 31, 1997.
10.26	CMG Stock Purchase Agreement, dated as of December 10, 1996 by and between the Registrant and Microsoft Corporation.	Incorporated by reference to Exhibit 99.1 to the Registrant's current report on Form 8-K dated January 31, 1997, filed on February 14, 1997.
10.27*	CMG @Ventures, Inc. Deferred Compensation Plan.	Incorporated by reference to Exhibit 10.1 to the Registrant's quarterly report on Form 10-Q for the quarter ended April 30, 1997.
10.28	Stock Purchase Agreement dated as of October 24, 1996, among SalesLink Corporation, CMG Information Services, Inc., Pacific Direct Marketing Corp., d/b/a Pacific Link and all the stockholders of Pacific Link.	Incorporated by reference to Exhibit 2 to the Registrant's report on Form 8-K as filed with the commission 10/24/96 (File No. 0-022846).
10.29	Warrant Purchase Agreement by and among SalesLink Corporation and BankBoston, N.A., dated as of October 24, 1996.	Incorporated by reference to Exhibit 10.37 to the Registrant's annual report on Form 10-K for the year ended July 31, 1997.
10.30	Common Stock Purchase Warrant issued by SalesLink Corporation to BankBoston, N.A., dated as of October 24, 1996.	Incorporated by reference to Exhibit 10.38 to the Registrant's annual report on Form 10-K for the year ended July 31, 1997.
10.31	Revolving Credit Agreement, dated May 14, 1997, between the Registrant and BankBoston, N.A.	Incorporated by reference to Exhibit 10.49 to the Registrant's annual report on Form 10-K for the year ended July 31, 1997.
10.32	Revolving Credit Note, dated May 14, 1997, between the Registrant and BankBoston, NA.	Incorporated by reference to Exhibit 10.50 to the Registrant's annual report on Form 10-K for the year ended July 31, 1997.

Exhibit No.	Title	Method of Filing
10.33	First Amendment, dated as of May 26, 1998, to Revolving Credit Agreement, dated May 14, 1997 by and among CMG Information Services, Inc. and BankBoston, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement.	Previously filed.
10.34	Second Amendment, dated as of April 9, 1998, to Revolving Credit Agreement, dated May 14, 1997, by and among CMG Information Services, Inc. and BankBoston, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement.	Previously filed.
10.35	Third Amendment, dated as of May 31, 1998, to Revolving Credit Agreement, dated May 14, 1997, by and among CMG Information Services, Inc. and BankBoston, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement.	Previously filed.
10.36	Fourth Amendment, dated as of August 14, 1998, to Revolving Credit Agreement, dated May 14, 1997, by and among CMG Information Services, Inc. and BankBoston, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement.	Previously filed.
10.37	Fifth Amendment, dated as of September 30, 1998, to Revolving Credit Agreement, dated May 14, 1997, by and among CMG Information Services, Inc. and BankBoston, N.A. and the other lending institutions listed on Schedule 1 to the Credit Agreement.	Previously filed.
10.38	Common Stock Purchase Agreement dated as of December 19, 1997 by and between CMG Information Services, Inc. and Intel Corporation.	Incorporated by reference to Exhibit 99.1 to the Registrant's current report on Form 8-K dated December 19, 1997, filed December 29, 1997.
10.39	ISDA Master Swap Agreement (the "Swap Agreement"), dated January 13, 1998, between BankBoston, N.A. and the Registrant.	Incorporated by reference to Exhibit 10.1 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1998.
10.40	Schedule to the Swap Agreement, dated January 13, 1998.	Incorporated by reference to Exhibit 10.2 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1998.
10.41	Confirmation to the Swap Agreement, dated January 13, 1998.	Incorporated by reference to Exhibit 10.3 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1998.
10.42	ISDA Credit Support Annex, dated January 13, 1998, between BankBoston, N.A. and the Registrant.	Incorporated by reference to Exhibit 10.4 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1998.

Exhibit No.	Title	Method of Filing
10.43	Agreement for the Assignment of Voting Rights, dated January 13, 1998, between the Registrant and Long Lane Master Trust.	Incorporated by reference to Exhibit 10.5 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1998.
10.44	Repurchase Agreement, dated January 13, 1998, between the Registrant and Long Lane Master Trust.	Incorporated by reference to Exhibit 10.6 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1998.
10.45	Common Stock Purchase Agreement dated as of February 15, 1998 by and between CMG Information Services, Inc. and Sumitomo Corporation.	Incorporated by reference to Exhibit 99.1 to the Registrant's current report on Form 8-K dated February 27, 1998, filed March 19, 1998.
10.46	CMG @Ventures I, LLC Limited Liability Company Agreement, dated December 18, 1997.	Incorporated by reference to Exhibit 10.1 to the Registrant's quarterly report on Form 10-Q for the quarter ended April 30, 1998.
10.47	Agreement and Plan of Merger dated as of April 8, 1998 among CMG Information Services, Inc., CMGI Acquisition Corporation, Accipiter, Inc., and Certain Stockholders of Accipiter, Inc. Named Herein.	Incorporated by reference to Exhibit 2.1 to the Registrant's current report on Form 8-K dated April 8, 1998, filed on April 23, 1998.
10.48	Employee Stockholder Escrow Agreement dated April 8, 1998.	Incorporated by reference to Exhibit 2.2 to the Registrant's current report on Form 8-K dated April 8, 1998, filed on April 23, 1998.
10.49	Non-Employee Stockholder Escrow Agreement dated April 8, 1998.	Incorporated by reference to Exhibit 2.3 to the Registrant's current report on Form 8-K dated April 8, 1998, filed on April 23, 1998.
10.50	Employee Investment Representation and Lockup Letters dated April 8, 1998.	Incorporated by reference to Exhibit 2.4 to the Registrant's current report on Form 8-K dated April 8, 1998, filed on April 23, 1998.
10.51	Non-Employee Investment Representation and Lockup Letters dated April 8, 1998.	Incorporated by reference to Exhibit 2.5 to the Registrant's current report on Form 8-K dated April 8, 1998, filed on April 23, 1998.
10.52	Registration Rights Agreement dated April 8, 1998.	Incorporated by reference to Exhibit 2.6 to the Registrant's current report on Form 8-K dated April 8, 1998, filed on April 23, 1998.
10.53	Lease, dated January 6, 1998, between the 425 Medford Nominee Trust and SalesLink Corporation for premises at 425 Medford Street, Boston, Massachusetts.	Incorporated by reference to Exhibit 10.2 to the Registrant's quarterly report on Form 10-Q for the quarter ended April 30, 1998.
10.54	CMG Information Services, Inc. Guaranty of SalesLink Corporation Lease for 425 Medford Street, Boston, Massachusetts.	Incorporated by reference to Exhibit 10.3 to the Registrant's quarterly report on Form 10-Q for the quarter ended April 30, 1998.
10.55	Supplement No. 2 to the Registrant's Lease for 100 Brickstone Square, Andover, Massachusetts.	Incorporated by reference to Exhibit 10.4 to the Registrant's quarterly report on Form 10-Q for the quarter ended April 30, 1998.

Exhibit No.	Title	Method of Filing
10.56	Supplement No. 3 to the Registrant's Lease for 100 Brickstone Square, Andover, Massachusetts.	Incorporated by reference to Exhibit 10.5 to the Registrant's quarterly report on Form 10-Q for the quarter ended April 30, 1998.
10.57	Amended and Restated Revolving Credit and Term Loan Agreement, dated as of June 11, 1998, among SalesLink Corporation, InSolutions Incorporated, Pacific Direct Marketing Corp., BankBoston, N.A. and the other lending institutions set forth in Schedule 1.	Previously filed.
10.58	Amended and Restated Term Note, dated June 11, 1998, between SalesLink Corporation and InSolutions Incorporated and Imperial Bank.	Previously filed.
10.59	Amended and Restated Term Note, dated June 11, 1998, between SalesLink Corporation and InSolutions Incorporated and BankBoston, N.A.	Previously filed.
10.60	Fourth Amended and Restated Revolving Credit Note, dated June 11, 1998, between SalesLink Corporation and InSolutions Incorporated and Imperial Bank.	Previously filed.
10.61	Fourth Amended and Restated Revolving Credit Note, dated June 11, 1998, between SalesLink Corporation and InSolutions Incorporated and BankBoston, N.A.	Previously filed.
10.62	Amended and Restated Stock Pledge Agreement, dated June 11, 1998, between SalesLink Corporation and BankBoston, N.A.	Previously filed.
10.63	Amended and Restated Guaranty, dated as of June 11, 1998, by Pacific Direct Marketing Corp. in favor of BankBoston, N.A.	Previously filed.
10.64	Amended and Restated Security Agreement, dated as of June 11, 1998, among SalesLink Corporation, InSolutions Incorporated and BankBoston, N.A.	Previously filed.
10.65	Amended and Restated Security Agreement, dated as of June 11, 1998, between Pacific Direct Marketing Corp. and BankBoston, N.A.	Previously filed.
10.66	Amended and Restated Trademark Collateral Security and Pledge Agreement, dated as of June 16, 1998, between SalesLink Corporation and BankBoston, N.A.	Previously filed.
10.67	Trademark Collateral Security and Pledge Agreement, dated as of June 11, 1998, between InSolutions Incorporated and BankBoston, N.A.	Previously filed.

Exhibit No.	Title	Method of Filing
10.68	Registration Rights Agreement, dated June 16, 1998, between the listed shareholders and CMG Information Services, Inc.	Previously filed.
10.69	CMG@Ventures II, LLC Operating Agreement, dated as of February 26, 1998	Previously filed.
21	Subsidiaries of the Registrant.	Previously filed.
23.1	Consent of Independent Auditors.	Filed herewith.
23.2	Consent of Independent Auditors for Lycos, Inc.	Filed herewith.
27.1	Restated Financial Data Schedule for the year ended July 31, 1998.	Filed herewith.
99.1	Restated Consolidated Financial Statements and Independent Auditors' Report Thereon of Lycos, Inc.	Filed herewith.

* Management contracts and compensatory plans or arrangements.

