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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2005

OR

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

For the transition period from to

Commission File Number 000-23262

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

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

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

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

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

As of June 2, 2005, there were 483,842,454 shares of the registrant's Common Stock, $.01 par value per share, outstanding.

CMGI, INC.

FORM 10-Q

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CMGI, INC. AND SUBSIDIARIES

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

	April 30, 2005	July 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 186,913	$ 271,871
Available-for-sale securities	232	292
Accounts receivable, trade, net of allowance for doubtful accounts of $2,138 and $573 at April 30, 2005 and July 31, 2004, respectively	179,586	54,296
Inventories	85,600	34,460
Prepaid expenses and other current assets	15,690	21,364
Current assets of discontinued operations	82	83
Total current assets	468,103	382,366
Property and equipment, net	41,018	7,246
Investments in affiliates	24,462	18,635
Goodwill and other intangible assets	206,661	22,122
Other assets	5,738	3,383
Non-current assets of discontinued operations	14	14
	$ 745,996	$ 433,766
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 349	$ 178
Current portion of capital lease obligations	314	—
Revolving line of credit	24,785	15,785
Accounts payable	154,088	37,055
Current portion of accrued restructuring	12,340	8,872
Accrued income taxes	7,419	24,352
Accrued expenses	44,125	32,298
Other current liabilities	5,412	2,565
Current liabilities of discontinued operations	—	155
Total current liabilities	248,832	121,260
Long-term debt, net of current portion	1,648	1,544
Long-term portion of accrued restructuring	8,924	6,269
Long-term portion of capital lease obligations	972	—
Other long-term liabilities	15,239	10,857
Non-current liabilities of discontinued operations	98	98
Minority interest	103	423
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at April 30, 2005 and July 31, 2004	—	—
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; issued and outstanding 483,694,773 at April 30, 2005 and 401,572,283 at July 31, 2004	4,837	4,016
Additional paid-in capital	7,452,884	7,300,010
Deferred compensation	(7,481)	(591)
Accumulated deficit	(6,983,534)	(7,009,785)
Accumulated other comprehensive income (loss)	3,474	(335)
Total stockholders' equity	470,180	293,315
	$ 745,996	$ 433,766

See accompanying notes to interim unaudited condensed consolidated financial statements

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CMGI, INC. AND SUBSIDIARIES

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2005	2004	2005	2004
Net revenue	$265,667	$105,789	$818,517	$300,956
Operating expenses:				
Cost of revenue	237,921	100,352	721,100	281,901
Selling	4,795	1,365	15,770	3,572
General and administrative	21,018	7,641	60,223	28,063
Amortization of intangible assets and stock-based compensation	2,405	72	8,320	262
Restructuring, net	1,472	2,811	3,785	5,566
Total operating expenses	267,611	112,241	809,198	319,364
Operating income (loss)	(1,944)	(6,452)	9,319	(18,408)
Other income (expense):				
Interest income	1,206	799	2,713	2,821
Interest expense	(394)	(451)	(1,412)	(1,227)
Other gains (losses), net	(10)	1,323	(2,613)	45,083
Equity in losses of affiliates, net	(338)	(693)	(261)	(1,571)
Minority interest	(4)	76	(1)	(2,118)
	460	1,054	(1,574)	42,988
Income (loss) from continuing operations before income taxes	(1,484)	(5,398)	7,745	24,580
Income tax benefit	(23,099)	(74,739)	(20,553)	(70,181)
Income from continuing operations	21,615	69,341	28,298	94,761
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations	(2,047)	61	(2,047)	(984)
Net income	$ 19,568	$ 69,402	$ 26,251	$ 93,777
Basic earnings (loss) per share:				
Earnings from continuing operations	$ 0.04	$ 0.17	$ 0.06	$ 0.24
Income (loss) from discontinued operations	(0.00)	0.00	(0.00)	(0.00)
Earnings	$ 0.04	$ 0.17	$ 0.06	$ 0.24
Diluted earnings (loss) per share:				
Earnings from continuing operations	$ 0.04	$ 0.17	$ 0.05	$ 0.23
Income (loss) from discontinued operations	(0.00)	0.00	(0.00)	(0.00)
Earnings	$ 0.04	$ 0.17	$ 0.05	$ 0.23
Shares used in computing basic earnings (loss) per share	477,515	400,721	474,222	398,581
Shares used in computing diluted earnings (loss) per share	486,210	405,650	482,585	404,291

See accompanying notes to interim unaudited condensed consolidated financial statements

CMGI, INC. AND SUBSIDIARIES

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

	Nine Months Ended April 30, 2005	Nine Months Ended April 30, 2004
Cash flows from operating activities of continuing operations:		
Net income	$ 26,251	$ 93,777
Loss from discontinued operations	(2,047)	(984)
	28,298	94,761
Adjustments to reconcile net income to cash used for continuing operations:		
Depreciation and amortization	15,756	5,635
Non-operating gains, net	(425)	(45,083)
Equity in income (losses) of affiliates	261	1,571
Non-cash restructuring charges	158	504
Minority interest	—	1,274
Changes in operating assets and liabilities, excluding effects from acquired and divested subsidiaries:		
Trade accounts receivable	(31,050)	(3,284)
Inventories	(28,335)	(12,800)
Prepaid expenses and other current assets	10,920	2,551
Accounts payable, accrued restructuring and expenses	7,808	1,341
Refundable and accrued income taxes, net	(23,097)	(71,031)
Other assets and liabilities	(546)	2,649
Net cash used for operating activities of continuing operations	(20,252)	(21,912)
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(7,853)	(4,793)
Net proceeds from sales of available-for-sale securities	—	79,463
Net cash impact of Modus acquisition, including retirement of Modus' indebtedness	(68,073)	—
Proceeds from affiliate distributions	1,098	—
Investments in affiliates	(4,328)	—
Net cash provided by (used for) investing activities of continuing operations	(79,156)	74,670
Cash flows from financing activities of continuing operations:		
Proceeds from revolving line of credit	9,000	13,000
Repayments of revolving line of credit	—	(2,000)
Repayments on capital leases	(224)	—
Repayments of long-term debt	(535)	(1,131)
Proceeds from issuance of common stock	5,116	1,224
Net cash provided by financing activities of continuing operations	13,357	11,093
Net cash used for discontinued operations	(201)	(1,051)
Net effect of exchange rate changes on cash and cash equivalents	1,294	—
Net increase (decrease) in cash and cash equivalents	(84,958)	62,800
Cash and cash equivalents at beginning of period	271,871	196,916
Cash and cash equivalents at end of period	$186,913	$259,716

See accompanying notes to interim unaudited condensed consolidated financial statements

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

A. NATURE OF OPERATIONS

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

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

On August 2, 2004, CMGI completed its acquisition of Modus Media, Inc., a privately held provider of supply chain management solutions ("Modus"), which conducted business through its wholly owned subsidiary, Modus Media International, Inc. CMGI acquired Modus in order to expand the geographic presence of its supply chain management offerings, diversify its customer base, broaden its product and service offerings and bolster its management team. Modus Media International, Inc., has been renamed ModusLink Corporation, and the Company's supply chain management businesses are now operated under the ModusLink name. Through the formation of ModusLink, CMGI has created a supply chain management market leader with expected fiscal 2005 revenue of nearly $1 billion, 28 locations in 13 countries, including a significant China presence, and a widely diversified client base that includes leaders in technology, software and consumer electronics.

Historically, CMGI's supply chain management business was operated by SalesLink LLC (formerly SalesLink Corporation) and SL Supply Chain Services International Corp. On July 31, 2003, CMGI contributed the capital stock of SL Supply Chain Services International Corp. to SalesLink. As used herein, references to SalesLink for periods prior to August 2, 2004 refer to SalesLink and SL Supply Chain Services International Corp. References to SalesLink for periods including and after August 2, 2004 refer to SalesLink's marketing distribution services business. All references to ModusLink include the marketing distribution services business of SalesLink.

B. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by CMGI in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of the Company's financial position, results of operations and cash flows at the dates and for the periods indicated. While the Company believes that the disclosures presented are adequate to make the information not misleading, these condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2004 which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on October 14, 2004. The results for the three-month and nine-month periods ended April 30, 2005 are not necessarily indicative of the results to be expected for the full fiscal year. Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform to the current year presentation. Discontinued operations reporting has been applied for certain of the Company's divestitures.

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

In addition to its three current operating segments, the Company continues to report an Enterprise Software and Services segment (that consists of the operations of Equilibrium and CMGI Solutions), 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 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 Enterprise Software and Services, 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 have been divested or substantially wound down.

The Other category represents corporate expenses consisting primarily of directors and officers insurance costs, costs associated with maintaining certain of the Company's information technology systems and certain corporate administrative functions such as legal and finance, as well as certain administrative costs related to the Company's venture capital affiliates. The Other category's balance sheet information includes certain cash equivalents, available-for-sale securities, investments and other assets, which are not identifiable to the operations of the Company's operating business segments.

In accordance with US GAAP, all significant intercompany transactions and balances have been eliminated in consolidation. Accordingly, segment results reported by the Company exclude the effect of transactions between the Company and its subsidiaries and between the Company's subsidiaries.

C. NEW ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, *Inventory Costs*, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not believe the adoption of SFAS No. 151 will have a material impact on our consolidated financial statements or results of operations.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, which eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not believe the adoption of SFAS No. 153 will have a material impact on our consolidated financial statements or results of operations.

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This eliminates the exception to account for such awards using the intrinsic method previously allowable under APB Opinion No. 25. SFAS No. 123(R) will be effective for annual reporting periods beginning after June 15, 2005. The Company will adopt SFAS No. 123(R) during its first quarter of fiscal year 2006. We are currently evaluating the impact of the adoption of SFAS No. 123(R) and therefore we are currently unable to quantify its effect on our condensed consolidated financial statements and results of operations; however, we believe that our stock compensation expense will increase in absolute dollars upon adoption of the standard. See pro forma disclosure as currently provided under SFAS 123 in note F.

In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107 regarding the Staff's interpretation of SFAS No. 123R. This interpretation provides the Staff's views regarding interactions between SFAS No. 123R and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. The interpretive guidance is intended to assist companies in applying the provisions of SFAS No. 123R and investors and users of the financial statements in analyzing the information provided. We will follow the guidance prescribed in SAB No. 107 in connection with its adoption of SFAS No. 123R.

In March 2005, the FASB issued Interpretation ("FIN") No. 47, *"Accounting for Conditional Asset Retirement Obligations—an Interpretation of FASB Statement No. 143."* This Interpretation clarifies the timing of liability recognition for legal obligations associated with an asset retirement when the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. We do not believe the adoption of FIN No. 47 will have a material impact on our consolidated financial statements or results of operations.

D. BUSINESS COMBINATIONS

On August 2, 2004, the Company completed its acquisition of Modus. Under the terms of the Merger Agreement, the Company issued approximately 68.6 million shares of CMGI common stock and assumed or substituted options to purchase approximately 12.6 million shares of CMGI common stock in exchange for all outstanding equity of Modus. In addition, the Company paid $100.7 million to retire Modus' indebtedness and $2.5 million for certain deal related costs. These cash payments were partially offset by Modus' cash acquired of $37.0 million, for a net cash payment of $66.2 million. The acquisition expands the geographic presence of the Company's supply chain management offerings, diversifies its customer base, broadens its product and service offerings and bolsters its management team. These factors contributed to a purchase price in excess of the fair value of Modus' net tangible and intangible assets acquired, and as a result, the Company has recorded goodwill in connection with this transaction.

The purchase price to acquire the equity of Modus was approximately $143.4 million, consisting of 68.6 million shares of CMGI common stock valued at approximately $122.8 million, assumed or substituted options valued at approximately $17.0 million, of which approximately $1.8 million was allocated to deferred compensation, and $3.6 million of deal related costs. The value of the CMGI common stock issued was determined using the 5-day average market price around the measurement date, May 19, 2004, in accordance with Emerging Issues Task Force (EITF) Issue No. 99-12 *"Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination"* and SFAS No. 141 "Business Combinations". The value of the 12.6 million options issued was calculated using a Black-Scholes model with the following assumptions: volatility of 70.69%, risk-free interest rate of 3.48% and expected lives ranging from 6 months to 6.4 years.

The balance sheet and results of operations of Modus have been included in the Company's consolidated financial statements beginning August 2, 2004.

