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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2005

OR

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

For the transition period from to

Commission File Number 000-23262

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

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

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

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

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

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

As of December 5, 2005, there were 485,793,373 shares of the registrant's Common Stock, $.01 par value per share, outstanding.

CMGI, INC.

FORM 10-Q

INDEX

Table of Contents

CMGI, INC. AND SUBSIDIARIES

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

	October 31, 2005	July 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 154,091	$ 192,450
Available-for-sale securities	246	278
Accounts receivable, trade, net of allowance for doubtful accounts of $2,210 and $2,107 at October 31, 2005 and July 31, 2005, respectively	226,988	165,492
Inventories	98,333	78,689
Prepaid expenses and other current assets	12,753	12,083
Current assets of discontinued operations	83	83
Total current assets	492,494	449,075
Property and equipment, net	42,797	42,863
Investments in affiliates	26,775	22,528
Goodwill	184,366	179,950
Other intangible assets	20,158	21,364
Other assets	3,650	5,890
Non-current assets of discontinued operations	14	14
	$ 770,254	$ 721,684
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 87	$ 1,670
Current installments of obligations under capital lease	291	304
Revolving line of credit	—	24,785
Accounts payable	177,761	135,677
Current portion of accrued restructuring	11,427	11,251
Accrued income taxes	2,936	2,778
Accrued expenses	48,260	44,175
Other current liabilities	3,653	3,797
Total current liabilities	244,415	224,437
Revolving line of credit	24,785	—
Long-term debt, less current installments	98	98
Long-term portion of accrued restructuring	7,584	7,912
Obligations under capital leases, less current installments	744	823
Other long-term liabilities	17,615	17,101
Non-current liabilities of discontinued operations	98	98
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at October 31, 2005 and July 31, 2005	—	—
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; issued and outstanding 485,699,862 at October 31, 2005 and 484,576,758 shares at July 31, 2005	4,857	4,846
Additional paid-in capital	7,449,767	7,453,851
Deferred compensation	—	(6,213)
Accumulated deficit	(6,981,128)	(6,983,260)
Accumulated other comprehensive income	1,419	1,991
Total stockholders' equity	474,915	471,215
	$ 770,254	$ 721,684

See accompanying notes to interim unaudited condensed consolidated financial statements

Table of Contents

CMGI, INC. AND SUBSIDIARIES

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

	Three Months Ended October 31,	
	2005	2004
Net revenue	$307,375	$257,126
Operating expenses:		
Cost of revenue	275,739	225,746
Selling	5,503	5,912
General and administrative	21,705	20,391
Amortization of intangible assets	1,206	1,307
Restructuring, net	977	1,336
Total operating expenses	305,130	254,692
Operating income	2,245	2,434
Other income (expense):		
Interest income	1,173	630
Interest expense	(552)	(423)
Other gains (losses), net	3,236	(1,442)
Equity in losses of affiliates, net	(403)	(226)
	3,454	(1,461)
Income from continuing operations before income taxes	5,699	973
Income tax expense	943	1,526
Income (loss) from continuing operations	4,756	(553)
Discontinued operations, net of income taxes:		
Loss from discontinued operations	(2,624)	—
Net income (loss)	$ 2,132	$ (553)
Basic and diluted earnings (loss) per share:		
Earnings (loss) from continuing operations	$ 0.01	$ (0.00)
Loss from discontinued operations	$ (0.01)	$ —
Net earnings (loss)	$ 0.00	$ (0.00)
Shares used in computing basic earnings (loss) per share:	482,063	469,720
Shares used in computing diluted earnings (loss) per share:	487,435	469,720

See accompanying notes to interim unaudited condensed consolidated financial statements

CMGI, INC. AND SUBSIDIARIES

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

	Three Months Ended October 31, 2005	Three Months Ended October 31, 2004
Cash flows from operating activities of continuing operations:		
Net income (loss)	$ 2,132	$ (553)
Loss from discontinued operations	(2,624)	—
	4,756	(553)
Adjustments to reconcile net income (loss) to cash used for continuing operations:		
Depreciation	2,617	2,378
Amortization of intangible assets	1,206	1,307
Stock-based compensation	2,010	1,545
Non-operating (gains) losses, net	(2,713)	1,219
Equity in income (losses) of affiliates	403	(199)
Changes in operating assets and liabilities, excluding effects from acquired and divested subsidiaries:		
Trade accounts receivable	(62,542)	(39,859)
Inventories	(20,126)	(5,074)
Prepaid expenses and other current assets	(655)	(3,042)
Accounts payable, accrued restructuring and accrued expenses	43,714	19,833
Refundable and accrued income taxes, net	547	1,526
Other assets and liabilities	(159)	(274)
Net cash used for operating activities of continuing operations	(30,942)	(21,193)
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(3,741)	(2,474)
Net cash impact of Modus acquisition, including retirement of Modus’ indebtedness	—	(67,078)
Proceeds from affiliate distributions	—	512
Net proceeds from sale of building	2,749	—
Net investments in affiliates	(4,654)	(2,598)
Net cash used for investing activities of continuing operations	(5,646)	(71,638)
Cash flows from financing activities of continuing operations:		
Repayments of long-term debt	(1,583)	(281)
Repayments of capital leases	(91)	—
Proceeds from issuance of common stock	130	778
Net cash provided by (used for) financing activities of continuing operations	(1,544)	497
Net cash provided by (used for) discontinued operations	4	(155)
Net effect of exchange rate changes on cash and cash equivalents	(231)	552
Net decrease in cash and cash equivalents	(38,359)	(91,937)
Cash and cash equivalents at beginning of period	192,450	271,871
Cash and cash equivalents at end of period	$154,091	$179,934

See accompanying notes to interim unaudited condensed consolidated financial statements

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

A. NATURE OF OPERATIONS

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

CMGI's business strategy over the years has led to the development, acquisition and operation of majority-owned subsidiaries focused on technology and supply chain management services, as well as the strategic investment in other companies that have demonstrated synergies with CMGI's core businesses. The Company's strategy also envisions and promotes opportunities for synergistic business relationships among its subsidiaries, investments and affiliates. The Company expects to continue to develop and refine its product and service offerings, and to continue to pursue the development or acquisition of, or the investment in, additional companies and technologies.

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

B. BASIS OF PRESENTATION

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

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

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

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

C. NEW ACCOUNTING PRONOUNCEMENTS

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

In December 2004, the FASB issued Statement SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123(R)). This statement supersedes SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123", and Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." The statement is effective for interim or annual periods beginning after June 15, 2005. Accordingly, effective August 1, 2005, we adopted the fair-value recognition provisions of SFAS No. 123(R). See Critical Accounting Policies and Note E for further description of the Company's implementation of SFAS No. 123(R).

D. GOODWILL AND INTANGIBLE ASSETS

The purchase price of the assets acquired and the liabilities assumed in a business combination are subject to an allocation period in accordance with SFAS 141, Business Combinations. In connection with the Modus acquisition, the allocation period expired during the quarter ended October 31, 2005, at which time certain final

CMGI, INC. AND SUBSIDIARIES

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

adjustments required to properly measure the fair value of the assets acquired and liabilities assumed were recorded. The total of the purchase accounting adjustments recorded during the quarter were $4.4 million, of which $3.9 million related to the restructuring of a facility in Europe (refer to Note G), $0.4 million related to the elimination of redundant positions in the Americas, and $0.1 million related to an asset write-down in Europe.

The changes in the carrying amount of goodwill for the quarter ended October 31, 2005 are as follows:

	Americas	Europe	Asia	Total
		(in thousands)		
Balance as of July 31, 2005	$80,464	$26,960	$72,526	$179,950
Goodwill from acquisition of Modus	373	4,043	—	4,416
Balance as of October 31, 2005	$80,837	$31,003	$72,526	$184,366

	Goodwill	Customer Relationships	Developed Technology	Trade Names	Total
			(in thousands)		
Balance as of July 31, 2005	$179,950	$ 17,576	$ 2,332	$1,456	$201,314
Goodwill and other intangible assets from the acquisition of Modus	4,416	—	—	—	4,416
Gross carrying amount	184,366	17,576	2,332	1,456	205,730
Amortization expense	—	(731)	(292)	(183)	(1,206)
Balance as of October 31, 2005	$184,366	$ 16,845	$ 2,040	$1,273	$204,524

The amortization of intangible assets for the quarter ended October 31, 2005 and 2004 would have been primarily allocated to selling expenses had the Company recorded the expenses within the functional operating expense categories.