(B) Reports on Form 8-K

On June 12, 1998, the Company filed a report on Form 8-K/A amending the Form 8-K dated April 8, 1998 in conjunction with the acquisition of all the issued and outstanding shares of capital stock of Accipiter, Inc. in exchange for approximately 2,528,000 shares of the Company's common stock.

On July 1, 1998, the Company filed a report on Form 8-K dated June 16, 1998 in conjunction with the acquisition of all the issued and outstanding shares of capital stock of InSolutions, Incorporated in exchange for approximately 370,000 shares of the Company's common stock, $5 million in cash and a note payable to a former employee shareholder.

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT SCHEDULE

The Board of Directors
CMGI, Inc. (formerly "CMG Information Services, Inc."):

The audits referred to in our report dated September 22, 1998, except for Note 19, which is as of October 27, 1998, and except for the restatement referred to in Notes 2, 3 and 14, as to which the date is May 7, 1999, included a related financial statement schedule as of July 31, 1998, and for each of the years in the three-year period ended July 31, 1998. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ KPMG LLP
KPMG LLP

Boston, Massachusetts
September 22, 1998, except for Note 19
which is as of October 27, 1998, and except
for the restatement referred to in Notes 2, 3
and 14, as to which the date is May 7, 1999.

CMGI, INC.
SCHEDULE II
Valuation and Qualifying Accounts
For the years ended July 31, 1996, 1997, 1998

Accounts Receivable, Allowance for Doubtful Accounts	Balance at beginning of period	Additions: Acquisitions	Additions: Additions Charged to Costs and Expenses (Bad Debt Expense)	Deductions: Deductions (Charged against Accounts Receivable)	Deductions: (a) Deconsolidation/ Dispositions	Balance at end of period
1996	$ 47,000	$ --	$276,000	$ --	$ --	$323,000
1997	$323,000	$395,000	$424,000	$186,000	$ 10,000	$946,000
1998	$946,000	$264,000	$448,000	$ 99,000	$659,000	$900,000

(a) Amount of $659,000 in fiscal 1998 relates to the effect of deconsolidation of Lycos, Inc. on November 1, 1997. Amount of $10,000 in fiscal 1997 relates to the disposition of the Company's subsidiary, NetCarta Corporation in January 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CMGI, INC.
(Registrant)

Date: May 26, 1999 By /s/ David S. Wetherell

David S. Wetherell, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been duly signed below by the following persons on behalf of the Registrant and in the capacities and on the date set forth above.

Signature	Title
/s/ David S. Wetherell David S. Wetherell	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Andrew J. Hajducky III Andrew J. Hajducky III, CPA	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
/s/ Craig D. Goldman Craig D. Goldman	Director
/s/ William H. Berkman William H. Berkman	Director
/s/ Robert J. Ranalli Robert J. Ranalli	Director
/s/ Avram Miller Avram Miller	Director

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
CMGI, Inc. (formerly "CMG Information Services, Inc."):

We consent to the incorporation by reference in the registration statements of CMGI, Inc. on Forms S-8 (File No. 33-86742 and File No. 33-06745) and on Form S-3 (File No. 333-71863) of our reports dated September 22, 1998, except as to Note 19, which is as of October 27, 1998, and except for the restatement referred to in Notes 2, 3 and 14, as to which the date is May 7, 1999, relating to the consolidated balance sheets of CMGI, Inc. and subsidiaries as of July 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows and related schedule for each of the years of the three-year period ended July 31, 1998, which reports appear in the July 31, 1998 annual report on Form 10-K/A of CMGI, Inc.

/s/ KPMG LLP
KPMG LLP

Boston, Massachusetts
May 26, 1999

Exhibit 23.2

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Lycos, Inc.:

We consent to the incorporation by reference on Form 10-K/A of CMGI, Inc. (formerly "CMG Information Services, Inc."),of our report dated August 18, 1998, except for the restatement related to acquired in-process technology referred to in Note 1, as to which the date is March 22, 1999 relating to the consolidated balance sheets of Lycos, Inc. as of July 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended July 31, 1998, which report appears in the July 31, 1998 annual report on Form 10-K/A of Lycos, Inc.

/s/ KPMG LLP

KPMG LLP

Boston, Massachusetts
May 26, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ANNUAL
REPORT ON FORM 10-K/A OF CMGI, INC. FOR THE YEAR ENDED JULY 31, 1998 AND IS
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR
JUL-31-1998
AUG-01-1997
JUL-31-1998
61,537
5,764
21,431
900
8,250
102,819
20,990
7,587
259,818
90,035
0
0
0
461
132,675
259,818
81,916
81,916
72,950
72,950
79,225
0
3,296
58,819
31,555
27,264
4,640
0
0
31,904
0.76
0.71

EXHIBIT 99.1

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lycos, Inc.:

We have audited the accompanying consolidated balance sheets of Lycos, Inc. as of July 31, 1998 and 1997 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three year period ended July 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lycos, Inc. at July 31, 1998 and 1997, and the results of its operations and cash flows for each of the years in the three year period ended July 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Boston, Massachusetts
August 18, 1998, except for the restatement
related to acquired in-process technology
referred to in Note 1, as to which the date
is March 22, 1999.

LYCOS, INC.

CONSOLIDATED BALANCE SHEETS

	JULY 31, 1998 (restated)	JULY 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 153,728,200	$ 40,766,258
Accounts receivable, less allowance for doubtful accounts of $1,208,000 and $554,000 at July 31, 1998 and 1997, respectively	10,958,470	6,634,262
Electronic commerce and license fees receivable	30,223,986	9,065,806
Prepaid expenses	5,559,842	4,278,418
Other current assets	326,292	--
Total current assets	200,796,790	60,744,744
Property and equipment, less accumulated depreciation and amortization	3,960,059	2,397,600
Electronic commerce and license fees receivable	21,537,371	650,000
Investments	8,874,568	--
Intangible assets, less accumulated amortization	78,787,554	1,243,050
Other assets	3,278,994	383,615
Total assets	$ 317,235,336	$ 65,419,009
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,873,302	$ 3,289,513
Accrued expenses	17,589,700	7,387,707
Deferred revenues	30,730,390	9,541,566
Billings in excess of revenues	681,849	2,387,424
Due to related parties	--	9,105
Total current liabilities	53,875,241	22,615,315
Deferred revenues	26,159,754	5,100,000
Deferred income taxes	36,667	56,667
	26,196,421	5,156,667
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized, none issued or outstanding	--	--
Common stock, $.01 par value; 80,000,000 shares authorized, 38,991,436 shares at July 31, 1998 and 27,593,240 at July 31, 1997 issued and outstanding	389,916	275,932
Additional paid-in capital	278,126,582	49,368,940
Deferred compensation	(116,338)	(185,436)
Accumulated deficit	(40,251,893)	(11,812,409)
Treasury stock, at cost, 708,674 shares at July 31, 1998	(984,593)	--
Total stockholders' equity	237,163,674	37,647,027
Total liabilities and stockholders' equity	$ 317,235,336	$ 65,419,009

See accompanying notes to consolidated financial statements.

LYCOS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED		
	JULY 31, 1998 (restated)	JULY 31, 1997	JULY 31, 1996
Revenues:			
Advertising	$ 41,768,607	$ 17,417,388	$ 4,478,474
Electronic commerce, license and other	14,291,698	4,855,654	778,753
Total revenues	56,060,305	22,273,042	5,257,227
Cost of revenues	12,513,259	4,335,941	2,900,808
Gross profit	43,547,046	17,937,101	2,356,419
Operating expenses:			
Research and development	9,477,708	4,301,267	906,591
In process research and development	17,280,000	--	452,000
Sales and marketing	35,035,754	19,126,317	4,747,805
General and administrative	5,631,104	2,718,763	1,692,362
Amortization of intangible assets	7,613,711	540,416	359,868
Total operating expenses	75,038,277	26,686,763	8,158,626
Operating loss	(31,491,231)	(8,749,662)	(5,802,207)
Interest income	3,051,747	2,130,472	714,369
Net loss	$ (28,439,484)	$ (6,619,190)	$ (5,087,838)
Basic net loss per share	$ (0.92)	$ (0.24)	$ (0.21)
Shares used in computing basic net loss per share	30,932,982	27,589,486	23,984,830

See accompanying notes to consolidated financial statements.

LYCOS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN	DEFERRED	ACCUMULATED	TREASURY STOCK	
	SHARES	AMOUNT	CAPITAL	COMPENSATION	DEFICIT	SHARES	AMOUNT
Balances at July 31, 1995...	20,000,000	$ 200,000	$ 1,137,000	$ (87,000)	$ (105,381)	--	--
Capital contribution........	--	--	1,000,000	--	--	--	--
Capital contribution related to License Agreement.............	--	--	250,000	--	--	--	--
Issuance of common stock in connection with acquisitions...........	1,052,632	10,526	531,474	--	--	--	--
Issuance of common stock pursuant to certain preemptive rights......	263,160	2,632	326,318	--	--	--	--
Issuance of common stock in connection with Initial Public Offering, net of offering costs........	6,270,000	62,700	45,631,382	--	--	--	--
Deferred compensation related to grant of stock options................	--	--	523,505	(523,505)	--	--	--
Amortization of deferred compensation..............	--	--	--	234,344	--	--	--
Net loss....................	--	--	--	--	(5,087,838)	--	--
Balances at July 31, 1996...	27,585,792	$ 275,858	$ 49,399,679	$(376,161)	$ (5,193,219)	--	--
Issuance of common stock in connection with Employee Stock Purchase Plan.......................	7,448	74	18,328	--	--	--	--
Cancellation of options.....	--	--	(49,067)	49,067	--	--	--
Amortization of deferred compensation..............	--	--	--	141,658	--	--	--
Net loss....................	--	--	--	--	(6,619,190)	--	--
Balances at July 31, 1997...	27,593,240	$ 275,932	$ 49,368,940	$(185,436)	$ (11,812,409)	--	--
Issuance of common stock in connection with Employee Stock Purchase Plan.........	8,588	86	65,956	--	--	--	--
Cancellation of options.....	--	--	(22,562)	22,562	--	--	--
Issuance of common stock in connection with exercise of stock options..	2,047,020	20,470	3,221,724	--	--	61,556	(307)
Treasury stock in connection with exercise of stock options.......	--	--	--	--	--	608,184	(467,589)
Issuance of common stock in connection with exercise of warrants.......	207,228	2,072	1,361,516	--	--	18,836	(113,581)
Issuance of common stock in connection with strategic investments, net of offering costs......	301,028	3,012	7,879,431	--	--	--	--
Issuance of common stock and warrants in connection with acquisitions..........	4,149,142	41,492	104,807,563	--	--	20,098	(403,116)
Issuance of common stock in connection with Secondary Public Offering, net of offering costs..................	4,675,000	46,750	111,144,116	--	--	--	--
Issuance of common stock in connection with services rendered......	10,190	102	299,898	--	--	--	--
Amortization of deferred compensation..............	--	--	--	46,536	--	--	--
Net loss (restated).........	--	--	--	--	(28,439,484)	--	--
Balances at July 31, 1998 (restated)................	38,991,436	$ 389,916	$ 278,126,582	$(116,338)	$ (40,251,893)	708,674	$(984,593)