CMGI, INC. AND SUBSIDIARIES

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

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	August 2, 2004 (in thousands)
Cash and cash equivalents	$ 37,045
Other current assets	119,485
Property, plant, and equipment	31,388
Other non-current assets	5,316
Identifiable intangible assets	26,590
Goodwill	161,868
Total assets acquired	381,692
Current liabilities	133,351
Other non-current liabilities	5,998
Long-term debt	100,717
Total liabilities assumed	240,066
Net assets acquired	$ 141,626
Deferred compensation component of purchase price	$ 1,765

Of the $26.6 million of acquired identifiable intangible assets, $20.5 million was assigned to customer relationships (estimated useful life of 7 years), $3.5 million was assigned to developed technology (estimated useful life of 3 years), $2.2 million was assigned to trade names (estimated useful life of 3 years) and $0.4 million was assigned to non-compete agreements (estimated useful life of 1 year). Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes. Goodwill will not be amortized and will be tested for impairment, at least annually. The preliminary purchase price allocation for Modus is subject to revision as more detailed analysis is completed and additional information on the fair value of assets and liabilities acquired becomes available. Any change in the fair value of the acquired net assets of Modus will change the amount of the purchase price allocable to goodwill.

As of April 30, 2005, certain integration activities related to the Company's acquisition of Modus had not yet been completed. Accordingly, during the fourth quarter, the Company expects to incur additional costs related to integrating its acquisition of Modus. These costs may include employee termination charges, costs to exit facility and equipment related obligations, and costs associated with the elimination of redundant overhead and infrastructure between the Company and Modus. Such costs, if incurred, will be reflected as either restructuring charges or as adjustments to goodwill in accordance will the applicable accounting guidance.

Amortization of intangible assets and stock-based compensation for the three and nine months ended April 30, 2005 and 2004, respectively, consisted of the following:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2005	2004	2005	2004
	(in thousands)			
Amortization of intangible assets	$1,307	$—	$3,919	$—
Amortization of stock-based compensation	1,098	72	4,401	262
Total	$2,405	$ 72	$8,320	$262

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

The amortization of intangible assets for the three and nine months ended April 30, 2005 would have been primarily allocated to selling expenses had the Company recorded the expenses within the functional operating expense categories. The amortization of stock-based compensation for the three and nine months ended April 30, 2005 would have been allocated $0.3 million and $0.8 million, respectively, to cost of goods sold, $0.2 million and $1.0 million, respectively, to selling expenses and $0.6 million and $2.6 million, respectively, to general and administrative expenses had the Company recorded the expenses within the functional operating expense categories. The amortization of stock-based compensation for the three and nine months ended April 30, 2004 would have been allocated to general and administrative expenses.

The carrying amount of goodwill as of April 30, 2005 is as follows:

	Americas	Europe	Asia	Total
	(in thousands)			
Balance as of July 31, 2004	$ 22,122	$ —	$ —	$ 22,122
Goodwill from acquisition of Modus	60,346	24,388	77,134	161,868
Balance as of April 30, 2005	$ 82,468	$ 24,388	$ 77,134	$ 183,990

The following unaudited pro forma financial information presents the consolidated operations of the Company as if the August 2, 2004 acquisition of Modus had occurred as of the beginning of fiscal year 2004. The pro forma financial results of operations, for the three months ended April 30, 2004, included a $0.3 million non-recurring charge for Modus incurred deal costs associated with a potential transaction that was not consummated. The pro forma financial results of operations, for the nine months ended April 30, 2004, included approximately $1.1 million of restructuring charges for severance related costs for former Modus executives, a $0.3 million reduction to a previously recorded Modus facility lease obligation, as well as the $0.3 million non-recurring charge for the prior Modus deal costs mentioned above. The following unaudited pro forma financial information is provided for informational purposes only and should not be construed to be indicative of the Company's consolidated results of operations had the acquisition been consummated on the date assumed and do not project the Company's results of operations for any future period:

	Three months ended	Nine months ended
	April 30, 2004	
	(in thousands, except per share data)	
Net revenue	$ 241,345	$ 727,019
Income from continuing operations	$ 69,898	$ 103,275
Net income	$ 69,959	$ 102,291
Net earnings per share (basic)	$ 0.15	$ 0.22
Net earnings per share (diluted)	$ 0.14	$ 0.21

CMGI, INC. AND SUBSIDIARIES

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

E. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Customer Relationships	Developed Technology	Trade Names	Non-compete Agreements	Total
			(in thousands)			
Balance as of July 31, 2004	$ 22,122	$ —	$ —	$ —	$ —	$ 22,122
Goodwill and other intangible assets from the acquisition of Modus	154,118	20,500	3,500	2,190	400	180,708
Gross carrying amount	176,240	20,500	3,500	2,190	400	202,830
Amortization expense	—	(731)	(292)	(183)	(100)	(1,306)
Balance as of October 31, 2004	$176,240	$ 19,769	$ 3,208	$2,007	$ 300	$201,524
Goodwill adjustment from the acquisition of Modus	4,222	—	—	—	—	4,222
Amortization expense	—	(731)	(292)	(183)	(100)	(1,306)
Balance as of January 31, 2005	$180,462	$ 19,038	$ 2,916	$1,824	$ 200	$204,440
Goodwill adjustment from the acquisition of Modus	3,528	—	—	—	—	3,528
Amortization expense	—	(731)	(292)	(184)	(100)	(1,307)
Balance as of April 30, 2005	$183,990	$ 18,307	$ 2,624	$1,640	$ 100	$206,661

During the three months ended April 30, 2005, the Company recorded a purchase accounting adjustment to goodwill of $3.5 million, of which $2.9 million related to restructuring initiatives at certain former Modus locations in the Americas and Europe regions, in connection with the Company's Modus acquisition. These restructuring intiatives primarily relate to the exiting of excess Modus office space.

In accordance with the provisions of SFAS No. 142, the Company has designated reporting units for purposes of assessing goodwill impairment. The standard defines a reporting unit as the lowest level of an entity that is a business and that can be distinguished, physically and operationally and for internal reporting purposes, from the other activities, operations, and assets of the entity. As of July 31, 2004, based on the provisions of SFAS No. 142, the Company had two reporting units for purposes of goodwill impairment testing. Upon completion of its acquisition of Modus Media on August 2, 2004, the Company concluded that it now has four reporting units (Americas, Asia, Europe and SalesLink) for purposes of goodwill impairment testing. The Company's policy is to perform its annual impairment testing for all reporting units in the fourth quarter of each fiscal year.

F. STOCK-BASED COMPENSATION

The Company accounts for its stock compensation plans under the provisions of FASB Statement No. 123, *"Accounting for Stock-Based Compensation"* ("SFAS No. 123"). As permitted by SFAS No. 123, the Company measures compensation cost in accordance with Accounting Principles Board (APB) Opinion No. 25, *"Accounting for Stock Issued to Employees"* and related interpretations. Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds,

CMGI, INC. AND SUBSIDIARIES

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

including tax benefits realized, are credited to equity. The following table illustrates the pro forma effect on net income/(loss) and earnings/(loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123.

	For the Three Months Ended April 30,		For the Nine Months Ended April 30,	
	2005	2004	2005	2004
	(in thousands, except per share amounts)			
Net income	$19,568	$ 69,402	$ 26,251	$ 93,777
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,004)	(15,912)	(16,160)	(83,782)
Add: Total stock-based employee compensation expense included in reported net income, net of related tax effects	1,098	72	4,401	262
Pro forma net income	$18,662	$ 53,562	$ 14,492	$ 10,257
Earnings per share:				
Basic—as reported	$ 0.04	$ 0.17	$ 0.06	$ 0.24
Basic—pro forma	$ 0.04	$ 0.13	$ 0.03	$ 0.03
Diluted—as reported	$ 0.04	$ 0.17	$ 0.05	$ 0.23
Diluted—pro forma	$ 0.04	$ 0.13	$ 0.03	$ 0.03

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

	For the Three Months Ended April 30,		For the Nine Months Ended April 30,	
	2005	2004	2005	2004
Risk-free interest rate	3.9%	2.8%	3.5%	2.7%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	75.1%	79.3%	71.1%	103.0%
Expected life (years)	5.78	6.35	4.18	4.62
Weighted average fair value of options granted during the period	$ 1.62	$ 1.40	$ 0.96	$ 1.20

During the nine months ended April 30, 2005, the Company issued approximately 5.4 million shares of nonvested CMGI common stock to certain executives and other employees of the Company and its subsidiaries. In connection with these nonvested stock grants the Company recorded approximately $1.1 million and $4.3 million of stock compensation expense during the three and nine months ended April 30, 2005, respectively. In addition, the Company also recorded approximately $0.1 million of stock compensation expense during the nine months ended April 30, 2005 related to shares of nonvested CMGI common stock issued in fiscal 2004.

In December 2004, at the Company's Annual Meeting of Stockholders, the stockholders of the Company approved the 2004 Stock Incentive Plan (the "2004 Plan") pursuant to which the Company may grant stock options, stock appreciation rights, nonvested stock awards and other equity-based awards for the purchase of up to an aggregate of 15,000,000 shares of common stock of the Company. The maximum number of shares with respect to which stock options may be granted to any one participant under the 2004 Plan may not exceed

6,000,000 shares per calendar year. The maximum number of shares with respect to which awards other than stock options and stock appreciation rights may be granted under the 2004 Plan is 5,000,000 shares.

As of April 30, 2005 15,000,000 shares were available for issuance under the plan.

G. OTHER GAINS (LOSSES), NET

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2005	2004	2005	2004
	(in thousands)			
Gain on sales of marketable securities, net	$ —	$ 741	$ —	$44,543
Loss on impairment of marketable securities	—	—	—	(27)
Foreign exchange losses	(198)	(83)	(3,315)	(173)
Other, net	188	665	702	740
	$ (10)	$1,323	$(2,613)	$45,083

During the three and nine months ended April 30, 2005, the Company incurred foreign exchange losses of approximately $0.2 million and $3.3 million, respectively. These foreign exchange losses related primarily to unhedged foreign currency exposures in Asia. The Company has historically had very low exposure to changes in foreign currency exchange rates, and as such, has not used derivative financial instruments to manage foreign currency fluctuation risk. As a result of the acquisition of Modus, the Company has added operations in various countries throughout the world and its operating results and financial position can be affected by significant fluctuations in foreign currency exchange rates. Modus has historically used derivative financial instruments, principally foreign currency exchange contracts, to manage the exposure that results from such fluctuations, and the Company expects to continue such practice. However, the Company has certain foreign exchange exposures in Asia, related to intercompany loans denominated in United States Dollars (USD) to certain of the Company's subsidiaries outside that region, which the Company has not historically hedged. The Company is currently evaluating risk management strategies to minimize this exposure in the future.

During the three and nine months ended April 30, 2004, the Company sold marketable securities for total proceeds of approximately $0.7 million and $79.5 million, respectively, and recorded net pre-tax gains of approximately $0.7 million and $44.5 million, respectively, on these sales. The shares sold during the three months ended April 30, 2004 consisted of approximately 0.2 million shares of NaviSite, Inc. common stock for total proceeds of approximately $0.7 million. The shares sold during the nine months ended April 30, 2004 also included approximately 1.0 million shares of Loudeye Corp. common stock sold for proceeds of approximately $2.3 million, approximately 3.2 million shares of Overture Services, Inc. common stock sold by the Company's AltaVista subsidiary for total proceeds of approximately $75.4 million and approximately 0.2 million shares of Primus Knowledge Solutions common stock for proceeds of approximately $1.0 million.