E. EMPLOYEE STOCK BENEFIT PLANS

Employee Stock Purchase Plan

On October 4, 1994, the Board of Directors of the Company adopted the 1995 Employee Stock Purchase Plan (the Plan). The purpose of the Plan is to provide a method whereby all eligible employees of the Company and its subsidiaries may acquire 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 an option price equal to 85% of the fair market value of the Company's common stock on either the first business day or last business day of the applicable quarterly period, whichever is lower. During fiscal year 2002, the Plan was amended to increase the aggregate number of shares to 3.0 million. During the three months ended October 31, 2005 and 2004, the Company issued 66,000 and 27,000 shares under the Plan. As of October 31, 2005, approximately 900,000 shares were available for issuance under the plan.

Stock Option Plans

The Company currently awards stock options under four plans: the 2004 Stock Incentive Plan (the "2004 Plan"), the 2002 Non-Officer Employee Stock Incentive Plan (2002 Plan), the 2000 Stock Incentive Plan (2000 Plan) which had replaced the 1986 Stock Option Plan (1986 Plan) and the 1999 Stock Option Plan For

CMGI, INC. AND SUBSIDIARIES

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

Non-Employee Directors (1999 Directors' Plan), which replaced the 1995 Directors' Plan (1995 Directors' Plan). No options granted under the 1995 Directors' Plan remain in effect. Options granted under the 2004 Plan, 2002 Plan and the 2000 Plan are generally 1/4th exercisable beginning one year after the date of grant, and the remaining granted options are exercisable in equal cumulative installments over the next three years. Stock options granted under these plans have contractual terms of five to seven years. The Company may also grant awards other than stock options under the 2004 Plan, 2002 Plan and 2000 Plan.

In December 2005, at the Company's Annual Meeting of Stockholders', the stockholders of the Company approved the 2005 Non-Employee Director Plan (the "2005 Plan"). The 2005 Plan is intended to replace the Company's 1999 Plan. No additional options will be granted under the 1999 Plan; however, all then-outstanding options under the 1999 Plan shall remain in effect. Up to 2,000,000 shares of common stock may be issued pursuant to awards granted under the 2005 Plan.

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

In March 2002, the Board of Directors adopted the 2002 Plan, pursuant to which 4,150,000 shares of common stock were reserved for issuance (subject to adjustment in the event of stock splits and other similar events). In May 2002, the Board of Directors approved an amendment to the 2002 Plan in which the total shares available under the plan were increased to 19,150,000. Under the 2002 Plan, non-statutory stock options or restricted stock awards may be granted to the Company's or its subsidiaries' employees, other than those who are also officers or directors, as defined. The Board of Directors administers this plan, approves the individuals to whom options will be granted, and determines the number of shares and exercise price of each option. Outstanding options under the 2002 Plan at October 31, 2005 expire through 2010.

In October 2000, the Board of Directors adopted the 2000 Plan, pursuant to which 15,500,000 shares of common stock were reserved for issuance (subject to adjustment in the event of stock splits and other similar events). No further option grants will be made under the 1986 Plan, however all outstanding options under the 1986 Plan remain in effect. Under the 2000 Plan, non-qualified stock options or incentive stock options may be granted to the Company's or its subsidiaries' employees, consultants, advisors or directors, as defined. The Board of Directors administers this plan, approves the individuals to whom options will be granted, and determines the number of shares and exercise price of each option. Outstanding options under the 2000 Plan at October 31, 2005 expire through 2010.

The 1999 Directors' Plan (the "Directors' Plan"), approved in fiscal year 2000, replaces the Company's 1995 Directors' Plan. Pursuant to the Directors' Plan, 2,000,000 shares of the Company's common stock were initially reserved for issuance. As amended to date, the Directors' Plan provides that each eligible director who is elected to the Board for the first time will be granted an option to acquire 200,000 shares of common stock (the "Initial Option"). Each Affiliated Director (as defined in the Directors' Plan) who ceases to be an Affiliated Director and is not otherwise an employee of the Company or any of its subsidiaries or affiliates will be granted, on the date such director ceases to be an Affiliated Director but remains as a member of the Board of Directors, an Initial Option to acquire 200,000 shares of common stock under the plan. Each Initial Option will vest and

CMGI, INC. AND SUBSIDIARIES

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

become exercisable as to 1/36th of the number of shares of common stock originally subject to the option on each monthly anniversary of the date of grant, provided that the optionee serves as a director on such monthly anniversary date. On each anniversary of the grant of the Initial Option to an eligible director, each eligible director will automatically be granted an option to purchase 24,000 shares of common stock (an "Annual Option"), provided that such eligible director serves as a director on the applicable anniversary date. Each Annual Option, granted before March 12, 2003, will vest and become exercisable on a monthly basis as to 1/12th of the number of shares originally subject to the option commencing on the 37th month after the grant date, provided that the optionee then serves as a director on such monthly anniversary date. Annual Options granted after March 12, 2003 become exercisable as to 1/36th of the number of shares originally subject to the option on each monthly anniversary date of the date grant, provided that the optionee serves as a director on such monthly anniversary date; and provided further that the maximum number of shares of Common Stock that may vest in any 48-month period shall not exceed 200,000. Stock options granted under the 1999 Directors' Plan have contractual terms of ten years. Outstanding options under the 1999 Directors' Plan at July 31, 2005 expire through 2015.

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

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

	For the three months ended October 31, 2005 (in thousands)
Cost of goods sold	$ 137
Selling	205
General and administrative	1,668
	$ 2,010

The use of a lattice-binomial model requires the use of extensive actual employee exercise behavior data and the use of a number of complex assumptions including expected volatility, risk-free interest rate and expected life. The weighted-average estimated value of employee stock options granted during the three months ended October 31, 2005 was $1.04 per share using the lattice-binomial model with the following weighted-average assumptions:

	For the three months ended October 31, 2005
Expected volatility	81.73%
Risk-free interest rate	3.10% - 4.46%
Expected life (in years)	4.29

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

CMGI, INC. AND SUBSIDIARIES

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

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

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

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

Stock Options

The status of the plans during the quarter ending October 31, 2005 is as follows:

	2005	
	Number of shares	Weighted average exercise price
	(in thousands, except exercise price)	
Stock options outstanding, beginning of quarter	19,456	$ 1.71
Granted	1,749	1.66
Exercised	(55)	0.61
Forfeited	(1,791)	2.47
Stock options outstanding, end of quarter	19,359	$ 1.64

As of October 31, 2005, unrecognized stock-based compensation related to stock options was approximately $10.2 million. This cost is expected to be expensed over a weighted average period of 2.4 years. The aggregate intrinsic value of stock options outstanding as of October 31, 2005 is approximately $1.4 million.

CMGI, INC. AND SUBSIDIARIES

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

The following table summarizes information about the Company's stock options outstanding at October 31, 2005:

	Outstanding			Exercisable	
Range of exercise prices	Number of shares	Weighted average remaining contractual life	Weighted average exercise price	Number of shares	Weighted average exercise price
	(number of shares in thousands)				
$0.00–$1.00	3,345	5.7 years	$ 0.51	2,736	$ 0.51
$1.01–$2.50	14,544	5.3	1.49	5,393	1.50
$2.51–$5.00	1,332	4.9	3.90	1,283	3.92
$5.01–$25.00	91	0.4	8.90	91	8.90
$25.01–$50.00	38	2.1	30.17	38	30.17
$50.01–$150.00	9	4.2	132.44	9	132.44
	19,359	5.3 years	$ 1.64	9,550	$ 1.86

Nonvested Stock

Nonvested stock are shares of Common Stock that are subject to restrictions on transfer and risk of forfeiture until the fulfillment of specified conditions. In connection with the adoption of SFAS No. 123(R) on August 1, 2005, the Company reclassified approximately $6.2 million of recorded deferred compensation related to unamortized nonvested stock to additional paid-in capital. Nonvested stock is expensed ratably over the term of the restriction period, ranging from one to five years. Nonvested stock compensation expense for the three months ended October 31, 2005 and 2004 is approximately $0.5 million and $1.5 million, respectively.

A summary of the status of our nonvested stock for the quarter ended October 31, 2005, is as follows:

	Number of shares	Weighted average grant date fair value
	(in thousands)	
Nonvested stock outstanding, beginning of quarter	4,815	$ 1.55
Granted	985	1.66
Vested	(2,436)	1.23
Nonvested stock outstanding, end of quarter	3,364	$ 1.82

The fair value of nonvested shares is determined based on market price of the Company's common stock on the grant date. The total fair value of nonvested stock that vested during the three months ended October 31, 2005 was approximately $4.5 million. As of October 31, 2005, there was approximately $7.5 million of total unrecognized compensation cost related to nonvested stock to be recognized over a weighted-average period of 2.9 years.