	TOTAL
Balances at July 31, 1995..	$ 1,144,619
Capital contribution.......	1,000,000
Capital contribution related to License Agreement............	250,000
Issuance of common stock in connection with acquisitions..........	542,000
Issuance of common stock	

pursuant to certain preemptive rights.....	328,950
Issuance of common stock in connection with Initial Public Offering, net of offering costs.......	45,694,082
Deferred compensation related to grant of stock options...............	--
Amortization of deferred compensation.............	234,344
Net loss...................	(5,087,838)
Balances at July 31, 1996..	$ 44,106,157
Issuance of common stock in connection with Employee Stock Purchase Plan.......................	18,402
Cancellation of options.....	--
Amortization of deferred compensation..............	141,658
Net loss....................	(6,619,190)
Balances at July 31, 1997...	$ 37,647,027
Issuance of common stock in connection with Employee Stock Purchase Plan.........	66,042
Cancellation of options.....	--
Issuance of common stock in connection with exercise of stock options..	3,241,887
Treasury stock in connection with exercise of stock options.......	(467,589)
Issuance of common stock in connection with exercise of warrants.......	1,250,007
Issuance of common stock in connection with strategic investments, net of offering costs......	7,882,443
Issuance of common stock and warrants in connection with acquisitions..........	104,445,939
Issuance of common stock in connection with Secondary Public Offering, net of offering costs..................	111,190,866
Issuance of common stock in connection with services rendered......	300,000
Amortization of deferred compensation..............	46,536
Net loss (restated).........	(28,439,484)
Balances at July 31, 1998...	$237,163,674

See accompanying notes to consolidated financial statements.

LYCOS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED		
	July 31, 1998 (restated)	July 31, 1997	July 31, 1996
OPERATING ACTIVITIES			
Net loss	$(28,439,484)	$(6,619,190)	$(5,087,838)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of deferred compensation	46,536	141,658	234,344
Depreciation and amortization	9,138,843	1,269,064	642,218
Allowance for doubtful accounts	654,000	405,000	200,000
In process research and development expense	17,280,000	--	452,000
Issuance of common stock for services rendered	300,000	--	--
Changes in operating assets and liabilities:			
Accounts receivable	(4,768,973)	(3,745,337)	(3,454,950)
Electronic commerce and license fees receivable	(42,045,551)	(7,731,585)	(1,984,221)
Prepaid expenses	(1,258,140)	(3,296,707)	(981,711)
Other current assets	(326,292)	--	--
Other assets	(2,895,379)	(216,000)	(167,615)
Accounts payable	774,033	547,634	2,600,071
Accrued expenses	8,343,512	5,641,289	1,735,693
Deferred revenues	42,155,798	11,493,144	3,125,285
Billings in excess of revenues	(1,705,575)	984,992	1,402,432
Due to related parties	(9,105)	(428,162)	295,660
Deferred income taxes	(20,000)	(21,333)	28,000
Net cash used in operating activities	(2,775,777)	(1,575,533)	(960,632)
INVESTING ACTIVITIES			
Purchase of property and equipment	(1,091,988)	(1,818,798)	(1,632,079)
Payments under License Agreement	--	--	(750,000)
Cash acquired through acquisitions, net	2,540,619	--	17,137
Investment in Joint Venture	(992,125)	--	--
Net cash provided by (used in) investing activities	456,506	(1,818,798)	(2,364,942)
FINANCING ACTIVITIES			
Proceeds from issuance of common stock, net of offering costs	111,190,866	18,402	46,021,314
Proceeds from exercise of stock options	3,241,887	--	--
Proceeds from issuance of common stock under Employee Stock Purchase Plan	66,042	--	--
Proceeds from exercise of warrants	1,250,007	--	--
Proceeds from capital contribution	--	--	1,000,000
Cash used to repurchase treasury stock	(467,589)	--	--
Net cash provided by financing activities	115,281,213	18,402	47,021,314
Net increase (decrease) in cash and cash equivalents	112,961,942	(3,375,929)	43,695,740
Cash and cash equivalents at beginning of year	40,766,258	44,142,187	446,447
Cash and cash equivalents at end of year	$153,728,200	$40,766,258	$44,142,187

CONSOLIDATED STATEMENTS OF CASH FLOWS--(CONTINUED)

	YEAR ENDED		
	JULY 31, 1998 (restated)	JULY 31, 1997	JULY 31, 1996
Schedule of non-cash financing and investing activities:			
Issuance of common stock for License Agreement	$ --	$ --	$300,000
Recognition of deferred tax liability related to License Agreement	--	--	50,000
Assets and liabilities recognized upon acquisition of Point Communications	--	--	--
Accounts receivable	--	--	33,975
Property and equipment	--	--	47,496
Goodwill	--	--	186,633
Accounts payable	--	--	97,734
Deferred revenues	--	--	23,137
Accrued expenses	--	--	4,370
Due to related parties	--	--	70,000
Issuance of common stock upon acquisition of Tripod, Inc., WiseWire, Corp., and GuestWorld, Inc	$104,445,939	--	--
Assets and liabilities recognized upon acquisition of Tripod, Inc., WiseWire Corp., and GuestWorld, Inc.		--	--
Accounts receivable	209,235	--	--
Prepaid expenses	23,284	--	--
Property and equipment	1,995,601	--	--
Developed technology	12,331,195	--	--
Goodwill and other intangible assets	72,827,020	--	--
Accounts payable	809,756	--	--
Accrued expenses	1,858,481	--	--
Deferred revenues	92,780	--	--
Issuance of common stock in connection with strategic investments	7,882,443	--	--

See accompanying notes to consolidated financial statements.

LYCOS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Lycos, Inc. ("Lycos" or the "Company"), which operates in one industry segment, provides guides for finding information on the Internet's World Wide Web. The Company was formed in June 1995 by CMG@Ventures, L.P. ("CMG@Ventures") to license on an exclusive basis (with certain limited exceptions) from Carnegie Mellon University ("CMU" or the "Licensor") the Lycos Internet search and indexing technology.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, from their respective dates of acquisition. All significant intercompany balances and transactions have been eliminated.

Restatement Related to Acquired In-Process Technology

The accompanying consolidated financial statements as of and for the year ended July 31, 1998 have been restated to reflect a change in the original accounting for the purchase price allocations related to the acquisitions of Tripod, Wisewire and Guestworld. The Company has also restated the accounting for its acquisition of WhoWhere? completed subsequent to July 31, 1998. In a letter (the "SEC Letter"), dated September 9, 1998, to the American Institute of Certified Public Accountants SEC Regulations Committee, which was made public in October 1998, the Securities and Exchange Commission (SEC) set forth its views on purchased in-process research and development. Subsequent to the issuance of the SEC Letter the staff of the SEC has reviewed various filings of the Company. As a part of this review the management of the Company and the staff of the SEC have had discussions with respect to the methods used to value purchased in-process research and development that was written off at the date of acquisition. As a result of these discussions, the Company has modified the methods used to value purchased in-process research and development in connection with the Company's acquisitions. This resulted in a reduction in the amount of the charge for in-process research and development from $91,239,000 to $17,280,000 and an increase in the amounts allocated to intangible assets from $11,199,000 to $85,158,000. The restatement does not affect previously reported net cash flows for the periods. The effect of this restatement on previously reported consolidated financial statements as of and for the year ended July 31, 1998 is as follows (in thousands except per share amounts):

	Year Ended July 31, 1998	
Statements of Operations:	As Reported	Restated
In-process research and development	$ 91,239	$ 17,280
Amortization of intangibles	2,132	7,614
Loss from operations	(99,968)	(31,491)
Net loss	(96,917)	(28,439)
Basic and diluted net loss per share	$ (3.13)	$ (0.92)

	July 31, 1998	
Balance Sheets:	As Reported	Restated
Intangible assets	$ 10,310	$ 78,788
Total assets	248,758	317,235
Accumulated deficit	(108,729)	(40,252)
Total shareholders' equity	168,687	237,164

Joint Ventures

On May 1, 1997, the Company entered into a joint venture agreement with Bertelsmann Internet Services to create localized versions of the Lycos search and navigation service throughout Europe. The new company, named Lycos Bertelsmann GmbH & Co. KG ("Lycos Bertelsmann"), is owned 50% by Lycos and 50% by Bertelsmann. Bertelsmann Internet Services, a subsidiary of Bertelsmann AG, has committed to provide capital, infrastructure and employees for the venture while Lycos will provide the core technology and brand name. The carrying value of the Company's investment in Lycos Bertelsmann was not material at July 31, 1998 or 1997. The investment is accounted for under the equity method and accordingly, the Company will recognize 50% of the net profits of Lycos Bertelsmann when realized.