CMGI, INC. AND SUBSIDIARIES

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

The following table summarizes the activity in the restructuring accrual for the three and nine months ended April 30, 2005:

	Employee Related Expenses	Contractual Obligations	Asset Impairments	Total
Accrued restructuring balance at July 31, 2004	$ 296	$ 14,845	$ —	$15,141
Restructuring liability assumed in conjunction with the Modus acquisition	954	1,927	—	2,881
Restructuring accrual—Modus acquisition	2,738	3,201	—	5,939
Restructuring charges	456	856	—	1,312
Restructuring adjustments	—	24	—	24
Cash charges	(2,165)	(3,471)	—	(5,636)
Accrued restructuring balance at October 31, 2004	$ 2,279	$ 17,382	$ —	$19,661
Restructuring accrual—Modus acquisition	1,816	2,192	—	4,008
Restructuring charges	479	340	158	977
Cash charges	(1,510)	(2,194)	—	(3,704)
Non-cash charges	—	—	(158)	(158)
Accrued restructuring balance at January 31, 2005	$ 3,064	$ 17,720	$ —	$20,784
Restructuring accrual—Modus acquisition	4	2,899	—	2,903
Restructuring charges	1,101	125	—	1,226
Restructuring adjustments	—	246	—	246
Cash charges	(1,957)	(1,938)	—	(3,895)
Accrued restructuring balance at April 30, 2005	$ 2,212	$ 19,052	$ —	$21,264

It is expected that the payments of employee-related expenses will be substantially completed by July 31, 2005. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the previous restructuring activities of the Company, and excess plant capacity relating to the Company's Modus acquisition on August 2, 2004. The Company anticipates that all contractual obligations will be settled by May 2012.

The net restructuring charges for the three and nine months ended April 30, 2005 and 2004, 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 April 30,		Nine Months Ended April 30,	
	2005	2004	2005	2004
	(in thousands)			
Cost of revenue	$ 719	$2,782	$1,751	$2,847
Selling	113	—	182	—
General and administrative	640	29	1,852	2,719
	$1,472	$2,811	$3,785	$5,566

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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During the three months ended April 30, 2005, the Company recorded net restructuring charges of approximately $1.5 million. These charges consisted of approximately $1.2 million relating to a workforce reduction of 78 employees, $0.1 million relating to unutilized facilities for which the Company expects to realize no future economic benefit, and adjustments of approximately $0.2 million to previously recorded restructuring estimates for facility lease obligations primarily based on changes to the underlying assumptions regarding the estimated length of time required to sublease each vacant space and the expected rent recovery rates. In addition, the Company also accrued approximately $2.9 million primarily relating to a former Modus location in the Americas region.

During the nine months ended April 30, 2005, the Company recorded net restructuring charges of approximately $3.8 million. These charges consist of approximately $2.0 million related to a workforce reduction of 134 employees, approximately $1.5 million relating to unutilized facilities for which the Company expects to realize no future economic benefit, adjustments of approximately $0.2 million to previously recorded restructuring estimates for facility lease obligations primarily based on changes to the underlying assumptions regarding the estimated length of time required to sublease each vacant space and the expected rent recovery rates, and $0.1 million relating to the impairment of certain assets no longer in service.

In conjunction with the acquisition of Modus, the Company assumed approximately $2.9 million of Modus restructuring liabilities. In addition, during the nine months ended April 30, 2005, the Company accrued approximately $12.8 million of restructuring charges in connection with the Company's Modus acquisition. These assumed and accrued charges totaled $8.1 million, $7.1 million and $0.5 million in the Americas, Europe and Asia regions, respectively, and primarily relate to the elimination of excess plant capacity and redundant infrastructure in those regions.

As of April 30, 2005, certain integration activities related to the Company's acquisition of Modus had not yet been completed. Accordingly, in future periods, the Company expects to incur additional costs related to integrating its acquisition of Modus. These costs may include employee termination charges, costs to exit facility and equipment-related obligations, and costs associated with the elimination of redundant overhead and infrastructure between the Company and Modus. Such costs, if incurred, will be reflected as either restructuring charges or as adjustments to goodwill, in accordance with the applicable accounting guidance.

During the three months ended April 30, 2004, the Company recorded net restructuring charges of approximately $2.8 million. The restructuring charge primarily reflects adjustments of $0.2 million at iCAST and $2.8 million at SalesLink to previously recorded estimates for facility lease obligations as the facilities are expected to be vacant for longer than originally estimated. These charges were partially offset by a $0.1 million adjustment to reduce a previously recorded restructuring accrual for a facility lease obligation of the Company, based on the actual terms of a sublease signed during the period.

During the nine months ended April 30, 2004, the Company recorded net restructuring charges of approximately $5.6 million. In addition to the items noted in the quarter ended April 30, 2004, the Company recorded a $0.6 million charge related to a hosting services contract that the Company is no longer utilizing, as it represented excess capacity. The reduction in hosting services required to support the business is primarily the result of the divestiture of several subsidiaries in fiscal 2003. Also during the period, the Company recorded a charge of $0.3 million related to a workforce reduction of 17 employees, a charge of $0.5 million to write-off certain software and hardware related assets no longer being utilized by the Company, a $0.4 million charge related to equipment and facility lease obligations under which the Company expects to realize no future economic benefit, and adjustments to previously recorded restructuring estimates for facility lease obligations based on changes to the underlying assumption relating to the estimated length of time to sublet vacant space. These charges were partially offset by an adjustment to a previously recorded facility lease obligation as a result of the Company exercising a lease termination option.

I. DERIVATIVES AND FINANCIAL INSTRUMENTS

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

The Company believes that its forward currency exchange contracts economically function as effective hedges of the underlying exposures, however the foreign currency contracts do not meet the specific criteria for hedge accounting defined in SFAS No. 133, thus requiring the Company to record all changes in the fair value of these contracts in earnings in the period of the change. During the quarter ended April 30, 2005, the Company recorded an unrealized loss of $0.1 million, as a result of fair value changes on its outstanding forward currency exchange contracts. This unrealized loss has been included in Other gains (losses), net in the Company's condensed consolidated statement of operations.

J. SEGMENT INFORMATION

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

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

In addition to its three current operating segments, the Company continues to report an Enterprise Software and Services segment (which consists of the operations of Equilibrium and CMGI Solutions), 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 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 Enterprise Software and Services, 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 have been divested or substantially wound down.

Management evaluates segment performance based on segment net revenue, operating income/(loss), net income/(loss) and "Non-GAAP operating income/(loss)", which is defined as the operating income/(loss) excluding net charges related to depreciation, long-lived asset impairment, restructuring, and amortization of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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intangible assets and stock-based compensation. The Company believes that Non-GAAP operating income/(loss) provides investors with a useful supplemental measure of the Company's operating performance by excluding the impact of non-cash charges and restructuring activities. Each of the excluded items (depreciation, long-lived asset impairment, amortization of intangible assets and stock-based compensation and restructuring) were excluded because they may be considered to be of a non-operational or non-cash nature. Historically, the Company has recorded significant impairment and restructuring charges. These charges, as well as charges related to depreciation and amortization of intangible assets and stock-based compensation, have been excluded for the purpose of enhancing the understanding by both management and investors of the underlying baseline operating results and trends of the business, which management uses to evaluate our financial performance for purposes of planning and forecasting future periods. Non-GAAP operating income/(loss) does not have any standardized definition and therefore is unlikely to be comparable to similar measures presented by other reporting companies. Non-GAAP operating income/(loss) results should not be evaluated in isolation of, or as a substitute for the Company's financial results prepared in accordance with US GAAP. The Company's usage of Non-GAAP operating income/(loss) and the underlying methodology in excluding certain charges, is not necessarily an indication of the results of operations that may be expected in the future, or that the Company will not, in fact, incur such charges in future periods.

The "Other" category includes certain corporate infrastructure expenses, which are not identifiable to the operations of the Company's operating business segments. The Other category represents corporate expenses consisting primarily of directors and officers insurance costs, costs associated with maintaining certain of the Company's information technology systems and certain corporate administrative functions such as legal and finance, as well as certain administrative costs related to the Company's venture capital affiliates. The Other category's balance sheet information includes certain cash and cash equivalents, available-for-sale securities, investments and other assets, which are not identifiable to the operations of the Company's operating segments.

One customer based in the U.S., Hewlett-Packard, accounted for approximately 35% and 69% of the Company's consolidated net revenue for the three months ended April 30, 2005 and 2004, respectively, and approximately 36% and 72% of the Company's consolidated net revenue for the nine months ended April 30, 2005 and 2004, respectively.

International revenues accounted for approximately 58% of total revenues during the nine months ended April 30, 2005 as compared to 48% for the same period in the prior year. The growth in our international operations, which is due to our Modus acquisition, has increased our exposure to foreign currency fluctuations. Revenues and related expenses generated from our international segments are generally denominated in the functional currencies of the local countries. Primary currencies include Euros, Singapore Dollars, British Pounds, Chinese Yuan Renminbi and Taiwan Dollars. The income statements of our international operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenues, operating expenses and net income for our Asia and Europe segments. Similarly, our revenues, operating expenses and net income will decrease for our Asia and Europe segments when the U.S. dollar strengthens against foreign currencies.

During the nine months ended April 30, 2005, the U.S. dollar weakened against the Euro and other foreign currencies. Using the foreign currency exchange rates from the beginning of our fiscal year, our Asia and Europe revenues for the nine months ended April 30, 2005 would have been lower than we reported using the actual exchange rates, by approximately $1.3 million and $7.5 million, respectively, and our operating income would have been higher by approximately $0.4 million and $1.1 million, respectively.

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2005	2004	2005	2004
	(in thousands)			
Net revenue:				
eBusiness and Fulfillment				
Americas	$106,379	$ 54,463	$343,857	$155,469
Asia	52,561	8,422	162,635	25,703
Europe	106,727	42,778	311,941	119,281
Total eBusiness and Fulfillment	265,667	105,663	818,433	300,453
Managed Application Services	—	126	84	503
	$265,667	$105,789	$818,517	$300,956
Operating income (loss):				
eBusiness and Fulfillment				
Americas	$ (1,312)	$ (3,968)	$ 2,323	$ (4,274)
Asia	3,969	(645)	19,673	(1,168)
Europe	132	789	302	3,243
Total eBusiness and Fulfillment	2,789	(3,824)	22,298	(2,199)
Managed Application Services	(432)	137	(348)	509
Portals	—	(221)	—	(1,807)
Other	(4,301)	(2,544)	(12,631)	(14,911)
	$ (1,944)	$ (6,452)	$ 9,319	$ (18,408)
Non-GAAP operating income (loss):				
eBusiness and Fulfillment				
Americas	$ 1,642	$ 312	$ 11,350	$ 2,716
Asia	5,319	(620)	24,808	(1,087)
Europe	1,518	845	4,287	3,400
Total eBusiness and Fulfillment	8,479	537	40,445	5,029
Managed Application Services	—	125	84	498
Portals	—	(8)	—	(27)
Other	(4,073)	(2,511)	(11,669)	(12,707)
	$ 4,406	$ (1,857)	$ 28,860	$ (7,207)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2005	2004	2005	2004
	(in thousands)			
Non-GAAP operating income (loss)	$ 4,406	$ (1,857)	$ 28,860	$ (7,207)
Adjustments:				
Depreciation	(2,473)	(1,712)	(7,436)	(5,373)
Amortization of intangible assets and stock-based compensation	(2,405)	(72)	(8,320)	(262)
Restructuring, net	(1,472)	(2,811)	(3,785)	(5,566)
GAAP operating income (loss)	$ (1,944)	$ (6,452)	$ 9,319	$ (18,408)
Other income (expense)	460	1,054	(1,574)	42,988
Income tax benefit	(23,099)	(74,739)	(20,553)	(70,181)
Income (loss) from discontinued operations	(2,047)	61	(2,047)	(984)
Net income	$ 19,568	$ 69,402	$ 26,251	$ 93,777

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	April 30, 2005	July 31, 2004
	(in thousands)	
Total assets of continuing operations:		
eBusiness and Fulfillment		
Americas	$ 229,609	$ 109,065
Asia	215,880	13,252
Europe	169,852	49,949
Total eBusiness and Fulfillment	615,341	172,266
Managed Application Services	1,075	1,053
Portals	408	414
Other	129,076	259,936
	$ 745,900	$ 433,669

K. 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. For the three and nine months ended April 30, 2005, approximately 8.7 million and 8.4 million weighted average common stock equivalent shares, respectively, were included in the denominator in the calculation of diluted earnings per share. For the three and nine months ended April 30, 2005, approximately 7.5 million and 7.6 million common stock equivalent shares and approximately 0.4 million nonvested shares were excluded from the denominator in the diluted earnings per share calculation as their inclusion would have been antidilutive. For the three and nine months ended April 30, 2004, approximately 4.9 million and 5.7 million weighted average common stock equivalent shares, respectively, were included in the denominator in the calculation of diluted earnings per share. For the three and nine months ended April 30, 2004, approximately 6.1 million and 6.4 million common stock equivalent shares, respectively, were excluded from the denominator in the diluted earnings per share calculation as their inclusion would have been antidilutive.