CMGI, INC. AND SUBSIDIARIES

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

Pro Forma Information under SFAS No. 123

Pro forma information regarding the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 for the three months ended October 31, 2004 is as follows:

	For the Three Months Ended October 31, 2004 (in thousands, except per share amounts)
Net loss	$ (553)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(12,421)
Add: Total stock-based employee compensation expense included in reported net loss, net of related tax effects	1,546
Pro-forma net loss	$ (11,428)
Basic loss per share—as reported	$ (0.00)
Basic loss per share—pro-forma	$ (0.02)
Diluted loss per share—as reported	$ (0.00)
Diluted loss per share—pro-forma	$ (0.02)

The fair value of each stock option was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the Three Months Ended October 31, 2004
Risk-free interest rate	3.5%
Expected dividend yield	0.0%
Expected volatility	71.07%
Expected life (years)	3.9
Weighted average fair value of options granted during the period	$ 0.95

F. OTHER GAINS (LOSSES), NET

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

	Three Months Ended October 31, 2005	Three Months Ended October 31, 2004
	(in thousands)	
Loss on impairment of marketable securities	$ (77)	$ —
Foreign exchange gains (losses)	537	(1,774)
Gain on sale of building	2,749	—
Other, net	27	332
	$3,236	$(1,442)

During the three months ended October 31, 2005, the Company recorded impairment charges related to its available-for-sale securities. The impairment charge consisted of approximately $0.1 million related to the

CMGI, INC. AND SUBSIDIARIES

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

Company's holdings of shares of Navisite. The Company also recorded foreign exchange gains of approximately $0.5 million. These foreign exchange gains related primarily to unhedged foreign currency exposures in Asia. Prior to the acquisition of Modus, the Company historically had very low exposure to changes in foreign currency exchange rates, and as such, had not used derivative financial instruments to manage foreign currency fluctuation risk. As a result of the acquisition of Modus, the Company has added operations in various countries throughout the world and its operating results and financial position can be affected by significant fluctuations in foreign currency exchange rates. Modus had historically used derivative financial instruments to manage the exposure that results from such fluctuations, and the Company has continued such practice. The Company also recognized a gain of approximately $2.7 million on the sale of a building in Ireland.

During the three months ended October 31, 2004, the Company incurred foreign exchange losses of approximately $1.8 million. These foreign exchange losses related primarily to unhedged foreign currency exposures in Asia.

G. RESTRUCTURING CHARGES

The following table summarizes the activity in the restructuring accrual for the three months ended October 31, 2005:

	Employee Related Expenses	Contractual Obligations	Total
		(in thousands)	
Accrued restructuring balance at July 31, 2005	$ 1,409	$ 17,754	$19,163
Restructuring accrual—Modus acquisition	3,504	773	4,277
Restructuring charges	723	247	970
Restructuring adjustments	(224)	231	7
Cash charges	(900)	(4,506)	(5,406)
Accrued restructuring balance at October 31, 2005	$ 4,512	$ 14,499	$19,011

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

The net restructuring charges for the three months ended October 31, 2005 and 2004 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	Three Months Ended October 31,	
	2005	2004
	(in thousands)	
Cost of revenue	$ 526	$ 890
Selling	156	—
General and administrative	295	446
	$ 977	$ 1,336

During the three months ended October 31, 2005, the Company recorded net restructuring charges of approximately $1.0 million. These charges consisted of approximately $0.5 million relating to a workforce reduction of 34 employees primarily related to the consolidation of two plants in the Netherlands and a $0.5 million charge related to unutilized facilities for which the Company expects to realize no future economic benefit. These charges were partially offset by a $0.2 million reduction of a previously recorded employee severance accrual.

In addition, the Company accrued a purchase accounting adjustment to goodwill of approximately $4.3 million for restructuring activities related to the acquisition of Modus. These restructuring activities occurred in the Americas ($0.4 million) and Europe ($3.9 million), respectively. The restructuring in the Americas region was employee severance related in connection with the elimination of redundant positions. The restructuring in Europe primarily related to the closure of a plant in Scotland and consists of approximately $3.1 million of severance for 130 employees and $0.8 million of facility related costs.

During the three months ended October 31, 2004, the Company recorded net restructuring charges of approximately $1.3 million. These charges consist of approximately $0.5 million related to a workforce reduction of 27 employees, and approximately $0.8 million relating to unoccupied facilities for which the Company expects to realize no future economic benefit.

H. DERIVATIVES AND FINANCIAL INSTRUMENTS

The Company enters into forward currency exchange contracts to manage exposures to foreign currencies. The fair value of the Company’s foreign currency exchange contracts is estimated based on foreign exchange rates as of the end of each reporting period. The Company’s policy is not to allow the use of derivatives for trading or speculative purposes.

The Company believes that its forward currency exchange contracts economically function as effective hedges of the underlying exposures, however the foreign currency contracts do not meet the specific criteria for hedge accounting defined in SFAS No. 133, thus requiring the Company to record all changes in the fair value of these contracts in earnings in the period of the change. During the three months ended October 31, 2005 and 2004, the Company recorded unrealized losses and unrealized gains of $0.1 million and $0.2 million, respectively, as a result of fair value changes on its outstanding forward currency exchange contracts. These unrealized gains and losses have been included in Other gains (losses), net in the Company’s condensed consolidated statements of operations.

I. SEGMENT INFORMATION

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

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

CMGI, INC. AND SUBSIDIARIES

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

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

Management evaluates segment performance based on segment net revenue, operating income (loss) and "Non-GAAP operating income (loss)", which is defined as the operating income/(loss) excluding net charges related to depreciation, long-lived asset impairment, restructuring, and amortization of intangible assets and stock-based compensation. The Company believes that its Non-GAAP measure of operating income/(loss) provides investors with a useful supplemental measure of the Company's operating performance by excluding the impact of non-cash charges and restructuring activities. Each of the excluded items (depreciation, long-lived asset impairment, amortization of intangible assets and stock-based compensation and restructuring) were excluded because they may be considered to be of a non-operational nature. Historically, the Company has recorded significant impairment and restructuring charges and therefore management uses Non-GAAP operating income/(loss) to assist in evaluating the performance of the Company's core operations. Non-GAAP operating income/(loss) does not have any standardized definition and therefore is unlikely to be comparable to similar measures presented by other reporting companies. These Non-GAAP results should not be evaluated in isolation of, or as a substitute for the Company's financial results prepared in accordance with US GAAP.

Two customers, Hewlett-Packard and Kodak, accounted for approximately 29% and 15%, respectively, of CMGI's consolidated net revenue for the three months ended October 31, 2005. One customer, Hewlett-Packard, accounted for approximately 39% of CMGI's consolidated net revenue for the three months ended October 31, 2004. We expect that a significant portion of our annual volume in fiscal 2006 with Kodak will be concentrated within the first quarter of our fiscal year in support of seasonality based demand for Kodak's consumer products during the holiday season.

Table of Contents

CMGI, INC. AND SUBSIDIARIES

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

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

	Three Months Ended October 31,	
	2005	2004
	(in thousands)	
Net revenue:		
eBusiness and Fulfillment		
Americas	$133,330	$107,266
Asia	60,717	51,329
Europe	113,328	98,453
Total eBusiness and Fulfillment	307,375	257,048
Other	—	78
	$307,375	$257,126
Operating income (loss):		
eBusiness and Fulfillment		
Americas	$ 2,709	$ 231
Asia	5,491	6,907
Europe	(1,923)	(1,205)
Total eBusiness and Fulfillment	6,227	5,933
Other	(4,032)	(3,499)
	$ 2,245	$ 2,434
Non-GAAP operating income (loss):		
eBusiness and Fulfillment		
Americas	$ 4,980	$ 2,596
Asia	7,014	9,179
Europe	33	447
Total eBusiness and Fulfillment	12,027	12,222
Other	(2,972)	(3,222)
	$ 9,055	$ 9,000

	Three Months Ended October 31,	
	2005	2004
	(in thousands)	
Non-GAAP Operating income	$ 9,055	$ 9,000
Adjustments:		
Depreciation	(2,617)	(2,378)
Amortization of intangible assets	(1,206)	(1,307)
Stock-based compensation	(2,010)	(1,545)
Restructuring, net	(977)	(1,336)
GAAP Operating income	2,245	2,434
Other income (expense)	3,454	(1,461)
Income tax expense	943	1,526
Loss from discontinued operations	(2,624)	—
Net income (loss)	$ 2,132	$ (553)

CMGI, INC. AND SUBSIDIARIES

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

	October 31, 2005	July 31, 2005
	(in thousands)	
Total assets of continuing operations:		
eBusiness and Fulfillment		
Americas	$ 268,854	$ 244,273
Asia	195,780	188,738
Europe	187,432	160,699
Total eBusiness and Fulfillment	652,066	593,710
Other	118,091	127,877
	$ 770,157	$ 721,587

J. EARNINGS PER SHARE

The Company calculates earnings per share in accordance with (SFAS) No. 128, "Earnings per Share." Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common stock equivalents is included in the calculation of diluted earnings per share only when the effect of the inclusion would be dilutive. Approximately 5.3 million weighted average common stock equivalents were included in the denominator in the calculation of dilutive earnings per share for the three months ended October 31, 2005. Approximately 3.9 million common stock equivalent shares and approximately 0.4 million nonvested shares were excluded from the denominator in the diluted earnings per share calculation as their inclusion would have been antidilutive. For the three months ended October 31, 2004, approximately 19.2 million options and 5.3 million nonvested restricted shares were excluded from the denominator in the diluted loss per share calculation as their inclusion would be antidilutive.

K. COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended October 31, 2005	Three Months Ended October 31, 2004
	(in thousands)	
Net income (loss)	$2,132	$ (553)
Net unrealized holding gain (loss) on securities	(33)	(18)
Reclassification adjustment for net realized loss on securities included in net income (loss)	77	—
	44	(18)
Foreign currency translation adjustment	(616)	2,930
Comprehensive income (loss)	$1,560	$2,359

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

	October 31, 2005	July 31, 2005
	(in thousands)	
Net unrealized holding gains (losses) on securities	$ 11	$ (33)
Cumulative foreign currency translation adjustment	1,746	2,362
Minimum pension liability adjustment	(338)	(338)
Accumulated other comprehensive income (loss)	$ 1,419	$1,991

CMGI, INC. AND SUBSIDIARIES

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

L. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL INFORMATION

	Three Months Ended October 31,	
	2005	2004
	(in thousands)	
Cash paid for interest	$912	$ 448
Cash paid for income taxes	$452	$ 163
Nonvested stock grant to certain executives and employees	$856	$5,859

Significant non-cash activities during the three months ended October 31, 2005 included the issuance of approximately 0.5 million shares of nonvested CMGI common stock (valued at approximately $0.9 million) to certain executives and employees of the Company.

Significant non-cash investing activities during the three months ended October 31, 2004 included the issuance of approximately 68.6 million shares of CMGI common stock and assumed or substituted options to purchase approximately 12.6 million shares of CMGI common stock in connection with the acquisition of Modus. In addition, the Company issued approximately 2.5 million shares of nonvested CMGI common stock (valued at approximately $3.6 million) to certain executives and employees of Modus in connection with the acquisition.

M. INVENTORIES

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

	October 31, 2005	July 31, 2005
	(in thousands)	
Raw Materials	$ 66,082	$48,314
Work-in-process	2,378	1,172
Finished Goods	29,873	29,203
	$ 98,333	$78,689

N. BORROWING ARRANGEMENTS

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

CMGI, INC. AND SUBSIDIARIES

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

On October 31, 2005, ModusLink entered into a new revolving credit agreement (the New Loan Agreement) with a bank syndicate. The New Loan Agreement is a three-year $60.0 million revolving credit facility, with a scheduled maturity of October 31, 2008. Advances under the New Loan Agreement may be in the form of loans or letters of credit. Outstanding borrowings under the former Loan Agreement have been assumed by the new loan facility such that at October 31, 2005, approximately $24.8 million of borrowings were outstanding under the facility, and approximately $1.9 million had been reserved in support of outstanding letters of credit. Interest on the revolving credit facility is based on Prime or LIBOR plus an applicable margin. The credit facility includes certain restrictive financial covenants, all of which ModusLink was in compliance with at October 31, 2005. These covenants include balance sheet leverage, liquidity and profitability measures and restrictions that limit the ability of ModusLink, among other things, to merge, acquire or sell assets without prior approval from the lenders. CMGI is not a guarantor under the New Loan Agreement.

O. CONTINGENCIES

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

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, that involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes", "anticipates", "plans", "expects" and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in this section under the heading "Factors That May Affect Future Results" and elsewhere in this report and the risks discussed in the Company's other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Overview

CMGI, through its subsidiary, ModusLink, provides industry-leading global supply chain management services and marketing distribution solutions. ModusLink provides extended supply chain management services and solutions to the technology industry on a global basis. These services and solutions include supply base and inventory management, sourcing, manufacturing, configuration, assembly processes, EDI solutions offering direct connections with customers IT systems, distribution and fulfillment, e-commerce, order management, production, customer service and supply chain design and consulting. In addition, ModusLink provides marketing distribution services, under the SalesLink name, to customers, fulfilling orders for promotional collateral and products by assembling and shipping the items requested. We also maintain interests in several venture capital funds which invest in emerging, innovative and promising technologies and industries. An aggregate of $4.7 million was invested by our venture capital affiliate during the three months ended October 31, 2005.

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

In fiscal 2004, we articulated the following goals:

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

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

For the three months ended October 31, 2005, CMGI reported net revenue of $307.4 million, an operating profit of $2.2 million and net income of $2.1 million. Included in both our operating profit and net income for the first quarter of fiscal 2006 was incremental stock-based compensation of $1.5 million related to the implementation of SFAS 123(R). We currently conduct business in the United Kingdom, The Netherlands, Hungary, France, Singapore, Taiwan, China, Malaysia, Ireland, The Czech Republic, Mexico and other foreign locations, in addition to the Company's North American operations. We expect to continue to develop and expand our vertical markets and service offerings. At October 31, 2005, we had cash and cash equivalents and available for sale securities of $154.3 million, and working capital of $248.1 million. Our primary use of cash during the three months ended October 31, 2005 was for working capital requirements in support of new customer programs and seasonality-based demand.

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

Historically, a limited number of key clients have accounted for a significant percentage of our revenue. For the three months ended October 31, 2005, sales to two customers, Hewlett-Packard and Kodak, accounted for approximately 29% and 15%, respectively, of our consolidated net revenue. During the three months ended October 31, 2005, five customers accounted for approximately 61% of the Company's net revenues. We expect to continue to derive the vast majority of our operating revenue from sales to a small number of key customers. We currently do not have any agreements which obligate any customer to buy a minimum amount of products or services from us. Consequently, our sales are subject to demand variability by our customers. The level and timing of orders placed by our customers vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. Due to seasonality, we expect that revenues will be higher in the first and second fiscal quarters of the year, as our clients increase production for the holiday and calendar year-end season.

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

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

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

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

Drive operational efficiencies throughout our organization; As a result of the Modus acquisition, the Company has been running multiple information technology systems at a significant cost. Our strategy is to offer an integrated supply chain system infrastructure that extends from front-end order management through distribution and returns management. This end-to-end solution will enable clients to link supply and demand in real time, improve visibility and performance throughout the supply chain, and provide real-time access to information for greater collaboration and making informed business decisions. We believe our clients will benefit greatly from a global integrated business solution while we too reduce our operating costs. Over the next two years, we expect to invest approximately $24.0 million in this initiative. Another program that we expect will drive further operational efficiencies in fiscal 2006 and beyond is the implementation of a global shared services model utilizing centralized “hub” locations to service multiple “spoke” locations across the Americas, Asia and Europe regions (“Hub and Spoke”). We believe this initiative will yield improved process standardization and operating efficiency gains, as well as lower our operating costs.

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

Results of Operations

Three months ended October 31, 2005 compared to the three months ended October 31, 2004

Net Revenue:

	Three Months Ended October 31, 2005	As a % of Total Net Revenue	Three Months Ended October 31, 2004	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 133,330	43%	$ 107,266	42%	$26,064	24%
Asia	60,717	20%	51,329	20%	9,388	18%
Europe	113,328	37%	98,453	38%	14,875	15%
Total eBusiness and Fulfillment	307,375	100%	257,048	100%	50,327	20%
Other	—	— %	78	— %	(78)	(100)%
Total	$ 307,375	100%	$ 257,126	100%	$50,249	20%

Net revenue within the Americas, Asia, and Europe segments increased for the three months ended October 31, 2005, as compared to the same period in the prior year, primarily as a result of the net revenue contributions from new supply chain management programs awarded during the second half of fiscal 2005 and the first quarter of fiscal 2006, and seasonality-based demand for certain of our new customers products for the holiday season. The Americas region's net revenue growth from new supply chain management programs was partially offset by approximately $17.0 million of lower revenues due to a combination of lower order volumes and a change in the mix of order volumes for certain customer programs as compared to the prior year. Within the Asia region, net revenue growth from new supply chain management programs was partially offset by approximately $7.6 million of lower revenues due to price reductions and form factor changes by customers, and approximately $3.8 million of lower revenues due to lower order volumes for certain customer programs as compared to the prior year. "Form factor" relates to the simplification or elimination of components from our clients' final products, which in turn reduces the Company's margin potential. Within the Europe region net revenue growth from new supply chain management programs was partially offset by approximately $3.8 million of lower revenues due to lower order volumes and a change in the mix of order volumes for certain customer programs as compared to the prior year.

