SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarter ended January 31, 2003

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

Commission File Number 000-23262

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

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

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

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

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

Number of shares outstanding of the issuer's common stock, as of March 13, 2003:

| Common Stock, par value $.01 per share | 393,471,707 |
|---|---|
| Class | Number of shares outstanding |

CMGI, INC.

FORM 10-Q

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CMGI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | January 31, 2003 | July 31, 2002 |
|---|---|---|
| | (in thousands, except share and per share amounts) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 174,712 | $ 215,078 |
| Available-for-sale securities | 1,845 | 10,327 |
| Trading security | -- | 94,271 |
| Accounts receivable, trade, net of allowance for doubtful accounts | 60,173 | 38,221 |
| Inventories | 35,560 | 32,177 |
| Prepaid expenses and other current assets | 24,181 | 19,416 |
| Current assets of discontinued operations | 59,196 | 132,609 |
| Deferred loss on disposal of subsidiary | -- | 31,869 |
| Total current assets | 355,667 | 573,968 |
| Property and equipment, net | 26,241 | 30,432 |
| Investments in affiliates | 32,507 | 57,770 |
| Goodwill | 22,123 | 24,341 |
| Non-current assets of discontinued operations | 16,042 | 189,449 |
| Other assets | 2,408 | 29,943 |
| | $ 454,988 | $ 905,903 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable | $ -- | $ 94,271 |
| Current installments of long-term debt | 1,397 | 1,316 |
| Accounts payable | 40,774 | 24,065 |
| Accrued restructuring | 12,679 | 23,783 |
| Accrued income taxes | 94,813 | 93,515 |
| Accrued expenses | 44,016 | 33,482 |
| Other current liabilities | 4,413 | 5,440 |
| Current liabilities of discontinued operations | 53,048 | 94,217 |
| Total current liabilities | 251,140 | 370,089 |
| Long-term debt, less current installments | 7,643 | 7,884 |
| Other long-term liabilities | 14,974 | 14,181 |
| Non-current liabilities of discontinued operations | 1,744 | 61,272 |
| Minority interest | 38,319 | 35,847 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding as of January 31, 2003 and July 31, 2002 | -- | -- |
| Common stock, $0.01 par value per share. Authorized 1,405,000,000 shares; issued and outstanding 393,390,023 shares at January 31, 2003 and 392,679,011 shares at July 31, 2002 | 3,934 | 3,926 |
| Additional paid-in capital | 7,294,033 | 7,292,377 |
| Accumulated deficit | (7,157,302) | (6,880,452) |
| Accumulated other comprehensive income | 503 | 779 |
| Total stockholders' equity | 141,168 | 416,630 |
| | $ 454,988 | $ 905,903 |

See accompanying notes to interim unaudited condensed consolidated financial statements

CMGI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands, except per share amounts) | | | |
| Net revenue | $ 119,774 | $ 43,744 | $ 232,996 | $ 88,521 |
| Operating expenses: | | | | |
| Cost of revenue | 110,549 | 36,121 | 214,912 | 84,810 |
| Research and development | 1,445 | 2,449 | 3,499 | 5,711 |
| Selling | 2,860 | 2,993 | 6,058 | 7,524 |
| General and administrative | 13,273 | 15,924 | 35,631 | 37,292 |
| Amortization of intangible assets and stock-based compensation | 54 | 1,751 | 109 | 3,501 |
| Impairment of long-lived assets | 24 | 2,328 | 24 | 2,328 |
| Restructuring | 9,095 | (361) | 9,405 | (9,224) |
| Total operating expenses | 137,300 | 61,205 | 269,638 | 131,942 |
| Operating loss | (17,526) | (17,461) | (36,642) | (43,421) |
| Other income (expense): | | | | |
| Interest income | 845 | 2,699 | 2,083 | 8,722 |
| Interest (expense) recovery, net | (25,725) | 13,474 | 1,162 | 7,127 |
| Other gains (losses), net | 23,468 | (17,886) | (31,394) | (25,746) |
| Equity in losses of affiliates, net | (373) | (1,144) | (888) | (13,393) |
| Minority interest | 327 | 21 | (1,980) | (47) |
| | (1,458) | (2,836) | (31,017) | (23,337) |
| Loss from continuing operations before income taxes and extraordinary item | (18,984) | (20,297) | (67,659) | (66,758) |
| Income tax expense (benefit) | 738 | (1,794) | 1,594 | 10,785 |
| Loss from continuing operations before extraordinary item | (19,722) | (18,503) | (69,253) | (77,543) |
| Discontinued operations, net of income taxes: | | | | |
| Loss from discontinued operations | (163,544) | (97,575) | (207,597) | (263,339) |
| Extraordinary gain on retirement of debt, net of income taxes | -- | 131,281 | -- | 131,281 |
| Net income (loss) | (183,266) | 15,203 | (276,850) | (209,601) |
| Preferred stock accretion | -- | (411) | -- | (2,301) |
| Gain on repurchase of Series C Convertible Preferred Stock | -- | 63,505 | -- | 63,505 |
| Net income (loss) available to common stockholders | $(183,266) | $ 78,297 | $(276,850) | $(148,397) |
| Basic and diluted income (loss) per share available to common stockholders: | | | | |
| Income (loss) from continuing operations before extraordinary item | $ (0.05) | $ 0.12 | $ (0.18) | $ (0.04) |
| Loss from discontinued operations | $ (0.42) | $ (0.25) | $ (0.53) | $ (0.72) |
| Extraordinary gain on retirement of debt, net of income taxes | $ -- | $ 0.33 | $ -- | $ 0.36 |
| Net income (loss) available to common stockholders | $ (0.47) | $ 0.20 | $ (0.71) | $ (0.40) |
| Shares used in computing basic income (loss) per share | 393,064 | 383,845 | 392,873 | 367,560 |
| Shares used in computing diluted income (loss) per share | 393,064 | 388,641 | 392,873 | 367,560 |

See accompanying notes to interim unaudited condensed consolidated financial statements

CMGI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months Ended January 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in thousands) | |
| Cash flows from operating activities of continuing operations: | | |
| Net loss | $(276,850) | $(209,601) |
| Loss from discontinued operations | (207,597) | (263,339) |
| Income (loss) from continuing operations | (69,253) | 53,738 |
| Adjustments to reconcile net loss to cash used for continuing operations: | | |
| Depreciation, amortization and impairment charges | 6,220 | 14,880 |
| Deferred income taxes | - | 12,380 |
| Realization of cumulative translation adjustment | 5,026 | - |
| Non-operating losses, net | 23,933 | (126,052) |
| Equity in losses of affiliates | 888 | 13,393 |
| Minority interest | (1,980) | (47) |
| Changes in operating assets and liabilities, excluding effects from acquired and divested subsidiaries: | | |
| Trade accounts receivable | (22,292) | 8,806 |
| Prepaid expenses and other current assets | 242 | 636 |
| Inventories | (3,453) | 3,325 |
| Accounts payable, accrued restructuring and expenses | 19,500 | (32) |
| Deferred revenues | 462 | (2,378) |
| Refundable and accrued income taxes, net | 1,298 | 13,852 |
| Other assets and liabilities | 11,019 | (9,818) |
| Net cash used for operating activities of continuing operations | (28,390) | (17,317) |
| Cash flows from investing activities of continuing operations: | | |
| Additions to property and equipment | (6,046) | (6,050) |
| Net proceeds from maturities of (purchases of) available-for-sale securities, net | - | 21,367 |
| Proceeds from liquidation of stock investments | 15,377 | 19,446 |
| Cash impact of acquisitions and divestitures of subsidiaries, net | (583) | (1,539) |
| Net investments in affiliates | 10,200 | (4,077) |
| Other, net | - | 3,384 |
| Net cash provided by investing activities of continuing operations | 18,948 | 32,531 |
| Cash flows from financing activities of continuing operations: | | |
| Net repayments of notes payable | - | (75,000) |
| Net repayments of long-term debt | (160) | (1,780) |
| Payment for retirement of Series C Convertible Preferred Stock | - | (100,301) |
| Net proceeds from issuance of common stock | 324 | 793 |
| Net cash provided by (used for) financing activities of continuing operations | 164 | (176,288) |
| Net cash used for discontinued operations | (31,088) | (136,851) |
| Net decrease in cash and cash equivalents | (40,366) | (297,925) |
| Cash and cash equivalents at beginning of period | 215,078 | 619,590 |
| Cash and cash equivalents at end of period | $ 174,712 | $ 321,665 |

See accompanying notes to interim unaudited condensed consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by CMGI, Inc. (together with its consolidated subsidiaries, "CMGI" or the "Company") 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, 2002 which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on October 29, 2002. The results for the three and six-month periods ended January 31, 2003 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 subsidiaries that have been disposed of or are held for sale(See note F).

Marketable securities held by the Company which meet the criteria for classification as trading securities are carried at fair value. Unrealized holding gains and losses on securities classified as trading are recorded as a component of "Other gains (losses), net" in the accompanying condensed consolidated statements of operations.

B. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 applies to all business combinations that the Company enters into after June 30, 2001, and eliminates the pooling-of-interests method of accounting. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Under the new statements, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with the statements. Other intangible assets continue to be amortized over their useful lives. The Company adopted SFAS No. 142 on August 1, 2002 (see note D).

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses the accounting treatment for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of the statement apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal operation of a long-lived asset. The statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company adopted SFAS No. 143 on August 1, 2002. This statement did not have a material effect on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement No's. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections," effective for fiscal years beginning May 15, 2002 or later. It rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers". This Statement also amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The adoption of this Statement did not have a material impact on the Company's financial statements.

In June 2002, the FASB issued 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 Issue 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 are required to be applied to exit or disposal activities that are initiated after December 31, 2002. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which clarifies disclosure and recognition/measurement requirements related to certain guarantees. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition/measurement requirements are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The application of the requirements of FIN 45 did not have a material effect on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation -- Transition and Disclosure." SFAS No. 148 amends SFAS No. 123 "Accounting for Stock Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company does not anticipate that adoption of SFAS No. 148 will have a material effect on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("VIEs"). This Interpretation addresses the consolidation of variable interest entities in which the equity investors lack one or more of the essential characteristics of a controlling financial interest or where the equity investment at risk is not sufficient for the entity to finance its activities without subordinated financial support from other parties. The Interpretation applies to VIEs created after January 31, 2003 and to VIEs in which an interest is acquired after that date. Effective July 1, 2003, it also applies to VIEs in which an interest is acquired before February 1, 2003. The Company may apply the Interpretation prospectively, with a cumulative effect adjustment as of July 1, 2003, or by restating previously issued financial statements with a cumulative effect adjustment as of the beginning of the first year restated. The Company is in the process of evaluating the effects of applying Interpretation No. 46. Based on our preliminary analysis, the Company does not anticipate that adoption of Interpretation No. 46 will have a material effect on the Company's financial position or results of operations.

C. OTHER GAINS (LOSSES), NET

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

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | | |
| Gain on derivative and sale of hedged Yahoo!, Inc. common stock | $ -- | $ -- | $ -- | $ 53,897 |
| Gain (loss) on sales of marketable securities | 7,417 | (3,478) | 7,417 | (31,003) |
| Gain (loss) on mark-to-market adjustment for trading security | 24,687 | 2,885 | (6,329) | 2,885 |
| Loss on sale of Equilibrium Technologies, Inc. | -- | -- | (3,527) | -- |
| Loss on sale of Activate.Net Corporation | -- | -- | -- | (20,743) |
| Loss on impairment of marketable securities | (187) | (1,708) | (387) | (1,708) |
| Loss on divestiture of investment in Signatures SNI, Inc. | -- | -- | (14,056) | -- |
| Loss on impairment of investments in affiliates | (7,876) | (15,488) | (14,051) | (27,016) |
| Other, net | (573) | (97) | (461) | (2,058) |
| | $23,468 | $(17,886) | $(31,394) | $(25,746) |

During the three months ended January 31, 2003 the Company recorded a gain of approximately $24.7 million on the mark-to-market adjustment of a trading security (see note L). The Company also recorded impairment charges of approximately $7.9 million for other-than-temporary declines in the carrying value of certain investments in affiliates. These charges were primarily associated with investments made by CMGI@Ventures IV, LLC. During the three months ended January 31, 2003, the Company recorded a gain on the sale of marketable securities of approximately $7.4 million from the proceeds received in the acquisition of Vicinity by Microsoft.

During the three months ended January 31, 2002 the Company recorded impairment charges of approximately $15.5 million for other-than-temporary declines in the carrying value of certain investments in affiliates. These charges were primarily associated with investments made by CMGI@Ventures IV, LLC.

During the six months ended January 31, 2003, the Company recorded a loss of approximately $6.3 million on the mark-to-market adjustment of a trading security (see note L). The Company also recorded impairment charges of approximately $14.1 million for other-than-temporary declines in the carrying value of certain investments in affiliates. These charges were primarily associated with investments made by CMGI@Ventures IV, LLC.

On November 6, 2002, the Company divested of its equity and debt interests in Signatures SNI, Inc. ("Signatures"). In connection with this transaction the Company recorded a pre-tax loss of approximately $14.1 million during the six months ended January 31, 2003 (see note F).

On October 17, 2002, the Company sold its interests in its majority-owned subsidiary Equilibrium Technologies, Inc. ("Equilibrium") to a group led by the current management of Equilibrium and recorded a pre-tax loss of approximately $3.5 million (see note F).

On January 2003, the Company recorded a gain on the sale of marketable securities of approximately $7.4 million from the proceeds received in the acquisition of Vicinity by Microsoft.

During the six months ended January 31, 2002, the Company sold marketable securities for total proceeds of approximately $19.4 million and recorded a net pre-tax loss of approximately $31.0 million on these sales. These sales primarily consisted of approximately 7.1 million shares of Primedia, Inc. common stock for proceeds of approximately $15.9 million, approximately 356,000 shares of Marketing Services Group, Inc. common stock for total proceeds of approximately $1.1 million and approximately 3.2 million shares of Divine, Inc. (Divine) common stock for total proceeds of approximately $2.4 million.

On August 1, 2001, the Company settled the final tranche of its borrowing arrangement that hedged a portion of the Company's investment in Yahoo!, Inc. (Yahoo!) common stock. The Company delivered 581,499 shares of Yahoo! Common stock and recognized a pre-tax gain of approximately $53.9 million.

During the six months ended January 31, 2002, the Company recorded impairment charges of approximately $27.0 million for other-than-temporary declines in the carrying value of certain investments in affiliates. These charges were primarily associated with investments made by CMGI@Ventures IV, LLC.

In September 2001, the Company completed the sale of its majority-owned subsidiary, Activate.Net Corporation to Loudeye Technologies, Inc. and recorded a pre-tax loss of approximately $20.7 million.

## D. IMPAIRMENT OF LONG-LIVED ASSETS, GOODWILL AND OTHER INTANGIBLE ASSETS

Through July 31, 2002, the Company recorded impairment charges as a result of management's ongoing business reviews and impairment analysis performed under its policy regarding impairment, utilizing the guidance in SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS No. 121). Where impairment indicators were identified, management evaluated whether the projected undiscounted cash flows were sufficient to cover the particular long-lived asset being reviewed. If the undiscounted cash flows were insufficient, management then determined the amount of the impairment charge by comparing the carrying value of long-lived assets to their fair value. Management determined fair value of goodwill and certain other intangible assets based on a combination of the discounted cash flow methodology, which was based upon converting expected cash flows to present value, and the market approach, which included analysis of market price multiples of companies engaged in lines of business similar to the Company. The market price multiples were selected and applied to the Company based on the relative performance, future prospects and risk profile of the Company in comparison to the guideline companies. Management predominantly utilized third-party valuation reports in its determination of fair value. Management predominantly determined fair value of other long-lived assets, such as property and equipment, based on third-party valuation reports.

On August 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under SFAS No. 144, the Company is required to test 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 will evaluate 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 will measure any impairment loss as the excess of the carrying amount of the long-lived asset or group over its fair value.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the statement. Other intangible assets will continue to be amortized over their useful lives. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Accordingly, the Company adopted SFAS No. 142 on August 1, 2002. 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 with 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.

Under the provisions of SFAS No. 142, the Company is required to perform transitional goodwill impairment tests as of August 1, 2002. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss resulting from the completion of the first step of the transitional goodwill impairment testing will be recognized as the cumulative effect of a change in accounting principle in the Company's condensed consolidated statements of operations.

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. Based on the provisions of the standard, the Company has determined that it has two reporting units for purposes of goodwill impairment testing. Additionally, the Company's policy will be to perform its annual impairment testing for all reporting units as of the fourth quarter of each fiscal year.

Following the adoption of SFAS No. 142, the Company completed the first step of the required transitional impairment test during the second quarter of 2003, based on the comparison of the fair value of the reporting unit with their respective carrying values as of August 1, 2002. The Company concluded that there was no impairment indicated as of August 1, 2002. As of August 1, 2002, the Company ceased the amortization of goodwill.