L. COMPREHENSIVE INCOME

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2005	2004	2005	2004
	(in thousands)			
Net income	$19,568	$69,402	$26,251	$ 93,777
Net unrealized holding gain (loss) arising during the period	(70)	(121)	(61)	1,153
Reclassification adjustment for net realized (gains) included in net income	—	(741)	—	(44,543)
	(70)	(862)	(61)	(43,390)
Foreign currency translation adjustment arising during the period	(153)	265	3,870	(209)
Comprehensive income	$19,345	$68,805	$30,060	$ 50,178

CMGI, INC. AND SUBSIDIARIES

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

	April 30, 2005	July 31, 2004
	(in thousands)	
Net unrealized holding (losses)	$ (80)	$ (19)
Cumulative foreign currency translation adjustment	3,554	(316)
	$ 3,474	$ (335)

M. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL INFORMATION

	Nine Months Ended April 30,	
	2005	2004
	(in thousands)	
Cash paid for interest	$1,207	$997
Cash paid for income taxes	$1,020	$752
Common stock issued in settlement of contractual obligation	$ —	$593
Nonvested stock grant to certain executives and employees (excluding acquisition related grant)	$6,671	$850

Significant non-cash investing activities during the nine months ended April 30, 2005 included the issuance of approximately 68.6 million shares of CMGI common stock and assumed or substituted options to purchase approximately 12.6 million shares of CMGI common stock in connection with the acquisition of Modus. In addition, the Company issued approximately 2.5 million shares of nonvested CMGI common stock (valued at approximately $3.6 million) to certain executives and employees of Modus in connection with the acquisition.

There were no significant non-cash investing activities during the nine months ended April 30, 2004.

N. INVENTORIES

Inventories at April 30, 2005 and July 31, 2004 consisted of the following:

	April 30, 2005	July 31, 2004
	(in thousands)	
Raw Materials	$ 50,894	$ 23,047
Work-in-process	1,554	39
Finished Goods	33,152	11,374
	$ 85,600	$ 34,460

O. CONTINGENCIES

On September 24, 2003, the Official Committee of Unsecured Creditors of Engage, Inc. (the “Creditors Committee”) filed a complaint against the Company in the U.S. Bankruptcy Court (Massachusetts, Western Division). The complaint was amended on November 6, 2003. In the amended complaint, the Creditors

Committee asserted a number of causes of action, including the following: (i) re-characterization of debt as equity, (ii) equitable subordination, (iii) invalidation of a release, (iv) fraudulent transfer, (v) preferential transfers, (vi) illegal redemption of shares, (vii) turnover of property of estate, (viii) alter ego, (ix) breach of contract, (x) breach of covenant of good faith and fair dealing, (xi) promissory estoppel, (xii) unjust enrichment, (xiii) unfair and deceptive trade practices under Massachusetts General Laws §93A, and (xiv) declaration with respect to scope and extent of security interests. The Creditors Committee seeks monetary damages and other relief, including cancellation of a $2.0 million promissory note, return of $2.5 million in cash, certain other unspecified amounts and a finding that the Company is liable for Engage's debt. In addition, on May 28, 2004, the Creditors Committee filed a complaint in the U.S. Bankruptcy Court against David Wetherell, George McMillan, Andrew Hajducky and Christopher Cuddy, in their individual capacities as former officers and/or directors of Engage. The Complaint asserts the following causes of action: (i) breaches of fiduciary duties, (ii) fraudulent misrepresentations, (iii) negligent misrepresentations, and (iv) unfair and deceptive trade practices. The Creditors Committee seeks unspecified monetary and other damages. The Company is obligated to indemnify each of Messrs. Wetherell, McMillan and Hajducky in connection with the foregoing action, subject to the terms of the Company's certificate of incorporation and by-laws. On August 23, 2004, the U.S. Bankruptcy Court entered an order consolidating the foregoing two cases into a single proceeding. In May 2005, the parties reached a conditional settlement of the consolidated cases covering the Company and Messrs. Wetherell, McMillan and Hajducky. Under the terms of the conditional settlement, the Company has agreed to release any claims under the $2.0 million promissory note and to pay the plaintiffs the sum of $2.5 million, of which $500,000 will be provided by a third party under an applicable insurance contract. The settlement is subject to approval by the Bankruptcy Court, and the parties anticipate a ruling within 30 days. If the settlement is not approved by the Bankruptcy Court, the settlement shall be deemed void and discovery in the underlying litigation would resume. The Company has recorded the $2.0 million net settlement within income (loss) from discontinued operations for the three and nine months ended April 30, 2005 on the Company's condensed consolidated statements of operations.

The Company is also a party to litigation, which it considers routine and incidental to its business. Management does not expect the results of any of these actions to have a material adverse effect on the Company's business, liquidity, results of operations or financial condition.

From time to time, the Company agrees to provide indemnification to its customers in the ordinary course of business. Typically, the Company agrees to indemnify its customers for losses caused by the Company including with respect to certain intellectual property, such as databases, software masters, certificates of authenticity and similar valuable intellectual property. As of April 30, 2005, the Company had no recorded liabilities with respect to these arrangements.

P. SUBSEQUENT EVENT

During May 2005, Molecular, one of CMGI@Ventures IV, LLC's portfolio companies, was acquired by Isobar. As a result of the transaction, the Company received proceeds of $6.1 million. The Company may receive up to $3.6 million of additional proceeds, depending on the satisfaction of certain earnout targets over the two years subsequent to the transaction, termination of the indemnification period, and the release of the shareholder escrow. The Company expects to record a gain on the sale of approximately $4.5 million during the fourth quarter of fiscal 2005.

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

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

Overview

CMGI, through its ModusLink and SalesLink subsidiaries, provides industry-leading global supply chain management services and marketing distribution solutions. ModusLink provides extended supply chain management services and solutions to the technology industry on a global basis. These services and solutions include supply base and inventory management, sourcing, manufacturing, configuration, assembly processes, EDI solutions offering direct connections with customer IT systems, distribution and fulfillment, e-commerce, order management, production, customer service and supply chain design and consulting. SalesLink provides marketing distribution services to our customers, fulfilling orders for promotional collateral and products by assembling and shipping the items requested. We also maintain interests in several venture capital funds which invest in emerging, innovative and promising technologies and industries. An aggregate of $4.3 million was invested by our venture capital affiliates during the nine months ended April 30, 2005.

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

As we entered fiscal 2004, we articulated the following goals:

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

Since that time, we believe that we have made substantial progress towards these goals through our sales and marketing efforts, cost savings initiatives, and our acquisition of Modus in August 2004. For the nine months ended April 30, 2005, CMGI reported net revenue of $818.5 million, an operating profit of $9.3 million and net income of $26.3 million. We currently conduct business in the United Kingdom, The Netherlands, Hungary, France, Singapore, Taiwan, China, Malaysia, Ireland and other foreign locations, in addition to the Company's North American operations. We expect to continue to develop, expand and refine our product and service offerings. At April 30, 2005, we had cash and cash equivalents of $186.9 million, and working capital of $219.3 million.

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

We have a limited number of key customers that account for a significant percentage of our revenue. For the fiscal year ended July 31, 2004, sales to one customer, Hewlett-Packard, accounted for approximately 71% of our consolidated net revenue. As a result of the Modus acquisition, we expect this customer concentration to be reduced to below 40% in fiscal 2005. For the three and nine months ended April 30, 2005, sales to Hewlett-Packard accounted for approximately 35% and 36% of the Company's consolidated net revenue, respectively. We currently do not have any agreements which obligate any customer to buy a minimum amount of products or services from us. Consequently, our sales are subject to demand variability by our customers. The level and timing of orders placed by our customers vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions. We expect to continue to derive the vast majority of our revenue from sales to a small number of key customers.

In fiscal 2005, our focus is on continuing to integrate ModusLink, as well as on expanding our customer base and service offerings, expanding relationships with existing customers, leveraging our operational expertise and global footprint, and capitalizing on outsourcing opportunities worldwide. Among the key external factors that will influence our fiscal 2005 performance are the continued improvement of global economic conditions, especially in the technology sector, increased demand for our customers' products, and increased demand for outsourcing services.

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

Results of Operations

In the discussion below of the Company's results of operations for the three and nine months ended April 30, 2005, the use of the terms "organic growth" or "organic decline" are in reference to the Company's SalesLink business pre-acquisition of Modus.

Three months ended April 30, 2005 compared to the three months ended April 30, 2004

Net Revenue:

	Three Months Ended April 30, 2005	As a % of Total Net Revenue	Three Months Ended April 30, 2004	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 106,379	40%	$ 54,463	52%	$ 51,916	95%
Asia	52,561	20%	8,422	8%	44,139	524%
Europe	106,727	40%	42,778	40%	63,949	149%
Total eBusiness and Fulfillment	265,667	100%	105,663	100%	160,004	151%
Managed Application Services	—	—	126	—	(126)	(100)%
Total	$ 265,667	100%	$ 105,789	100%	$159,878	151%

The increase in net revenue for the three months ended April 30, 2005, as compared to the same period in the prior year, was primarily attributable to the Company's acquisition of Modus on August 2, 2004.

For the three months ended April 30, 2005, as compared to the same period in the prior year, the Company's Modus acquisition contributed 100% of the year over year revenue growth within each of the Americas, Asia, and Europe segments. Additionally, the Americas region realized 4% year over year organic decline due to lower order volumes for certain customer programs during the third quarter of fiscal 2005 as compared to the prior year. Within the Europe region, year over year organic revenue was flat and in the Asia region organic revenues declined by approximately 84%, or $7.1 million primarily as a result of reduced order volumes attributable to the loss of a supply chain management program.

The Company derives substantially all of its revenue by providing supply chain management services. Our business and future growth will continue to depend in large part on the industry trend towards outsourcing supply chain management and other business processes. During the three months ended April 30, 2005 and 2004, one customer, Hewlett-Packard, accounted for approximately 35% and 69% of the Company's consolidated net revenues, respectively.

As a result of the Modus acquisition, we expect our operating results to be affected by seasonality driven demand for certain of our customers' products, including consumer electronics and computer software programs. We expect this seasonality to contribute to higher sales in the Americas region during our second fiscal quarter as compared to the other periods of our fiscal year. This seasonality driven demand did not impact our third quarter nor is it expected to be realized in the Company's fourth quarter of fiscal 2005. In addition, there can be no assurance that this seasonality driven demand will continue in future periods.

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

Cost of Revenue:

	Three Months Ended April 30, 2005	As a % of Segment Net Revenue	Three Months Ended April 30, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 98,451	93%	$ 51,743	95%	$ 46,708	90%
Asia	41,256	78%	8,092	96%	33,164	410%
Europe	98,214	92%	40,517	95%	57,697	142%
Total eBusiness and Fulfillment	$ 237,921	90%	$ 100,352	95%	$137,569	137%

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 Company's cost of revenue for the three months ended April 30, 2005 increased as compared to the same period in the prior year, primarily as a result of the Company's acquisition of Modus on August 2, 2004. In addition, the Modus acquisition was primarily responsible for the increase in gross margins from 5% to 10%, year over year.

Cost of revenue and gross margins within the Americas, Asia, and Europe segments increased for the three months ended April 30, 2005, as compared to the same period in the prior year, primarily as a result of the cost of revenue and gross margin contributions from the Company's Modus acquisition. The Company's gross margin percentages within the Americas, Asia and Europe segments were 7%, 22% and 8%, respectively, for the three months ended April 30, 2005, as compared to 5%, 4% and 5%, respectively, for the same period of the prior year. During the third quarter of fiscal 2005, the Company's gross margins were negatively impacted by a price concession to a major customer within the Asia region, which reduced the Company's overall gross margin by approximately 1.5%. The Company expects that this price concession will have a similar effect to the overall gross margin in the fourth quarter of fiscal 2005. In recent years, the demand for supply chain management services in both the Americas and Europe has been adversely affected by customers' migration of their work to lower cost regions of world, particularly Asia. Accordingly, as a result of the lower overall cost of delivering the Company's products and services in the Asia region, particularly China, and the increasing demand for supply chain management services in that region, we expect gross margin levels in Asia to continue to exceed those earned in the Americas and Europe regions. However, over the long-term, we expect that the gross margin levels earned in Asia will more closely approximate those of the Americas and Europe. Our gross margins are impacted by a number of factors, including competition, order volumes, pricing, customer mix, and overall demand for our customers' products. A significant portion of the costs required to deliver our products and services is fixed in nature. The Company is continually focused on margin improvement through cost reductions and asset and employee productivity gains, in order to improve the profitability of our business and maintain our competitive position. We are reacting to margin and pricing pressures in several ways, including efforts to lower our cost to service customers, moving work to lower-cost venues, establishing facilities closer to our customers to gain efficiencies, and adding other service offerings at higher margins.