Two customers, Hewlett-Packard and Kodak, accounted for approximately 29% and 15%, respectively, of CMGI's consolidated net revenue for the three months ended October 31, 2005. One customer, Hewlett-Packard, accounted for approximately 39% of CMGI's consolidated net revenue for the three months ended October 31, 2004. We expect that a significant portion of our annual volume in fiscal 2006 with Kodak will be concentrated within the first quarter of our fiscal year in support of seasonality based demand for Kodak's consumer products during the holiday season.

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

Cost of Revenue:

	Three Months Ended October 31, 2005	As a % of Segment Net Revenue	Three Months Ended October 31, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 121,388	91%	$ 97,828	91%	$23,560	24%
Asia	48,812	80%	36,461	71%	12,351	34%
Europe	105,539	93%	91,457	93%	14,082	15%
Total eBusiness and Fulfillment	$ 275,739	90%	$ 225,746	88%	$49,993	22%

Cost of revenue consists primarily of expenses related to the cost of products purchased for sale or distribution as well as salaries and benefit expenses, consulting and contract labor costs, fulfillment and shipping costs, and applicable facilities costs. Cost of revenue within the Americas, Asia, and Europe segments increased for the three months ended October 31, 2005 primarily as a result of the increase in revenues in each region as compared to the prior year. Overall net revenue increased 20% while cost of revenue increased 22%, as compared to the prior year. As a result, gross margins for the first quarter of fiscal 2006 were 10% as compared to 12% in the prior year quarter. Of the two-percentage point decline in gross margin percentage, approximately one percentage point of the decline was due to a shift in the mix of the Company's order volumes to lower margin hardware products as compared to the prior year. Volumes for these lower margin hardware programs outpaced volumes from other higher margin customer programs year over year, in part due to seasonality driven demand for certain of our new hardware customer programs for the holiday season. In addition, approximately one percentage point of gross margin was lost from a combination of price reduction and form factor changes during the period, primarily in the Asia region.

For the three months ended October 31, 2005, the Company's gross margin percentages within the Americas, Asia and Europe regions were 9%, 20% and 7%, as compared to 9%, 29% and 7%, respectively, for the same period of the prior year. Within the Asia region, the nine-percentage point decline in gross margins was primarily the result of approximately $7.6 million of price reductions and form factor changes. These price and form factor reductions primarily related to one client in Asia. In addition, the majority of the 18% year-over-year revenue growth in the Asia region was from new customer programs at lower gross margins than the region had realized from its customer programs in the prior year. In recent years, the demand for supply chain management services in both the Americas and Europe has been adversely affected by customers' migration of their work to lower cost regions of the world, particularly Asia. Accordingly, as a result of the lower overall cost of delivering the Company's products and services in the Asia region, particularly China, and the increasing demand for supply chain management services in that region, we expect gross margin levels in Asia to continue to exceed those earned in the Americas and Europe regions. We expect that there will be pressure on gross margin levels in Asia as the market, particularly China, matures. Our gross margins are impacted by a number of factors, including competition, order volumes, pricing, customer mix, and overall demand for our customers' products. A significant portion of the costs required to deliver our products and services is fixed in nature.

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

Selling Expenses:

	Three Months Ended October 31, 2005	As a % of Segment Net Revenue	Three Months Ended October 31, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 2,078	2%	$ 2,197	2%	$ (119)	(5)%
Asia	1,388	2%	1,756	3%	(368)	(21)%
Europe	2,037	2%	1,959	2%	78	4%
Total eBusiness and Fulfillment	$ 5,503	2%	$ 5,912	2%	$ (409)	(7)%

Selling expenses consist primarily of compensation and employee-related expenses, sales commissions, facilities costs, marketing expenses and travel costs. Selling expenses decreased during the three months ended October 31, 2005 primarily as a result of lower travel related costs, as compared to the same period in the prior fiscal year. For the three months ended October 31, 2005 and 2004, employee related costs represented approximately 67% and 62% of the total selling expense, respectively. The Company expects its selling expenses to continue to approximate 2% of net revenue for the foreseeable future.

Table of Contents

General and Administrative Expenses:

	Three Months Ended October 31, 2005	As a % of Segment Net Revenue	Three Months Ended October 31, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 6,263	5%	$ 6,455	6%	$ (192)	(3)%
Asia	4,516	7%	4,859	9%	(343)	(7)%
Europe	6,681	6%	5,500	6%	1,181	21%
Total eBusiness and Fulfillment	17,460	6%	16,814	7%	646	4%
Other	4,245	—	3,577	4,586%	668	19%
Total	$ 21,705	7%	$ 20,391	8%	$ 1,314	6%

General and administrative expenses within the Americas, Asia, and Europe operating segments consist primarily of compensation and other employee-related costs, facilities costs, depreciation expense and fees for professional services. General and administrative expenses increased during the three months ended October 31, 2005, as compared to the same period in the prior fiscal year, primarily as a result of approximately $2.2 million of costs associated with the Company's migration to a new ERP platform. These costs were partially offset by approximately $1.6 million of lower employee related costs, as compared to the prior year. Within the Europe region, the 21% increase in general and administrative expenses was primarily associated with the ERP initiative (approximately $0.7 million).

The general and administrative expenses within the Other category primarily reflect the cost of the Company's directors and officers insurance, costs associated with certain corporate administrative functions such as legal and finance which are not fully allocated to the Company's subsidiary companies, and administration costs related to the Company's venture capital affiliates. General and administrative expenses within the Other category increased compared to the same period in the prior fiscal year, primarily as a result of approximately $1.0 million of stock based compensation expense recorded in connection with the Company's adoption of SFAS No. 123(R). This increase was partially offset by approximately $0.2 million of lower costs related to the Company's insurance programs. The Company expects its general and administrative costs to approximate 8% to 9% of net revenue for the remainder of fiscal 2006 due primarily to higher information technology expenditures associated with the Company's migration to a common ERP platform, and increased stock compensation expense related to the continued application of SFAS No. 123(R). These increased general and administrative costs are expected to be partially offset by cost savings in connection with the implementation of the Hub and Spoke shared services model.

Amortization of Intangible Assets:

	Three Months Ended October 31, 2005	As a % of Segment Net Revenue	Three Months Ended October 31, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 531	— %	$ 550	1%	$ (19)	(3)%
Asia	510	1%	433	1%	77	18%
Europe	165	— %	324	— %	(159)	(49)%
Total eBusiness and Fulfillment	$ 1,206	— %	$ 1,307	1%	$ (101)	(8)%

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

Restructuring:

	Three Months Ended October 31, 2005	As a % of Segment Net Revenue	Three Months Ended October 31, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 361	— %	$ 5	— %	$ 356	7,120%
Asia	—	— %	913	2%	(913)	(100)%
Europe	829	1%	418	— %	411	98%
Total eBusiness and Fulfillment	1,190	— %	1,336	1%	(146)	(11)%
Other	(213)	—	—	— %	(213)	(100)%
Total	$ 977	— %	$ 1,336	1%	$ (359)	(27)%

During the three months ended October 31, 2005, the Company recorded net restructuring charges of approximately $1.0 million. These charges consisted of approximately $0.5 million relating to a workforce reduction of 34 employees primarily related to the consolidation of two plants in the Netherlands and a $0.5 million charge related to unutilized facilities for which the Company expects to realize no future economic benefit. These charges were partially offset by a $0.2 million reduction of a previously recorded employee severance accrual.

During the three months ended October 31, 2004, the Company recorded net restructuring charges of approximately $1.3 million. These charges consist of approximately $0.5 million related to a workforce reduction of 27 employees, and approximately $0.8 million relating to unoccupied facilities for which the Company expects to realize no future economic benefit.

Other Income/Expense:

During the three months ended October 31, 2005, interest income increased $0.6 million to $1.2 million from $0.6 million for the same period in the prior fiscal year. The increase in interest rates was the result of higher average interest rates during the current period compared to the same period in the prior fiscal year. This increase in interest income was partially offset by an overall decrease in the average cash balances.

Interest expense totaled approximately $0.6 million and $0.4 million for the three months ended October 31, 2005 and 2004, respectively. In both periods, interest expense of approximately $0.2 million related to the Company's stadium obligation, and the remaining interest expense related primarily to outstanding borrowings on a revolving bank credit facility.

Other Gains (Losses), net:

Other gains (losses) net, totaled a gain of $3.2 million for the three months ended October 31, 2005 as compared to a loss of $1.4 million for the same period of the prior fiscal year. During the three months ended October 31, 2005, the Company recorded a gain of approximately $2.7 million related to the sale of a building in Europe. In addition, the Company incurred foreign exchange gains of approximately $0.5 million during the three months ended October 31, 2005, primarily related to unhedged foreign currency exposures in Asia. During the three months ended October 31, 2004, the Company incurred foreign exchange losses of approximately $1.8 million, primarily related to unhedged foreign currency exposures in Asia.