On April 13, 1998, the Company entered into a joint venture with Sumitomo Corporation, a $100 billion dollar company and one of Japan's largest trading companies, and Internet Initiative Japan (IIJ), the country's largest Internet Service Provider to create a localized version of the lycos.com Web Site to be called Lycos Japan which will feature navigation and search capability, and will soon include news, sports, stocks and other services. Terms of the deal include a 40% ownership stake by Lycos in exchange for approximately $992,000, with Sumitomo Corporation owning 50% of the venture and IIJ maintaining a 10% stake in the entity. Sumitomo Corporation and Lycos will manage the daily operations of the site, including aggregation of local content, sales, marketing and administration from the operations' headquarters in Tokyo, Japan. For the year ending July 31, 1998, Lycos' share of operating costs was not material.

Investments

During 1998 the Company obtained equity interests in two privately held, internet related companies through the issuance of the Company's common stock (see Note 2). Both investments resulted in the Company owning less than 20% of the respective investees. Accordingly, these investments are accounted for under the cost method. The Company purchased these investments in March and April, 1998, and their carrying values approximate fair values. For these non-quoted investments, the Company regularly reviews the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values.

Public Offerings

On April 2, 1996, the Company completed an initial public offering of its common stock in which 6,000,000 shares of common stock were issued at a price of $8.00 per share. On April 12, 1996, pursuant to the exercise of an over-allotment option granted to the underwriters of the Company's initial public offering, the Company issued an additional 270,000 shares of its common stock at a price of $8.00 per share.

On June 4, 1998, the Company completed a secondary offering of its common stock in which 4,000,000 shares of common stock were issued at a price of $23.82 per share net of underwriting discounts and commissions. On June 10, 1998, pursuant to the exercise of an over-allotment option granted to the underwriters of the Company's secondary offering, the Company issued an additional 675,000 shares of its common stock at a price of $25.00 per share.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original or remaining maturities of three months or less to be cash equivalents. At July 31, 1998 and 1997, the Company had no investments with maturities greater than three months.

Electronic Commerce and License Fees Receivable

Electronic commerce and license fees receivable are comprised of fees to be received in the future on electronic commerce and licensing agreements existing at the balance sheet date.

Other assets

Other assets comprise primarily purchased hardware to be sold to joint venture partners. Purchased hardware will be sold at cost upon completion.

Property and Equipment

Property and equipment are stated at cost, net of accumulated amortization and depreciation. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets (three to five years). Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the lease term.

Intangible Assets

Intangible assets primarily relate to the Company's acquisitions and include developed technology, licensed technology, trademarks, trade names, content copyrights, customer base and goodwill. In connection with acquisitions accounted for under the purchase method of accounting (see Note 4), the Company recorded these intangible assets based on the excess of the purchase price over the identifiable tangible net assets of the acquiree on the date of purchase. Intangible assets are reported at cost, net of accumulated amortization, and are being amortized over their estimated useful life of five years. The Company continually evaluates the existence of goodwill impairment in accordance with the provisions of SFAS 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be disposed of".

Accounting for Impairment of Long-Lived Assets

In accordance with Financial Accounting Standards Board Statement No. 121, the Company records impairment losses on long-lived assets to be held and used or to be disposed of when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the asset carrying amount.

Deferred Revenues

Deferred revenues are comprised of license and electronic commerce fees to be earned in the future on noncancelable agreements existing at the balance sheet date.

Income Taxes

The Company records income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and the tax effect of net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years 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.

Revenue Recognition

The Company's advertising revenues are derived principally from short-term advertising contracts in which the Company guarantees a number of impressions for a fixed fee or on a per impression basis with an established minimum fee. Revenues from advertising are recognized as the services are performed.

Electronic commerce revenues are derived principally from "slotting fees" paid for selective positioning and promotion within the Company's suite of products as well as from royalties from the sale of goods and services from the Company's websites. The Company's license and product revenues are derived principally from product licensing fees and fees from maintenance and support of its products. Electronic commerce, license and product revenues are generally recognized upon delivery provided that no significant Company obligations remain and collection of the receivable is probable. In cases where there are significant remaining obligations, the Company defers such revenue until those obligations are satisfied. Fees from maintenance and support of the Company's products including revenues bundled with the initial licensing fees are deferred and recognized ratably over the service period.

Cost of Revenues

Cost of revenues specifically attributable to advertising and electronic commerce, license and product revenues are not separately identifiable and therefore are not separately disclosed in the consolidated statements of operations.

Research and Development Costs

Research and development expenditures are expensed as incurred. Software development costs are required to be capitalized when a product's technological feasibility has been established either by completion of a detail program design or a working model of the product and ending when a product is available for general release to consumers. To date, attainment of technological feasibility of the Company's products and general release to customers have substantially coincided. As a result, the Company has not capitalized any software development costs since such costs have not been significant.

Advertising Costs

The Company expenses advertising production costs as incurred. Advertising expense was approximately $5,675,000, $4,427,000 and $567,000 for the years ended July 31, 1998, 1997 and 1996, respectively.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123 ("SFAS 123") requires that companies either recognize compensation expense for grants of stock, stock options, and other equity instruments based on fair value, or provide pro forma disclosure of net income (loss) and earnings (loss) per share in the notes to the financial statements. The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized under SFAS 123 for the Company's stock option plans, and footnote disclosure is provided in Note 8.

Concentration of Credit Risk

The Company performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral on accounts receivable. The Company maintains allowances for credit losses and such losses have been within management's expectations. Direct write-offs of accounts receivable were $333,000 for the year ended July 31, 1998 and $51,000 for the year ended July 31, 1997. There were no direct write-offs of accounts receivable for the year ended July 31, 1996. No single customer accounted for greater than 10% of total revenues during the years ended July 31, 1998, 1997 and 1996.

The Company's services are provided to customers in several industries primarily in North America. Sales to foreign customers for the years ended July 31, 1998, 1997 and 1996 were approximately $2,640,000, $1,700,000 and $385,000, respectively.

Financial Instruments

The recorded amounts of financial instruments, including cash equivalents, receivables, accounts payable, accrued expenses and deferred revenues, approximate their fair market values as of July 31, 1998. The Company has no investments in derivative financial instruments.

Use of Estimates

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

Per Share Amounts

For the year ended July 31, 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share." SFAS 128 requires the presentation of basic loss per share and diluted loss per share for all periods presented. As the Company has been in a net loss position for the years ended July 31, 1998, 1997 and 1996, common stock equivalents were excluded from the diluted loss per share calculation as they would be antidilutive. As a result, diluted loss per share is the same as basic loss per share, and has not been presented separately.

Stock Split

In July 1998, the Company's Board of Directors approved a two-for-one common stock split. Shareholders of record on August 14, 1998 (the record date) were entitled to one additional share for every share held on August 25, 1998. The Company has presented loss per share and weighted average shares in the consolidated statement of operations for all periods presented and all footnote disclosures reflecting the effect of the stock split.

Treasury Stock

In connection with a license agreement with Carnegie Mellon University, CMG@Ventures, Inc. has agreed to sell to the Company the number of shares of common stock equal to the shares issuable upon exercise of certain options granted, as defined, at a price equal to the exercise price of the underlying options exercised (see Note 8). Under this agreement, the Company issues shares of Company stock to employees upon exercise of options and subsequently buys an equivalent number of Company shares at the respective exercise price from CMG@Ventures, resulting in treasury stock.

Reclassifications

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

New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued Statement No. 130 ("SFAS 130") "Reporting Comprehensive Income". This statement establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. This statement is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company expects to adopt SFAS 130 for the year ending July 31, 1999. The Company believes that this pronouncement will not have a material adverse affect on its results of operations.

In June 1997, the Financial Accounting Standards Board issued Statement No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information". This statement establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. This statement is effective for financial statements for periods beginning after December 15, 1997. The Company expects to adopt SFAS 131 for the year ending July 31, 1999. Because the Company operates within a single operating segment, adoption of this statement is currently not expected to have a material impact on the Company's consolidated financial statements and footnote disclosures.

In October 1997, the American Institute of Certified Public Accountants issued Statement of Position 97-2 ("SOP 97-2"), "Software Revenue Recognition", which provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions and supersedes SOP 91-1, "Software Revenue Recognition". The Company expects to adopt SOP 97-2 for its fiscal year ending July 31, 1999 and does not anticipate any material impact on its revenue recognition policies.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", which establishes guidelines for the accounting for the costs of all computer software developed or obtained for internal use. The Company is required to adopt SOP 98-1 effective August 1, 1999. The adoption of SOP 98-1 is not expected to have a material impact on the Company's consolidated financial statements.

In April, 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 ("SOP 98-5"), "Reporting on the Costs of Start-Up Activities." The statement is effective for fiscal years beginning after December 15, 1998. The statement requires costs of start-up activities and organization costs to be expensed as incurred. The Company is required to adopt SOP 98-5 effective August 1, 1999. The adoption of SOP 98-5 is not expected to have a material impact on the Company's consolidated financial statements.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities", which requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. For fair-value hedge transactions in which the Company is hedging changes in an asset's, liability's or firm commitment's fair value, changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value. For cash flow hedge transactions, changes in the fair value of the derivative instrument will be reported in comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income will be reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges will be recognized in current period earnings. The Company currently expects to adopt SFAS 133 for the year ending July 31, 1999. Management has determined there will be no impact on its results of operations or financial position resulting from the adoption of SFAS 133 because the Company currently does not hold derivative instruments.

2. INVESTMENTS

On March 9, 1998, the Company purchased 1,000,000 shares of Class A Preferred Stock of GlobeComm, Inc. ("GlobeComm") through the issuance of 200,124 shares of Lycos common stock, valued at $4,577,837. The investment, carried at cost, represents an approximate 9.85% stake in GlobeComm on a fully diluted basis. GlobeComm is the owner of iName, a leading provider of lifetime personalized e-mail addresses and advanced e-mail services. Lycos provides free e-mail services to users based on iName's advanced products.

On April 13, 1998, the Company purchased 1,915,709 shares of Series B Convertible Participating Preferred Stock of Sage Enterprises, Inc. ("PlanetAll") through the issuance of 100,904 shares of Lycos common stock, valued at $3,304,606. The investment, carried at cost, represents an approximate 14.1% stake in PlanetAll, on a fully diluted basis.

Subsequent to July 31, 1998, all of the outstanding common stock of PlanetAll was acquired by Amazon.com. See Note 7 "Subsequent Events".