Selling Expenses:

	Three Months Ended April 30, 2005	As a % of Segment Net Revenue	Three Months Ended April 30, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 1,594	1%	$ 709	1%	$ 885	125%
Asia	1,375	3%	76	1%	1,299	1,709%
Europe	1,826	2%	579	1%	1,247	215%
Total eBusiness and Fulfillment	4,795	2%	1,364	1%	3,431	252%
Other	—	—	1	—	(1)	(100)%
Total	$ 4,795	2%	$ 1,365	1%	$ 3,430	251%

Selling expenses consist primarily of compensation and employee-related expenses, sales commissions, facilities costs, marketing expenses and travel costs. Selling expenses increased during the three months ended April 30, 2005, as compared to the same period in the prior fiscal year, primarily as a result of the Company's acquisition of Modus, which contributed approximately 87% of the year over year increase. The remaining 13% increase in selling expenses year over year were primarily attributable to increased consulting and professional fees of approximately $0.3 million and travel-related costs of approximately $0.3 million. Of the Company's total selling expenses for the three months ended April 30, 2005 and 2004, employee-related costs represented approximately 69% of the total selling expense in each period. The Company expects its selling expenses to continue to approximate 2% of net revenue for the foreseeable future.

General and Administrative Expenses:

	Three Months Ended April 30, 2005	As a % of Segment Net Revenue	Three Months Ended April 30, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 5,980	6%	$ 3,197	6%	$ 2,783	87%
Asia	5,175	10%	899	11%	4,276	476%
Europe	5,779	5%	893	2%	4,886	547%
Total eBusiness and Fulfillment	16,934	6%	4,989	5%	11,945	239%
Managed Application Services	—	—	1	1%	(1)	(100)%
Portals	—	—	8	—	(8)	(100)%
Other	4,084	—	2,643	—	1,441	55%
Total	$ 21,018	8%	$ 7,641	7%	$13,377	175%

General and administrative expenses consist primarily of compensation and other employee-related costs, facilities costs, depreciation expense and fees for professional services. General and administrative expenses within the Americas, Asia, and Europe segments increased during the three months ended April 30, 2005, as compared to the same period in the prior fiscal year, primarily as a result of the Company's acquisition of Modus, which contributed approximately 98% of the year over year increase. The remaining 2% increase in general and administrative expenses within the Americas, Asia, and Europe segments was primarily attributable to higher accounting, legal and professional fees of approximately $0.9 million and employee-related costs of approximately $0.3 million. This increase was partially offset by a $0.9 million reduction in depreciation costs associated with the replacement of an Enterprise Resource Planning (ERP) system in fiscal year 2004.

The general and administrative expenses within the Other category primarily reflect the cost of the Company's directors and officers insurance, costs associated with certain corporate administrative functions, such as legal and finance, which are not fully allocated to the Company's subsidiary companies, as well as administration costs related to the Company's venture capital affiliates. General and administrative expenses within the Other category increased over the prior year primarily as a result of higher professional fees of approximately $0.2 million associated with evaluating certain integration and strategic initiatives related to the Company's ModusLink subsidiary as well as higher accounting and legal fees of approximately $0.3 million and $1.0 million, respectively. This increase was partially offset by lower directors and officers insurance costs of approximately $0.2 million. The Company expects its general and administrative costs to increase, both on an absolute dollar basis and as a percentage of revenue, during the fourth quarter of fiscal 2005 as a result of higher accounting-related fees in connection with the Company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and costs associated with migrating the Company's ModusLink subsidiary to a common ERP platform.

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Amortization of Intangible Assets and Stock-Based Compensation:

	Three Months Ended April 30, 2005	As a % of Segment Net Revenue	Three Months Ended April 30, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 990	1%	—	—	$ 990	100%
Asia	775	1%	—	—	775	100%
Europe	367	—	—	—	367	100%
Total eBusiness and Fulfillment	2,132	1%	—	—	2,132	100%
Other	273	—	$ 72	—	201	279%
Total	$ 2,405	1%	$ 72	—	$ 2,333	3,240%

Amortization of intangible assets and stock-based compensation for the three months ended April 30, 2005 includes approximately $0.7 million of stock-based compensation related to the issuance of approximately 2.5 million shares of nonvested CMGI common stock to certain ModusLink executives and employees in connection with the Company's acquisition of Modus. These nonvested shares vest over one year. The Company also recorded $0.1 million of stock-based compensation attributed to the amortization of the intrinsic value of unvested Modus stock options assumed by the Company in connection with its acquisition of Modus. Amortization of intangible assets and stock-based compensation within the Other category relates to the issuance of nonvested CMGI stock to certain executives of the Company in fiscal 2004 and 2005. In addition, the Company recorded amortization of intangible assets of approximately $1.3 million for the three months ended April 30, 2005. The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of Modus. These intangible assets are being amortized over lives ranging from 1 to 7 years.

The Company believes that stock-based compensation expense in absolute dollars will increase upon adoption of SFAS No. 123(R). See "Recent Accounting Pronouncements" for further discussion of the impact of the adoption of SFAS No. 123(R), which will be effective for the Company beginning August 1, 2005.

Restructuring, net:

	Three Months Ended April 30, 2005	As a % of Segment Net Revenue	Three Months Ended April 30, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 676	1%	$ 2,782	5%	$(2,106)	(76)%
Asia	11	—	—	—	11	100%
Europe	409	1%	—	—	409	100%
Total eBusiness and Fulfillment	1,096	1%	2,782	3%	(1,686)	(61)%
Managed Application Services	432	—	(12)	(10)%	444	3,700%
Portals	—	—	213	—	(213)	(100)%
Other	(56)	—	(172)	—	116	67%
Total	$ 1,472	1%	$ 2,811	3%	$(1,339)	(48)%

During the three months ended April 30, 2005, the Company recorded net restructuring charges of approximately $1.5 million. These charges consisted of approximately $1.2 million relating to a workforce reduction of 78 employees, $0.1 million relating to unutilized facilities for which the Company expects to realize no future economic benefit, and adjustments of approximately $0.2 million to previously recorded restructuring estimates for facility lease obligations primarily based on changes to the underlying assumptions regarding the estimated length of time required to sublease each vacant space and the expected rent recovery rates.

During the three months ended April 30, 2004, the Company recorded net restructuring charges of approximately $2.8 million. The restructuring charge primarily reflected adjustments of $0.2 million at iCAST and $2.8 million at SalesLink to previously recorded estimates for facility lease obligations as the facilities are expected to be vacant for longer than originally estimated. These charges were partially offset by a $0.1 million adjustment to reduce a previously recorded restructuring accrual for a facility lease obligation of the Company, based on the actual terms of a sublease signed during the period.

As of April 30, 2005, certain integration activities related to the Company’s acquisition of Modus had not yet been completed. Accordingly, during the fourth quarter, the Company expects to incur additional costs related to integrating its acquisition of Modus. These costs may include employee termination charges, costs to exit facility and equipment-related obligations, and costs associated with the elimination of redundant overhead and infrastructure between the Company and Modus. Such costs, if incurred, will be reflected as either restructuring charges or as adjustments to goodwill, in accordance with the applicable accounting guidance.

Interest Income/Expense:

During the three months ended April 30, 2005, interest income totaled $1.2 million as compared to $0.8 million for the same period in the prior fiscal year. The increase in interest income was primarily the result of higher average interest rates during the current period compared to the same period in the prior fiscal year. In addition, the Company received an additional $0.2 million of interest income related to the maturity of a note receivable obtained as part of the proceeds from the sale by the Company’s uBid subsidiary of substantially all of its assets in fiscal year 2003. The increase in interest income generated by the interest rate increases was partially offset by a decrease in the average cash balances primarily as a result of the Company’s acquisition of Modus on August 2, 2004, for which the Company made a net cash payment of approximately $66.2 million to retire Modus’ debt and pay certain deal-related costs.

Interest expense totaled $0.4 million for the three months ended April 30, 2005 as compared to $0.5 million for the same period of the prior fiscal year. In both periods, interest expense of approximately $0.2 million related to the Company’s stadium obligation, and the remaining interest expense related primarily to outstanding borrowings on ModusLink’s revolving bank credit facility.

Other Gains (losses), net:

Other gains (losses), net, totaled a loss of $0.01 million for the three months ended April 30, 2005 as compared to a gain of $1.3 million for the same period of the prior fiscal year. During the three months ended April 30, 2005, the Company incurred foreign exchange losses of approximately $0.2 million, primarily related to unhedged foreign currency exposures in Asia. Other gains (losses), net, for the three months ended April 30, 2004 primarily consisted of a $0.7 million gain on the sale of marketable securities, partially offset by a $0.1 million loss on foreign exchange.

Equity in losses of affiliates, net:

Equity in losses of affiliates, net, resulted from the Company’s minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting the Company’s proportionate share of each affiliate’s income (losses) is included in equity in income (losses) of affiliates. Equity in losses of affiliates decreased to a loss of $0.3 million for the three months ended April 30, 2005, from a loss of $0.7 million for the same period in the prior fiscal year. Included in the equity in losses of affiliates for the three months ended April 30, 2004, are impairment charges of approximately $0.9 million for other than temporary declines in the carrying value of certain investments in affiliates. These charges were primarily associated with previous investments made by CMGI@Ventures IV, LLC.

Income Taxes:

The Company does not record any income tax benefit for losses generated in the U.S. due to the uncertainty of realizing such benefits and the fact that the Company has fully utilized its tax loss carryback benefits. The Company records income tax expense related to certain foreign and state taxes. During the three months ended April 30, 2005 and 2004, the Company recorded an income tax benefit of approximately $23.1 million and $74.7 million, respectively, primarily as a result of a reduction in the Company's estimate of certain tax liabilities that had been included in accrued income taxes on the Company's balance sheet.

Nine months ended April 30, 2005 compared to the nine months ended April 30, 2004

Net Revenue:

	Nine Months Ended April 30, 2005	As a % of Total Net Revenue	Nine Months Ended April 30, 2004	As a % of Total Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 343,857	42%	$ 155,469	51%	$188,388	121%
Asia	162,635	20%	25,703	9%	136,932	533%
Europe	311,941	38%	119,281	40%	192,660	162%
Total eBusiness and Fulfillment	818,433	100%	300,453	100%	517,980	172%
Managed Application Services	84	—	503	—	(419)	(83)%
Total	$ 818,517	100%	$ 300,956	100%	$517,561	172%

The increase in net revenue for the nine months ended April 30, 2005, as compared to the same period in the prior year, was primarily attributable to the Company's acquisition of Modus on August 2, 2004.

For the nine months ended April 30, 2005, as compared to the same period in the prior year, the Company's Modus acquisition contributed approximately 94%, 100% and 98% of the year over year revenue growth within the Americas, Asia, and Europe segments, respectively. Additionally, the Americas region realized 6% year over year organic growth, primarily from $8.7 million of incremental volumes from new U.S.-based supply chain management customer programs awarded during the third quarter of fiscal 2004. Within the Europe region, year over year organic revenue growth of 2% was realized as a result of stronger overall demand for our customers' products in the region. Within the Asia region, year over year organic revenue declined by approximately $15.2 million primarily as a result of reduced order volumes attributable to the loss of a supply chain management program.

During the nine months ended April 30, 2005 and 2004, one customer, Hewlett-Packard, accounted for approximately 36% and 72% of the Company's consolidated net revenues, respectively.

Cost of Revenue:

	Nine Months Ended April 30, 2005	As a % of Segment Net Revenue	Nine Months Ended April 30, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 312,592	91%	$ 145,486	94%	$167,106	115%
Asia	120,196	74%	24,165	94%	96,031	397%
Europe	288,312	92%	112,250	94%	176,062	157%
Total eBusiness and Fulfillment	$ 721,100	88%	$ 281,901	94%	$439,199	156%

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 Company's cost of revenue for the nine months ended April 30, 2005 increased as compared to the same period in the prior year, primarily as a result of the Company's acquisition of Modus on August 2, 2004. In addition, the Modus acquisition contributed 100% of the increase in gross margins, which increased from 6% to 12%, year over year.