The changes in the carrying amount of goodwill for the six months ended January 31, 2003 are as follows:

| | eBusiness and Fulfillment Segment | Enterprise Software and Services Segment | Total |
|---|---|---|---|
| | | (in thousands) | |
| Balance as of July 31, 2002 | $ 22,123 | $ 2,218 | $ 24,341 |
| Goodwill written off related to sale of subsidiary | -- | (2,218) | (2,218) |
| Balance as of January 31, 2003 | $ 22,123 | -- | $ 22,123 |

The reconciliation of net income (loss) available to common stockholders before goodwill amortization expense, for the three and six months ended January 31, 2003 and 2002, is as follows:

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands, except per share amounts) | | | |
| Loss from continuing operations before extraordinary item as reported | $ (19,722) | $ (18,503) | $ (69,253) | $ (77,543) |
| Add back: goodwill amortization expense, net of tax | -- | 1,696 | -- | 3,392 |
| Adjusted loss from continuing operations before extraordinary item | $ (19,722) | $ (16,807) | $ (69,253) | $ (74,151) |
| Net income (loss) available to common stockholders as reported | $(183,266) | $ 78,297 | $(276,850) | $(148,397) |
| Add back: goodwill amortization expense, net of tax | -- | 1,696 | -- | 3,392 |
| Adjusted net income (loss) available to common stockholders | $(183,266) | $ 79,993 | $(276,850) | $(145,005) |
| Basic income (loss) per share from continuing operations before extraordinary item as reported | $ (0.05) | $ (0.05) | $ (0.18) | $ (0.21) |
| Add back: goodwill amortization expense, net of tax | -- | 0.01 | -- | 0.01 |
| Adjusted basic income (loss) per share from continuing operations before extraordinary item as reported | $ (0.05) | $ (0.04) | $ (0.18) | $ (0.20) |
| Diluted income (loss) per share from continuing operations before extraordinary item as reported | $ (0.05) | $ (0.05) | $ (0.18) | $ (0.21) |
| Add back: goodwill amortization expense, net of tax | -- | 0.01 | -- | 0.01 |
| Adjusted diluted income (loss) per share from continuing operations before extraordinary item as reported | $ (0.05) | $ (0.04) | $ (0.18) | $ (0.20) |
| Basic income (loss) per share available to common stockholders as reported | $ (0.47) | $ 0.20 | $ (0.71) | $ (0.40) |
| Add back: goodwill amortization expense, net of tax | -- | 0.01 | -- | -- |
| Adjusted basic income (loss) per share available to common stockholders | $ (0.47) | $ 0.21 | $ (0.71) | $ (0.40) |
| Diluted income (loss) per share available to common stockholders as reported | $ (0.47) | $ 0.20 | $ (0.71) | $ (0.40) |
| Add back: goodwill amortization expense, net of tax | -- | 0.01 | -- | -- |
| Adjusted diluted income (loss) per share available to common stockholders | $ (0.47) | $ 0.21 | $ (0.71) | $ (0.40) |

E. RESTRUCTURING CHARGES

The following tables summarize the activity in the restructuring accrual from July 31, 2002 through January 31, 2003:

| | Employee Related Expenses | Contractual Obligations | Asset Impairments | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| Accrued restructuring balance at July 31, 2002 | $ 421 | $ 23,362 | $ -- | $ 23,783 |
| Q1 Restructuring | 164 | 146 | -- | 310 |
| Cash payments | (168) | (8,131) | -- | (8,299) |
| Non-cash charges | -- | -- | -- | -- |

| | Employee Related Expenses | Contractual Obligations | Asset Impairments | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| Accrued restructuring balance at October 31, 2002 | 417 | 15,377 | -- | 15,794 |
| Q2 Restructuring | 96 | 3,830 | 6,256 | 10,182 |
| Restructuring adjustments | -- | (1,087) | -- | (1,087) |
| Cash payments | (513) | (5,441) | -- | (5,954) |
| Non-cash charges | -- | -- | (6,256) | (6,256) |
| Accrued restructuring balance at January 31, 2003 | $ -- | $ 12,679 | $ -- | $ 12,679 |

The Company anticipates that the remaining contractual obligation restructuring accruals will be paid by February 2007. The remaining contractual obligations primarily relate to facilities and equipment lease obligations.

The net restructuring charges (benefits) for the three and six months ended January 31, 2003 and 2002, respectively, would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | | |
| Cost of revenue | $ -- | $ (2,269) | $ -- | $(13,503) |
| Research and development | 30 | 75 | 48 | 112 |
| Selling | 14 | 206 | 90 | 420 |
| General and administrative | 9,051 | 1,627 | 9,267 | 3,747 |
| | $ 9,095 | $ (361) | $ 9,405 | $ (9,224) |

The Company's restructuring initiatives during the six months ended January 31, 2003 and 2002, respectively, involved strategic decisions to exit certain businesses and to reposition certain on-going businesses of the Company. Restructuring charges consisted primarily of contract terminations, severance charges and equipment charges incurred as a result of the cessation of operations of certain subsidiaries and actions taken at several remaining subsidiaries and at the Company's corporate headquarters to increase operational efficiencies, improve margins and further reduce expenses. Severance charges included employee termination costs as a result of workforce reductions. Employees affected by the restructurings were notified both through direct personal contact and by written notification. The contract terminations primarily consisted of costs to exit facility and equipment leases and to terminate bandwidth and other vendor contracts. The asset impairment charges primarily related to the write-off of property and equipment.

During the three months ended January 31, 2003, the Company recorded net restructuring charges of approximately $9.1 million. Of this amount, $5.0 million related to the recognition of the cumulative translation component of equity as a result of the substantial completion of the shutdown of the Company's European operations. The Company also recorded $1.2 million of restructuring charges related to the write-off of certain software related costs. In addition, the Company recorded additional facility lease obligation charges related to vacant office space in San Francisco, CA.

Also, during the three months ended January 31, 2003, the Company settled certain facility lease obligations related to its European operations for amounts less than originally anticipated and recorded a reduction of previously recorded restructuring estimates of approximately $1.1 million.

During the three months ended October 31, 2002, the Company recorded total restructuring charges of approximately $0.3 million. Of this amount, $0.15 million related to severance costs associated with a workforce reduction at the Company's majority owned subsidiary ProvisionSoft. Additionally, the Company recorded a restructuring charge of $0.16 million related to facility and equipment lease obligations that the Company assumed in connection with its sale of Equilibrium.

During the three months ended January 31, 2002, the Company recorded a net restructuring benefit of approximately ($0.3) million primarily at its corporate headquarters and MyWay. The restructuring charge incurred at the Company's headquarters, of approximately $2.9 million, related to severance costs from the termination of approximately 70 employees as well as the costs for the future rental obligations associated with office space located in San Francisco, CA. MyWay incurred restructuring expenses of $0.4 million related to the termination of certain customer and vendor contracts in connection with the cessation of its operations.

Also during the three months ended January 31, 2002, the Company settled certain vendor and customer contractual obligations for amounts less than originally anticipated and recorded a reduction of previously recorded restructuring estimates. These restructuring adjustments related to settlements negotiated by NaviPath and MyWay with their respective customers and vendors for amounts less than originally estimated.

During the three months ended October 31, 2001 the Company recorded a net restructuring benefit of approximately ($8.9) million. Of this amount, MyWay incurred approximately $5.9 million in restructuring charges primarily related to the write-off of property and equipment, as well as the termination of customer and vendor contracts. NaviPath incurred restructuring charges of approximately $4.1 million that primarily related to severance costs, legal, and other professional fees incurred in connection with the cessation of its operations. The Company also recorded approximately $2.2 million in restructuring charges related to the write-off of property and equipment, and costs to exit facility leases in Europe.

Also, during the three months ended October 31, 2001, the Company settled certain vendor and customer contractual obligations for amounts less than originally estimated. As a result, the Company recorded a restructuring adjustment of approximately $21.1 million to the accrued restructuring balance at July 31, 2001, primarily related to payments by NaviPath to terminate purchase commitments and service contracts for amounts less than originally estimated.

F. DISCONTINUED OPERATIONS AND DIVESTITURES

On August 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under the provisions of SFAS No. 144, certain disposal activities that previously did not qualify for discontinued operations accounting will now be required to be reported as discontinued operations. SFAS No. 144 requires that a disposal of a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the entity, shall be reported as discontinued operations if (a) the operations of the component have been or will be eliminated from the ongoing operations of the entity as a result of the disposition activity, and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

During the quarter ended January 31, 2003, the Company determined to divest of uBid either through the sale of its equity interests, or substantially all of uBid's assets and liabilities. It is expected that the Company will sign a definitive agreement in the near future.

On March 7, 2003, the Company sold all of its equity ownership interests in Tallan, Inc. to a group (the "Tallan Buyer") led by management of Tallan. Under the terms of the Transaction Agreement, the Company sold to the Tallan Buyer 100% of the issued and outstanding shares of Tallan. In consideration thereof, the Company received, among other things, (i) approximately $7.1 million in cash, (ii) a senior secured interest free promissory note due in March 2008 in the principal amount of $3.0 million made by the Tallan Buyer, and (iii) a warrant for the purchase of 9.0% of the issued and outstanding shares of Tallan common stock, as of the earlier of the date of first exercise or merger or sale of Tallan (on a fully diluted basis, giving effect to the exercise or conversion of the Tallan) at an exercise price of $.01 per share. In addition, Tallan agreed to pay to the Company up to an additional $5.0 million in earnout payments commencing in fiscal 2004 based on Tallan's acheivement of certain revenue thresholds.

On February 28, 2003, the Company sold all of its equity ownership interest in Yesmail, Inc. for approximately $5.0 million in cash, subject to certain adjustments and customary escrow arrangements.

On February 18, 2003, Overture Services, Inc. ("Overture"), and AltaVista Company, a majority-owned operating company of CMGI ("AltaVista"), signed a definitive agreement under which Overture will acquire AltaVista's business for approximately $140 million in cash and stock. Under the terms of the agreement, Overture will pay AltaVista in Overture common stock valued at approximately $80 million (provided that Overture will not be required to issue more than 4,274,670

shares or less than 3,001,364 shares), plus $60 million in cash, and will assume certain of AltaVista's liabilities. The transaction, which is subject to customary approvals and certain other conditions, is expected to close in April 2003.

The Company met the criteria specified in SFAS No. 144 in order to classify each of the above listed subsidiaries (disposal groups) as held for sale at January 31, 2003. With respect to each of these subsidiaries at January 31, 2003, management of the Company and the Board of Directors committed to a plan to sell such entity, such entity was available for immediate sale, an active program was initiated to locate a buyer, the Company believed that the sale of such entity was probable and would be completed within one year. Additionally, the Company was actively marketing each entity for sale at prices that were reasonable in relation to its current fair value, and the actions required to complete each plan indicated that it was unlikely that any of the plans would change significantly. Therefore, for all periods presented, uBid, which was previously included in the eBusiness and Fulfillment segment, and Tallan, Yesmail and AltaVista, which were previously included in the Enterprise Software and Services segment, have been classified as held-for-sale at January 31, 2003, and have been reported as discontinued operations in the condensed consolidated financial statements for all periods presented. The Company also plans to divest of its interests in ProvisionSoft. However, the held for sale criteria outlined above were not met by January 31, 2003.

On September 9, 2002, the Company sold all of its equity and debt ownership interests in Engage. Under the terms of the Transaction Agreement, CMGI transferred to Engage approximately 148.4 million shares of common stock of Engage held by CMGI, representing approximately 76% of the issued and outstanding shares of Engage, and cancelled approximately $60 million of debt, including all convertible debt, owed to CMGI by Engage. In consideration of the equity transfer and debt cancellation, Engage, among other things, (i) paid to CMGI $2.5 million in cash, (ii) agreed to pay to CMGI up to an additional $6.0 million, comprised of a senior secured promissory note due in September 2006 and earnout payments commencing in fiscal year 2004, and (iii) issued to CMGI a warrant for the purchase of up to 9.9% of the issued and outstanding shares of Engage common stock, as of the earlier of the date of first exercise or a merger or sale of Engage (on a fully diluted basis, giving effect to the exercise or conversion of all then outstanding convertible securities of Engage other than stock options issued to employees and directors of Engage), at an exercise price of $.048 per share. As a result of the divestiture, Engage, which was previously included within the Enterprise Software and Services segment, has been accounted for as a discontinued operation in accordance with the provisions of SFAS No. 144. Accordingly, Engage's operating results have been segregated from continuing operations and have been reported as discontinued operations in the accompanying condensed consolidated balance sheets and statements of operations and cash flows, and related notes to the condensed consolidated financial statements for all periods presented. The Company has recorded a loss on the disposal of Engage of approximately $16.6 million (which included a $2.8 million loss from discontinued operations and a $13.8 million loss on the sale).

On June 12, 2002 (the measurement date), CMGI's board of directors authorized the divestiture of the Company's equity and debt ownership interests in its subsidiary NaviSite. On September 11, 2002, the Company completed the sale of all its equity and debt ownership interests in its subsidiary, NaviSite to ClearBlue Technologies, Inc. ("ClearBlue"). In consideration thereof, the Company received, among other things, 131,579 shares of common stock of ClearBlue. On the measurement date, NaviSite comprised more than 90% of both the total assets and operating losses of the Managed Application Services segment and NaviSite's product offering represented both a major line of business and a distinct class of customer. As a result, during the fourth quarter of the Company's fiscal year ended July 31, 2002, the Company accounted for its divestiture of NaviSite as discontinued operations in accordance with the provisions of APB No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". At July 31, 2002, the Company expected to record a net gain in the first quarter of fiscal year 2003 on the sale of its debt and equity ownership interests in NaviSite. The estimated gain on the sale of NaviSite included the results of operations from the measurement date through the date of disposal. The results of operations of NaviSite from the measurement date through July 31, 2002 were deferred and reflected as deferred loss on disposal of subsidiary on the condensed consolidated balance sheet at July 31, 2002. NaviSite's operating results have been segregated from continuing operations and have been reported as discontinued operations in the accompanying condensed consolidated balance sheets and statements of operations and cash flows, and related notes to the condensed consolidated financial statements for all periods presented. During the six months ended January 31, 2003, the Company recorded a gain of approximately $2.3 million on the disposal of NaviSite. In December 2002, the Company received 213,437 shares of NaviSite Common Stock upon distribution from ClearBlue.

Summarized financial information for the discontinued operations of Yesmail, AltaVista, Tallan, uBid, Engage and NaviSite are as follows:

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | (in thousands) | | | |
| Results of operations: | | | | |
| Net revenue | $ 61,321 | $ 161,268 | $ 143,525 | $ 323,936 |

| | | | | |
|---|---|---|---|---|
| Total expenses | 224,865 | 258,843 | 336,782 | 587,275 |
| Net loss | (163,544) | (97,575) | (193,257) | (263,339) |
| Gain on sale of NaviSite | -- | -- | 2,291 | -- |
| Loss on sale of Engage | -- | -- | (16,631) | -- |
| Net loss from discontinued operations | $(163,544) | $ (97,575) | $(207,597) | $(263,339) |

| | January 31, 2003 | July 31, 2002 |
|---|---|---|
| | (in thousands) | |
| Financial position: | | |
| Current assets | $ 59,196 | $132,609 |
| Property and equipment, net | 14,650 | 34,351 |
| Other assets | 1,392 | 155,098 |
| Total liabilities | (54,792) | (155,489) |
| Net assets of discontinued operations | $ 20,446 | $166,569 |

On October 17, 2002, the Company sold all of its equity ownership interests in Equilibrium to a group (the "Buyer") led by the management of Equilibrium. Under the terms of the agreement, the Company sold to the Buyer 100% of the issued and outstanding shares of Equilibrium. In consideration thereof, the Company received, among other things, (i) a senior secured promissory note due in October 2005 in the principal amount of $1.5 million, (ii) a warrant for the purchase of 19.9% of the issued and outstanding shares of Equilibrium common stock, as of the earlier of the date of first exercise or a merger or sale of Equilibrium (on a fully diluted basis, giving effect to the exercise or conversion of all then outstanding convertible securities of Equilibrium), at an exercise price of $.01 per share, and (iii) a royalty-free, perpetual worldwide license to use Equilibrium's MediaRich software. As a result of the sale, the Company recorded a pre-tax loss of approximately $3.5 million. As a result of the terms of the warrant received, the disposition of Equilibrium does not qualify for discontinued operations reporting in accordance with SFAS No. 144.

On November 6, 2002, the Company entered into a Recapitalization Agreement with Signatures SNI, Inc. ("Signatures") in which Signatures paid the Company a total of $8.0 million to: (i) redeem all of the capital stock held by the Company; (ii) retire a portion of the outstanding principal balance on the promissory note held by the Company; and (iii) retire all of the outstanding accrued interest relating to the promissory note. In addition, the Company contributed the remaining promissory note principal balance to the capital of Signatures and cancelled the outstanding warrants. As a result of this transaction, during the six months ended January 31, 2003, the Company recorded a pre-tax loss of approximately $14.1 million.