Equity in Losses of Affiliates, net:

Equity in losses of affiliates, net, resulted from the Company's minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's operating income (losses) is included in equity in income (losses) of affiliates. Equity in losses of affiliates increased to approximately $0.4 million for the three months ended October 31, 2005 from $0.2 million for the same period in the prior fiscal year, primarily as a result of an increase in net losses recognized by certain of the affiliate companies.

Income Taxes:

The Company does not record any income tax benefit for losses generated in the U.S. as it is more likely than not that the Company will not realize such benefits and the fact that the Company has fully utilized its tax loss carryback benefits. The Company provides income tax expense related to certain foreign and state taxes. During the three months ended October 31, 2005, the Company recorded income tax expense of approximately $0.9 million, as compared to $1.5 million for the same period of the prior year.

Liquidity and Capital Resources

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the issuance of CMGI common stock, the sale of investments in subsidiary and affiliate entities and borrowings from lending institutions. As of October 31, 2005, the Company's primary sources of liquidity consisted of cash and cash equivalents of $154.1 million. In addition, on October 31, 2005, ModusLink entered into a new revolving credit agreement (the New Loan Agreement) with a bank syndicate. The New Loan Agreement is a three-year $60.0 million revolving credit facility, with a scheduled maturity of October 31, 2008. Advances under the New Loan Agreement may be in the form of loans or letters of credit. Outstanding borrowings under the former Loan Agreement have been assumed by the new loan facility such that at October 31, 2005, approximately $24.8 million of borrowings were outstanding under the facility, and approximately $1.9 million had been reserved in support of outstanding letters of credit. Interest on the revolving credit facility is based on Prime or LIBOR plus an applicable margin. The credit facility includes certain restrictive financial covenants, which include balance sheet leverage, liquidity and profitability measures and restrictions that limit the ability of ModusLink, among other things, to merge, or acquire or sell assets without prior approval from the lenders. The Company's working capital at October 31, 2005 was approximately $248.1 million.

Net cash used for operating activities of continuing operations was $30.9 million for the three months ended October 31, 2005, compared to $21.2 million for the three months ended October 31, 2004. Cash used for operating activities of continuing operations represents net income (loss) as adjusted for non-cash items. During the three months ended October 31, 2005, non-cash items primarily included $2.6 million of depreciation expense, $1.2 million of amortization of intangible assets, and $2.0 million of stock-based compensation expense. During the three months ended October 31, 2004, non-cash items primarily included $2.4 million of depreciation, $1.3 million of amortization of intangible assets, $1.5 million of stock-based compensation, and non-operating losses, net of $1.2 million.

The Company believes that the reduction in the net cash used for operating activities of continuing operations is dependent on several factors, including increased profitability, effective inventory management practices, and optimization of the credit terms of certain vendors of the Company. Our cash flows from operations are dependent on several factors including the overall performance of the technology sector, and the market for outsourcing services. The intensity of the competition in our markets is expected to continue to increase and this increased competition may result in price reductions, reduced gross margins and loss of market share. A one-percentage point decline in our gross margins earned during the three months ended October 31, 2005, would have resulted in a $3.1 million decline in our cash flows from operating activities. We continue to focus on margin improvement, through cost reductions and asset and employee productivity gains in order to improve the profitability and cash flows of our business and maintain our competitive position. As outlined in our discussion on strategic initiatives in the Overview section above, we are reacting to margin and pricing pressures in several ways, including efforts to lower our cost to service customers, move work to lower-cost venues, establish facilities closer to our customers to gain efficiencies, and add other service offerings at higher margins.

Investing activities of continuing operations used cash of $5.6 million for the three months ended October 31, 2005 and used cash of $71.6 million for the three months ended October 31, 2004. The $5.6 million of cash used for investing activities consists of $3.7 million of capital expenditures and $4.7 million of investments in affiliates, partially offset by $2.7 million of proceeds from the sale of a building in Europe. During the three months ended October 31, 2004, CMGI issued approximately 68.6 million shares of common stock and assumed or substituted options to purchase approximately 12.6 million shares of CMGI common stock in exchange for all outstanding equity of Modus. In addition, the Company paid $100.7 million to retire Modus' indebtedness and $2.5 million for certain deal related costs. These cash payments were partially offset by Modus' cash acquired of $37.0 million, for a net cash payment of $66.2 million. Also during the three months ended October 31, 2004, the Company paid additional acquisition related costs of approximately $0.9 million and capital expenditures of approximately $2.5 million. As of October 31, 2005, the Company has $26.8 million of investments in affiliates, which may be a potential source of future liquidity. However, the Company does not anticipate being dependent on liquidity from these investments to fund either its short-term or long-term operating activities. During the three months ended October 31, 2005 the Company invested approximately $2.2 million in a new Enterprise Resource Planning System in connection with its strategy to create a global integrated supply-chain system infrastructure that extends from front-end order management through distribution returns management. During the remainder of fiscal 2006 the Company expects to invest approximately $12.6 million of additional capital in its new ERP system. The total investment in the new ERP system through fiscal 2007 is expected to approximate $24.0 million.

Financing activities of continuing operations used cash of $1.5 million and provided cash of $0.5 million for the three months ended October 31, 2005 and 2004, respectively. The $1.5 million of cash used for financing activities of continuing operations during the three months ended October 31, 2005 primarily related to the repayment of a mortgage in connection with the sale of a building in Europe. The $0.5 million of cash provided by financing activities of continuing operations during the three months ended October 31, 2004 includes $0.8 million of proceeds from the issuance of common stock and $0.3 million of payments of long-term debt. The Company is not dependent on liquidity from its financing activities to fund either its short-term or long-term operating activities.

Given the Company's cash resources as of October 31, 2005 and as a result of the impact of the Modus acquisition in fiscal 2005, the Company believes that it has sufficient working capital and liquidity to support its operations, as well as continue to make investments through its venture capital affiliates over the next fiscal year and for the foreseeable future. However, should additional capital be needed to fund future investment and acquisition activity, the Company may seek to raise additional capital through offerings of the Company's stock, or through debt financing. There can be no assurance, however, that the Company will be able to raise additional capital on terms that are favorable to the Company, or at all.

Off-Balance Sheet Financing Arrangements

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

Contractual Obligations

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

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

ModusLink has a revolving credit facility of $60.0 million. As of October 31, 2005, approximately $24.8 million of borrowings were outstanding under the facility, and approximately $1.9 million had been reserved in support of outstanding letters of credit.

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

Future minimum payments, including previously recorded restructuring obligations, as of October 31, 2005 are as follows:

Contractual Obligations	Total	Less than 1 year	1–3 years	3–5 years	After 5 years
			(in thousands)		
Operating leases	$ 89,786	$ 21,704	$ 30,637	$ 20,644	$ 16,801
Stadium obligations	16,000	1,600	3,200	3,200	8,000
Long-term debt	198	89	109	—	—
Purchase obligations	77,805	77,805	—	—	—
Revolving line of credit	24,785	—	24,785	—	—
Total	$ 208,574	$ 101,198	$ 58,731	$ 23,844	$ 24,801

Total future minimum lease payments have been reduced by future minimum sublease rentals of approximately $1.1 million.

Total rent and equipment lease expense charged to continuing operations was approximately $6.2 and $6.6 million for the three months ended October 31, 2005 and 2004, respectively.

From time to time the Company provides guarantees of payment to vendors doing business with certain of the Company's subsidiaries. These guarantees require that in the event that the subsidiary cannot satisfy its obligations with certain of its vendors, the Company will be required to settle the obligation. As of October 31, 2005, the Company had guarantees related to a facility lease of a former subsidiary and guarantees of indebtedness totaling approximately $1.7 million. As of October 31, 2005, the Company had no recorded liabilities with respect to these arrangements.

From time to time, the Company agrees to provide indemnification to its customers in the ordinary course of business. Typically, the Company agrees to indemnify its customers for losses caused by the Company with respect to certain intellectual property, such as databases, software masters, certificates of authenticity and similar valuable intellectual property. As of October 31, 2005, the Company had no recorded liabilities with respect to these arrangements.

Critical Accounting Policies

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

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

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

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

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

The Company follows the Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting. EITF 00-21 became effective for revenue arrangements entered into in periods beginning after June 15, 2003.