Cost of revenue and gross margins within the Americas, Asia, and Europe segments increased for the nine months ended April 30, 2005, as compared to the same period in the prior year, primarily as a result of the cost of revenue and gross margin contributions from the Modus acquisition. Of the year over year cost of revenue increases within the Americas, Asia, and Europe segments, approximately 91%, 100% and 97%, respectively, of the increases were attributable to the Company's Modus acquisition. Additionally, the Americas region realized a 9% year over year organic increase in cost of revenue, primarily as a result of a 6% organic growth in revenue during the same period. This organic increase in cost of revenue, which outpaced the organic increase in revenue growth by 3%, resulted in a $4.9 million decline in gross margin dollars, year over year. This decline was largely attributable to start up costs associated with two new customer programs and higher overall fulfillment costs for certain other customer programs. The remaining 3% year over year organic increase in cost of revenue within the Europe region was primarily as a result of a 2% organic growth in revenue during the same period. This organic increase in cost of revenue, which outpaced the organic increase in revenue growth by 1%, resulted in a $0.6 million decline in gross margin dollars, year over year. The Company's gross margin percentages within the Americas, Asia and Europe regions were approximately 9%, 26% and 8%, respectively, for the nine months ended April 30, 2005, as compared to 6%, 6% and 6%, respectively, for the same period of the prior year.

Selling Expenses:

	Nine Months Ended April 30, 2005	As a % of Segment Net Revenue	Nine Months Ended April 30, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 5,813	2%	$ 1,914	1%	$ 3,899	204%
Asia	4,657	3%	213	1%	4,444	2,086%
Europe	5,303	2%	1,421	1%	3,882	273%
Total eBusiness and Fulfillment	15,773	2%	3,548	1%	12,225	345%
Other	(3)	—	24	—	(27)	(113)%
Total	$ 15,770	2%	$ 3,572	1%	$12,198	341%

Selling expenses consist primarily of compensation and employee-related expenses, sales commissions, facilities costs, marketing expenses and travel costs. Selling expenses increased during the nine months ended April 30, 2005, as compared to the same period in the prior fiscal year, primarily as a result of the Company's acquisition of Modus, which contributed approximately 82% of the year over year increase. The remaining 18% increase in selling expenses was primarily attributable to increased employee related costs of approximately $0.5 million, increased consulting and professional fees of approximately $0.7 and increased travel related costs of approximately $0.8 million. Of the Company's total selling expenses for the nine months ended April 30, 2005 and 2004, employee related costs represented approximately 65% and 66% of the total selling expense, respectively. The Company expects its selling expenses to continue to approximate 2% of net revenue for the foreseeable future.

General and Administrative Expenses:

	Nine Months Ended April 30, 2005	As a % of Segment Net Revenue	Nine Months Ended April 30, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 17,826	5%	$ 9,496	6%	$ 8,330	88%
Asia	14,758	9%	2,493	10%	12,265	492%
Europe	15,907	5%	2,367	2%	13,540	572%
Total eBusiness and Fulfillment	48,491	6%	14,356	5%	34,135	238%
Managed Application Services	—	—	5	1%	(5)	(100)%
Portals	—	—	27	—	(27)	(100)%
Other	11,732	—	13,675	—	(1,943)	(14)%
Total	$ 60,223	7%	$ 28,063	9%	$32,160	115%

General and administrative expenses consist primarily of compensation and other employee-related costs, facilities costs, depreciation expense and fees for professional services. General and administrative expenses within the Americas, Asia and Europe segments increased during the nine months ended April 30, 2005, as compared to the same period in the prior fiscal year, primarily as a result of the Company's acquisition of Modus, which contributed approximately 96% of the year over year increase. The remaining 4% increase in general and administrative expenses within these segments was primarily attributable to higher professional fees and employee-related costs of approximately $2.2 million and $0.9 million, respectively. This increase was partially offset by a $2.6 million reduction in depreciation costs associated with the replacement of an Enterprise Resource Planning (ERP) system in fiscal year 2004.

The general and administrative expenses within the Other category primarily reflect the cost of the Company's directors and officers insurance, costs associated with certain of the Company's information technology systems and certain corporate administrative functions, such as legal and finance, which are not fully allocated to the Company's subsidiary companies, as well as administration costs related to the Company's venture capital affiliates. General and administrative expenses within the Other category decreased by 14% as compared to the same period in the prior fiscal year, primarily as a result of lower directors and officers insurance costs and costs associated with a potential acquisition that was not consummated during fiscal year 2004 of approximately $0.9 million and $1.1 million, respectively. These decreases were partially offset by higher accounting and legal fees of $0.4 million and $0.4 million, respectively. The Company expects its general and administrative costs to increase, both on an absolute dollar basis and as a percentage of revenue, during the fourth quarter of fiscal 2005 as a result of higher accounting related fees in connection with the Company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and costs associated with migrating the Company's ModusLink subsidiary to a common ERP platform.

Amortization of Intangible Assets and Stock-Based Compensation:

	Nine Months Ended April 30, 2005	As a % of Segment Net Revenue	Nine Months Ended April 30, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 3,853	1%	$ —	—	$ 3,853	100%
Asia	2,414	1%	—	—	2,414	100%
Europe	1,121	—	—	—	1,121	100%
Total eBusiness and Fulfillment	7,388	1%	—	—	7,388	100%
Other	932	—	262	—	670	256%
Total	$ 8,320	1%	$ 262	—	$ 8,058	3,076%

Amortization of intangible assets and stock-based compensation for the nine months ended April 30, 2005 includes approximately $2.7 million of stock-based compensation related to the issuance of approximately 2.5 million shares of nonvested CMGI common stock to certain ModusLink executives and employees in connection with the Company's acquisition of Modus. These nonvested shares vest over one year. The Company also recorded $0.8 million of stock-based compensation attributed to the amortization of the intrinsic value of unvested Modus stock options by the Company in connection with its acquisition of Modus. In addition, the Company recorded amortization of intangible assets of approximately $3.9 million for the nine months ended April 30, 2005. The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of Modus. These intangible assets are being amortized over lives ranging from 1 to 7 years. Amortization of intangible assets and stock-based compensation within the Other category relates to the issuance of nonvested CMGI stock to certain executives of the Company in fiscal 2004 and 2005.

The Company believes that stock compensation expense in absolute dollars will increase upon adoption of SFAS No. 123(R). See "Recent Accounting Pronouncements" for further discussion of the impact of the adoption of SFAS No. 123(R), which will be effective for the Company beginning August 1, 2005.

Restructuring, net:

	Nine Months Ended April 30, 2005	As a % of Segment Net Revenue	Nine Months Ended April 30, 2004	As a % of Segment Net Revenue	$ Change	% Change
			(in thousands)			
eBusiness and Fulfillment						
Americas	$ 1,450	—	$ 2,847	2%	$(1,397)	(49)%
Asia	937	1%	—	—	937	100%
Europe	996	—	—	—	996	100%
Total eBusiness and Fulfillment	3,383	—	2,847	1%	536	19%
Managed Application Services	432	514%	(11)	(2)%	443	4,027%
Portals	—	—	1,780	—	(1,780)	(100)%
Other	(30)	—	950	—	(980)	(103)%
Total	$ 3,785	—	$ 5,566	2%	$(1,781)	(32)%

During the nine months ended April 30, 2005, the Company recorded net restructuring charges of approximately $3.8 million. These charges consist of approximately $2.0 million related to a workforce reduction of 134 employees, approximately $1.5 million relating to unutilized facilities for which the Company expects to realize no future economic benefit, adjustments of approximately $0.2 million to previously recorded restructuring estimates for facility lease obligations primarily based on changes to the underlying assumptions regarding the estimated length of time required to sublease each vacant space and the expected rent recovery rates, and $0.1 million relating to the impairment of certain assets no longer in service.

During the nine months ended April 30, 2004, the Company recorded net restructuring charges of approximately $5.6 million. In addition to the items noted in the quarter ended April 30, 2004, the Company recorded a $0.6 million charge related to a hosting services contract that the Company is no longer utilizing, as it represented excess capacity. The reduction in hosting services required to support the business is primarily the result of the divestiture of several subsidiaries in fiscal 2003. Also during the period, the Company recorded a charge of $0.3 million related to a workforce reduction of 17 employees, a charge of $0.5 million to write-off certain software and hardware related assets no longer being utilized by the Company, a $0.4 million charge related to equipment and facility lease obligations under which the Company expects to realize no future economic benefit, and adjustments to previously recorded restructuring estimates for facility lease obligations based on changes to the underlying assumption relating to the estimated length of time to sublet vacant space. These charges were partially offset by an adjustment to a previously recorded facility lease obligation as a result of the Company exercising a lease termination option.

Interest Income/Expense:

During the nine months ended April 30, 2005, interest income decreased $0.1 million to $2.7 million from $2.8 million for the same period in the prior fiscal year. The decrease in interest income was primarily the result of a decline in the average cash balance, as a result of the Company's acquisition of Modus on August 2, 2004, for which the Company made a net cash payment of approximately $66.2 million to retire Modus' debt and pay certain deal-related costs. This decrease in interest income was partially offset by an additional $0.2 million of interest income related to the maturity of a note receivable obtained as part of the proceeds from the sale by the Company's uBid subsidiary of substantially all of its assets in fiscal year 2003.

Interest expense totaled approximately $1.4 million for the nine months ended April 30, 2005 as compared to $1.2 million for the same period in the prior fiscal year. In both periods, interest expense of approximately $0.6 million related to the Company's stadium obligation, and the remaining interest expense related primarily to outstanding borrowings on ModusLink's revolving bank credit facility.

Other Gains (losses), net:

Other gains (losses) net, totaled a loss of $2.6 million for the nine months ended April 30, 2005 as compared to a gain of $45.1 million for the same period of the prior fiscal year. During the nine months ended April 30, 2005, the Company incurred foreign exchange losses of approximately $3.3 million, primarily related to unhedged foreign currency exposures in Asia. Other gains (losses), net, for the nine months ended April 30, 2004 primarily consisted of a $40.5 million gain by the Company's AltaVista subsidiary on the sale of approximately 3.2 million shares of Overture Services, Inc. common stock, a gain of approximately $2.0 million by the Company on its sale of approximately 1.0 million shares of Loudeye Corp. common stock, a gain of approximately $0.8 million by the Company on its sale of approximately 0.2 million shares of Primus Knowledge Solutions common stock, and a gain of approximately $1.1 million by the Company on its sale of approximately 0.3 million shares of NaviSite, Inc. common stock.

Equity in losses of affiliates, net:

Equity in losses of affiliates, net, resulted from the Company's minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's income (loss) is included in equity in income (losses) of affiliates. Equity in losses of affiliates decreased to a loss of $0.3 million for the nine months ended April 30, 2005, as compared to a loss of $1.6 million for the same period in the prior fiscal year, primarily as a result of a realized gain of $0.6 million associated with the acquisition of one of CMG@Ventures III, LLC's portfolio investments, Classmates Online, Inc. by United Online in December 2004. Included in equity in losses of affiliates for the nine months ended April 30, 2005 and 2004, are impairment charges of approximately $0.4 million and $1.6 million, respectively, for other than temporary declines in the carrying value of certain investments in affiliates. These charges were primarily associated with previous investments made by CMGI@Ventures IV, LLC.

Income Taxes:

The Company does not record any income tax benefit for losses generated in the U.S. due to the uncertainty of realizing such benefits and the fact that the Company has fully utilized its tax loss carryback benefits. The Company records income tax expense related to certain foreign and state taxes. During the nine months ended April 30, 2005 and 2004, the Company recorded income tax benefits of approximately $20.6 million and $70.2 million, respectively, primarily as a result of a reduction in the Company's estimate of certain tax liabilities that had been included in accrued income taxes on the Company's balance sheet.