3. PROPERTY AND EQUIPMENT

Property and equipment, at cost, consisted of the following:

	JULY 31, 1998	JULY 31, 1997
Computers and equipment	$ 3,623,686	$ 2,234,012
Furniture and fixtures	1,091,726	563,756
Leasehold improvements	1,356,222	585,912
Purchased software	525,197	141,096
	6,596,831	3,524,776
Less accumulated depreciation and amortization	(2,636,772)	(1,127,176)
	$ 3,960,059	$ 2,397,600

4. ACQUISITIONS

Tripod, Inc.

On February 11, 1998, the Company entered into an Agreement and Plan of Merger (the "Agreement") by and among the Company, Pod Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of the Company ("PAC"), Tripod, Inc., a Delaware corporation ("Tripod"), William Peabody and Richard Sabot, providing for the merger of PAC with and into Tripod (the "Merger"). On February 12, 1998,the Company completed the closing of the Merger and Tripod became a wholly-owned subsidiary of the Company. In accordance with the terms of the Agreement, Richard Sabot was elected, effective May 1, 1998, to the Company's Board of Directors for a term expiring at the first Annual Meeting of the Company's stockholders held after the Company's fiscal year ending July 31, 2000.

The acquisition was accounted for as a purchase. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values. Results of operations for Tripod have been included with those of the Company for periods subsequent to the date of acquisition.

In the Merger, all outstanding shares of Common Stock and Preferred Stock of Tripod and options and warrants to purchase Common Stock and Preferred Stock of Tripod were converted into 3,120,826 shares and options and warrants to purchase Common Stock of the Company. All outstanding options to purchase Common Stock of Tripod have been assumed by the Company and converted into options to purchase Common Stock of the Company, and all outstanding warrants to purchase Preferred Stock of Tripod have been assumed by the Company and converted into warrants to purchase Common Stock of the Company.

Under the terms of the Agreement and related Escrow Agreement dated February 11, 1998, an aggregate of 255,682 shares of Common Stock of the Company and options and warrants to purchase an additional 56,418 shares of Common Stock of the Company will be held in escrow for the purpose of indemnifying the Company against certain liabilities of Tripod and its stockholders. The escrow will expire on February 11, 1999.

The purchase price was allocated as follows:

	(restated)
In process research and development...........	$ 7,200,000
Developed technology.........................	2,480,000
Goodwill and other intangible assets..........	49,739,935
Other assets, principally cash and equipment..	3,633,449
Liabilities assumed	(1,603,731)
	$61,449,653

As a result of discussions with the staff of the SEC, the Company has adjusted the allocation of the purchase price originally reported. Among the factors considered in discussions with the staff of the SEC in determining the amount of the allocation of the purchase price to in-process research and development were various factors such as estimating cash flows resulting from the expected revenues generated from such projects, and discounting the net cash flows, in addition to other assumptions. The remaining identified intangibles, including the value of purchased technology and other intangibles will be amortized on a straight-line basis over five years.

Accumulated amortization on intangible assets acquired in the acquisition of Tripod was $4,070,000 at July 31, 1998.

If these projects are not successfully developed, the Company's sales and profitability may be adversely affected in future periods. Additionally, the failure of any particular individual project in-process could impair the value of the intangible assets acquired.

WiseWire Corporation

On April 30, 1998, the Company entered into an Agreement and Plan of Merger (the "Agreement") by and among the Company, Wise Acquisition Corp., a Pennsylvania corporation and a wholly-owned subsidiary of the Company ("WAC"), and WiseWire Corporation, a Pennsylvania corporation ("WiseWire"), pursuant to which WAC was merged with and into WiseWire (the "Merger"). As a result of the Merger, WiseWire became a wholly-owned subsidiary of the Company.

The acquisition was accounted for as a purchase. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values. Results of operations for WiseWire are included with those of the Company for periods subsequent to the date of acquisition.

In the Merger, all outstanding shares of Common Stock and Preferred Stock of WiseWire and options to purchase Common Stock of WiseWire were converted into 1,648,510 shares and options to purchase Common Stock of the Company. All outstanding options to purchase Common Stock of WiseWire have been assumed by the Company.

Under the terms of the Agreement and related Escrow Agreement dated April 30, 1998, an aggregate of 164,874 shares of Common Stock of the Company will be held in escrow for the purpose of indemnifying the Company against certain liabilities of WiseWire and its stockholders. The escrow will expire on April 30, 1999.

The purchase price was allocated as follows:

	(restated)
In process research and development..........	$ 9,080,000
Developed technology.........................	1,200,000
Goodwill and other intangible assets.........	28,907,698
Other assets, principally cash and equipment..	1,085,290
Liabilities assumed	(857,286)
	$39,415,702

As a result of discussions with the staff of the SEC, the Company has adjusted the allocation of the purchase price originally reported. Among the factors considered in discussions with the staff of the SEC in determining the amount of the allocation of the purchase price to in-process research and development were various factors such as estimating cash flows resulting from the expected revenues generated from such projects, and discounting the net cash flows, in addition to other assumptions. The remaining identified intangibles, including the value of purchased technology and other intangibles will be amortized on a straight-line basis over five years.

Accumulated amortization on intangible assets acquired in the acquisition of WiseWire was $1,346,000 at July 31, 1998.

If these projects are not successfully developed, the Company's sales and profitability may be adversely affected in future periods. Additionally, the failure of any particular individual project in-process could impair the value of the intangible assets acquired.

GuestWorld, Inc.

On June 16, 1998, the Company entered into an Agreement and Plan of Merger (the "Agreement") by and among the Company, VW Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of the Company ("VW"), GuestWorld, Inc., a California corporation ("GuestWorld"), and all of the stockholders of GuestWorld, acquired all of the outstanding capital stock of GuestWorld through the merger of VW with and into GuestWorld (the "Merger"). As a result of the Merger, GuestWorld became a wholly-owned subsidiary of the Company.

In the Merger, all outstanding shares of Common Stock of GuestWorld were converted into an aggregate of 126,184 shares of Common Stock, par value $.01 per share, of the Company. The acquisition was accounted for as a purchase. Results of operations for GuestWorld are included with those of the Company for periods subsequent to the date of acquisition.

Under the terms of the Agreement and related Escrow Agreement dated June 16, 1998, an aggregate of 12,618 shares of Common Stock of the Company will be held in escrow for the purpose of indemnifying the Company against certain liabilities of GuestWorld and its stockholders. The escrow will expire on June 16, 1999.

The purchase price was allocated as follows:

	(restated)
In process research and development...	$1,000,000
Developed technology..................	--
Goodwill and other intangible assets..	2,830,584
Property and equipment................	50,000
Liabilities assumed	(300,000)
	$3,580,584

As a result of discussions with the staff of the SEC, the Company has adjusted the allocation of the purchase price originally reported. Among the factors considered in discussions with the staff of the SEC in determining the amount of the allocation of the purchase price to in-process research and development were various factors such as estimating cash flows resulting from the expected revenues generated from such projects, and discounting the net cash flows, in addition to other assumptions. The remaining identified intangibles, including the value of purchased technology and other intangibles will be amortized on a straight-line basis over five years.

Accumulated amortization on intangible assets acquired in the acquisition of GuestWorld was $65,976 at July 31, 1998.

If these projects are not successfully developed, the Company's sales and profitability may be adversely affected in future periods. Additionally, the failure of any particular individual project in-process could impair the value of the intangible assets acquired.

In-Process Research and Development

In connection with the acquisitions of Tripod, WiseWire and GuestWorld, the Company recorded an in-process research and development charge of $17.3 million representing purchased in-process research and development that has not yet reached technological feasibility and has no alternative future use. The Company's management made certain assessments with respect to the determination of all identifiable assets resulting from, or to be used in, research and development activities as of the respective acquisition dates. Each of these activities was evaluated as of the respective acquisition dates so as to determine their stage of development and related fair value. The Company's review, as of the acquisition date, indicated that the in-process research and development had not reached a state of technological feasibility and evidenced no alternative future use. In the case of in-process projects, the Company made estimates to quantify the cost-to-complete for each project, identifying the project date of introduction, the estimated life of the project, the project's "fit" within the Company's own in-process research projects, the revenues to be generated in each future period and the corresponding operating expenses and other charges to apply to this revenue stream. In order to determine the value of the earnings stream attributable to the in-process research and development, the excess earnings from the projects were calculated by deducting the earnings stream attributable to all other assets including working capital and tangible assets. Based upon these assumptions, after-tax cash flows attributable to the in-process project(s) were determined, appropriately discounted back to its respective net present value, taking into account the uncertainty surrounding the successful development of the purchased in-process technology.

In the Tripod and Wisewire acquisitions, the in-process research and development projects were valued using an Income Approach, which included the application of a discounted future earnings (excess earnings) methodology. In both methodologies, the value of the in-process technology is comprised of the total present value of the future earnings stream attributable to the technology throughout its anticipated life. As a basis for the valuation process, the Company made estimates of the revenue stream to be generated in each future period and the corresponding operating expenses and other charges to apply to this revenue stream. In order to determine the value of the earnings stream that was specifically attributable to the in-process technology, the excess earnings of the projects were calculated by deducting the earnings streams attributable to all other assets, including working capital and tangible assets. Based upon these assumptions, the future after-tax income streams relating to the in-process technologies were discounted to present value using a risk adjusted discount rate that reflected the uncertainty involved in successfully completing and commercializing the in-process technologies.

The significant assumptions used as a basis for the in-process research and development valuations include: future revenues and expenses forecasted for each project; future working capital needs; estimated costs to complete; date of project completion and product launch; and the probability and risk of project completion as reflected in the discount rate selected to compute net present values.

The period in which material net cash inflows from significant projects was expected to commence was within three to six months or less after the respective acquisition dates of Tripod and WiseWire. In the case of the Tripod acquisition, the projects required an additional three to four months beyond the initial time estimate to complete the in-process technology. In the case of the WiseWire acquisition, the in-process technology was to be fully completed within three to six months. However, at the present time, the in-process technology has not been fully completed and an uncertainty exists as to whether the technology can be successfully completed and commercialized in the future.