G. SEGMENT INFORMATION

Based on the information provided to the Company's chief operating decision-maker for purposes of making decisions about allocating resources and assessing performance, the Company's operations have been classified in two operating segments offering distinctive products and services that are marketed through different channels: Enterprise Software and Services and eBusiness and Fulfillment.

In addition to its two current operating segments, the Company continues to report a Portals segment (that consists of the operations of MyWay and iCAST) and a Managed Application Services segment (that consists of the operations of NaviPath, ExchangePath, 1stUp, and Activate), 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 will continue to be reported in the Portals and

Managed Application Services segments, respectively, as will any residual results from operations that exist through the cessation of operations of these entities, each of which are in varying stages of being wound down.

Management evaluates segment performance based on segment net revenue, operating loss and "pro forma operating income (loss)", which is defined as the operating income (loss) excluding net charges related to in-process research and development, depreciation, long-lived asset impairment, restructuring and amortization of intangible assets and stock-based compensation.

"Other" includes certain corporate infrastructure expenses, which are not identifiable to the operations of the Company's operating business segments.

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

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | | (in thousands) | | |
| Net revenue: | | | | |
| Enterprise Software and Services | $ - | $ 393 | $ 227 | $ 704 |
| eBusiness and Fulfillment | 119,501 | 39,478 | 232,360 | 75,678 |
| Managed Application Services | 273 | 361 | 409 | 5,814 |
| Portals (formerly Search and Portals) | - | 3,512 | - | 6,325 |
| | $ 119,774 | $ 43,744 | $ 232,996 | $ 88,521 |
| Operating income (loss): | | | | |
| Enterprise Software and Services | $ (2,522) | $ (4,400) | $ (6,703) | $ (9,295) |
| eBusiness and Fulfillment | 1,761 | (714) | 2,043 | (950) |
| Managed Application Services | 264 | 1,300 | 400 | 2,109 |
| Portals (formerly Search and Portals) | 869 | 1,500 | 869 | (6,296) |
| Other | (17,898) | (15,147) | (33,251) | (28,989) |
| | $ (17,526) | $ (17,461) | $ (36,642) | $ (43,421) |
| Pro forma operating income (loss): | | | | |
| Enterprise Software and Services | $ (2,530) | $ (4,172) | $ (6,449) | $ (8,229) |
| eBusiness and Fulfillment | 3,149 | 1,077 | 4,890 | 2,331 |
| Managed Application Services | 288 | 500 | 424 | (13,112) |
| Portals (formerly Search and Portals) | 963 | 913 | 963 | (293) |
| Other | (6,991) | (8,595) | (20,845) | (18,462) |
| | $ (5,121) | $ (10,277) | $ (21,017) | $ (37,765) |

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | | (in thousands) | | |
| GAAP operating loss | $ (17,526) | $ (17,461) | $ (36,642) | $ (43,421) |
| Adjustments: | | | | |
| Depreciation | 3,232 | 3,466 | 6,087 | 9,051 |
| Impairment of long-lived assets | 24 | 2,328 | 24 | 2,328 |
| Restructuring (adjustments), net | 9,095 | (361) | 9,405 | (9,224) |
| Amortization of intangible assets and stock-based compensation | 54 | 1,751 | 109 | 3,501 |
| Pro forma operating loss | $ (5,121) | $ (10,277) | $ (21,017) | $ (37,765) |

H. EARNINGS PER SHARE

The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common stock equivalents is included in the calculation of diluted earnings per share only when the effect of the inclusion would be dilutive. Approximately 2.9 million weighted average common stock equivalents were excluded from the denominator in the diluted loss per share calculation for the three months ended January 31, 2003, as their inclusion would be antidilutive. Approximately 2.9 million and 4.6 million weighted average common stock equivalents were excluded from the denominator in the diluted loss per share calculation for the six months ended January 31, 2003 and 2002, respectively, as their inclusion would be antidilutive.

Approximately 9.8 million and 9.6 million shares representing the weighted average effect of assumed conversion of Series C Convertible Preferred Stock were excluded from the denominator in the diluted loss per share calculation for the three and six months ended January 31, 2002, respectively. These shares were repurchased in November 2001 (see note L).

If a subsidiary has dilutive stock options or warrants outstanding, diluted earnings per share is computed by first deducting from net income (loss) the income attributable to the potential exercise of the dilutive stock options or warrants of the subsidiary. The effect of income attributable to dilutive subsidiary stock equivalents was immaterial for the three and six months ended January 31, 2003 and 2002, respectively.

I. COMPREHENSIVE INCOME (LOSS)

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

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net income (loss) | $(183,266) | $ 15,203 | $(276,850) | $(209,601) |
| Net unrealized holding gain (loss) arising during the period | (1,852) | 6,113 | 3,991 | (27,987) |
| Reclassification adjustment for net realized (gains) losses included in net income (loss) | (4,333) | 3,489 | (4,133) | 13,044 |
| | (6,185) | 9,602 | (142) | (14,943) |
| Net unrealized foreign currency translation adjustment arising during the period | (5,090) | - | (5,174) | - |
| Reclassification adjustment for foreign currency translation adjustment included in net income (loss) | 5,040 | - | 5,040 | - |
| | (50) | - | (134) | - |
| Comprehensive income (loss) | $(189,501) | $ 24,805 | $(277,126) | $(224,544) |

The components of accumulated other comprehensive income (loss) as of January 31, 2003 and July 31, 2002 are as follows:

| | January 31, 2003 | January 31, 2002 |
|---|---|---|
| Net unrealized holding gains | $ 637 | $ 779 |
| Cumulative foreign currency translation adjustment | (134) | - |
| | $ 503 | $ 779 |

J. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL INFORMATION

| | Six Months Ended January 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in thousands) | |
| Cash paid during the period for: | | |
| Interest | $ 155 | $ 755 |

| | | |
|---|---|---|
| Income taxes | $ 130 | $ 772 |
| Cash received during the period for: | | |
| Federal income tax refund | $ -- | $13,975 |

During the six months ended January 31, 2003 significant non-cash financing activities included the following:

In December 2002, the Company fulfilled its obligation to deliver approximately 448.3 million shares of PCCW stock to the Holders (See note L). This obligation had been classified as notes payable on the Company's condensed consolidated balance sheet at July 31, 2002.

During the six months ended January 31, 2002, significant non-cash investing activities included the following transactions:

In August 2001, the Company settled the final tranche of the borrowing arrangement that hedged a portion of the Company's investment in the common stock of Yahoo! through the delivery of 581,499 shares of Yahoo! common stock.

In August 2001, the Company issued approximately 5.4 million shares of its common stock as payment for the first quarter fiscal 2002 interest on the Compaq Computer Corporation (Compaq), now Hewlett-Packard Company (HP), note payable.

In October 2001, the Company's affiliate, CMG@Ventures I, LLC, distributed approximately 1.7 million shares of Terra Networks, S.A. to certain of its profit members. In November 2001, the company's affiliates, CMG@Ventures I, LLC and CMG@Ventures II, LLC, distributed the following shares to certain of their respective profit members: approximately 1.2 million shares of Terra Networks stock, approximately 574,000 shares of Yahoo! common stock, approximately 257,000 shares of Vicinity Corporation common stock, approximately 178,000 shares of Kana Software, Inc. common stock, approximately 106,000 shares of NexPrise common stock, approximately 80,000 shares of Hollywood Entertainment common stock, approximately 66,000 shares of Critical Path, Inc. common stock, approximately 12,000 shares of PTEK Holdings, Inc. common stock and approximately 3,000 shares of MarchFirst, Inc. common stock. Certain portions of these distributions were made to David Wetherell, CMGI's Chairman and former Chief Executive Officer, in his capacity as a profit member of CMG@Ventures I, LLC and CMG@Ventures II, LLC. These distributions resulted in a reduction in "Other assets" and "Minority interest" in the accompanying condensed consolidated balance sheets.

In November 2001, the Company retired its $220.0 million in aggregate face amount of notes payable due to HP (See Note M).

Also in November 2001, the Company repurchased all of the outstanding shares of its Series C Convertible Preferred Stock (see Note L).

K. INVENTORIES

Inventories at January 31, 2003 and July 31, 2002 consisted of the following:

| | January 31, 2003 | July 31, 2002 |
|---|---|---|
| | (in thousands) | |
| Raw Materials | $24,660 | $24,276 |
| Work-in-process | 70 | 104 |
| Finished Goods | 10,830 | 7,797 |
| | $35,560 | $32,177 |

L. RETIREMENT OF SERIES C CONVERTIBLE PREFERRED STOCK

On June 29, 1999, CMGI completed a $375 million private placement of 375,000 shares of newly issued Series C Redeemable, Convertible Preferred Stock (Series C Preferred Stock). Each share of Series C Preferred Stock had a stated value of $1,000 per share. The Company paid a semi-annual dividend of 2% per annum, in arrears, on June 30 and December 30 of each year at the Company's option, in cash or through an adjustment to the liquidation preference of the Series C Preferred Stock. The Series C Preferred Stock was redeemable at the option of the holders upon the occurrence of certain events.

In November 2001, the Company repurchased all of the outstanding shares of its Series C Convertible Preferred Stock pursuant to privately negotiated stock exchange agreements with the holders of the Series C Preferred Stock (the "Holders"). Under these agreements, the Company repurchased all of the outstanding shares of its Series C Preferred Stock for aggregate consideration consisting of approximately $100.3 million in cash, approximately 34.7 million shares of the Company's common stock, and an obligation to deliver, no later than December 2, 2002, approximately 448.3 million shares of PCCW stock.

In addition, due to the delayed delivery obligation with respect to the PCCW shares, the Company agreed to make cash payments to the Holders, on the dates and in the aggregate amounts as follows: approximately $3.7 million on February 19, 2002, approximately $3.5 million on May 17, 2002, approximately $3.8 million on August 19, 2002, approximately $3.7 million on November 19, 2002 and approximately $0.5 million on December 2, 2002. The obligation to make payments would cease upon delivery of the PCCW shares and any payment due for the period during which the PCCW shares are delivered to the Holders would be reduced on a pro rata basis.

The carrying value of the consideration exchanged approximated fair market value at the date of the transaction. As a result, in November 2001, the Company reclassified its investment in PCCW shares from "Other assets" to "Trading security"in accordance with SFAS No. 115, and recorded the liability related to the obligation to deliver the PCCW stock as a current note payable, both of which were carried at market value. Changes in the fair value of the PCCW stock and the note payable were recorded in the condensed consolidated statements of operations as Other gains (losses), net and as adjustments to interest expense, respectively. The fair market value adjustment of the note payable for the six months ended January 31, 2003 was $6.3 million, and resulted in a $6.3 million decrease to interest expense, which was offset by a loss of $6.3 million on the fair value adjustment of the trading security which was included in Other gains (losses), net.

On November 19, 2002 and December 2, 2002, respectively, the Company made its final two cash interest payments to the Holders. In addition, on December 2, 2002, the Company fulfilled its obligation to deliver approximately 448.3 million shares of PCCW stock to the Holders. No gain or loss was recognized upon settlement.

M. Agreements with Hewlett-Packard Company

In November 2001, Hewlett-Packard, a significant stockholder of the Company (HP), agreed to deem the Company's $220.0 million in aggregate face amount of notes payable, plus the accrued interest thereon, paid in full in exchange for $75.0 million in cash, approximately 4.5 million shares of CMGI common stock and CMGI's 49% ownership interest in its affiliate, B2E Solutions, LLC, of which HP had previously owned the remaining 51%. As a result, the Company recorded an extraordinary gain of approximately $133.1 million related to the extinguishment of the Company's $220.0 million in face amounts notes payable to HP. The gain was calculated as the difference between the carrying value of the notes payable plus accrued interest thereon, less the carrying value of the consideration exchanged. The carrying value of the consideration approximated fair market value at the date of the transaction.

N. CONTINGENCIES

In December 1999, Neil Braun, a former officer of iCAST Corporation, a wholly owned subsidiary of the Company ("iCAST"), filed a complaint in United States District Court, Southern District of New York naming the Company, iCAST and David S. Wetherell as defendants. In the complaint, Mr. Braun alleged breach of contract regarding his termination from iCAST and claimed that he was entitled to acceleration of options to purchase CMGI common stock and iCAST common stock, upon his termination, under contract and promissory estoppel principles. Mr. Braun also claimed that, under quantum meruit principles, he was entitled to lost compensation. Mr. Braun sought damages of approximately $50 million and requested specific performance of the acceleration and exercise of options. In August 2001, the Court (i) granted summary judgment dismissing Mr. Wetherell as a defendant and (ii) granted summary judgment, disposing of Mr. Braun's contract claim. In February 2002, the Court granted summary judgment disposing of Mr. Braun's promissory estoppel claim. Trial on the quantum meruit claim was held in March 2002 and the jury returned a verdict in favor of Mr. Braun and against the Company in the amount of $113,482.24. As to iCAST, the jury found that Mr. Braun had not proven his claim. The Company filed a motion for directed verdict, which motion sought to set aside the jury verdict against the Company. Such motion was denied. In May 2002, Mr. Braun appealed the Court's dismissal of his contract and promissory estoppel claims against iCAST and the Company. On February 11, 2003, the United States Court of Appeals for the Second Circuit heard arguments on the appeal and took the case under advisement. No decision on the appeal has been received.

In August 2001, Jeffrey Black, a former employee of AltaVista, filed a complaint in Superior Court of the State of California (Santa Clara County) in his individual capacity as well as in his capacity as a trustee of two family trusts against the Company and AltaVista alleging certain claims arising out of the termination of Mr. Black's employment with AltaVista. As set forth in the complaint, Mr. Black is seeking monetary damages in excess of $70 million. In March 2002, the court ordered the entire case to binding arbitration in California. In June 2002, Mr. Black petitioned the California Court of Appeal for a writ prohibiting enforcement of the order compelling arbitration of his cause of action for wrongful termination in violation of public policy. In July 2002, the Court of Appeal denied Mr. Black's petition. In August 2002, Mr. Black submitted the matter to the American Arbitration Association. An arbitrator was appointed in January 2003 and an arbitration hearing is scheduled for August 2003. The Company and AltaVista each believes that these claims are without merit and plans to vigorously defend against these claims.

On January 28, 2002, Mark Nutritionals, Inc. ("MNI") filed suit against AltaVista in the United States District Court for the Western District of Texas, San Antonio Division. The claims against AltaVista include unfair competition and trademark infringement and dilution, under both federal law and the laws of the State of Texas. MNI is seeking compensatory damages in the amount of $10.0 million and punitive damages. AltaVista believes that these claims are without merit and plans to vigorously defend against these claims. AltaVista filed its answer on March 1, 2002, denying the allegations. MNI has filed for Chapter 11 bankruptcy protection. AltaVista is entitled to indemnification by a third party with respect to this matter.

On April 16, 2002, NCR Corporation filed a complaint in the United States District Court for the Northern District of Illinois against uBid. The complaint alleges that uBid has infringed four patents held by NCR and seeks unspecified monetary damages and injunctive relief. On May 28, 2002, uBid filed its answer to the complaint, denying the allegations and asserting counterclaims against NCR. On December 5, 2002, NCR amended the complaint to add four additional patents. On December 20, 2002, uBid filed its answer to the amended complaint, denying the allegations and asserting counterclaims against NCR. On January 30, 2003, the parties agreed to settle this matter on mutually agreeable terms. The Stipulation of Dismissal was filed on February 11, 2003 and was entered by the Court on March 4, 2003.

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

## 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.

### Basis of Presentation

The Company reports two current operating segments: (i) eBusiness and Fulfillment, and (ii) Enterprise Software and Services. As of January 31, 2003, ProvisionSoft was the only remaining subsidiary with continuing operations in the Enterprise Software and Services segment. The Company has announced its plans to divest of its interests in ProvisionSoft in the near future. Upon completion of the disposition of its interests in ProvisionSoft, the Company expects to experience declines in research and development expenses, selling expenses, and general and administrative expenses within the Enterprise Software and Services segment. The Other segment represents certain corporate cash and cash equivalents, available-for-sale and trading securities, certain other assets and liabilities, and marketing and administrative expenses and the Company's venture capital affiliates.

In addition to its two current operating segments, the Company continues to report a Portals segment (that consists of the operations of MyWay and iCAST) and a Managed Application Services segment (that consists of the operations of NaviPath, ExchangePath, 1stUp, and Activate), 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 will continue to be reported in the Portals and Managed Application Services segments, respectively, as will any residual results from operations that exist through the cessation of operations.

On September 9, 2002, the Company sold all of its equity and debt ownership interests in Engage. On September 11, 2002, the Company sold all of its equity and debt ownership interests in NaviSite, pursuant to a plan approved on June 12, 2002. On February 18, 2003, Overture and AltaVista signed a definitive agreement under which Overture will acquire AltaVista's business for approximately $140 million in cash and stock, and will assume certain of AltaVista's liabilities. Under the terms of the agreement, Overture will pay AltaVista in Overture common stock valued at approximately $80 million (provided that Overture will not be required to issue more than 4,274,670 shares or less than 3,001,364 shares), plus $60 million in cash, and will assume certain of AltaVista's liabilities. The transaction, which is subject to customary approvals and certain other conditions, is expected to close in April 2003. On February 28, 2003, the Company sold all of its equity ownership interests in Yesmail, Inc. On March 7, 2003, the Company sold all of its equity ownership interests in Tallan, Inc.