Liquidity and Capital Resources

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the issuance of CMGI common stock, the sale of investments in subsidiary and affiliate entities and borrowings from lending institutions. As of April 30, 2005, the Company's primary sources of liquidity consisted of cash and cash equivalents of $186.9 million. In addition, the Company's ModusLink subsidiary has a revolving bank credit facility (the Loan Agreement) of $30.0 million. CMGI is a guarantor of all indebtedness under the Loan Agreement. Advances under the Loan Agreement may be in the form of loans or letters of credit. As of April 30, 2005, approximately $24.8 million of borrowings were outstanding under the facility, and approximately $4.9 million had been reserved in support of outstanding letters of credit. ModusLink is currently engaged in negotiations to renew the revolving bank credit facility, which matures on June 30, 2005. The credit facility includes restrictive financial covenants, all of which ModusLink was in compliance with at April 30, 2005. These covenants include liquidity and profitability measures and restrictions that limit the ability of ModusLink, among other things, to merge, or acquire or sell assets without prior approval from the bank. The Company's working capital at April 30, 2005 was approximately $219.3 million.

Net cash used for operating activities of continuing operations was $20.3 million for the nine months ended April 30, 2005, compared to $21.9 million for the nine months ended April 30, 2004. Cash used for operating activities of continuing operations represents net income (loss) as adjusted for non-cash items and changes in working capital. During the nine months ended April 30, 2005, non-cash items primarily included depreciation and amortization charges of $15.8 million and non-operating gains, net of $0.4 million. Net cash used from operating activities includes an inventory increase of approximately $15.8 million at ModusLink's Tilburg facility as a result of a new product launch for an OEM customer. During the nine months ended April 30, 2004, non-cash items primarily included depreciation and amortization charges of $5.6 million and non-operating gains, net of $45.1 million. The non-operating gains primarily included a $40.5 million gain on the sale by AltaVista of approximately 3.2 million shares of Overture Services, Inc. common stock and a $2.1 million gain on the sale of approximately 1.0 million shares of Loudeye Corp. common stock.

The Company believes that further reductions in the net cash used for operating activities of continuing operations is dependent on several factors, including increased profitability, effective inventory management practices, and optimization of the credit terms of certain vendors of the Company. In addition, on August 2, 2004 the Company completed its acquisition of Modus. The Modus acquisition is expected to position the Company to generate cash flows from operations; however, our cash flows from operations are dependent on several factors including the overall performance of the technology sector, and the market for outsourcing services. The intensity of the competition in our markets is expected to continue to increase and this increased competition may result in price reductions, reduced gross margins and loss of market share. A one-percentage point decline in our gross margins earned during the nine months ended April 30, 2005, would have resulted in a $1.0 million decline in our cash flows from operating activities. We continue to focus on margin improvement, through cost reductions and asset and employee productivity gains in order to improve the profitability and cash flows of our business and maintain our competitive position. We are reacting to margin and pricing pressures in several ways, including efforts to lower our cost to service customers, move work to lower-cost venues, establish facilities closer to our customers to gain efficiencies, and add other service offerings at higher margins.

Investing activities of continuing operations used cash of $79.2 million for the nine months ended April 30, 2005 and provided cash of $74.7 million for the nine months ended April 30, 2004. During the nine months ended April 30, 2005, the Company's primary use of cash for investing activities included the acquisition of Modus, for which the Company made a net cash payment of approximately $66.2 million to retire Modus' debt and pay certain deal related costs. Also during the nine months ended April 30, 2005, the Company paid additional acquisition related costs of approximately $1.9 million. In addition, the Company's venture capital affiliates invested approximately $4.3 million during the nine months ended April 30, 2005. The $74.7 million of cash provided from investing activities of continuing operations during the nine months ended April 30, 2004 primarily included $75.4 million in cash proceeds from AltaVista's sale of approximately 3.2 million shares of Overture Services, Inc. common stock, $2.3 million of cash proceeds from the Company's sale of approximately

1.0 million shares of Loudeye Corp. common stock, $1.0 million in cash proceeds from the sale of approximately 0.2 million shares of Primus Knowledge Solutions common stock and $1.1 million in cash proceeds from the sale of approximately 0.2 million shares of NaviSite, Inc. common stock, partially offset by $4.8 million in capital expenditures. As of April 30, 2005, the Company's primary sources of future liquidity from investing activities were available-for-sale securities of approximately $0.2 million and investments in affiliates of approximately $24.5 million. The Company does not anticipate being dependent on liquidity from these investments to fund either its short-term or long-term operating activities.

Financing activities of continuing operations provided cash of $13.4 million and $11.1 million for the nine months ended April 30, 2005 and 2004, respectively. The $13.4 million of cash provided by financing activities of continuing operations during the nine months ended April 30, 2005 includes $5.1 million of proceeds from the issuance of common stock primarily from stock option exercises and $9.0 million of borrowings under the revolving line of credit. The $11.1 million of cash provided by financing activities of continuing operations during the nine months ended April 30, 2004 included $1.2 million of proceeds from the issuance of common stock primarily from stock exercises, and $13.0 million of borrowings under SalesLink's revolving line of credit in order to support expected demand for certain products of a major OEM customer over the second half of fiscal year 2004, partially offset by $3.1 million of repayments of borrowings under SalesLink's bank line of credit and term loan facility of $2.0 million and $1.1 million, respectively. As of April 30, 2005, the Company's primary source of future liquidity from financing activities was $0.3 million of available borrowings under ModusLink's revolving bank credit facility. The Company does not anticipate being dependent on liquidity from this source to fund either its short-term or long-term operating activities.

Given the Company's cash resources as of April 30, 2005 and as a result of the expected impact of the Modus acquisition, the Company believes that it has sufficient working capital and liquidity to support its operations, as well as continue to make investments through its venture capital affiliates over the next twelve months and for the foreseeable future. However, should additional capital be needed to fund future investment and acquisition activity, the Company may seek to raise additional capital through offerings of the Company's stock, or through debt financing. There can be no assurance, however, that the Company will be able to raise additional capital on terms that are favorable to the Company, or at all.

Off-Balance Sheet Financing Arrangements

The Company does not have any off-balance sheet financing arrangements other than operating leases, which are recorded in accordance with generally accepted accounting principles.

Contractual Obligations

The Company leases facilities and certain machinery and equipment under various non-cancelable operating leases and executory contracts expiring through June 2015. In August 2000, the Company announced it had acquired the exclusive naming and sponsorship rights to the New England Patriots' new stadium for a period of fifteen years. In August 2002, the Company finalized an agreement with the owner of the stadium to amend the sponsorship agreement. Under the terms of the amended agreement, the Company relinquished the stadium naming rights and remains obligated for a series of annual payments of $1.6 million per year through 2015.

Future minimum payments, including previously recorded restructuring obligations, as of April 30, 2005 are as follows:

Contractual Obligations	Total	Less than 1 year	1–3 years	3–5 years	After 5 years
			(in thousands)		
Operating leases	$ 100,062	$ 24,780	$ 36,550	$ 22,732	$ 16,000
Stadium obligations	16,800	1,600	3,200	3,200	8,800
Long-term debt	1,996	420	657	527	392
Revolving line of credit	24,785	24,785	—	—	—
Total	$ 143,643	$ 51,585	$ 40,407	$ 26,459	$ 25,192

Total future minimum operating lease payments have been reduced by future minimum sublease rentals of approximately $2.5 million.

Total rent and equipment lease expense charged to continuing operations was approximately $22.2 million and $6.7 million for the nine months ended April 30, 2005 and 2004, respectively.

From time to time, the Company provides guarantees of payment to vendors doing business with certain of the Company's subsidiaries. These guarantees require that in the event that the subsidiary cannot satisfy its obligations with certain of its vendors, the Company will be required to settle the obligation. As of April 30, 2005, the Company had outstanding guarantees of subsidiary indebtedness totaling approximately $2.4 million. In addition, the Company is also the guarantor of approximately $24.8 million of indebtedness under the ModusLink Loan Agreement. All of the obligations underlying these guarantees are reflected in the condensed consolidated balance sheets.

From time to time, the Company agrees to provide indemnification to its customers in the ordinary course of business. Typically, the Company agrees to indemnify its customers for losses caused by the Company including with respect to certain intellectual property, such as databases, software masters, certificates of authenticity and similar valuable intellectual property. As of April 30, 2005, the Company had no recorded liabilities with respect to these arrangements.

Critical Accounting Policies

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

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

- *Revenue recognition*
- *Restructuring expenses*
- *Loss contingencies*
- *Accounting for impairment of long-lived assets, goodwill and other intangible assets*
- *Investments*
- *Income taxes*
- *Derivatives and Financial Instruments*

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

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

The Company follows the Financial Accounting Standards Board's Emerging Issues Task Force Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting. EITF 00-21 became effective for revenue arrangements entered into in periods beginning after June 15, 2003. For revenue arrangements occurring on or after August 1, 2003, the Company revised its revenue recognition policy to comply with the provisions of EITF 00-21.

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

In December 2003, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition", which updates portions of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements ("SAB 101"). SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21. While the wording of SAB 104 has changed to reflect the issuance of EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. As a result, the adoption of this pronouncement did not have a material effect on the Company's financial position or results of operations.

Restructuring Expenses. For restructuring plans implemented prior to December 31, 2002, the Company assessed the need to record restructuring charges in accordance with EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF 94-3). The Company also applies EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" and Staff Accounting Bulletin (SAB) No. 100, "Restructuring and Impairment Charges." In accordance with this guidance, management must execute an exit plan that will result in the incurrence of costs that have no future economic benefit. Also under the terms of EITF 94-3, a liability for the restructuring charges is recognized in the period management approves the restructuring plan. The Company records liabilities that primarily include the estimated severance and other costs related to employee benefits and certain estimated costs to exit equipment and facility lease obligations, bandwidth agreements and other service contracts. These estimates are based on the remaining amounts due under various contractual agreements, adjusted for any anticipated contract cancellation penalty fees or any anticipated or unanticipated event or changes in circumstances that would reduce these obligations. In the past, certain of our restructuring estimates relating to contractual obligations have been settled for amounts less than our initial estimates. As of April 30, 2005, the Company's accrued restructuring balance totaled $21.3 million, of which remaining contractual obligations represented $19.1 million. These contractual obligations principally represent future obligations under non-cancelable real estate leases. Restructuring estimates relating to real estate leases involve consideration of a number of factors including: potential sublet rental rates, estimated vacancy period for the property, brokerage commissions and certain other costs. Estimates relating to potential sublet rates and expected vacancy periods are most likely to have a material impact on the Company's results of operations in the event that actual amounts differ significantly from estimates. These estimates involve judgment and uncertainties, and the settlement of these liabilities could differ materially from recorded amounts. As such, in the course of making such estimates management often uses third party real estate experts to assist management in its assessment of the marketplace for purposes of estimating sublet rates and vacancy periods. A 10%–20% unfavorable settlement of our remaining restructuring liabilities, as compared to our current estimates, would decrease our income from continuing operations by $2.1–$4.3 million.

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

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

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

The Company follows SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires the Company to evaluate its existing intangible assets and goodwill that were acquired in prior purchase business combinations, and to make any necessary reclassifications in order to conform 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. The Company's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. Management predominantly uses third party valuation reports to assist in its determination of the fair value of reporting units subject to impairment testing. These valuation reports, used to determine the fair value of reporting units for purposes of impairment testing, rely heavily on projections of future operating performance. The preparation of these projections takes into consideration both past performance and management's expectations for future performance based on its experience. Further, in accordance with the provisions of SFAS No. 142, the Company has designated reporting units for purposes of assessing goodwill impairment. The standard defines a reporting unit as the lowest level of an entity that is a business and that can be distinguished, physically and operationally and for internal reporting purposes, from the other activities, operations, and assets of the entity. As of July 31, 2004, based on the provisions of SFAS No. 142, the Company had two reporting units for purposes of goodwill impairment testing. Upon completion of its acquisition of Modus Media on August 2, 2004, the Company concluded that it has four reporting units (Americas, Asia, Europe and SalesLink) for purposes of goodwill impairment testing. The Company's policy is to perform its annual impairment testing for all reporting units in the fourth quarter of each fiscal year. At April 30, 2005, the Company's carrying value of goodwill totaled $184.0 million. The Company operates in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. Future operating results and cash flows from operations are dependent on several factors including the overall performance of the technology sector, and the market for outsourcing services. The intensity of the competition is expected to continue to increase and this increased competition may result in price reductions, reduced gross margins and loss of market share. If our assumptions regarding our ability to maintain our competitive position in the marketplace or our assumptions of the future demand for our customers' products and services used in preparing our valuations of the Company's reporting units differ materially from actual future results, the Company may record impairment charges in the future.