GuestWorld and WiseWire are both development stage companies that had not generated significant commercial revenue at their respective acquisition dates and were generating losses. Neither company had completed development of technologically robust or commercially viable products or services. Significant uncertainty existed in relation to the introduction of such products or services.

Lycos' management has considered the possible existence or value of other intangible assets such as patents, copyrights, brand names, customer lists, etc. However, management at both companies had been focused on completing the development projects underway and they had not undertaken the development of other intangible assets. Accordingly, Lycos' management believes that the value of any other such assets at the respective acquisition dates were minimal.

The purchase price paid for GuestWorld and WiseWire reflected payment for incomplete technology. Should the in-process projects fail, the value of Lycos' investment in these incomplete technologies would be diminimous or zero.

In the case of Tripod, management does believe that other intangible assets had been created by management at the acquisition date. As a result, in addition to valuing in-process research and development, management has also allocated a proportion of the purchase price, based on their respective fair values, to existing technology employed in the creation and management of pods as well as to other intangible assets associated with the existing community members.

The following unaudited pro forma financial information presents the combined results of operations of Lycos, Tripod and WiseWire as if the acquisitions had occurred as of the beginning of 1997, after giving effect to certain adjustments, including amortization of goodwill and other intangible assets. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had Lycos, Tripod and WiseWire constituted a single entity during such period. Pro forma information for GuestWorld for periods prior to the acquisition have not been presented because the results of GuestWorld's operations were not material to the Company's historical results.

(UNAUDITED)	LYCOS	TRIPOD	WISEWIRE	COMBINED
YEAR ENDED JULY 31, 1998				
Revenues	$ 56,060,305	$ 731,499	$ 310,123	$ 57,101,927
Operating expenses and interest income, net (restated)	87,072,868	2,117,021	2,625,150	91,815,039
Net loss (restated)	$(31,012,563)	$(1,385,522)	$(2,315,027)	$ (34,713,112)
YEAR ENDED JULY 31, 1997				
Revenues	$ 22,273,042	$ 517,490	$ 111,490	$ 22,902,022
Operating expenses and interest income, net	28,892,232	3,506,191	2,463,770	34,862,193
Net loss	$ (6,619,190)	$(2,988,701)	$(2,352,280)	$ (11,960,171)

WhoWhere?, Inc.

On August 13, 1998, the Company entered into an Agreement and Plan of merger to acquire WhoWhere?, Inc. See Note 7 "Subsequent Events".

5. ACCRUED EXPENSES

Accrued expenses consist of the following:

	JULY 31, 1998	JULY 31, 1997
Compensation and benefits	$ 2,262,015	$ 942,749
Advertising and promotion	8,885,178	4,238,361
Professional fees	1,262,351	627,884
Non-income taxes	567,500	407,401
Other	4,612,656	1,171,312
	$ 17,589,700	$ 7,387,707

6. COMMITMENTS AND CONTINGENCIES

The Company leases its facilities and certain other equipment under operating lease agreements expiring through 2004. Future noncancelable minimum payments as of July 31, 1998 under these leases for each fiscal year end are as follows:

1999................................	$8,557,981
2000................................	5,854,175
2001................................	3,612,403
2002................................	3,402,195
2003................................	2,384,660

Rent expense under noncancellable operating leases was $5,057,907, $2,094,774, and $318,500 for the years ended July 31, 1998, 1997 and 1996, respectively.

The Company is obligated to make payments totaling approximately $19 million under contracts to provide search and navigation services between June 1998 and September 1999. No payments had been made under these agreements as of July 31, 1998.

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

7. SUBSEQUENT EVENTS (UNAUDITED)

Acquisition of WhoWhere? Inc.

On August 7, 1998, the Company entered into an Agreement and Plan of Merger (the "Agreement") by and among the Company, What Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of the Company ("WWAC"), WhoWhere? Inc., a California corporation ("WhoWhere?"), and certain shareholders of WhoWhere? providing for the merger of WWAC with and into WhoWhere? (the "Merger"). On August 13, 1998, the Company completed the closing of the Merger and WhoWhere? became a wholly-owned subsidiary of the Company.

The acquisition will be accounted for as a purchase. The purchase price will be allocated to the assets acquired and liabilities assumed based on their estimated fair values. Results of operations for WhoWhere? will be included with those of the Company for periods subsequent to the date of acquisition.

In the Merger, all outstanding shares of Common Stock and Preferred Stock of WhoWhere? were converted into an aggregate of 3,770,254 shares of Common Stock , par value $.01 per share, of the Company (the "Lycos Common Stock"), and all outstanding options and warrants to purchase Common Stock or Preferred Stock of WhoWhere? were assumed by the Company and became options or warrants, as the case may be, to purchase an aggregate of 1,335,244 shares of Lycos Common Stock.

The Company has filed a Registration Statement on Form S-3 with respect to the resale of the shares of Lycos Common Stock issued in the Merger and the shares of Lycos Common Stock issuable upon the exercise of warrants assumed in the Merger and filed a Registration Statement on Form S-8 with respect to the shares of Lycos Common Stock issuable upon the exercise of options and warrants assumed in the Merger.

Under the terms of the Agreement and related Escrow Agreement dated August 13, 1998, an aggregate of 377,038 shares of Lycos Common Stock and options and warrants to purchase an additional 133,540 shares of Lycos Common Stock will be held in escrow for the purpose of indemnifying the Company against certain liabilities of WhoWhere? and its stockholders. The escrow will expire on August 13, 1999.

Acquisition of Wired Ventures, Inc.

On October 5, 1998, the Company entered into a definitive merger agreement to acquire Wired Ventures Inc. in a stock-for-stock transaction valued at approximately $83 million, net of cash to be acquired and the value of shares issuable to the holders of options to purchase common stock of Wired which are exercised prior to the closing of the acquisition. The transaction is intended to be accounted for as a purchase, and accordingly, the purchase price will be allocated to assets acquired and liabilities assumed based on their respective fair values. Subject to several conditions, including approval of Wired's shareholders, the transaction is expected to close in the third quarter of fiscal 1999.

Acquisition of PlanetAll, Inc.

In August 1998, pursuant to an Agreement and Plan of Merger, Amazon.com acquired all of the outstanding capital stock of PlanetAll. Amazon.com issued approximately 800,000 shares of Amazon.com common stock, par value $.01 per share valued at approximately $87 million. Of the total of 800,000 shares issued by Amazon.com, the Company received 107,377 shares valued at approximately $11.6 million at the time of acquisition in exchange for its shares of PlanetAll. See Note 2.

Merger with Home Shopping Network, Ticketmaster and Ticketmaster Online--CitySearch

On February 9, 1999, the Company announced the formation of USA/Lycos Interactive Networks, Inc.("USA/Lycos"), a three way merger between Lycos, Ticketmaster Online-CitySearch, Inc. ("TMCS") and certain USA Networks, Inc. ("USAi") properties; Home Shopping Network, Ticketmaster and First Auction. Under the terms of the proposed merger agreement, Lycos shareholders will own 30% of USA/Lycos, USAi will own 61.5% and TMCS shareholders other than USAi will own 8.5% of USA/Lycos. Additionally, Lycos shareholders can increase their ownership another 5%, to a total of 35%, and TMCS public shareholders can increase their ownership by 0.15%, to a total of 8.65%, should the initial USA/Lycos shares achieve a market value of $45 billion over specified periods.

The transaction is expected to be completed in the second quarter of calendar 1999 and is subject to Lycos shareholder approval and customary regulatory approvals. Additional information with respect to the proposed transaction is available on Forms 8-K filed with the Securities and Exchange Commission on February 11, 1999 and February 26, 1999.

Litigation

The Company is subject to several purported class action lawsuits. The complaints allege, among other claims, violations of the United States federal securities law through alleged misrepresentations relating to the Company's agreement to enter into an announced transaction with USA Networks, Inc. and certain affiliated companies. Each complaint seeks an unspecified award of damages. The Company believes that the allegations in the complaints are without merit and intends to contest them vigorously.

8. STOCKHOLDERS' EQUITY

Common Stock

On June 4, 1998, 4,500,000 of the Company's shares were sold under a registration statement filed with the Securities Exchange Commission. Of the 4,500,000 shares sold, 4,000,000 shares were sold by the Company and 500,000 were sold by CMG Information Services, Inc ("CMGI"). The Company did not receive any proceeds from the sale of shares by CMGI. Proceeds to the Company were approximately $95 million, before deduction of expenses payable by the Company of $350,000. The Underwriters exercised an option to purchase 675,000 additional shares of Common Stock, resulting in additional proceeds to the Company of approximately $16 million.

1995 Stock Option Plan

During 1995, the Company adopted the 1995 Stock Option Plan (the "1995 Plan") under which nonqualified stock options to purchase common stock may be granted to officers and other key employees. Under the Plan, options to purchase 2,000,000 shares of common stock may be granted at an exercise price determined by the Board of Directors. Options granted under the 1995 Plan are exercisable in five equal annual installments beginning one year after date of grant, except that the vesting of certain options are subject to acceleration upon the occurrence of certain events. Options under the 1995 Plan expire six years from date of grant. The total weighted average contractual life of options outstanding at July 31, 1998 was 3.5 years.

A summary of option activity under the 1995 Plan is as follows:

	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	RANGE OF EXERCISE PRICES
Outstanding at July 31, 1995....	1,120,000	$0.01	$ 0.01
Granted......................	1,179,552	$2.41	$0.01 - $ 8.00
Exercised....................	--	--	---
Terminated...................	(390,608)	$0.07	$0.01 - $ 4.80
Outstanding at July 31, 1996...	1,908,944	$1.48	$0.01 - $ 8.00
Granted......................	420,000	$7.20	$5.69 - $ 7.94
Exercised....................	(101,600)	$0.03	$0.01 - $ 1.16
Terminated...................	(245,736)	$1.72	$0.01 - $ 8.00
Outstanding at July 31, 1997...	1,981,608	$2.73	$0.01 - $ 7.94
Granted......................	--	--	---
Exercised....................	(630,184)	$0.34	$0.01 - $ 7.94
Terminated...................	(212,080)	$1.25	$0.01 - $ 8.50
Outstanding at July 31, 1998...	1,139,344	$3.11	$0.01 - $ 7.94
Exercisable at July 31, 1998...	359,368	$3.75	$0.01 - $ 7.75

The following table summarizes information about the Company's stock options outstanding at July 31, 1998.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
1995 STOCK OPTION PLAN RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT JULY 31, 1998	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JULY 31, 1998	WEIGHTED-AVERAGE EXERCISE PRICE
$0.01--$1.16	407,696	3.1	$0.02	82,200	$0.01
$4.80--$4.80	441,648	3.5	$4.80	269,168	$4.80
$5.69--$7.94	290,000	4.7	$7.15	8,000	$6.77
	1,139,344			359,368	

Pursuant to the License Agreement, CMG@Ventures has agreed to sell to the Company a number of shares of common stock equal to the shares issuable upon exercise of options granted under the 1995 Plan and the 1996 Plan (as defined below) prior to the initial public offering at a price equal to the exercise price of the options as such options are exercised.