During the quarter ended January 31, 2003, the Company determined to divest of uBid either through the sale of equity interests or substantially all of uBid's assets and liabilities. It is expected that the Company will sign a definitive agreement in the near future.

As a result, for all periods presented, Engage, AltaVista, Yesmail and Tallan, which were previously included within the Enterprise Software and Services segment, uBid, which was previously included within the eBusiness and Fulfillment segment, and NaviSite, which was previously included within the Managed Application Services segment, have been accounted for as discontinued operations. Accordingly, the assets, liabilities and operating results of these companies have been segregated from continuing operations and reported as discontinued operations in the accompanying condensed consolidated balance sheet and statements of operations and cash flows, and related notes to the condensed consolidated financial statements for all periods presented.

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

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's subsidiaries.

Results of Operations

Three months ended January 31, 2003 compared to the three months ended January 31, 2002

Net Revenue:

| | Three Months Ended January 31, 2003 | As a % of Total Net Revenue | Three Months Ended January 31, 2002 | As a % of Total Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $ -- | -- | $ 393 | 1% | $ (393) | (100)% |
| eBusiness and Fulfillment | 119,501 | 100% | 39,478 | 90% | 80,023 | 203% |
| Managed Application Services | 273 | -- | 361 | 1% | (88) | (24)% |
| Portals | -- | -- | 3,512 | 8% | (3,512) | (100)% |
| Total | $119,774 | 100% | $ 43,744 | 100% | $ 76,030 | 174% |

The increase in net revenue for the three months ended January 31, 2003, as compared to the same period in the prior year, was the result of a 203% increase in net revenue within the eBusiness and Fulfillment segment, partially offset by decreased net revenues in the Enterprise Software and Services, Managed Application Services and Portals segments as a result of the divestiture and/or cessation of business operations within these segments.

The increase in net revenue within the eBusiness and Fulfillment segment was due to the net revenue contributions of SL Supply Chain Services International Corp. (SL Supply Chain) through which the Company acquired substantially all of the worldwide assets and operations of Software Logistics Corporation d/b/a iLogistix during the fourth quarter of fiscal year 2002. The increase in revenue resulting from the acquisition of iLogistix was partially offset by a decline in net revenue at SalesLink. Net revenue at SalesLink declined as compared to the same period in prior year, primarily due to volume declines in supply chain management services. These declines are largely the result of the continued difficult economic climate for many of the major OEMs that comprise a large part of the revenue base for SalesLink. Sales to one customer comprised approximately 73% of eBusiness and Fulfillment segment revenue for the three months ended January 31, 2003.

The decrease in net revenue within the Enterprise Software and Services segment was the result of the sale during the first quarter of fiscal 2003 of Equilibrium. The decrease in net revenue within the Managed Application Services segment was primarily due to the cessation of operations of NaviPath. The decrease in net revenue within the Portals segment was primarily due to the cessation of operations of MyWay during fiscal year 2002.

Cost of Revenue:

| | Three Months Ended January 31, 2003 | As a % of Total Net Revenue | Three Months Ended January 31, 2002 | As a % of Total Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $ -- | -- | $ (120) | (31)% | $ 120 | 100% |
| eBusiness and Fulfillment | 110,549 | 93% | 34,522 | 87% | 76,027 | 220% |
| Managed Application Services | -- | -- | 62 | 17% | (62) | (100)% |
| Portal | -- | -- | 1,657 | 47% | (1,657) | (100)% |
| Total | $110,549 | 92% | $ 36,121 | 83% | $ 74,428 | 206% |

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. The increase in cost of revenue for the three months ended January 31, 2003, as compared to the same period in the prior year, was attributable to the cost of revenue of the SL Supply Chain business, which the Company acquired during the fourth quarter of fiscal year 2002. The increase in cost of revenue from the acquisition of the SL Supply Chain business was partially offset by a reduced cost of revenue at SalesLink, due to volume declines in supply chain management services, and decreased cost of revenue as a result the Company's restructuring efforts, which included the sale or cessation of operations of several companies.

The Company's cost of revenue as a percentage of net revenue increased to approximately 92% for the three months ended January 31, 2003 from approximately 83% in the same period in the prior fiscal year. The increase in cost of revenue for the three months ended January 31, 2003, compared to the same period in fiscal 2002, is the result of both a 6% decrease in gross margins in the eBusiness and Fulfillment segment as well as the cessation of operations within

the higher-margin Managed Application Services and Portals segments.

Cost of revenue as a percentage of net revenue within the eBusiness and Fulfillment segment increased to approximately 93% for the three months ended January 31, 2003 from approximately 87% in the same period of the prior fiscal year, as a result of lower gross margins at SalesLink as well as the impact of the SL Supply Chain business, which has lower margins than the SalesLink business. During the three months ended January 31, 2003, SalesLink settled a royalty dispute for an amount less than originally estimated, which partially offset the increase in cost of revenue within the eBusiness and Fulfillment segment by approximately $1.0 million. The gross margins at SalesLink decreased primarily due to lower sales levels and reduced pricing of its services within the supply chain management and literature distribution businesses, respectively, and increased costs related to amortization associated with a new Enterprise Resource Planning (ERP) system.

The decrease in cost of revenue as a percentage of net revenue within the Managed Application Services segment was due to the cessation of operations of NaviPath during fiscal year 2002. The decrease in cost of revenue as a percentage of net revenue within the Portals segment was due to the cessation of operations of MyWay during fiscal year 2002.

Research and Development Expenses:

| | Three Months Ended January 31, 2003 | As a % of Total Net Revenue | Three Months Ended January 31, 2002 | As a % of Total Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $ 1,423 | -- | $ 1,901 | 484% | $ (478) | (25)% |
| Managed Application Services | 22 | 8% | -- | -- | 22 | -- |
| Portals | -- | -- | 548 | 16% | (548) | (100)% |
| Total | $ 1,445 | 1% | $ 2,449 | 6% | $(1,004) | (41)% |

Research and development expenses consist primarily of personnel and related costs to design, develop, enhance, test and deploy the Company's products and services either prior to the development efforts reaching technological feasibility or once the product had reached the maintenance phase of its life cycle. Research and development expenses are primarily related to the operations of the Company's ProvisionSoft subsidiary. Research and development expenses during the three months ended January 31, 2003 decreased compared to the same period in the prior fiscal year primarily due to the sale of the Company's ownership interests in Equilibrium during the first quarter of fiscal year 2003 and the cessation of operations at MyWay.

The decrease in research and development expenses within the Enterprise Software and Services segment during the three months ended January 31, 2003, as compared to the same period in the prior fiscal year, was primarily the result of the sale of Equilibrium during the first quarter of fiscal 2003. The decrease was partially offset by increased research and development expenses at ProvisionSoft due to increased personnel and related costs to design, develop and test ProvisionSoft's new software product. The decrease in research and development expense within the Portals segment was due to the cessation of operations of MyWay.

Selling Expenses:

| | Three Months Ended January 31, 2003 | As a % of Total Net Revenue | Three Months Ended January 31, 2002 | As a % of Total Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $667 | -- | $1,711 | 435% | $(1,044) | (61)% |
| eBusiness and Fulfillment | 1,019 | 1% | 592 | 1% | 427 | 72% |
| Managed Application Services | -- | -- | -- | -- | -- | -- |
| Portals | -- | -- | 252 | 7% | (252) | (100)% |
| Other | 1,174 | -- | 438 | -- | 736 | 168% |
| Total | $2,860 | 2% | $2,993 | 7% | $ (133) | (4)% |

Selling expenses consist primarily of advertising and other general marketing related expenses, compensation and employee-related expenses, sales commissions, facilities costs, and travel costs. Selling expenses decreased during the three months ended January 31, 2003, as compared to the same period in the prior fiscal year, by approximately 4%. The decrease was primarily due to headcount reductions, lower sales commissions as a result of lower net revenue, reductions in marketing campaigns, the cessation of operations at MyWay in fiscal 2002 and the sale of the Company's equity ownership interests in Equilibrium during the first quarter of fiscal 2003.

The decrease within the Enterprise Software and Services segment was primarily the result of the sale of the Company's equity ownership interests in Equilibrium. Selling expenses within the Enterprise Software and Services segment are primarily related to the operations of ProvisionSoft.

The increase in selling expenses within the eBusiness and Fulfillment segment was primarily attributable to the Company's acquisition of the SL Supply Chain business during the fourth quarter of fiscal year 2002. The acquisition resulted in increased headcount and personnel-related costs within the eBusiness and Fulfillment segment. The decrease in selling expense within the Portals segment was the result of the cessation of operations of MyWay.

Selling expense within the Other segment was primarily related to the Company's amended sponsorship arrangement with the New England Patriots, under which the Company receives certain limited marketing rights in exchange for a series of payments of $1.6 million per year beginning in January of 2003 and ending in July of 2015. During the three months ended January 31, 2003, approximately $0.7 million in interest and other costs were included in selling expenses related to this arrangement.

General and Administrative Expenses:

| | Three Months Ended January 31, 2003 | As a % of Segment Net Revenue | Three Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $ 378 | -- | $ 1,146 | 292% | $ (768) | (67)% |
| eBusiness and Fulfillment | 6,172 | 5% | 4,530 | 11% | 1,642 | 36% |
| Managed Application Services | (37) | (14)% | (201) | (56)% | 164 | 82% |
| Portals | (963) | -- | 583 | 17% | (1,546) | (265)% |
| Other | 7,723 | -- | 9,866 | -- | (2,143) | (22)% |
| Total | $13,273 | 11% | $15,924 | 36% | $(2,651) | (17)% |

General and administrative expenses consist primarily of compensation and other employee-related costs, facilities costs, bad debt expense, depreciation expense and fees for professional services. General and administrative expenses decreased by 17% during the three months ended January 31, 2003, as compared to the same period in the prior fiscal year. General and administrative expenses for the three months ended January 31, 2003 decreased primarily as a result of a reduction in headcount and related expenses at the Company's corporate headquarters, the sale of the Company's equity interests in Equilibrium during the first quarter of fiscal 2003, and the cessation of operations of MyWay within the Portals segment. The overall decrease in general and administrative expenses was partially offset by an increase in general and administrative expenses as a result of the Company's acquisition of the SL Supply Chain business during the fourth quarter of fiscal year 2002.

The decrease in general and administrative expenses within the Enterprise Software and Services segment was primarily the result of the sale of the Company's equity interests in Equilibrium. General and administrative expenses within the Enterprise Software and Services segment are primarily related to the operations of ProvisionSoft. The increase in general and administrative expenses within the eBusiness and Fulfillment segment was primarily attributable to the Company's acquisition of the SL Supply Chain business during the fourth quarter of fiscal year 2002.

The increase in general and administrative expenses in the Managed Application Services segment was due to the cessation of operations at NaviPath and the sale of Activate. The decrease in the general and administrative expenses within the Portals segment was the result of a benefit during fiscal 2003 of restructuring-related costs accrued during fiscal 2002 that were settled during fiscal 2003 for amounts less than originally estimated.

The general and administrative expenses within the Other segment primarily reflect the cost of the Company's directors and officers insurance, costs related to the Company's Corporate headquarters facility, and costs associated with maintaining certain of the Company's Information technology systems. General and administrative expenses also include certain corporate administrative functions such as legal, finance and business development which are not fully allocated to the Company's subsidiary companies. General and administrative expenses decreased compared to the same period in the prior fiscal year, primarily as a result of restructuring initiatives at the Company's corporate headquarters.

Amortization of Intangible Assets and Stock-Based Compensation:

| | Three Months Ended January 31, 2003 | As a % of Segment Net Revenue | Three Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $-- | -- | $1,148 | 292% | $(1,148) | (100)% |
| eBusiness and Fulfillment | -- | -- | 548 | 1% | (548) | (100)% |
| Other | 54 | -- | 55 | -- | (1) | (2)% |

| Total | $54 | -- | $1,751 | 4% | $(1,697) | (97)% |
| --- | --- | --- | --- | --- | --- | --- |
| | === | | ====== | | ======= | |

Amortization of intangible assets and stock-based compensation during the three months ended January 31, 2003 consisted primarily of amortization expense related to stock-based compensation expenses. Amortization of intangible assets and stock-

based compensation during the same period in the prior fiscal year consisted primarily of goodwill amortization expense related to acquisitions made by the Company during fiscal year 2000.

The overall decrease in amortization of intangible assets and stock-based compensation during the three months ended January 31, 2003, as compared to the same period in the prior fiscal year, was primarily the result of the Company's adoption of SFAS Nos. 141 and 142 on August 1, 2002. In accordance with the provisions of these statements, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to periodic impairment tests. Other intangible assets will continue to be amortized over their estimated useful lives. Amortization expense within the Enterprise Software and Services segment during the quarter ended January 31, 2002 related to goodwill amortization for Equilibrium, which was subsequently sold during the first quarter of fiscal 2003. Amortization expense within the eBusiness and Fulfillment segment during the quarter ended January 31, 2002 related to goodwill amortization for SalesLink.

Impairment of Long-Lived Assets:

| | Three Months Ended January 31, 2003 | As a % of Segment Net Revenue | Three Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| eBusiness and Fulfillment | $ -- | -- | $ -- | | $ -- | --% |
| Managed Application Services | 24 | 9% | -- | -- | 24 | 100% |
| Other | -- | -- | 2,328 | -- | (2,328) | (100)% |
| Total | $ 24 | -- | $2,328 | 5% | $(2,304) | (99)% |

During the three months ended January 31, 2003, the Company recorded approximately $24 thousand in impairment charges. During the three months ended January 31, 2002, the Company recorded impairment charges totaling approximately $2.3 million. The decrease in impairment charges in the first quarter of fiscal year 2003 as compared to the same period in the prior fiscal year entirely relates to impairment charges recorded during fiscal 2002 for the write-off of capitalized costs related to internally developed software, computer equipment, and furniture and fixtures at the Company's headquarters (see Note D).

Restructuring (adjustments), net:

| | Three Months Ended January 31, 2003 | As a % of Segment Net Revenue | Three Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $ 54 | -- | $ (993) | (253)% | $1,047 | 105% |
| Managed Application Services | -- | -- | (800) | (222)% | 800 | 100% |
| Portals | 94 | -- | (1,028) | (29)% | 1,122 | 109% |
| Other | 8,947 | -- | 2,460 | -- | 6,487 | 264% |
| Total | $9,095 | 8% | $ (361) | (1)% | $9,456 | 2,619% |

The Company's restructuring initiatives during the three months ended January 31, 2003 and 2002, respectively, involved strategic decisions to exit certain businesses, reposition certain on-going businesses, and to remove the Company's corporate infrastructure costs. Restructuring charges consisted primarily of contract terminations, severance charges and equipment charges incurred as a result of the cessation of operations of certain subsidiaries and actions taken at several remaining subsidiaries and at the Company's corporate headquarters to increase operational efficiencies, improve margins and further reduce expenses. Severance charges included employee termination costs as a result of workforce reductions. Employees affected by the restructurings were notified both through direct personal contact and by written notification. The contract terminations primarily consisted of costs to exit facility and equipment leases and to terminate bandwidth and other vendor contracts. The asset impairment charges primarily related to the write-off of equipment.

The Company expects to incur additional restructuring charges during the remainder of fiscal 2003 related to equipment and facility lease obligations as well as workforce reductions.

The restructuring charge incurred in the Other segment for the three months ended January 31, 2003 primarily relates to charges incurred at the Company's corporate headquarters for contract terminations related to costs to exit facility and equipment leases, the realization through operations of the cumulative foreign currency translation adjustment as a result of the completion of the liquidation and wind-down of our European subsidiary, and asset impairment costs related to the write-off of capitalized costs, principally internally developed software and idle equipment.

During the three months ended January 31, 2002, the restructuring benefit in the Enterprise Software and Services segment primarily related to the recovery of previously recorded restructuring charges incurred at ProvisionSoft. The restructuring benefit recorded by ProvisionSoft related to the early termination of equipment leases that were settled during the three months ended January 31, 2002 for amounts less than originally estimated.

During the three months ended January 31, 2002, the restructuring benefit in the Managed Application Services segment primarily related to a recovery of previously recorded restructuring charges at NaviPath. The restructuring benefit recorded related to the settlement by NaviPath during the three months ended January 31, 2002 of certain contractual purchase commitments, breakage fees and service contracts for amounts less than originally estimated.

During the three months ended January 31, 2002, the restructuring benefit in the Portals segment related to the settlement by MyWay of customer and vendor contracts for amounts less than originally estimated.

During the three months ended January 31, 2002, the restructuring charge in the Other segment primarily related to charges of approximately $2.5 million related to the write-off of property and equipment.