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

Restructuring Expenses. For restructuring plans implemented prior to December 31, 2002, the Company assessed the need to record restructuring charges in accordance with EITF No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)” (EITF 94-3). The Company also applies EITF Issue No. 95-3, “Recognition of Liabilities in Connection with a Purchase Business Combination” and Staff Accounting Bulletin (SAB) No. 100, “Restructuring and Impairment Charges.” In accordance with this guidance, management must execute an exit plan that will result in the incurrence of costs that have no future economic benefit. Also under the terms of EITF 94-3, a liability for the restructuring charges is recognized in the period management approves the restructuring plan. The Company records liabilities that primarily include the estimated severance and other costs related to employee benefits and certain estimated costs to exit equipment and facility lease obligations, bandwidth agreements and other service contracts. These estimates are based on the remaining amounts due under various contractual agreements, adjusted for any anticipated contract cancellation penalty fees or any anticipated or unanticipated event or changes in circumstances that would reduce these obligations. In the past, certain of our restructuring estimates relating to contractual obligations have been settled for amounts less than our initial estimates. As of October 31, 2005, the Company’s accrued restructuring balance totaled $19.0 million, of which remaining contractual obligations represented $14.5 million. These contractual obligations principally represent future obligations under non-cancelable real estate leases. Restructuring estimates relating to real estate leases involve consideration of a number of factors including: potential sublet rental rates, estimated vacancy period for the property, brokerage commissions and certain other costs. Estimates relating to potential sublet rates and expected vacancy periods are most likely to have a material impact on the Company’s results of operations in the event that actual amounts differ significantly from estimates. These estimates involve judgment and uncertainties, and the settlement of these liabilities could differ materially from recorded amounts. As such, in the course of making such estimates management often uses third party real estate experts to assist management in its assessment of the marketplace for purposes of estimating sublet rates and vacancy periods. A 10%–20% unfavorable settlement of our remaining restructuring liabilities, as compared to our current estimates, would decrease our income from continuing operations by $1.9–$3.8 million.

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

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

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

SFAS No. 123(R) requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's condensed consolidated statement of operations. SFAS No. 123(R) supersedes the Company's previous accounting under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." As permitted by SFAS No. 123, the Company measured options, granted prior to August 1, 2005, compensation cost in accordance with Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to equity.

The Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of August 1, 2005, the first day of the Company's fiscal year 2006. In accordance with the modified prospective transition method, the Company's condensed consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R). Stock-based compensation expense recognized under SFAS No. 123(R) for the three months ended October 31, 2005 consisted of stock-based compensation expense related to employee stock options and employee stock purchases of approximately $1.5 million, excluding approximately $0.5 million of stock-based compensation for nonvested stock. There was no stock-based compensation expense related to employee stock options and employee stock purchases recognized during the three months ended October 31, 2004.

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

Upon adoption of SFAS No. 123(R), the Company also changed its method of valuation for stock-based awards granted after August 1, 2005 to a lattice-binomial option-pricing model ("lattice-binomial model") from the Black-Scholes option-pricing model ("Black-Scholes model") which was previously used for the Company's pro forma information required under SFAS No. 123. The Company uses third party analyses to assist in developing the assumptions used in its lattice-binomial model and the resulting fair value used to record compensation expense. The Company's determination of fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Any changes in these assumptions may materially affect the estimated fair value of the stock-based award. A 20% increase in the estimated fair value of the options granted during the three months ended October 31, 2005 would result in an $0.1 million increase in the estimated stock-based compensation for the fiscal year ended July 31, 2006.

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

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

The Company follows SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires the Company to evaluate its existing intangible assets and goodwill that were acquired in prior purchase business combinations, and to make any necessary reclassifications in order to conform to the new criteria in SFAS No. 141 for recognition apart from goodwill. Accordingly, the Company is required to reassess the useful lives and residual values of all identifiable intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments. In addition, to the extent an intangible asset is then determined to have an indefinite useful life, the Company is required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142. The Company's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. Management predominantly uses third party valuation reports to assist in its determination of the fair value of reporting units subject to impairment testing. These valuation reports, used to determine the fair value of reporting units for purposes of impairment testing, rely heavily on projections of future operating performance. The preparation of these projections takes into consideration both past performance and management's expectations for future performance based on its experience. Further, in accordance with the provisions of SFAS No. 142, the Company has designated reporting units for purposes of assessing goodwill impairment. The standard defines a reporting unit as the lowest level of an entity that is a business and that can be distinguished, physically and operationally and for internal reporting purposes, from the other activities, operations, and assets of the entity. As of July 31, 2004, based on the provisions of SFAS No. 142, the Company had two reporting units for purposes of goodwill impairment testing. Upon completion of its acquisition of Modus Media on August 2, 2004, the Company concluded that it had three reporting units (Americas, Asia, and Europe) for purposes of goodwill impairment testing. Additionally, the Company's policy is to perform its annual impairment testing for all reporting units in the fourth quarter of each fiscal year. The Company performed its annual impairment test during the fourth quarter of fiscal 2005 and concluded goodwill was not impaired. At October 31, 2005, the Company's carrying value of goodwill and other intangible assets totaled $184.4 million and $20.2 million, respectively. The Company operates in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. Future operating results and cash flows from operations are dependent on several factors including the overall performance of the technology sector, and the market for outsourcing services. The intensity of the competition is expected to continue to increase and this increased competition may result in price reductions, reduced gross margins and loss of market share. If our assumptions regarding our ability to maintain our competitive position in the marketplace or our assumptions of the future demand for our customers' products and services used in preparing our valuations of the Company's reporting units differ materially from actual future results, the Company may record impairment charges in the future.

Investments. The Company maintains interests in several privately held companies primarily through its various venture capital affiliates. These venture affiliates ("CMGI @Ventures") invest in early-stage technology companies. These investments are generally made in connection with a round of financing with other third-party investors. At October 31, 2005, the Company had approximately $26.8 million of investments in privately held companies. Investments in which the Company's interest is less than 20% and which are not classified as available-for-sale securities are carried at the lower of cost or net realizable value unless it is determined that the Company exercises significant influence over the investee company, in which case the equity method of accounting is used. For those investments in which the Company's voting interest is between 20% and 50%, the equity method of accounting is generally used. Under this method, the investment balance, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the investee company as they occur, limited to the extent of the Company's investment in, advances to and commitments for the investee. These adjustments are reflected in "Equity in losses of affiliates, net" in the Company's Consolidated Statements of Operations.

The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular equity investment's net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee's cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes, and competition. This valuation process is based primarily on information that the Company requests from these privately held companies and is not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the reliability and accuracy of the data may vary. Based on the Company's evaluation, it recorded impairment charges related to its investments in privately held companies of $0.4 million for the three months ended October 31, 2004. These impairment losses are reflected in "Equity in losses of affiliates, net" in the Company's Consolidated Statements of Operations.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to significant volatility in our reported results of operations in the past and it may negatively impact our results of operation in the future. We may incur additional impairment charges to our equity investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our $26.8 million of investments in affiliates at October 31, 2005 ranging from 10%–20%, respectively, would decrease our income from continuing operations by $2.7–$5.4 million.

At the time an equity method investee sells its stock to unrelated parties at a price in excess of its book value, the Company's net investment in that affiliate increases. If at that time, the affiliate is not a newly formed, non-operating entity, or a research and development company, start-up or development stage company, and if there is no question as to the affiliate's ability to continue in existence, the Company records the increase as a gain in its Consolidated Statements of Operations.

Income Taxes. Income taxes are accounted for under the provisions of SFAS No. 109, "Accounting for Income Taxes," using the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. SFAS No. 109 also requires that the deferred tax assets be reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This methodology requires estimates and judgments in the determination of the recoverability of deferred tax assets and in the calculation of certain tax liabilities. At October 31, 2005 and 2004, respectively, a full valuation allowance has been recorded against the gross deferred tax asset since management believes that after considering all the available objective evidence, both positive and negative, historical and prospective, with greater weight given to historical evidence, it is more likely than not that these assets will not be realized. In each reporting period, we evaluate the adequacy of our valuation allowance on our deferred tax assets. In the future, if the Company is able to demonstrate a consistent trend of pre-tax income, then at that time management may reduce its valuation allowance, accordingly. At October 31, 2005, the Company's net operating loss carryforwards for federal and state purposes totaled $2.0 billion and $2.1 billion, respectively. A 5% reduction in the Company's current valuation allowance on these federal and state net operating loss carryforwards would result in an income tax benefit of approximately $40.0 million.

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

New Accounting Pronouncements

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

In December 2004, the FASB issued Statement SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123(R)). This statement supersedes SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123", and Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." The statement is effective for interim or annual periods beginning after June 15, 2005. Accordingly, effective August 1, 2005, we adopted the fair-value recognition provisions of SFAS No. 123(R). See Critical Accounting Policies and Note E for further description of the Company's implementation of SFAS No. 123(R).

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, or development of products and services, 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. Forward-looking statements represent management's current expectations and are inherently uncertain. CMGI does not undertake any obligation to update forward-looking statements. Factors that could cause actual results to differ materially from results anticipated in forward-looking statements include, but are not limited to, the following:

We may have difficulty sustaining operating profitability.