The Company has recorded deferred compensation expense of approximately $610,000 for the difference between the grant price and the estimated fair value (determined by independent valuations or by reference to third party transactions) of certain of the Company's stock options granted. This amount is being amortized over the vesting period of the individual options on a straight-line basis, determined separately for each portion of the options that vest in each year. Deferred compensation expense recognized for the year ended July 31, 1998, 1997 and 1996 was approximately $47,000, $142,000 and $234,000, respectively.

1996 Stock Option Plan

On February 2, 1996, the 1996 Stock Option Plan (the ''1996 Plan'') was adopted by the Board of Directors. A maximum of 2,000,000 shares of common stock may be issued pursuant to the 1996 Plan upon exercise of options. On June 27, 1997, the Company's Board of Directors voted to authorize an additional 4,400,000 shares for grant under the 1996 Plan.

Under the 1996 Plan, incentive stock options may be granted to employees and officers of the Company and non-qualified stock options may be granted to consultants, employees and officers of the Company. The exercise price of such incentive stock options cannot be less than the fair market value of the common stock on the date of grant, or less than 110% of fair market value in the case of employees or officers holding 10% or more of the voting stock of the Company. The Compensation Committee of the Board of Directors has the authority to select optionees and to determine the terms of the options granted. Options granted under the 1996 Plan are exercisable in five equal annual installments commencing on the first anniversary of the date of grant, except that vesting of certain options are subject to acceleration upon the occurrence of certain events. Options under the 1996 Plan expire ten years from the date of grant. The total weighted average contractual life of options outstanding at July 31, 1998, was 9.0 years.

A summary of option activity under the 1996 Plan is as follows:

	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	RANGE OF EXERCISE PRICES
Outstanding at July 31, 1995...	--	--	--
Granted......................	241,500	$ 6.52	$ 3.00 - $ 8.88
Exercised....................	--	--	--
Terminated...................	(62,000)	$ 7.39	$ 6.50 - $ 8.50
Outstanding at July 31, 1996...	179,500	$ 6.21	$ 3.00 - $ 8.88
Granted......................	2,169,844	$ 5.82	$ 2.91 - $ 10.75
Exercised....................	--	--	--
Terminated...................	(298,800)	$ 6.56	$ 3.57 - $ 10.75
Outstanding at July 31, 1997...	2,050,544	$ 5.72	$ 2.91 - $ 10.75
Granted......................	3,593,500	$ 22.43	$ 8.38 - $ 49.78
Exercised....................	(354,596)	$ 5.81	$ 3.00 - $ 10.75
Terminated...................	(257,200)	$ 8.14	$ 3.00 - $ 18.94
Outstanding at July 31, 1998...	5,032,248	$ 15.15	$ 2.91 - $ 49.78
Exercisable at July 31, 1998...	96,312	$ 6.10	$ 2.91 - $ 10.25

The following table summarizes information about the Company's stock options outstanding at July 31, 1998.

1996 STOCK OPTION PLAN RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT JULY 31, 1998	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JULY 31, 1998	WEIGHTED-AVERAGE EXERCISE PRICE
$ 2.91--$ 5.18	545,276	8.1	$ 4.31	25,000	$3.79
$ 5.19--$ 5.57	355,812	8.2	$ 5.55	15,012	$5.53
$ 5.67--$ 7.88	463,100	8.0	$ 6.32	30,700	$6.58
$ 7.89--$ 10.75	1,219,160	8.9	$ 8.62	25,600	$8.14
$10.76--$ 25.00	1,367,000	9.4	$ 19.37	--	--
$25.01--$ 37.00	965,900	9.8	$ 28.73	--	--
$37.01--$ 53.46	116,000	9.6	$ 38.86	--	--
	5,032,248			96,312	

In September 1996, the Company canceled 169,464 options previously granted to employees under the 1995 Plan and 1996 Plan at various exercise prices and granted an equivalent number of additional options to those same employees pursuant to the 1996 Plan at an exercise price of $4.80 per share. No compensation expense was recognized by the Company as the exercise price of these options on the date of grant was at or above fair market value.

1995 Tripod Stock Option Plan

In connection with the acquisition of Tripod, the Company assumed the 1995 Stock Option Plan under which incentive stock options and nonqualified stock options to purchase common stock may be granted to officers, key employees and advisors. Under the Plan, options to purchase 367,926 shares of common stock were reserved for grants. Options under the 1995 Tripod Stock Option Plan are generally exercisable in eight semi-annual installments beginning six months after date of grant. Options under the 1995 Tripod Stock Option Plan expire ten years from the date of grant. The total weighted average contractual life of options outstanding at July 31, 1998 was approximately 10.0 years.

A summary of option activity under the 1995 Tripod Stock Option Plan is as follows:

	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	RANGE OF EXERCISE PRICES
Outstanding at February 12, 1998...	367,926	$ 0.65	$ 0.62 - $ 1.54
Granted..........................	--	--	--
Exercised........................	(134,492)	$ 0.62	$ 0.62 - $ 1.54
Terminated.......................	(24,820)	$ 0.88	$ 0.62 - $ 1.54
Outstanding at July 31, 1998.......	208,614	$ 0.65	$ 0.62 - $ 1.54
Exercisable at July 31, 1998.......	79,995	$ 0.62	$ 0.62 - $ 1.54

The following table summarizes information about stock options outstanding under the 1995 Tripod Stock Option Plan at July 31, 1998:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
1995 STOCK OPTION PLAN RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT JULY 31, 1998	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JULY 31, 1998	WEIGHTED-AVERAGE EXERCISE PRICE
$0.50--$ 0.75	201,222	10.3	$0.62	79,834	$0.62
$0.75--$ 2.00	7,392	2.9	$1.54	161	$1.54
	208,614			79,995	

1995 and 1996 WiseWire Stock Option Plans

In connection with the acquisition of WiseWire, the Company assumed the 1995 and 1996 Stock Option Plan under which incentive stock options and nonqualified stock options to purchase common stock may be granted to officers, key employees and advisors. Under these plans, the Company may grant either incentive stock options or non-qualified stock options. These options are fully vested and are exercisable over a 5 year period from date of grant. The employee plan was adopted in 1995 and is restricted to Company employees. These options generally have a term of ten years from the date of grant with 20% vesting after a brief probationary period and the remainder vest over a four-year period. The non-employee plan was adopted in 1996 and is intended primarily for directors or other non-employees. Options granted under the non-employee plan typically vest immediately. The total weighted average contractual life of options outstanding under the 1995 and 1996 WiseWire Stock Option Plans at July 31, 1998 was approximately 8.1 and 8.4 years, respectively.

A summary of option activity under the 1995 WiseWire Stock Option Plan is as follows:

	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	RANGE OF EXERCISE PRICES
Outstanding at April 30, 1998...	210,274	$ 2.67	$1.34 - $ 53.46
Granted.......................	--	--	--
Exercised.....................	(63,024)	$ 2.02	$1.34 - $ 8.02
Terminated....................	(27,096)	$ 4.06	$1.34 - $ 8.02
Outstanding at July 31, 1998....	120,154	$ 2.69	$1.34 - $ 53.46
Exercisable at July 31, 1998....	25,960	$ 2.83	$1.34 - $ 53.46

The following table summarizes information about stock options outstanding under the 1995 WiseWire Stock Option Plan at July 31, 1998:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
1995 STOCK OPTION PLAN RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT JULY 31, 1998	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JULY 31, 1998	WEIGHTED-AVERAGE EXERCISE PRICE
$ 1.00--$ 2.00	89,224	8.3	$1.34	22,390	$ 1.34
$ 5.00--$ 53.46	30,930	7.6	$6.61	3,570	$12.18
	120,154			25,960	

A summary of option activity under the 1996WiseWire Stock Option Plan is as follows:

	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	RANGE OF EXERCISE PRICES
Outstanding at April 30, 1998...	21,034	$13.19	0.14 - $ 53.46
Granted........................	--	--	--
Exercised......................	--	--	--
Terminated.....................	(13,466)	$13.10	0.14 - $ 53.46
Outstanding at July 31, 1998....	7,568	$13.37	13.37 - $ 13.37
Exercisable at July 31, 1998....	7,568	$13.37	13.37 - $ 13.37

The following table summarizes information about stock options outstanding under the 1996 WiseWire Stock Option Plan at July 31, 1998:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
1996 STOCK OPTION PLAN RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT JULY 31, 1998	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JULY 31, 1998	WEIGHTED-AVERAGE EXERCISE PRICE
$ 10.69--$ 16.04	7,568	8.4	$13.37	7,568	$13.37

1996 Non-Employee Director Stock Option Plan

On February 2, 1996, the 1996 Non-Employee Director Stock Option Plan (the "Director Plan") was approved by the Board of Directors. The Director Plan authorizes the issuance of a maximum of 200,000 shares of common stock. The Director Plan is administered by the Board of Directors. Under the Director Plan each non-employee director first elected to the Board of Directors after the completion of the initial public offering will receive an option for 20,000 shares on the date of his or her election. The exercise price per share for all options granted under the Director Plan will be equal to the fair market value of the common stock as of the date of grant. Accordingly, the Company has recognized no compensation expense with respect to such grants. All options vest in three equal installments beginning on the first anniversary of the date of grant. Options under the Director Plan will expire 10 years from the date of grant and are exercisable only while the optionee is serving as a director of the Company. As of July 31, 1998, 40,000 options had been granted at exercise prices of between $5.75 and $8.69 per share and remained outstanding under the Director Plan, of which 13,333 were exercisable.