Other Income/Expense:

Interest income decreased $1.9 million to $0.8 million for the three months ended January 31, 2003 from $2.7 million for the same period in fiscal year 2002, reflecting decreased interest income associated with lower average cash and cash equivalent balances and lower interest rates in the first quarter of fiscal year 2003 as compared to the same period in the prior fiscal year.

Interest (expense) recovery, totalled $(25.7) million for the three months ended January 31, 2003 as compared to a net benefit of $13.5 million for the same period in fiscal year 2002. The expense is due to the unfavorable fair market value adjustment of approximately $24.7 million in the second quarter of fiscal 2003 related to the increase in value of the obligation to the former holders of the Series C Preferred Stock (the "Holders"). In connection with the repurchase of the outstanding shares of its Series C Preferred Stock in November 2001, the Company incurred an obligation to deliver approximately 448.3 million shares of its PCCW stock holdings to the Holders no later than December 2, 2002. During the three months ended January 31, 2003, the Company fulfilled its obligation to deliver approximately 448.3 million shares of PCCW to the Holders. Prior to the satisfaction of the obligation to deliver the shares, the Company had accounted for the 448.3 million shares of PCCW stock as a trading security and the liability related to the obligation to deliver the PCCW stock as a current note payable, both of which were carried at market value. Changes in the fair value of the PCCW stock and the note payable have been recorded in the condensed consolidated statements of operations as Other gains (losses), net and as adjustments to interest expense, respectively. The fair market value adjustment of the note payable through January 31, 2003 resulted in a $24.7 million increase to interest expense, offset by a gain of $24.7 million on the fair value adjustment of the trading security, which was included in Other gains (losses), net.

For the three months ended January 31, 2002, the interest (expense) recovery, net, of $13.5 million was primarily due to a favorable fair market value adjustment of approximately $16.7 million related to the decrease in value of the obligation to the former holders of the Series C Preferred Stock and the retirement of the notes payable to Hewlett Packard Company (HP) in November 2001. These decreases were offset slightly by interest expense resulting from the obligation to the former holders of the Series C Preferred Stock.

Other gains (losses), net, totaled $23.5 million for the three months ended January 31, 2003 as compared to a net loss of $(17.9) million in the same period of the prior fiscal year. Other gains (losses), net, for the three months ended January 31, 2003 primarily consisted of a pre-tax gain of approximately $24.7 million related to the fair value adjustment on the Company's trading security PCCW, a pre-tax gain of approximately $7.4 million from proceeds received in the acquisition of Vicinity by Microsoft, partially offset by a $7.9 million loss on impairment of certain investments in affiliates.

For the three months end January 31, 2002, other losses was primarily comprised of a $(3.5) million loss on marketable securities, a $(15.5) million loss on impairment of investments in affiliates, offset by a $2.9 million gain on the mark-for-market adjustment for trading security.

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 losses and amortization of the Company's net excess investment over its equity in each affiliate's net assets is included in equity in losses of affiliates. Equity in losses of affiliates decreased $0.7 million to $0.4 million for the three months ended January 31, 2003, from $1.1 million for the same period in fiscal year 2002, primarily reflecting a decreased number of investments accounted for under the equity method as compared to the same period in the prior fiscal year. The Company expects its affiliate companies to continue to invest in the development of their products and services, and to recognize operating losses, which will result in future charges recorded by the Company to reflect its proportionate share of such losses.

Minority interest was $0.3 million for the three months ended January 31, 2003, as compared to $0.02 million in the same period in the prior fiscal year. Minority interest for three months ended January 31, 2003 reflects the minority interest related to ProvisionSoft's results of operations during that period.

Income Tax Expense:

Income tax expense recorded for the three months ended January 31, 2003 was $0.7 million. Exclusive of taxes provided for significant, unusual or extraordinary items that will be reported separately, the Company provides for income taxes on a year to date basis at an effective rate based upon its estimate of full year earnings. Income tax expense in the second quarter of fiscal year 2003 differs from the amount computed by applying the U.S. federal income tax rate of 35 percent to pre-tax loss, primarily as a result of non-deductible intangible asset and stock-based compensation amortization and valuation allowances recognized on deferred tax assets. The income tax expense recorded includes a provision for foreign taxes associated with the Company's operations outside of the United States.

Results of Operations

Six months ended January 31, 2003 compared to the six months ended January 31, 2002

Net Revenue:

| | Six Months Ended January 31, 2003 | As a % of Segment Net Revenue | Six Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $ 227 | -- | $ 704 | 1% | $ (477) | (68)% |
| eBusiness and Fulfillment | 232,360 | 100% | 75,678 | 85% | 156,682 | 207% |
| Managed Application Services | 409 | -- | 5,814 | 7% | (5,405) | (93)% |
| Portals | -- | -- | 6,325 | 7% | (6,325) | (100)% |
| Total | $232,996 | 100% | $88,521 | 100% | $144,475 | 163% |

The increase in net revenue for the six months ended January 31, 2003, as compared to the same period in the prior year, was the result of a 207% increase in net revenue within the eBusiness and Fulfillment segment, partially offset by decreased net revenues in the Enterprise Software and Services, Managed Application Services and Portals segments, which was the result of the divestiture and/or cessation of business operations within these segments.

The increase in net revenue within the eBusiness and Fulfillment segment was due to the net revenue contributions of SL Supply Chain Services International Corp. (SL Supply Chain), through which the Company acquired substantially all of the worldwide assets and operations of Software Logistics Corporation d/b/a iLogistix during the fourth quarter of fiscal year 2002. The increase in revenue resulting from the acquisition of iLogistix was partially offset by a decline in net revenue at SalesLink. Net revenue at SalesLink declined as compared to the same period in prior year, primarily due to volume declines in supply chain management services. These declines are largely the result of the continued difficult economic climate for many of the major OEMs that comprise a large part of the revenue base for SalesLink. Sales to one customer comprised approximately 71% of eBusiness and Fulfillment segment revenue for the six months ended January 31, 2003.

The decrease in net revenue within the Enterprise Software and Services

segment was the result of the sale during the first quarter of fiscal 2003 of all equity ownership interests in Equilibrium. The decrease in net revenue within the Managed

Application Services segment was primarily due to the cessation of operations of NaviPath The decrease in net revenue within the Portals segment was due to the cessation of operations of MyWay during fiscal year 2002.

Cost of Revenue:

| | Six Months Ended January 31, 2003 | As a % of Segment Net Revenue | Six Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $ 15 | 7% | $ (68) | -- | $ 83 | 122% |
| eBusiness and Fulfillment | 214,897 | 92% | 65,330 | 86% | 149,567 | 229% |
| Managed Application Services | -- | -- | 15,563 | 268% | (15,563) | (100)% |
| Portal | -- | -- | 3,985 | 63% | (3,985) | (100)% |
| Total | $214,912 | 92% | $84,810 | 96% | $130,102 | 153% |

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. The increase in cost of revenue for the six months ended January 31, 2003, as compared to the same period in the prior year, was attributable to the cost of revenue of the SL Supply Chain business, which the Company acquired during the fourth quarter of fiscal year 2002. The increase in cost of revenue from the SL Supply Chain acquisition was partially offset by a reduced cost of revenue at SalesLink due to volume declines in supply chain management services, and decreased cost of revenue as a result the Company's restructuring efforts, which included the sale or cessation of operations of several companies, and actions taken to increase operational efficiencies, improve margins and further reduce expenses. The remainder of the offset was primarily the result of a cessation of operations of NaviPath and MyWay and the sale of Activate during fiscal 2002.

The Company's cost of revenue as a percentage of net revenue decreased to approximately 92% for the six months ended January 31, 2003 from approximately 96% in the same period in the prior fiscal year.

Cost of revenue as a percentage of net revenue within the eBusiness and Fulfillment segment increased to approximately 92% for the six months ended January 31, 2003 from approximately 86% in the same period of the prior fiscal year, as a result of both lower gross margins at SalesLink as well as the impact of the low margin SL Supply Chain business, which the Company acquired during the fourth quarter of fiscal year 2002. During the six months ended January 31, 2003, the Company settled a royalty dispute for an amount less than originally estimated, which partially offset the increase in cost of revenue within the eBusiness and Fulfillment segment by approximately $1.0 million. The gross margins at SalesLink decreased primarily due to lower sales levels and reduced pricing of its services within the supply chain management and literature distribution businesses, respectively, and increased costs related to amortization associated with a new Enterprise Resource Planning (ERP) system.

The decrease in cost of revenue as a percentage of net revenue within the Managed Application Services segment was due to the cessation of operations of NaviPath, and the sale of Activate in the first quarter of fiscal year 2002. The decrease in cost of revenue as a percentage of net revenue within the Portals segment was due to the cessation of operations of MyWay during fiscal year 2002.

Research and Development Expenses:

| | Six Months Ended January 31, 2003 | As a % of Segment Net Revenue | Six Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $3,477 | 1,532% | $3,510 | 499% | $ (33) | (1)% |
| eBusiness and Fulfillment | -- | -- | 507 | 1% | (507) | (100)% |
| Managed Application Services | 22 | 5% | -- | -- | 22 | 100% |
| Portals | -- | -- | 1,694 | 27% | (1,694) | (100)% |
| Total | $3,499 | 2% | $5,711 | 6% | $(2,212) | (39)% |

Research and development expenses consist primarily of personnel and related costs to design, develop, enhance, test and deploy the Company's products and services either prior to the development efforts reaching technological feasibility or once the product had reached the maintenance phase of its life cycle. Research and development expenses are primarily related to the operations of the Company's ProvisionSoft subsidiary. Research and

development expenses for the six months ended January 31, 2003 decreased as compared to the same period during the prior year, primarily due to the sale of the Company's ownership interests in Equilibrium during the first quarter of fiscal year 2003 and the cessation of operations at MyWay.

The decrease in research and development expenses within the Enterprise Software and Services segment during the six months ended January 31, 2003, as compared to the same period in the prior fiscal year, was primarily the result of the sale of Equilibrium during the first quarter of fiscal 2003. The decrease in research and development expense within the Portals segment was due to the cessation of operations of MyWay. This decrease was partially offset by an increase in research and development expenses at ProvisionSoft due to increased personnel and related costs to design, develop and test ProvisionSoft's new software product.

Selling Expenses:

| | Six Months Ended January 31, 2003 | As a % of Segment Net Revenue | Six Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $2,242 | 988% | $3,216 | 457% | $ (974) | (30)% |
| eBusiness and Fulfillment | 1,929 | 1% | 1,145 | 2% | 784 | 68% |
| Managed Application Services | -- | -- | 1,128 | 19% | (1,128) | (100)% |
| Portals | -- | -- | 837 | 13% | (837) | (100)% |
| Other | 1,887 | -- | 1,198 | -- | 689 | 58% |
| Total | $6,058 | 3% | $7,524 | 8% | $(1,466) | (19)% |

Selling expenses consist primarily of advertising and other general marketing related expenses, compensation and employee-related expenses, sales commissions, facilities costs, and travel costs. Selling expenses decreased during the six months ended January 31, 2003, as compared to the same period in the prior fiscal year by approximately 19%. The decrease was primarily due to the cessation of operations at NaviPath and MyWay and the sale of Activate in fiscal 2002 and the sale of the Company's equity ownership interests in Equilibrium during the first quarter of fiscal 2003, partially offset by higher selling expenses at ProvisionSoft and the Company's corporate location.

The decrease within the Enterprise Software and Services segment was primarily the result of the sale of the Company's equity ownership interests in Equilibrium. Selling expenses within the Enterprise Software and Services segment are primarily related to the operations of ProvisionSoft.

The increase in selling expenses within the eBusiness and Fulfillment segment was primarily attributable to the Company's acquisition of the SL Supply Chain business during the fourth quarter of fiscal year 2002. The acquisition resulted in increased headcount and personnel-related costs within the eBusiness and Fulfillment segment. The decrease in selling expenses within the Managed Application Services segment was the result of the cessation of operations of NaviPath and the sale of Activate. The decrease in selling expense within the Portals segment was the result of the cessation of operations of MyWay.

Selling expense within the Other segment was primarily related to the Company's amended sponsorship arrangement with the New England Patriots, under which the Company receives certain limited marketing rights in exchange for a series of payments of $1.6 million per year beginning in January of 2003 and ending in July of 2015. During the six months ended January 31, 2003, approximately $1.7 million in interest and other costs were included in selling expenses with respect to this arrangement.

General and Administrative Expenses:

| | Six Months Ended January 31, 2003 | As a % of Segment Net Revenue | Six Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $ 997 | 439% | $ 2,407 | 342% | $(1,410) | (59)% |
| eBusiness and Fulfillment | 13,491 | 6% | 9,057 | 12% | 4,434 | 49% |
| Managed Application Services | (37) | (9)% | 3,972 | 68% | (4,009) | (101)% |
| Portals | (963) | -- | 1,188 | 19% | (2,151) | (181)% |
| Other | 22,143 | -- | 20,668 | -- | 1,475 | 7% |
| Total | $35,631 | 15% | $37,292 | 42% | $(1,661) | (4)% |

General and administrative expenses consist primarily of compensation and other employee-related costs, facilities costs, bad debt expense, depreciation expense and fees for professional services. General and administrative expenses decreased by 4% for the six months ended January 31, 2003, as compared to the same period in the prior fiscal year. General and administrative expenses for the six months ended January 31, 2003 decreased as a result of the sale of Activate in fiscal 2002, the sale of the Company's equity interests in Equilibrium during the first quarter of fiscal 2003, and the cessation of operations of NaviPath with the Managed Application Services segment and MyWay within the Portals segment. The overall decrease in general and administrative expenses was partially offset by an increase in general and administrative expenses as a result of the Company's acquisition of the SL Supply Chain business during the fourth quarter of fiscal year 2002.

The decrease in general and administrative expenses within the Enterprise Software and Services segment was primarily the result of the sale of the Company's equity interests in Equilibrium. General and administrative expenses within the Enterprise Software and Services segment are primarily related to the operations of ProvisionSoft. The increase in general and administrative expenses within the eBusiness and Fulfillment segment was primarily attributable to the Company's acquisition of the SL Supply Chain business during the fourth quarter of fiscal year 2002.

The decrease in general and administrative expenses in the Managed Application Services segment was due to the cessation of operations at NaviPath and the sale of Activate. The decrease in the general and administrative expenses within the Portals segment was the result of the cessation of operations of MyWay. The results for the six months ended January 31, 2003 include the impact of a reversal of $1.0 million in general and administrative expenses due to the settlement of certain contractual obligations of MyWay at amounts less than originally anticipated.

The general and administrative expenses within the Other segment primarily reflect the cost of the Company's directors and officers insurance, costs related to the Company's Corporate headquarters facility, and costs associated with maintaining certain of the Company's Information technology systems. General and administrative expenses also include certain corporate administrative functions such as legal, finance and business development which are not fully allocated to the Company's subsidiary companies. General and administrative expenses increased compared to the same period in the prior fiscal year, primarily as a result of a charge recorded for an executory contract for leased office space for which no future economic benefit is expected.

Amortization of Intangible Assets and Stock-Based Compensation:

| | Six Months Ended January 31, 2003 | As a % of Segment Net Revenue | Six Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $ -- | -- | $2,296 | 326% | $(2,296) | (100)% |
| eBusiness and Fulfillment | -- | -- | 1,096 | 1% | (1,096) | (100)% |
| Other | 109 | -- | 109 | -- | -- | -- |
| Total | $109 | -- | $3,501 | 4% | $(3,392) | (97)% |

Amortization of intangible assets and stock-based compensation during the six months ended January 31, 2003 consisted primarily of amortization expense related to stock-based compensation expenses. Amortization of intangible assets and stock-based compensation during the same period in the prior fiscal year consisted primarily of goodwill amortization expense related to acquisitions made by the Company during fiscal year 2000. Included within amortization of intangible assets and stock-based compensation expenses was approximately $0.1 million of stock-based compensation for the six months ended January 31, 2003 and January 31, 2002.

The overall decrease in amortization of intangible assets and stock-based compensation during the six months ended January 31, 2003, as compared to the same period in the prior fiscal year, was primarily the result of the Company's adoption of SFAS Nos. 141 and 142. In accordance with the provisions of these statements, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized as of August 1, 2002 but will be subject to periodic impairment tests. Other intangible assets will continue to be amortized over their estimated useful lives.

The decrease in amortization of intangible assets and stock-based compensation within the Enterprise Software and Services segment during the six months ended January 31, 2003, as compared to the same period in the prior fiscal year, was primarily the result of the adoption of SFAS Nos. 141 and 142, which requires that goodwill and indefinite lived intangible assets no longer be amortized, but rather periodically tested for impairment. As a result of adoption of SFAS Nos. 141 and 142, during the six months ended January 31, 2003 there was no amortization of intangible assets with indefinite lives. Amortization of intangible assets during the same period in the prior fiscal year related to goodwill amortization for Equilibrium, which was sold during the first quarter of fiscal 2003.

Amortization of intangible assets in the eBusiness and Fulfillment segment in the prior fiscal year related to goodwill amortization for SalesLink.