During the three months ended October 31, 2005, we reported operating income of approximately $2.2 million. While we have reported operating profitability in past periods, as a result of a variety of factors discussed in this report, our revenue for a particular quarter is difficult to predict and may fluctuate significantly. We anticipate that we will continue to incur significant operating expenses in the future, including significant costs of revenue and general and administrative expenses. We also have significant commitments and contingencies, including borrowings under a revolving line of credit, real estate leases, continuing stadium sponsorship obligations, and inventory purchase obligations. As a result, we can give no assurance that we will sustain operating profitability in the future. We may also use significant amounts of cash to fund growth and expansion of our operations, including through additional acquisitions. At October 31, 2005, we had a consolidated cash, cash equivalents and marketable securities balance of approximately $154.3 million and fixed contractual obligations of $208.6 million. If we are unable to sustain operating profitability, we risk depleting our working capital balances and our business will be materially adversely affected.

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

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

In addition, the loss of any one or more of our customers would cause our revenues to decline, perhaps below expectations. For the three months ended October 31, 2005, sales to two customers, Hewlett-Packard and Kodak, accounted for approximately 29% and 15%, respectively, of our consolidated net revenue. During the three months ended October 31, 2005, five customers accounted for approximately 61% of the Company's net revenues. We currently do not have any agreements which obligate any customer to buy a minimum amount of products or services. We do not currently have any agreements which designate us as the sole supplier of any particular products or services. The loss of a significant amount of business with Hewlett-Packard or any other key customers, or a decision by any one of our key customers to significantly change or reduce the services we provide, would have a material adverse effect on our business. There can be no assurance that our revenue from key customers will not decline in future periods.

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

Our quarterly results may fluctuate significantly.

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

- how well we execute on our strategy and operating plans;
- demand for our products and services;
- timing of new product introductions or software releases by our customers or their competitors;
- payment of costs associated with our acquisitions, sales of assets and investments;
- timing of sales of assets and marketable securities;
- market acceptance of new products and services;
- seasonality;
- temporary shortages in supply from vendors;
- charges for impairment of long-lived assets and/or restructuring in future periods;
- political instability or natural disasters in the countries in which we operate;
- specific economic conditions in the industries in which we compete;
- general economic conditions;
- actual events, circumstances, outcomes, and amounts differing from judgments, assumptions, and estimates reflected in our Consolidated Financial Statements; and
- changes in accounting rules, such as recording expenses for employee stock option grants.

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

We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful and should not be relied upon as indicative of our future performance. It is also possible that in some fiscal quarters, our operating results will be below the expectations of securities analysts and investors. In such circumstances, the price of our common stock may decline.

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

Following our acquisition of Modus in August 2004, we continue to identify ways to increase efficiencies and productivity and effect cost savings. We have commenced projects designed to increase our operational efficiencies, including the standardization to a global business solutions platform through the investment of approximately $24.0 million in SAP's Enterprise Resource Planning system, and the implementation of a shared services model utilizing centralized "hub" locations to service multiple "spoke" locations across the Americas, Asia and Europe regions. We cannot assure you that the completion of these projects will ultimately result in the realization of the expected benefits that we anticipate in a timely manner or at all, or that we will not encounter problems that will divert the attention of management and/or result in additional costs. If we are unable to complete such projects in a timely manner and without significant problems, our business, financial position and operating results may be adversely affected.

We are subject to risks of operating internationally.

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

We currently conduct business in Mexico, China, Taiwan, Singapore, Malaysia, the United Kingdom, Hungary, Ireland, The Czech Republic, France, The Netherlands and certain other foreign locations, in addition to our United States operations. Sales outside the United States accounted for 58% of CMGI's total revenue for the three months ended October 31, 2005. A portion of our international revenue, cost of revenue and operating expenses are denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. There is also additional risk if the currency is not freely traded. Some currencies, such as the Chinese Renminbi, are subject to limitations on conversion into other currencies, which can limit or delay our ability to repatriate funds or engage in hedging activities. While the Company often enters into forward currency exchange contracts to manage exposure to foreign currencies, future exchange rate fluctuations may have a material adverse effect on our business and operating results.

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

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

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

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

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

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

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

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

A decline in the technology sector could reduce our revenues.

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

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

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

We will continue to be subject to intense competition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business and operations rely on third parties to provide products and services, including IT products and services, and shipping and transportation services. There can be no assurance that we will not experience operational problems attributable to the installation, implementation, integration, performance, features or functionality of third-party software, systems and services. Any interruption in the availability or usage of the products and services provided by third parties could have a material adverse effect on our business or operations.

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

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

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

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

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

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

- the need to incur additional indebtedness, issue stock or use cash in order to consummate the acquisition;
- difficulty integrating acquired technologies, operations and personnel with the existing businesses;
- diversion of management attention in connection with both negotiating the acquisitions and integrating the assets;
- strain on managerial and operational resources as management tries to oversee larger operations;
- the funding requirements for acquired companies may be significant;
- exposure to unforeseen liabilities of acquired companies;
- increased risk of costly and time-consuming litigation, including stockholder lawsuits; and
- potential issuance of securities in connection with an acquisition with rights that are superior to the rights of holders of our common stock, or which may have a dilutive effect on our common stockholders.

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

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

The market price of our common stock has been and is likely to continue to be volatile. In recent years, the stock market has experienced significant price and volume fluctuations, which have particularly impacted the market prices of equity securities of many companies providing technology-related products and services. Some of these fluctuations appear to be unrelated or disproportionate to the operating performance of such companies. Future market movements may adversely affect the market price of our common stock. In addition, should the market price of our common stock be below $1.00 per share for an extended period, we risk Nasdaq delisting, which would have an adverse effect on our business and on the trading of our common stock. In order to maintain compliance with Nasdaq listing standards, we may consider several strategies, including without limitation a reverse stock split.

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

We could be subject to infringement claims and other liabilities.

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

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

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

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

Interest Rate Risk

The Company has from time to time used derivative financial instruments to reduce exposure to adverse fluctuations in interest rates on its borrowing arrangements. The derivatives the Company uses are straightforward instruments with liquid markets. At October 31, 2005, the Company was primarily exposed to the Prime Rate, London Interbank Offered Rate (LIBOR) and Euro Interbank Offered Rates (EURIBOR) on its outstanding borrowing arrangements, and the Company had no open derivative positions with respect to its borrowing arrangements. A hypothetical 100 basis point increase in our interest rates would result in an approximate 18%, or $0.1 million, increase in our interest expense for the three months ended October 31, 2005.

Foreign Currency Risk

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

International revenues from our foreign operating segments accounted for approximately 58% of total revenues during the three months ended October 31, 2005. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

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

Using the foreign currency exchange rates from the beginning of our fiscal year, our Europe revenues for the three months ended October 31, 2005 would have been lower than we reported using the actual exchange rates by approximately $0.4 million and operating income would have been higher by approximately $0.2 million.

We are also exposed to foreign exchange rates fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. When there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the three months ended October 31, 2005, we recorded foreign currency translation losses of approximately $0.6 million. In addition, certain of our foreign subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. For the three months ended October 31, 2005, we recorded foreign currency transaction gains of approximately $0.5 million which are recorded in other gains (losses), net in our consolidated statements of operations.

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

Item 4. ***Controls and Procedures.***

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

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

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings.***

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

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

During the quarter ended October 31, 2005, we made no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors, as described in our most recent proxy statement.

Item 6. ***Exhibits.***

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

SIGNATURE

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

CMGI, Inc.

Date: December 12, 2005

By: /s/ THOMAS OBERDORF

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

EXHIBIT INDEX

10.1	Second Amended and Restated Loan and Security Agreement, dated October 31, 2005, by and among ModusLink Corporation, SalesLink LLC and SalesLink Mexico Holdings Corp., as borrowers, and LaSalle Bank National Association and Citizens Bank of Massachusetts, as lenders, is incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated October 31, 2005 (File No. 000-23262).
10.2	2005 Non-Employee Director Plan is incorporated herein by reference to Appendix V to the Registrant's Definitive Schedule 14A filed November 7, 2005 (File No. 000-23262).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 31.1

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

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

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

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

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

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

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

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

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

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

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

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

Date: December 12, 2005

By: /s/ JOSEPH C. LAWLER

Joseph C. Lawler
President and Chief Executive Officer

EXHIBIT 31.2

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

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

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

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

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

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

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

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

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

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

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

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

Date: December 12, 2005

By: /S/ THOMAS OBERDORF

Thomas Oberdorf
Chief Financial Officer and Treasurer

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

In connection with the Quarterly Report on Form 10-Q of CMGI, Inc. (the “Company”) for the fiscal quarter ended October 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Joseph C. Lawler, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: December 12, 2005	By: /S/ JOSEPH C. LAWLER
	Joseph C. Lawler
	President and Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of CMGI, Inc. (the "Company") for the fiscal quarter ended October 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Thomas Oberdorf, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: December 12, 2005

By: /S/ THOMAS OBERDORF

Thomas Oberdorf
Chief Financial Officer and Treasurer