1996 Employee Stock Purchase Plan

On February 2, 1996, the 1996 Employee Stock Purchase Plan ("1996 Purchase Plan") was adopted by the Company's Board of Directors. The 1996 Purchase Plan authorizes the issuance of a maximum of 500,000 shares of common stock and is administered by the Compensation Committee of the Board of Directors. All employees of the Company who have completed six months of service with the Company are eligible to participate in the 1996 Purchase Plan with the exception of those employees who own 5% or more of the Company's stock and directors who are not employees of the Company may not participate in this plan. Employees elect to have deducted from 1%-10% of their base compensation. The exercise price for the option is the lesser of 85% of the fair market value of the common stock on the first or last business day of the purchase period (6 months). An employee's rights under the 1996 Purchase Plan terminate upon his or her voluntary withdrawal from the Plan at any time or upon termination of employment.

Stock-Based Compensation

The Company has granted options to purchase shares of common stock to key employees and directors. These options vest over periods of up to five years and expire at various dates through 2007. The Company has adopted the disclosure provisions of SFAS No. 123 with respect to its stock-based compensation. The effects of applying SFAS No. 123 in this pro forma disclosure may not be representative of the effects on reported income or loss for future years. SFAS 123 does not apply to awards prior to 1995. The Company anticipates additional awards in future years. Had compensation cost for the Company's stock-based compensation plans been determined based on the grant date fair value in accordance with SFAS 123, the Company's net loss and net loss per share for the years ended July 31, 1998, 1997 and 1996 would have been increased to the pro forma amounts indicated below:

	AS REPORTED		PRO FORMA	
	NET LOSS	LOSS PER SHARE	NET LOSS	LOSS PER SHARE
Year ended July 31, 1998 (restated)...................	$(28,439,484)	$(0.92)	$ (35,442,185)	$(1.14)
Year ended July 31, 1997.......	$ (6,619,190)	$(0.24)	$ (7,548,626)	$(0.28)
Year ended July 31, 1996.......	$ (5,087,838)	$(0.21)	$ (5,191,133)	$(0.22)

The grant date fair value of each stock option is estimated using the Black-Scholes option-pricing model with the following assumptions: an expected life of four years for both the 1996 plan and the 1995 plan for all three years, expected volatility of 100% for both Plans in 1998 and 70% for both plans for 1997 and 1996, a dividend yield of 0% for both plans and a weighted average risk-free interest rate of 5.48% for both Plans in 1998 and 6.50% for the 1996 plan and 5.75% for the 1995 plan in 1997 and 1996. The weighted average grant date fair values of options granted in 1998, 1997 and 1996 were $16.47, $4.87 and $1.62, respectively. The weighted-average remaining contractual life of options outstanding at July 31, 1998 was 9.0 years.

9. INCOME TAXES

The company did not record any provision for federal and state income taxes through July 31, 1998. The actual tax expense for 1998, 1997 and 1996 differs from "expected" tax expense (computed by applying the statutory U.S. federal corporate tax rate of 34% to earnings before income taxes) as follows:

	YEAR ENDED JULY 31,		
	1998	1997	1996
	(restated)	(In thousands)	
Computed "expected" tax benefit	$ (9,669)	$(2,251)	$(2,035)
Nondeductible amounts and other differences:			
In Process Research and Development	8,176	--	154
Other	85	(326)	--
Change in valuation allowance for deferred taxes allocated to income tax expense	1,408	2,577	1,881
	$ --	$ --	$ --

At July 31, 1998 and 1997 deferred income tax assets and liabilities result from temporary differences in the recognition of income and expense for tax and financial reporting purposes. The sources and tax effects of these temporary differences are presented below:

(In thousands)	JULY 31, 1998	JULY 31, 1997
Deferred tax liabilities:		
Book over tax basis of developed technology	$ 2,806	$ 250
Total deferred liabilities	2,806	250
Deferred tax assets:		
Deferred Revenue	2,169	1,823
Reserves	2,307	867
Tax in excess of book basis for differences in equity investments	2,164	1,923
Net operating losses and credit carryforwards	15,979	311
Other	594	103
Total gross deferred tax assets	23,213	5,027
Less valuation allowance	(20,407)	(4,777)
Net deferred tax asset	2,806	250
Net deferred income taxes	$ --	$ --

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some or all of the deferred tax asset will not be realized. The Company believes that sufficient uncertainty exist regarding the realizability of the deferred tax assets such that valuation allowances of $20,407,000 and $4,777,000 for July 31, 1998 and 1997 respectively, have been established for deferred tax assets.

At July 31, 1998, the Company had approximately $38,000,000 of federal and state net operating loss carryforwards which will begin to expire in 2007 for federal purposes and 1998 for state purposes. Utilization of the net operating losses may be subject to an annual limitation imposed by change in ownership provisions of Section 382 of the Internal Revenue Code and similar state provisions.

In accordance with FAS 109, the accounting for the tax benefits of acquired deductible temporary differences, which are not recognized at the acquisition date because a valuation allowance is established, and recognized subsequent to the acquisitions will be applied first to reduce to zero, any goodwill and other noncurrent intangible assets related to the acquisitions. Any remaining benefits would be recognized as reduction of income tax expense. As of July 31, 1998, $5,460,000 of the Company's deferred asset pertains to acquired companies, the future benefits of which will be applied first to reduce to zero any goodwill and other noncurrent intangible related to the acquisitions prior to reducing the Company's income tax expense. Deferred tax assets and related valuation allowance of approximately $10,519,000 relate to certain operating loss carryforwards resulting from the exercise of employee stock options, the tax benefit of which, when recognized, will be accounted for as a credit to additional paid-in capital rather than a reduction of income tax.

The Company's deferred tax liability relates solely to the difference in bases of acquired assets. A portion or all of net operating loss carryforwards which can be utilized in any year may be limited by changes in ownership of the Company, pursuant to Section 382 of the Internal Revenue Code and similar statutes.

10. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth selected quarterly financial and stock price information for the years ended July 31, 1998 and 1997. The operating results for any given quarter are not necessarily indicative of results for any future period. The Company's common stock is traded on the NASDAQ National Market System ("NASDAQ/NMS") under the symbol LCOS. Included below are the high and low sales prices (adjusted for a 2-for-1 stock split effected as of August 1, 1995) during each quarterly period for the shares of common stock as reported by NASDAQ/NMS.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FISCAL 1998 QUARTER ENDED				FISCAL 1997 QUARTER ENDED			
	OCT. 31	JAN. 31	APR. 30	JUL. 31	OCT. 31	JAN. 31	APR. 30	JUL. 31
Total revenues	$9,303	$12,603	$ 15,129	$19,025	$ 3,663	$ 5,004	$ 5,853	$ 7,753
Cost of revenues	1,779	2,719	4,747	3,268	741	993	1,116	1,487
Gross profit	7,524	9,884	10,382	15,757	2,922	4,011	4,737	6,266
Research & development expense	1,435	1,734	2,704	3,605	974	976	1,158	1,192
In-process research & development expense	--	--	16,280 (1)	1,000 (1)	--	--	--	--
Sales and marketing	5,477	7,310	10,172	12,077	4,627	4,754	4,526	5,218
General and administrative expenses	932	990	1,508	2,200	545	693	645	836
Amortization of intangibles	113	113	2,294 (1)	5,094 (1)	117	141	161	122
Operating loss	(433)	(263)	(22,576)(1)	(8,219)(1)	(3,341)	(2,553)	(1,753)	(1,102)
Interest income	540	564	524	1,423	582	541	480	527
Net income (loss)	107	301	(22,052)	(6,796)	(2,759)	(2,012)	(1,273)	(575)
Basic and diluted net income (loss) per share	$ 0.00	$ 0.00	$ (0.71)	$ (0.19)	$ (0.10)	$ (0.08)	$ (0.05)	$ (0.02)
Market Price:								
High	21.00	21.00	39.57	53.63	6.38	9.38	11.38	9.63
Low	8.13	12.63	17.60	24.16	2.88	4.75	6.00	5.60

(1) Restated, see Note 1

11. RELATED PARTY TRANSACTIONS

In connection with the formation of the Company, the Company, CMU, CMG@Ventures and CMG Information Services, Inc. ("CMGI") entered into a license agreement ("License Agreement") pursuant to which CMU granted the Company a perpetual, exclusive (with certain limited exceptions), worldwide license to use the Lycos Internet search and indexing technology and the Lycos Catalog. The Company paid licensing fees and additional payments equal to 50% of certain cash receipts, as defined, totaling approximately $1,250,000. All amounts due under the License Agreement were paid as of July 31, 1996. The Company also issued 2,000,000 shares of common stock in connection with this Agreement. Accumulated amortization under the License Agreement at July 31, 1997 and 1996 was $726,000 and $337,000, respectively.

On February 9, 1996, the Company sold 183,160 shares and 80,000 shares of common stock and options to acquire 119,452 shares and 52,172 shares of Common Stock to CMU and Dr. Michael Mauldin, respectively, for an aggregate purchase price of $328,950, pursuant to the exercise of preemptive rights granted to these parties in the License Agreement. These preemptive rights were exercised in connection with the issuance of shares of common stock pertaining to the Company's acquistion of Point Communications on October 12, 1995 (see Note 4). The options granted to Dr. Mauldin and CMU have an exercise price of $1.00 per share and became fully vested upon completion of the Company's initial public offering in April 1996.

In addition to amounts paid to CMU in connection with the License Agreement, the Company was also required to pay to CMU an additional $525,000 pursuant to two licenses granted by CMU which were assigned to the Company. As of July 31, 1998, the Company had paid an aggregate of $400,000 to CMU pursuant to these licenses.

In April 1998 the remaining carrying value of the License Agreement of approximately $831,000 was written off as it was not considered to have any remaining future economic benefit.