Impairment of Long-Lived Assets:

| | Six Months Ended January 31, 2003 | As a % of Segment Net Revenue | Six Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Managed Application Services | $24 | 6% | $ -- | -- | $ 24 | 100% |
| Other | -- | -- | 2,328 | -- | (2,328) | (100)% |
| Total | $24 | -- | $2,328 | 3% | $(2,304) | (99)% |

During the six months ended January 31, 2003, the Company recorded approximately $.02 million in impairment charges. During the six months ended January 31, 2002, the Company recorded impairment charges totaling approximately $2.3 million. The decrease in impairment charges during the six months ended January 31, 2003 as compared to the same period in the prior fiscal year relates to impairment charges recorded during fiscal 2002 for the write-off of capitalized costs related to internally developed software, computer equipment and furniture and fixtures at the Company's corporate headquarters (See Note D).

Restructuring (adjustments), net:

| | Six Months Ended January 31, 2003 | As a % of Segment Net Revenue | Six Months Ended January 31, 2002 | As a % of Segment Net Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Enterprise Software and Services | $ 199 | 88% | $(1,362) | (193)% | $ 1,561 | 115% |
| Managed Application Services | -- | -- | (17,465) | (300)% | 17,465 | 100% |
| Portals | 94 | -- | 4,917 | 78% | (4,823) | (98)% |
| Other | 9,112 | -- | 4,686 | -- | 4,426 | 94% |
| Total | $9,405 | 4% | $(9,224) | (10)% | $18,629 | 202% |

The Company's restructuring initiatives during the six months ended January 31, 2003 and 2002, respectively, involved strategic decisions to exit certain businesses and to reposition certain on-going businesses of the Company. Restructuring charges consisted primarily of contract terminations, severance charges and equipment charges incurred as a result of the cessation of operations of certain subsidiaries and actions taken at several remaining subsidiaries to increase operational efficiencies, improve margins and further reduce expenses. Severance charges included employee termination costs as a result of workforce reductions. Employees affected by the restructurings were notified both through direct personal contact and by written notification. The contract terminations primarily consisted of costs to exit facility and equipment leases and to terminate bandwidth and other vendor contracts. The asset impairment charges primarily related to the write-off of equipment.

The Company expects to incur additional restructuring charges during the remainder of fiscal 2003 for costs related to the early termination of equipment leases, further reductions in workforce, and the disposition of excess and idle equipment.

During the six months ended January 31, 2003, the restructuring charge in the Enterprise Software and Services segment primarily relates to costs incurred for severance charges at ProvisionSoft. During the six months ended January 31, 2003, the restructuring charge in the Portals segment relates to cessation of operations of MyWay and iCast. The restructuring charge incurred at the Other segment for the three months ended January 31, 2003 primarily relates to charges incurred at the Company's corporate headquarters for contract terminations related to costs to exit facility and equipment leases, the realization through operations of the cumulative foreign currency translation adjustment as a result of the completion of the liquidation and wind-down of our European subsidiary, and asset impairment costs related to the write-off of capitalized costs, internally developed software and equipment.

During the six months ended January 31, 2002, the restructuring benefit in the Enterprise Software and Services segment primarily related to the reversal of restructuring costs recorded during fiscal 2002. The restructuring benefit recorded by ProvisionSoft related to the early termination of equipment leases that were settled for amounts less than originally estimated.

During the six months ended January 31, 2002, the restructuring benefit in the Managed Application Services segment primarily related to charges of approximately $0.5 million recorded by Activate and 1stUp, offset by a net reversal of approximately $18.0 million of previously recorded restructuring charges at NaviPath. The $0.5 million restructuring charge recorded by Activate and 1stUp during the six months ended January 31, 2002 primarily related to severance costs and legal and other professional fees incurred in connection with the cessation of operations. The restructuring benefit recorded by NaviPath related to the settlement by NaviPath of certain contractual purchase commitments, breakage fees and service contracts for amounts less than originally estimated.

During the six months ended January 31, 2002, the restructuring charge in the Portals segment related to charges at MyWay for the write-off of property and equipment and the termination of customer and vendor contracts during the first quarter of fiscal 2002. During the six months ended January 31, 2002, the restructuring charge in the Other segment primarily related to charges for the write-off of property and equipment and costs incurred to exit facility leases in Europe and severance costs related to the termination of employees at the Company's headquarters.

Other Income/Expense:

Interest income decreased $6.6 million to $2.1 million for the six months ended January 31, 2003 from $8.7 million for the same period in fiscal year 2002, reflecting decreased interest income associated with lower average cash and cash equivalent balances and lower interest rates in the first six months of fiscal year 2003 as compared to the same period in the prior fiscal year.

Interest (expense) recovery net, totalled $1.2 million for the six months ended January 31, 2003 as compared to a net recovery of $7.1 million for the same period in fiscal year 2002. The recovery is due to a favorable net fair market value adjustment of approximately $6.3 million during the six months ended January 31, 2003, related to the decrease in value of the obligation to the former holders of the Series C Preferred Stock (the "Holders"). In connection with the repurchase of the outstanding shares of its Series C Preferred Stock in November 2001, the Company incurred an obligation to deliver approximately 448.3 million shares of its PCCW stock holdings to the Holders no later than December 2, 2002. On December 2, 2002 the Company fulfilled its obligation to deliver approximately 448.3 million shares of PCCW stock to the Holders. Prior to the satisfaction of the obligation to the deliver the shares, the Company had accounted for the 448.3 million shares of PCCW stock as a trading security and the liability related to the obligation to deliver the PCCW stock as a current note payable, both of which were carried at market value. Changes in the fair value of the PCCW stock and the note payable were recorded in the condensed consolidated statements of operations as Other gains (losses), net and as adjustments to interest expense, respectively. The fair market value adjustment of the note payable for the six months ended January 31, 2003 resulted in a $6.3 million decrease to interest expense, which was offset by a loss of $6.3 million on the fair value adjustment of the trading security, which was included in Other gains (losses), net. Additionally, the settlement of the underlying debt associated with the Company's borrowing arrangement entered into in connection with a hedge of the Company's investment in Yahoo! common stock occurred during the first quarter of fiscal year 2002.

Other gains (losses), net, totalled $(31.4) million for the six months ended January 31, 2003 as compared to a loss of $(25.7) million in the same period in the prior fiscal year. Other gains (losses), net for the six months ended January 31, 2003 primarily consisted of a pre-tax loss of approximately $6.3 million related to the fair value adjustment on the Company's trading security PCCW, a pre-tax gain of approximately $7.4 million from the proceeds received in the acquisition of Vicinity by Microsoft, a pre-tax loss of approximately $14.1 million from the divestiture of the Company's debt and equity interests in Signatures SNI, Inc., a pre-tax loss of approximately $14.1 million related to impairment charges for other-than-temporary declines in the carrying value of certain investments in affiliates, and a pre-tax loss of approximately $3.5 million on the Company's sale of its majority-owned subsidiary Equilibrium. Other gains (losses), net, of $(25.7) million for the six months ended January 31, 2002, primarily consisted of a loss of approximately $27.5 million on the sale of Primedia, Inc. stock, a loss of approximately $20.7 million resulting from the sale of its subsidiary Activate and a loss of approximately $27.0 million related to impairment charges for other-than-temporary declines in the carrying value of certain investments in affiliates, offset by a pre-tax gain of approximately $53.9 million on the arrangement that hedged the Company's investment in Yahoo! common stock which was settled during the six months ended January 31, 2002.

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 losses and amortization of the Company's net excess investment over its equity in each affiliate's net assets is included in equity in losses of affiliates. Equity in losses of affiliates decreased $12.5 million to $0.9 million for the six months ended January 31, 2003, from $13.4 million for the same period in fiscal year 2002, primarily reflecting a decreased number of investments accounted for under the equity method as compared to the same period in the prior fiscal year. The Company expects its affiliate companies to continue to invest in the development of their products and services, and to recognize operating losses, which will result in future charges recorded by the Company to reflect its proportionate share of such losses.

Minority interest was $(2.0) million for the six months ended January 31, 2003, compared to $(0.05) million in the same period in the prior fiscal year. Minority interest for the six months ended January 31, 2003 primarily reflects the minority interest related to ProvisionSoft's results of operations during that period.

Income Tax Expense:

Income tax expense recorded for the six months ended January 31, 2003 was $1.6 million. Exclusive of taxes provided for significant, unusual or extraordinary items that will be reported separately, the Company provides for income taxes on a year to date basis at an effective rate based upon its estimate of full year earnings. Income tax expense for the six months of fiscal year 2003 differs from the amount computed by applying the U.S. federal income tax rate of 35 percent to pre-tax loss, primarily as a result of non-deductible intangible asset and stock-based compensation amortization and valuation allowances recognized on deferred tax assets. The income tax recorded includes a provision for foreign taxes associated with the Company's operations outside of the United States.

Discontinued Operations:

During the six months ended January 31, 2003, the Company determined to divest of uBid either through the sale of its equity interests, or substantially all of uBid's assets and liabilities. It is expected that the Company will sign a definitive agreement in the near future. Accordingly, the Company has reported uBid as a discontinued operation at January 31, 2003. The Company recorded a loss from discontinued operations related to uBid of approximately $130.0 million, of which $96.7 million related to the impairment of goodwill and long-lived assets. On March 7, 2003 and February 28, 2003, respectively, the Company sold all of its equity interests in Tallan, Inc. and Yesmail, Inc. and on February 18, 2003 a definitive agreement was signed under which Overture will acquire AltaVista's business. As a result, each of these entities has been reported as discontinued operations at January 31, 2003. The Company recorded losses on discontinued operations related to Tallan of approximately $39.8 million, of which approximately $32.1 million related to impairment of goodwill, fixed assets, and other assets. The Company recorded losses on discontinued operations related to Yesmail of approximately $11.8 million, of which approximately $7.4 million related to the impairment of goodwill. The Company recorded losses on discontinued operations of $10.7 million related to AltaVista.

## Liquidity and Capital Resources

Working capital at January 31, 2003 decreased to approximately $104.5 million compared to $203.9 million at July 31, 2002. At January 31, 2003, working capital included approximately $6.1 million of working capital attributable to discontinued operations. The remainder of the net decrease in working capital is primarily attributable to a $40.4 million decrease in cash and cash equivalents. The Company's principal sources of capital during the six months ended January 31, 2003 related to $15.4 million in proceeds that the Company received in the acquisition of Vicinity by Microsoft, and $8.0 million of proceeds that the Company received from the sale of its equity and debt interests in Signatures. The Company's principal uses of capital during the six months ended January 31, 2003 were for funding continuing operations. In addition, the Company used approximately $6.0 million during the period for the purchase of property and equipment.

The Company believes that existing working capital and the availability of marketable securities, which could be sold or posted as collateral for cash loans, will be sufficient to fund its operations, investments and capital expenditures for at least the next twelve months. Should additional capital be needed to fund future investment and acquisition activity, the Company may seek to raise additional capital through the sale of certain subsidiaries, through offerings of the Company's or its subsidiaries' stock, or through debt financing. There can be no assurance, however, that the Company will be able to raise additional capital on terms that are favorable to the Company, or at all.

## 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. The Company's SalesLink subsidiary has a long-term debt arrangement with a bank. Future minimum payments as of January 31, 2003 are as follows:

| | Operating Leases | Stadium | Other Debt Obligations | Total |
|---|---|---|---|---|
| | | (in thousands) | | |
| For the remainder of fiscal year 2003 | $12,590 | $ 800 | $ 883 | $ 14,273 |
| For the fiscal years ending July 31: | | | | |
| 2004 | 17,600 | 1,600 | 1,866 | 21,066 |
| 2005 | 13,890 | 1,600 | 1,621 | 17,111 |
| 2006 | 13,880 | 1,600 | 3,469 | 18,949 |
| 2007 | 9,640 | 1,600 | 164 | 11,404 |
| Thereafter | 23,450 | 12,800 | 1,037 | 37,287 |
| | $91,050 | $20,000 | $9,040 | $120,090 |

Total future minimum lease payments have been reduced by future minimum sub-lease rentals of approximately $6 million.

The Company leases facilities and certain machinery and equipment under non-cancelable capital lease arrangements, which are not included in the table above. The present value of net minimum capital lease obligations is $1.0 million as of January 31, 2003.

Total rent and equipment lease expense charged to continuing operations was approximately $6.3 million as of January 31, 2003.

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 retained more limited marketing rights in exchange for a series of annual payments of $1.6 million per year beginning in 2003 and ending in 2015.

From time to time the Company provides guarantees of payment to vendors doing business with certain of the Company's subsidiaries. These guarantees require that in the event that the subsidiary cannot satisfy its obligations with certain of its vendors, the Company will be required to settle the obligation. As of January 31, 2003, the Company had outstanding guarantees of subsidiary indebtedness totaling approximately $13.9 million.

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. 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, product returns, bad debts, inventories, investments, intangible assets, income taxes, restructuring, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will not differ 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. Certain of the critical accounting policies related to revenue recognition outlined below relate only to the activities of subsidiaries that have been reported as discontinued operations in our condensed consolidated financial statements. The discussions related to software license, software and other types of services and support activities, and advertising impression and e-mail based direct marketing revenue recognition relate only to subsidiaries that are currently reported as discontinued operations. The discussions outlined below reflect the Company's application of these policies through the respective disposal dates of these entities. Our critical accounting policies are as follows:

- Revenue recognition
- Excess and obsolete inventory
- Restructuring expenses
- Accounting for the allowance for doubtful accounts and sales returns
- Loss contingencies
- Accounting for impairment of long-lived assets

Revenue Recognition. The Company derives its revenue from three primary sources: (i) sale of products, both merchandise and software licenses; (ii) services and support revenue, which includes software maintenance; and (iii) the delivery of advertising impressions and e-mail based direct marketing. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences may result in the amount and timing of our revenue for any period if our management made different judgments or utilized different estimates. For most of its transactions, the Company applies the provisions of SEC Staff Accounting Bulletin 101 Revenue Recognition. However, revenue from sales of software is recognized in accordance with AICPA Statement of Position (SOP) 98-9, Software Revenue Recognition with Respect to Certain Arrangements.

Revenue from sales of merchandise is recognized upon shipment of the merchandise and verification of the customer's credit card authorization or receipt of cash. All shipping and handling fees billed to customers are recognized as revenue and related costs as costs of revenue when incurred, for products which the Company takes title to or assumes the risks and rewards of ownership.

Revenue from software product licenses, database services and website traffic audit reports are generally recognized when (i) a signed non-cancelable software license exists, (ii) delivery has occurred, (iii) the Company's fee is fixed or determinable, and (iv) collection is probable.

Revenue from software maintenance is deferred and recognized ratably over the term of each maintenance agreement, typically twelve months. Revenue from professional services is recognized as the services are performed, collection is probable and such revenues are contractually nonrefundable. Revenue from multiple element arrangements involving products, services and support elements is recognized in accordance with SOP 98-9, Software Revenue Recognition with Respect to Certain Arrangements, when vendor-specific objective evidence of fair value does not exist for the delivered element. As required by SOP 98-9, under the residual method, the fair value of the undelivered elements are deferred and subsequently recognized. The Company establishes sufficient vendor-specific objective evidence of fair value for services and support elements based on the price charged when these elements are sold separately. Accordingly, software license revenue for products developed is recognized under the residual method in arrangements in which the software is sold with one or both of the other elements. Revenue from license agreements that require significant customizations and modifications to the software product is deferred and recognized using the percentage of completion method. For license arrangements involving customizations for which the amount of customization effort cannot be reasonably estimated or when license arrangements provide for customer acceptance, we recognize revenue under the completed contract method of accounting.

Excess and Obsolete Inventory. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of the inventory and its estimated net realizable value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Such adjustments are considered permanent adjustments to the cost basis of the inventory.

Restructuring Expenses. The Company assesses the need to record restructuring charges in accordance with Emerging Issues Task Force (EITF) Issue 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), EITF 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 includes 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 June 2002, the FASB issued 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 Issue 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 will be applied by the Company to exit or disposal activities that are initiated after December 31, 2002.

Accounting for the Allowance for Doubtful Accounts and Sales Returns. The allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than our historical experience, our estimates of the recoverability of amounts due to us could be adversely affected. A reserve for sales returns is established based on historical trends in product returns. If the actual or future returns do not reflect the historical data, our net revenue could be affected.

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.

Accounting for Impairment of Long-Lived Assets. Through July 31, 2002, the Company recorded impairment charges as a result of management's ongoing business review and impairment analysis performed under its policy regarding impairment, utilizing the guidance in SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS No. 121). Where impairment indicators were identified, management evaluated whether the projected undiscounted cash flows were sufficient to cover the particular long-lived asset being reviewed. If the undiscounted cash flows were insufficient, management then determined the amount of the impairment charge by comparing the carrying value of long-lived assets to their fair value. Other intangible assets will continue to be amortized over their useful lives. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Accordingly, the Company adopted SFAS No. 142 on August 1, 2002. 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 with 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.

Under the provisions of SFAS No. 142, the Company is required to perform transitional goodwill impairment tests as of August 1, 2002 within the first six months of adopting the standard. The Company completed the transitional goodwill impairment tests during the fiscal quarter ended January 31, 2003 and concluded that goodwill is not impaired. In order to complete the transitional goodwill impairment tests as required by SFAS No. 142, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company determined the fair value of each reporting unit and compared it to the reporting unit's carrying amount.

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. Based on the provisions of the standard, the Company has determined that it has two reporting units for purposes of goodwill impairment testing. Additionally, the Company's policy will be to perform its annual impairment testing for all reporting units in the fourth quarter of each fiscal year.

## Recent Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement No's. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections," effective for fiscal years beginning May 15, 2002 or later. It rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement also amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The adoption of this Statement did not have a material impact on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which clarifies disclosure and recognition/measurement requirements related to certain guarantees. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition/measurement requirements are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The application of the requirements of FIN 45 did not have a material impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation -- Transition and Disclosure." SFAS No. 148 amends SFAS No. 123 "Accounting for Stock Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company does not anticipate that adoption of SFAS No. 148 will have a material effect on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("VIEs"). This Interpretation addresses the consolidation of variable interest entities in which the equity investors lack one or more of the essential characteristics of a controlling financial interest or where the equity investment at risk is not sufficient for the entity to finance its activities without subordinated financial support from other parties. The Interpretation applies to VIEs created after January 31, 2003 and to VIEs in which an interest is acquired after that date. Effective July 1, 2003, it also applies to VIEs in which an interest is acquired before February 1, 2003. The Company may apply the Interpretation prospectively, with a cumulative effect adjustment as of July 1, 2003, or by restating previously issued financial statements with a cumulative effect adjustment as of the beginning of the first year restated. The Company is in the process of evaluating the effects of applying Interpretation No. 46. Based on our preliminary analysis, the Company does not anticipate that adoption of Interpretation No. 46 will have a material effect on the Company's financial position or results of operations.

Factors That May Affect Future Results

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

CMGI may not be profitable in the future.

During the three and six months ended January 31, 2003, CMGI had an operating loss of approximately $17.5 million and $36.6 million, respectively. CMGI anticipates that it will continue to incur significant operating expenses in the future, including significant costs of revenue and selling, general and administrative and impairment and restructuring expenses. CMGI also has significant commitments and contingencies, including with respect to real estate, machinery and equipment leases, continuing stadium sponsorship obligations, and guarantees entered into by CMGI on behalf of itself and current and former operating companies. As a result, CMGI expects to continue to incur significant operating expenses and can give no assurance that it will achieve profitability or be capable of sustaining profitable operations. At January 31, 2003, CMGI had a consolidated cash and cash equivalents balance of approximately $174.7 million. Total cash and cash equivalents usage was approximately $40.4 million for the six months ended January 31, 2003, which included the net benefit of approximately $15.0 million received during the six months ended January 31, 2003 from the sale of certain investments. If CMGI is unable to reach and sustain profitability, it risks depleting its working capital balances and its business will be materially adversely affected.

CMGI has in the past, and may in the future, sell or divest, or attempt to sell or divest its interests in certain of its subsidiaries, if, among other reasons, management of CMGI deems the business of the subsidiary to be sufficiently unrelated to CMGI's core businesses or if the subsidiary is underperforming from a financial or business point of view. Unprofitable non-core businesses and underperforming businesses pose a substantial risk to CMGI's ability to reduce its cash burn or reach profitability, both of which are stated goals of CMGI. CMGI's inability to sell or divest its interest in such non-core or underperforming subsidiaries, in the desired timeframe or on terms acceptable to CMGI, will adversely affect CMGI's results of operations and could cause such results to be lower than expected by securities analysts and investors.

CMGI derives substantially all of its revenue from a small number of customers and the loss of any of those customers could significantly damage CMGI's business.

A limited number of customers account for substantially all of CMGI's consolidated net revenue and the loss of any one or more of these customers would cause its revenue to decline below expectations. One customer accounted for approximately 73% and 71% for the three months and six months ended January 31, 2003, respectively. On July 11, 2002, CMGI acquired the assets of iLogistix, through its wholly-owned subsidiary, SL Supply Chain. Nearly all of the revenues of SL Supply Chain are accounted for by sales to Hewlett-Packard and Microsoft. Similarly, nearly all of the revenues of SalesLink are accounted for by sales to a limited number of customers. CMGI currently does not have any agreements which obligate any customer to buy a minimum amount of products or services from CMGI or to designate CMGI as its sole supplier of any particular products or services. The loss of a significant amount of business with Hewlett-Packard or Microsoft, or any other key customer, would have a material adverse effect on CMGI. CMGI believes that it will continue to derive the vast majority of its operating revenue from sales to a small number of customers. There can be no assurance that CMGI's revenue from key customers will not decline in future periods.

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

CMGI from time to time seeks opportunities to provide capital to support CMGI's growth through the selective sale of investments or minority or majority interests in subsidiaries or affiliates to outside investors. In recent years, CMGI has generally financed its operations with proceeds from selling shares of stock of companies in which CMGI had invested directly or through its @Ventures venture capital affiliates. The aggregate holdings and market value of the shares of stock held by CMGI has declined significantly over the past two plus years, due to market conditions and continued sales. At January 31, 2003, CMGI held approximately $1.8 million in available-for-sale securities. Market and other conditions largely beyond CMGI's control may affect its ability to engage in future sales of such securities, the timing of any such sales, and the amount of proceeds therefrom. Even if CMGI is able to sell any such securities in the future, CMGI 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 CMGI may need to obtain funding from outside sources. However, CMGI may not be able to obtain funding from outside sources. In addition, even if CMGI finds outside funding sources, CMGI may be required to issue to such outside sources securities with greater rights than those currently possessed by holders of CMGI's common stock. CMGI may also be required to take other actions, which may lessen the value of its common stock or dilute its common stockholders,

including borrowing money on terms that are not favorable to CMGI or issuing additional shares of common stock. If CMGI experiences difficulties raising money in the future, its business will be materially adversely affected.

If the market for supply chain management services declines, the demand for CMGI's services and its financial results could suffer.

CMGI derives substantially all of its revenue from the supply chain management services provided by SalesLink and SL Supply Chain. CMGI's business and future growth will 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 CMGI's supply chain management services would decline and its financial results could suffer.

A decline in the technology sector could reduce CMGI's revenue.

A large portion of CMGI's supply chain management revenue comes from clients in the technology sector which is intensely competitive and highly 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 CMGI's revenues from such clients.

CMGI and its operating companies depend on third-party software, systems and services.

CMGI and its operating companies rely on products and services of third-party providers in their business operations. There can be no assurance that CMGI or its operating companies will not experience operational problems attributable to the installation, implementation, integration, performance, features or functionality of such 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 the business or operations of CMGI or its operating companies.

CMGI depends on certain important employees, and the loss of any of those employees may harm CMGI's business.

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

There may be conflicts of interest among CMGI, 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.

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

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

- difficulty integrating acquired technologies, operations and personnel with the existing businesses;
- diversion of management attention in connection with both negotiating the acquisitions and integrating the assets;
- strain on managerial and operational resources as management tries to oversee larger operations;
- 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;
- potential issuance of securities in connection with an acquisition with rights that are superior to the rights of holders of CMGI's common stock, or which may have a dilutive effect on the common stockholders;
- the need to incur additional debt or use cash; and
- the requirement to record potentially significant additional future operating costs for the amortization of intangible assets.

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

CMGI must develop and maintain positive brand name awareness.

CMGI believes that establishing and maintaining its brand name and the brand names of its operating companies is essential to expanding its business and attracting new customers. CMGI also believes that the importance of brand name recognition will increase in the future as technology-related companies continue to differentiate themselves. Promotion and enhancement of CMGI's brand names will depend largely on its ability to provide consistently high-quality products and services. If CMGI is unable to provide high-quality products and services, the value of its brand names will suffer and CMGI's business prospects may be adversely affected.

CMGI's quarterly results may fluctuate significantly.

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

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

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

The price of CMGI's common stock has been volatile and may fluctuate based on the value of its assets.

The market price of CMGI's common stock has been, and is likely to continue to be, volatile, experiencing wide fluctuations. In recent years, the stock market has experienced significant price and volume fluctuations, which have particularly impacted the market prices of equity securities of many companies providing 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 CMGI's common stock. In addition, should the market price of CMGI's common stock remain below $1.00 per share for an extended period, it risks Nasdaq delisting, which would have an adverse effect on CMGI's business. In order to maintain compliance with Nasdaq listing standards, CMGI may consider several strategies, including without limitation a reverse stock split.

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

CMGI's operating companies are subject to intense competition.

The markets for the products and services of CMGI's operating companies 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 the products and services of CMGI's operating companies. 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 the competitive position of CMGI's supply chain management operating companies will limit its ability to maintain and increase market share, which would result in serious harm to CMGI's business. Increased competition may also result in price

reductions, reduced gross margins and loss of market share. In addition, many of the current and potential competitors of CMGI's operating companies have greater financial, technical, operational and marketing resources than those of CMGI's operating companies. CMGI's operating companies 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 CMGI's revenues.

To succeed, CMGI's operating companies must respond to the rapid changes in the technology sector.

The markets for the technology-related products and services of CMGI's operating companies are characterized by:

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

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

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

CMGI's operating companies intend to continue to expand their operations outside of the United States. This international expansion will require significant management attention and financial resources. The operations of CMGI's supply chain management operating companies are subject to numerous and varied regulations worldwide, some of which may have an adverse effect on CMGI's ability to develop its international operations. In addition, CMGI and its operating companies have limited experience in such international activities. Accordingly, CMGI and its operating companies will need to commit substantial time and development resources to customizing the products and services of its operating companies for selected international markets and to developing international sales and support channels.

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

CMGI's operating companies could be subject to infringement claims and other liabilities.

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

- subjecting them to significant liability for damages;
- resulting in invalidation of their 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 management time and attention.

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

The Company is exposed to equity price risks on the marketable portion of its equity securities. The Company's available-for-sale securities at January 31, 2003 primarily consisted of investments in companies in the Internet and technology industries which have experienced significant historical volatility in their stock prices. The Company typically does not attempt to reduce or eliminate its market exposure on these securities. A 20% adverse change in equity prices, based on a sensitivity analysis of the equity component of the Company's available-for-sale securities portfolio as of January 31, 2003, would result in an approximate $0.4 million decrease in the fair value of the Company's available-for-sale securities.

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

The Company from time to time uses derivative financial instruments primarily to reduce exposure to adverse fluctuations in interest rates on its borrowing arrangements. The Company does not enter into derivative financial instruments for trading purposes. As a matter of policy, derivative positions are used to reduce risk by hedging underlying economic or market exposure. The derivatives the Company uses are straightforward instruments with liquid markets. At January 31, 2003, the Company was primarily exposed to the London Interbank Offered Rate (LIBOR) and Euro Interbank Offered Rate (EURIBOR) interest rate on its outstanding borrowing arrangements.

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

## Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Based on their evaluation as of a date within 90 days of the filing date of this report, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses in the Company's internal controls, and therefore there were no corrective actions taken.

Item 1. Legal Proceedings

In December 1999, Neil Braun, a former officer of iCAST Corporation, a wholly owned subsidiary of the Company ("iCAST"), filed a complaint in United States District Court, Southern District of New York naming the Company, iCAST and David S. Wetherell as defendants. In the complaint, Mr. Braun alleged breach of contract regarding his termination from iCAST and claimed that he was entitled to acceleration of options to purchase CMGI common stock and iCAST common stock, upon his termination, under contract and promissory estoppel principles. Mr. Braun also claimed that, under quantum meruit principles, he was entitled to lost compensation. Mr. Braun sought damages of approximately $50 million and requested specific performance of the acceleration and exercise of options. In August 2001, the Court (i) granted summary judgment dismissing Mr. Wetherell as a defendant and (ii) granted summary judgment, disposing of Mr. Braun's contract claim. In February 2002, the Court granted summary judgment disposing of Mr. Braun's promissory estoppel claim. Trial on the quantum meruit claim was held in March 2002 and the jury returned a verdict in favor of Mr. Braun and against the Company in the amount of $113,482.24. As to iCAST, the jury found that Mr. Braun had not proven his claim. The Company filed a motion for directed verdict, which motion sought to set aside the jury verdict against the Company. Such motion was denied. In May 2002, Mr. Braun appealed the Court's dismissal of his contract and promissory estoppel claims against iCAST and the Company. On February 11, 2003, the United States Court of Appeals for the Second Circuit heard argument on the appeal and took the case under advisement. No decision on the appeal has been received.

In August 2001, Jeffrey Black, a former employee of AltaVista, filed a complaint in Superior Court of the State of California (Santa Clara County) in his individual capacity as well as in his capacity as a trustee of two family trusts against the Company and AltaVista alleging certain claims arising out of the termination of Mr. Black's employment with AltaVista. As set forth in the complaint, Mr. Black is seeking monetary damages in excess of $70 million. The Company and AltaVista each believes that these claims are without merit and plans to vigorously defend against these claims. In March 2002, the court ordered the entire case to binding arbitration in California. In June 2002, Mr. Black petitioned the California Court of Appeal for a writ prohibiting enforcement of the order compelling arbitration of his cause of action for wrongful termination in violation of public policy. In July 2002, the Court of Appeal denied Mr. Black's petition. In August 2002, Mr. Black submitted the matter to the American Arbitration Association. A date for the arbitration has not yet been set. An arbitrator was appointed in January 2003 and an arbitration hearing is scheduled for August 2003.

On January 28, 2002, Mark Nutritionals, Inc. ("MNI") filed suit against AltaVista in the United States District Court for the Western District of Texas, San Antonio Division. The claims against AltaVista include unfair competition and trademark infringement and dilution, under both federal law and the laws of the State of Texas. MNI is seeking compensatory damages in the amount of $10.0 million and punitive damages. AltaVista believes that these claims are without merit and plans to vigorously defend against these claims. AltaVista filed its answer on March 1, 2002, denying the allegations. MNI has filed for Chapter 11 bankruptcy protection. AltaVista is entitled to indemnification by a third party with respect to this matter.

On April 16, 2002, NCR Corporation filed a complaint in the United States District Court for the Northern District of Illinois against uBid. The complaint alleges that uBid has infringed four patents held by NCR and seeks unspecified monetary damages and injunctive relief. On May 28, 2002, uBid filed its answer to the complaint, denying the allegations and asserting counterclaims against NCR. On December 5, 2002, NCR amended the complaint to add four additional patents. On December 20, 2002, uBid filed its answer to the amended complaint, denying the allegations and asserting counterclaims against NCR. On January 30, 2003, the parties agreed to settle this matter on mutually agreeable terms. The Stipulation of Dismissal was filed on February 11, 2003 and was entered by the Court on March 4, 2003.

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

At the 2002 Annual Meeting of Stockholders of the Company (the "Annual Meeting") on January 14, 2003, the following matters were acted upon by the stockholders of the Company:

1. The election of two Class III Directors (David S. Wetherell and Jonathan Kraft) for the ensuing three years;
2. The authorization of the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company's Restated Certificate of Incorporation, as amended, to effect a reverse stock split of the Company's issued and outstanding shares of Common Stock by a ratio of between 1-for-2 and 1-for-25, inclusive, without further approval or authorization of the Company's stockholders; and
3. Ratification of the appointment of KPMG LLP as independent auditors of the Company for the current year.

The number of shares of Common Stock issued, outstanding and eligible to vote as of the record date of November 19, 2002 was 392,957,429. The other directors of the Company, whose terms of office as directors continued after the Annual Meeting, are George A. McMillan, Anthony J. Bay and Virginia G. Bonker. In addition, on March 12, 2003, Peter J. McDonald, a director of the Company since April 2001, resigned from the Board of Directors due to time constraints with his position as Senior Vice President of R.H. Donnelley, an independent marketer of yellow pages advertising, and President of Donnelley Media, a division of R.H. Donnelley. Subsequent to the Annual Meeting, Francis J. Jules was elected to the Board of Directors on February 3, 2003. The results of the voting on each of the matters presented to stockholders at the Annual Meeting are set forth below:

| | VOTES FOR | VOTES WITHHELD | VOTES AGAINST | ABSTENTIONS | BROKER NON-VOTES |
|---|---|---|---|---|---|
| 1. Election of two Class III Directors: | | | | | |
| David S. Wetherell | 299,046,350 | 5,483,314 | N.A. | N.A. | N.A. |
| Jonathan Kraft | 300,085,707 | 4,443,957 | N.A. | N.A. | N.A. |
| 2. Authorization of the reverse stock split | 291,004,017 | N.A. | 12,693,252 | 832,395 | N.A. |
| 3. Ratification of Independent Auditors | 301,926,981 | N.A. | 1,853,222 | 749,461 | N.A. |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter for which this report is filed.

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.

Date: March 17, 2003

CMGI, Inc.

By: /S/ THOMAS OBERDORF

Thomas Oberdorf<br>
Chief Financial Officer and<br>
Treasurer (Principal Financial<br>
and Accounting Officer)

CERTIFICATION

I, George A. McMillan, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant, and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003

By: /S/ GEORGE A. MCMILLAN

George A. McMillan
President and Chief Executive Officer

# CERTIFICATION

I, Thomas Oberdorf, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant, and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003

By: /S/ THOMAS OBERDORF

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Thomas Oberdorf
Chief Financial Officer and Treasurer

EXHIBIT INDEX

| Item | Description |
| --- | --- |
| 2.1 | Asset Purchase Agreement, by and among Overture Services, Inc., AltaVista Company, Aurora I, LLC (a wholly owned limited liability company of AltaVista) and the Registrant, dated as of February 18, 2003, is incorporated herein by reference to Exhibit 2.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2002 of Overture Services, Inc. (File No. 000-26365). |
| 2.2 | Registration Rights Agreement between Overture Services, Inc. and AltaVista Company, dated as of February 18, 2003, is incorporated herein by reference to Exhibit 2.2 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2002 of Overture Services, Inc. (File No. 000-26365). |
| 10.1 | Third Amendment to Loan and Security Agreement, dated as of November 12, 2002, by and among SalesLink Corporation, InSolutions Incorporated, On-Demand Solutions, Inc., Pacific Direct Marketing Corp., and SalesLink Mexico Holding Corp., as Borrowers, and LaSalle Bank National Association, as a Lender and as Agent for the Lenders. |

EXHIBIT 10.1

# THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment"), dated November 12, 2002, is entered into among SALESLINK CORPORATION, a Delaware corporation, INSOLUTIONS INCORPORATED, a Delaware corporation, ON-DEMAND SOLUTIONS, INC., a Massachusetts corporation, PACIFIC DIRECT MARKETING CORP., a California corporation, SALESLINK MEXICO HOLDING CORP., a Delaware corporation (each herein called a "Borrower" and collectively, the "Borrowers"), the lenders party hereto (herein collectively called the "Lenders" and each individually called a "Lender") and LASALLE BANK NATIONAL ASSOCIATION, as a Lender and as Agent for the Lenders.

W I T N E S S E T H:

WHEREAS, Borrowers and Lenders are parties to a Loan and Security Agreement, dated October 30, 2001, as amended by that certain First Amendment to Loan and Security Agreement dated as of August 27, 2002 and that certain Consent and Second Amendment to Loan and Security Agreement dated as of October 30, 2002 (the "Existing Loan Agreement" and as the Existing Loan Agreement is amended and modified by this Amendment, the "Amended Loan Agreement"); and

WHEREAS, Borrowers have requested that Lenders amend the Existing Loan Agreement in certain respects and the Lenders are willing to amend the Existing Loan Agreement in certain respects as provided herein.

NOW, THEREFORE, in consideration of the premises and mutual agreements herein contained, the parties hereto agree as follows:

## SECTION 1

## DEFINED TERMS

Terms defined in the Existing Loan Agreement and not otherwise defined herein are used herein as therein defined.

## SECTION 2

## AMENDMENT TO EXISTING LOAN AGREEMENT

2.1 Addition of Definition. The following definitions are hereby added to Section 1.1 of the Existing Loan Agreement, each in proper alphabetical order:

> "Cash Collateral Account" shall mean a deposit account maintained with Agent, which deposit account and all the funds deposited therein will be subject to

a first priority security interest in favor of Agent, for its benefit and the benefit of the Lenders, upon such terms as are required by Agent, into which Borrowers deposit funds required to be deposited by them pursuant to Section 3.2(C). Borrowers shall not have access to funds deposited in the Cash Collateral Account.

"Cash Collateralized Letter of Credit" shall have the meaning ascribed to it in Section 2.13(A)(iii).

2.2 Amendment to Definition. The definition of "Letter of Credit Sublimit" in Section 1.1 of the Existing Loan Agreement is hereby amended by deleting the definition in its entirety and substituting therefor:

"Letter of Credit Sublimit" shall mean an aggregate amount not to exceed the Aggregate Revolving Credit Commitment.

2.3 Amendment to Issuance of Letters of Credit.

(a) Section 2.13(A)(ii) of the Existing Loan Agreement is hereby amended by deleting the section in its entirety and substituting therefor the following:

(ii) In no event shall: (a) the aggregate amount of the Letter of Credit Obligations at any time exceed the Letter of Credit Sublimit; (b) the sum at any time of (1) the aggregate amount of Letter of Credit Obligations and (2) the aggregate principal balance of all outstanding Loans issued pursuant to the Revolving Credit Facility exceed the then current Availability, except as provided by Section 2.13(A)(iii); and (c) the expiration date of any Letter of Credit (including, without limitation, Letters of Credit issued with an automatic "evergreen" provision providing for renewal absent advance notice by Borrowers or the Issuing Lender), or the date for payment of any draft presented thereunder and accepted by the Issuing Lender, be later than the Letter of Credit Expiry Date; provided, however, that the expiration date of a Letter of Credit issued by Borrowers at the request or on the behalf of SL Supply shall not have an expiration date later than one year after its issuance and shall not include an automatic or "evergreen" provision providing for renewal of such Letter of Credit.

(b) Section 2.13(A) of the Existing Loan Agreement is hereby amended by adding the following:

(iii) In the event Borrowers request the issuance of any Letter(s) of Credit that would, if issued, result in the sum of (1) the aggregate amount of Letter of Credit Obligations and (2) the aggregate principal amount of Loans outstanding under the Revolving Credit Facility to exceed the then current Availability (a "Cash Collateralized Letter of Credit"), Borrowers may request that the Issuing Lender issue a Cash Collateralized Letter of Credit provided that Borrowers, jointly and severally, deposit cash in an amount equal to such excess

in the Cash Collateral Account prior to the issuance of any such Cash Collateralized Letter of Credit. To the extent that one or more Cash Collateralized Letter(s) of Credit expire and are not extended or are otherwise terminated without any continuing liability to Agent, the Issuing Lender or the Lenders, which results in the sum of (i) the aggregate principal amount of Loans outstanding under the Revolving Credit Facility plus (ii) the aggregate amount of Letter of Credit Obligations being equal to or less than the Availability as of such date, Agent shall refund the cash held in the Cash Collateral Account to the Borrowers within five (5) Business Days. In addition, following any such deposit of cash in the Cash Collateral Account, at any time and from time to time that the sum of (i) the aggregate principal amount of Loans outstanding under the Revolving Credit Facility plus (ii) the aggregate principal amount of Letter of Credit Obligations becomes equal to or less than the sum of (x) the Availability plus (y) the amount of cash held in the Cash Collateral Account as of such date, Agent shall refund to the Borrowers within (5) Business Days a sum of cash held in the Cash Collateral Account equal to such excess. Any deposit made to the Cash Collateral Account pursuant to this Section 2.13(A)(iii) shall be used exclusively to facilitate the issuance of Cash Collateralized Letters of Credit requested in violation of Section 2.13(A)(ii)(b), and shall not affect the Availability or Borrowing Base.

2.4 Amendment to Mandatory Prepayment Requirements. Section 3.2(C) of the Existing Loan Agreement is hereby amended by deleting the section in its entirety and substituting therefor the following:

(C) Mandatory Prepayment. Borrowers shall not permit the sum of (i) the aggregate principal amount of Loans outstanding under the Revolving Credit Facility plus (ii) the Letter of Credit Obligations at any time to exceed the Availability. Borrowers agree, jointly and severally, to make such payments to Agent on the Loans outstanding under the Revolving Credit Facility which are necessary to cure any such excess within two Business Days after the occurrence thereof. To the extent that any payment made under the previous sentence is insufficient to cause the Letter of Credit Obligations to be equal to or less then the Availability, Borrowers agree, jointly and severally, to immediately deposit with Agent an amount of cash equal to the entire Letter of Credit Obligation with respect to one or more Letters of Credit which are causing the deficiency (which, for this purpose, shall be deemed to be Cash Collateralized Letters of Credit) in the Cash Collateral Account. To the extent that one or more Cash Collateralized Letter(s) of Credit expire and are not extended or are otherwise terminated without any continuing liability to Agent, the Issuing Lender or the Lenders, which results in the sum of (i) the aggregate principal amount of Loans outstanding under the Revolving Credit Facility plus (ii) the aggregate amount of Letter of Credit Obligations being equal to or less than the Availability as of such date, Agent shall refund the cash held in the Cash Collateral Account to the Borrowers within five (5) Business Days. In addition, following any such deposit of cash in the Cash Collateral Account, at any time and from time to time that the

sum of (i) the aggregate principal amount of Loans outstanding under the Revolving Credit Facility plus (ii) the aggregate principal amount of Letter of Credit Obligations becomes equal to or less than the sum of (x) the Availability plus (y) the amount of cash held in the Cash Collateral Account as of such date, Agent shall refund to the Borrowers within (5) Business Days a sum of cash held in the Cash Collateral Account equal to such excess. No Lender shall be under an obligation to make Loans under the Revolving Credit Facility or to issue any Letter of Credit during the period that any such excess described in the first sentence of this Section 3.2(C) exists or would result from the making of an additional Loan under the Revolving Credit Facility or issuing an additional Letter of Credit.

2.5 Amendment to Security Interest. Section 4.1 of the Existing Loan Agreement is hereby amended by deleting the section in its entirety and substituting therefor the following:

4.1 Security Interest. To secure the prompt payment to each Lender of the Liabilities, each Borrower grants to Agent, for the benefit of the Agent and the Lenders, a continuing security interest in and to all of such Borrower's Property including the following Property and interest in Property of such Borrower, whether now owned or existing or to be acquired or arising and wherever located: (i) all Accounts, Inventory, Equipment, General Intangibles, tax refunds, chattel paper, instruments, letters of credit, investment property, including, without limitation, stocks, bonds, interests in limited liability companies, partnership interests, securities, certificates of deposit, mutual fund shares, securities entitlements, including, without limitation, all of each Borrower's rights to any securities account, any free credit balance or other money owing by any securities intermediary with respect to such account, all securities and commodities held by Agent or any of its Affiliates, all commodity contracts held by any Borrower and all commodity accounts held by any Borrower, documents and documents of title evidencing or issued with respect to any of the foregoing; (ii) all of such Borrower's deposit accounts (general or special) with and credits and other claims against Agent or any Lender; (iii) all of such Borrower's now owned or to be acquired monies, and any and all other property of such Borrower now or to be coming into the actual possession, custody or control of Agent, any Lender or any agent or affiliate of any Lender in any way or for any purpose (whether for safekeeping, deposit, custody, pledge, transmission, collection or otherwise); (iv) all insurance proceeds of or relating to any of the foregoing; (v) all of such Borrower's books and records, including without limitation customer lists, credit files, computer programs, printouts and other materials, relating to any of the foregoing; (vi) the Cash Collateral Account; and (vii) all accessions and additions to, substitutions for, and replacements, products and proceeds of any of the foregoing.

## SECTION 3

## REPRESENTATIONS AND WARRANTIES

Each Borrower hereby jointly and severally represents and warrants to Lenders that:

3.1 Due Authorization, etc. The execution and delivery of this Amendment and the performance of such Borrower's obligations under the Amended Loan Agreement are duly authorized by all necessary corporate action, do not require any filing or registration with or approval or consent of any governmental agency or authority, do not and will not conflict with, result in any violation of or constitute any default under any provision of its articles of incorporation or by-laws of that of any of its Subsidiaries or any material agreement or other document binding upon or applicable to it or any of its Subsidiaries (or any of their respective properties) or any material law or governmental regulation or court decree or order applicable to it or any of its Subsidiaries, and will not result in or require the creation or imposition of any Lien in any of its properties or the properties of any of its Subsidiaries pursuant to the provisions of any agreement binding upon or applicable to it or any of its Subsidiaries.

3.2 Validity. This Amendment has been duly executed and delivered by such Borrower and, together with the Amended Loan Agreement, are the legal, valid and binding obligations of such Borrower to the extent such Borrower is a party thereto, enforceable against such Borrower in accordance with their respective terms subject, as to enforcement only, to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforceability of the rights of creditors generally.

3.3 Representations and Warranties. The representations and warranties contained in Section 6 of the Existing Loan Agreement are true and correct on the date of this Amendment, except to the extent (a) that such representations and warranties solely relate to an earlier date or (b) changed by circumstances permitted by the Amended Loan Agreement.

## SECTION 4

## CONDITIONS PRECEDENT

The amendments to the Existing Loan Agreement set forth in Section 2 of this Amendment shall become effective upon satisfaction of all of the following conditions precedent:

4.1 Receipt of Documents. Agent shall have received all of the following, each in form and substance satisfactory to Agent:

(a) Amendment. A counterpart original of this Amendment duly executed by Borrowers.

(b) Secretary's Certificate. A certificate of the secretary or clerk of each Borrower dated the date of the execution of this Amendment or such other date as shall be acceptable to Agent, substantially in the form of Exhibit A to this Amendment.

(c) President's Certificate. A certificate dated the date of each Borrower's execution of this Amendment and signed by the President of each Borrower, substantially in the form of Exhibit B to this Amendment.

(d) Other. Such other documents as Agent may reasonably request.

4.2 Other Conditions. No Event of Default or Default shall have occurred and be continuing.

SECTION 5

MISCELLANEOUS

5.1 Warranties and Absence of Defaults. In order to induce Lenders to enter into this Amendment, each Borrower jointly and severally hereby warrants to Lenders, as of the date of the actual execution of this Amendment, (a) no Event of Default or Default has occurred which is continuing as of such date and (b) the representations and warranties in Section 3 of this Amendment are true and correct.

5.2 Documents Remain in Effect. Except as amended and modified by this Amendment, the Existing Loan Agreement and the other documents executed pursuant to the Existing Loan Agreement remain in full force and effect and each Borrower hereby ratifies, adopts and confirms its representations, warranties, agreements and covenants contained in, and obligations and liabilities under, the Existing Loan Agreement and the other documents executed pursuant to the Existing Loan Agreement.

5.3 Reference to Loan Agreement. On and after the effective date of this Amendment, each reference in the Amended Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import, and each reference to the "Loan Agreement" in any Note and in any Loan Documents, or other agreements, documents or other instruments executed and delivered pursuant to the Amended Loan Agreement, shall mean and be a reference to the Amended Loan Agreement.

5.4 Headings. Headings used in this Amendment are for convenience of reference only, and shall not affect the construction of this Amendment.

5.5 Counterparts. This Amendment may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Amendment.

5.6 Expenses. Borrowers agree to pay on demand all costs and expenses of Agent (including reasonable fees, charges and disbursements of Agent's attorneys) in connection with the preparation, negotiation, execution, delivery and administration of this Amendment and all other instruments or documents provided for herein or delivered or to be delivered hereunder or in connection herewith. In addition, Borrowers agree to pay, and save Lenders harmless from all liability for, any stamp or other taxes which may be payable in connection with the execution or delivery of this Amendment, the borrowings under the Amended Loan Agreement, and the execution and delivery of any instruments or documents provided for herein or delivered or to be delivered hereunder or in connection herewith. All obligations provided in this Section 5.6 shall survive any termination of this Amendment or the Amended Loan Agreement.

5.7 Governing Law. This Amendment shall be a contract made under and governed by the internal laws of the State of Illinois. Wherever possible, each provision of this Amendment shall be interpreted in such manner as to be effective and valid under applicable laws, but if any provision of this Amendment shall be prohibited by or invalid under such laws, such provisions shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Amendment.

5.8 Successors. This Amendment shall be binding upon Borrowers, Lenders, Agent and their respective successors and assigns, and shall inure to the benefit of Borrowers, Lenders, Agent and the successors and assigns of Lenders.

[signature page attached]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized and delivered at Chicago, Illinois as of the date first above written.

BORROWERS:

SALESLINK CORPORATION,
a Delaware corporation

By: /s/ Bryce C. Boothby, Jr.
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Name: Bryce C. Boothby, Jr.
Title: President and CEO

INSOLUTIONS INCORPORATED,
a Delaware corporation

By: /s/ Bryce C. Boothby, Jr.
-----------------------------
Name: Bryce C. Boothby, Jr.
Title: President

ON-DEMAND SOLUTIONS, INC.,
a Massachusetts corporation

By: /s/ Bryce C. Boothby, Jr.
-----------------------------
Name: Bryce C. Boothby, Jr.
Title: President

PACIFIC DIRECT MARKETING CORP.,
a California corporation

By: /s/ Bryce C. Boothby, Jr.
-----------------------------
Name: Bryce C. Boothby, Jr.
Title: President

SALESLINK MEXICO HOLDING CORP.,
a Delaware corporation

By: /s/ Bryce C. Boothby, Jr.
-----------------------------
Name: Bryce C. Boothby, Jr.
Title: President

LENDERS:

LASALLE BANK NATIONAL ASSOCIATION,
as a Lender and as Agent

By: /s/ David M. Bacon
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Name: David M. Bacon
Title: Loan Officer

CITIZEN'S BANK OF MASSACHUSETTS,
as a Lender

By: /s/ Ralph L. Letner
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Name: Ralph L. Letner
Title: Vice President