Investments. The Company maintains interests in several privately held companies primarily through its various venture capital affiliates. These venture affiliates ("CMGI @Ventures") invest in early-stage technology companies. These investments are generally made in connection with a round of financing with other third-party investors. At April 30, 2005, the Company had approximately $24.5 million of investments in privately held companies. Investments in which the Company's interest is less than 20% and which are not classified as available-for-sale securities are carried at the lower of cost or net realizable value unless it is determined that the Company exercises significant influence over the investee company, in which case the equity method of accounting is used. For those investments in which the Company's voting interest is between 20% and 50%, the equity method of accounting is generally used. Under this method, the investment balance, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the investee company as they occur, limited to the extent of the Company's investment in, advances to and commitments for the investee. These adjustments are reflected in "Equity in income (losses) of affiliates, net" in the Company's Condensed Consolidated Statements of Operations.

The Company assesses the need to record impairment losses on its investments and records such losses when the impairment of an investment is determined to be other than temporary in nature. The process of assessing whether a particular equity investment's net realizable value is less than its carrying cost requires a significant amount of judgment. In making this judgment, the Company carefully considers the investee's cash position, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management/ownership changes, and competition. This valuation process is based primarily on information that the Company requests from these privately held companies and is not subject to the same disclosure and audit requirements as the reports required of U.S. public companies. As such, the reliability and accuracy of the data may vary. Based on the Company's evaluation, it recorded impairment charges related to its investments in privately held companies of $0.4 million and $1.6 million for the nine months ended April 30, 2005 and 2004, respectively. These impairment losses are reflected in "Equity in Income (losses) of Affiliates, net" in the Company's Condensed Consolidated Statements of Operations.

Estimating the net realizable value of investments in privately held early-stage technology companies is inherently subjective and has contributed to significant volatility in our reported results of operations in the past and it may negatively impact our results of operation in the future. We may incur additional impairment charges to our equity investments in privately held companies, which could have an adverse impact on our future results of operations. A decline in the carrying value of our $24.5 million of investments in affiliates at April 30, 2005 ranging from 10%–20%, respectively, would decrease our income from continuing operations by $2.5–$4.9 million.

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

Income Taxes Income taxes are accounted for under the provisions of SFAS No. 109, "*Accounting for Income Taxes*," using the asset and liability method whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. SFAS No. 109 also requires that the deferred tax assets be reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. This methodology requires estimates and judgments in the determination of the recoverability of deferred tax assets and in the calculation of certain tax liabilities. At April 30, 2005 and July 31, 2004, respectively, a full valuation allowance has been recorded against the gross deferred tax asset since management believes that after considering all the available objective evidence, both positive and negative, historical and prospective, with greater weight given to historical evidence, it is more likely than not that these assets will not be realized. As a result of the Modus acquisition, the Company expects its future operating results to improve substantially. In each reporting period, we evaluate the adequacy of our valuation allowance on our deferred tax assets. In the future, if the Company is able to demonstrate a consistent trend of pre-tax income, then at that time management may reduce its valuation allowance, accordingly. The Company's net operating loss carryforwards for federal and state purposes total

$1.9 billion and $2.1 billion, respectively, at April 30, 2005. A 5% reduction in the Company's current valuation allowance on these federal and state net operating loss carryforwards would result in an income tax benefit of approximately $40 million.

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

Derivatives and Financial Instruments

The Company often enters into forward currency exchange contracts to manage exposures to foreign currencies. The fair value of the Company's foreign currency exchange contracts is estimated based on foreign exchange rates as of the end of each reporting period. The Company's policy is to not allow the use of derivatives for trading or speculative purposes. The Company believes that its forward currency exchange contracts economically function as effective hedges of the underlying exposures, however the foreign currency contracts do not meet the specific criteria for hedge accounting as defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, thus the Company is required to record all changes in the fair value of these contracts in earnings in the period of the change.

Recent Accounting Pronouncements

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, *Inventory Costs*, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not believe the adoption of SFAS No. 151 will have a material impact on our consolidated financial statements or results of operations.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*, which eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not believe the adoption of SFAS No. 153 will have a material impact on our consolidated financial statements or results of operations.

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This eliminates the exception to account for such awards using the intrinsic method previously allowable under APB Opinion No. 25. SFAS No. 123(R) will be effective for annual reporting periods beginning after June 15, 2005. The Company will adopt SFAS No. 123(R) during its first quarter of fiscal year 2006. We are currently evaluating the impact of the adoption of SFAS No. 123(R) and therefore we are currently unable to quantify its effect on our condensed consolidated financial statements and results of operations; however, we believe that our stock compensation expense will increase in absolute dollars upon adoption of the standard. See pro forma disclosure as currently provided under SFAS 123 in note F.

In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107 regarding the Staff's interpretation of SFAS No. 123R. This interpretation provides the Staff's views regarding interactions between SFAS No. 123R and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. The interpretive guidance is intended to assist companies in applying the provisions of SFAS No. 123R and investors and users of the financial statements in analyzing the information provided. We will follow the guidance prescribed in SAB No. 107 in connection with its adoption of SFAS No. 123R.

In March 2005, the FASB issued Interpretation ("FIN") No. 47, *"Accounting for Conditional Asset Retirement Obligations—an Interpretation of FASB Statement No. 143."* This Interpretation clarifies the timing of liability recognition for legal obligations associated with an asset retirement when the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. We do not believe the adoption of FIN No. 47 will have a material impact on our consolidated financial statements 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, or development of products and services, as well as other estimates related to future operations are necessarily only estimates of future results and there can be no assurance that actual results will not materially differ from expectations. Forward-looking statements represent management's current expectations and are inherently uncertain. CMGI does not undertake any obligation to update forward-looking statements. Factors that could cause actual results to differ materially from results anticipated in forward-looking statements include, but are not limited to, the following:

We may have difficulty sustaining operating profitability.

During the three and nine months ended April 30, 2005, we reported an operating loss of approximately $1.9 million and an operating profit of $9.3 million, respectively. However, for the fiscal year ended July 31, 2004, we reported an operating loss of approximately $23.7 million. As a result of a variety of factors discussed in this report, our revenue for a particular quarter is difficult to predict and may fluctuate significantly. We anticipate that we will continue to incur significant operating expenses in the future, including significant costs of revenue and general and administrative expenses. We also have significant commitments and contingencies, including real estate leases, continuing stadium sponsorship obligations, and guarantees entered into by us on behalf of our current and former operating companies. As a result, we can give no assurance that we will sustain operating profitability in the future. We may also use significant amounts of cash to fund growth and expansion of our operations, including through additional acquisitions. We may also incur significant costs and expenses in connection with pending and future litigation. At April 30, 2005, we had a consolidated cash, cash equivalents and marketable securities balance of approximately $187.1 million and fixed contractual obligations of $143.6 million. If we are unable to sustain operating profitability, we risk depleting our working capital balances and our business will be materially adversely affected.

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

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

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

For the fiscal year ended July 31, 2004, sales to one customer, Hewlett-Packard, accounted for approximately 71% of CMGI's consolidated net revenue. Sales to Hewlett-Packard accounted for approximately 35% and 36% of CMGI's consolidated net revenue for the three and nine months ended April 30, 2005, respectively. We derive substantially all of our revenue from a small number of customers. The loss of any one or more of these customers would cause our revenues to decline, perhaps below expectations. We currently do not have any agreements which obligate any customer to buy a minimum amount of products or services. We do not currently have any agreements which designate us as the sole supplier of any particular products or services. The loss of a significant amount of business with Hewlett-Packard, Microsoft or any other key customers would have a material adverse effect on our business. We continue to derive the vast majority of our operating revenue from sales to a small number of key customers. There can be no assurance that our revenue from key customers will not decline in future periods.

Our quarterly results may fluctuate significantly.

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

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

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

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

We may not realize all of the anticipated benefits of our recent acquisition of Modus.

The success of our recent acquisition of Modus will depend in part on our ability to realize the anticipated synergies and cost savings from the integration of the businesses of Modus with SalesLink's supply chain management business. Our success in realizing these benefits and the timing of this realization depend upon the successful integration of the technology, personnel and operations into ModusLink. The integration of two independent companies is a complex, costly and time-consuming process. The difficulties of combining the operations of the companies include, among others:

- retaining key employees;
- retaining key customers;
- consolidating corporate and administrative infrastructures;
- maintaining customer service levels;
- minimizing the diversion of management's attention from ongoing business concerns;
- coordinating geographically disparate organizations;
- effectively consolidating facilities;
- coordinating and integrating disparate supplier bases; and
- consolidating and integrating information technology systems.

We cannot assure you that the integration of our supply chain management businesses will result in the realization of the full benefits that we anticipate in a timely manner or at all.

We are subject to risks of operating internationally.

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

We currently conduct business in Mexico, China, Taiwan, Singapore, Malaysia, the United Kingdom, Hungary, Ireland, France, The Netherlands and certain other foreign locations, in addition to our United States operations. Sales outside the United States accounted for 60% of CMGI's total revenue for the quarter ended April 30, 2005. A portion of our international revenue cost of revenue and operating expenses are denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. There is also additional risk if the currency is not freely traded. Some currencies, such as the Chinese renminbi, are subject to limitations on conversion into other currencies, which can limit or delay our ability to repatriate funds or engage in hedging activities. While the Company often enters into forward currency exchange contracts to manage exposure to foreign currencies, future exchange rate fluctuations may have a material adverse effect on our business and operating results.

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

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

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

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

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

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

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

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

A decline in the technology sector could reduce our revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We rely on products and services of third-party providers in our business operations. There can be no assurance that we 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 our business or operations.

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

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

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

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

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

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

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

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

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

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

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

We will continue to be subject to intense competition.

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

We could be subject to infringement claims and other liabilities.

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

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

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

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

Interest Rate Risk

The Company has from time to time used derivative financial instruments to reduce exposure to adverse fluctuations in interest rates on its borrowing arrangements. The derivatives the Company uses are straightforward instruments with liquid markets. At April 30, 2005, the Company was primarily exposed to the London Interbank Offered Rate (LIBOR) and Euro Interbank Offered Rate (EURIBOR) on its outstanding borrowing arrangements, and the Company had no open derivative positions with respect to its borrowing arrangements. A hypothetical 100 basis point increase in our interest rates would result in an approximate 11%, or $0.2 million, increase in our interest expense for the nine months ended April 30, 2005.

Foreign Currency Risk

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

International revenues from our foreign operating segments accounted for approximately 60% and 58% of total revenues during the three and nine months ended April 30, 2005, respectively. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

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

During the nine months ended April 30, 2005, the U.S. dollar weakened against the Euro and other foreign currencies. Using the foreign currency exchange rates from the beginning of our fiscal year, our Asia and Europe revenues for the nine months ended April 30, 2005 would have been lower than we reported using the actual exchange rates, by approximately $1.3 million and $7.5 million, respectively, and our operating income would have been higher by approximately $0.5 million and $1.1 million, respectively.

We are also exposed to foreign exchange rates fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. When there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income. For the nine months ended April 30, 2005, we recorded foreign currency translation gains of approximately $3.9 million. In addition, we have certain assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. For the nine months ended April 30, 2005, we recorded foreign currency transaction losses of approximately $3.3 million which are recorded in other gains (losses), net in our condensed consolidated statements of operations.

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

Item 4. *Controls and Procedures*

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

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

CMGI, INC. AND SUBSIDIARIES

PART II: OTHER INFORMATION

Item 1. ***Legal Proceedings***

On September 24, 2003, the Official Committee of Unsecured Creditors of Engage, Inc. (the "Creditors Committee") filed a complaint against the Company in the U.S. Bankruptcy Court (Massachusetts, Western Division). The complaint was amended on November 6, 2003. In the amended complaint, the Creditors Committee asserted a number of causes of action, including the following: (i) re-characterization of debt as equity, (ii) equitable subordination, (iii) invalidation of a release, (iv) fraudulent transfer, (v) preferential transfers, (vi) illegal redemption of shares, (vii) turnover of property of estate, (viii) alter ego, (ix) breach of contract, (x) breach of covenant of good faith and fair dealing, (xi) promissory estoppel, (xii) unjust enrichment, (xiii) unfair and deceptive trade practices under Massachusetts General Laws §93A, and (xiv) declaration with respect to scope and extent of security interests. The Creditors Committee seeks monetary damages and other relief, including cancellation of a $2.0 million promissory note, return of $2.5 million in cash, certain other unspecified amounts and a finding that the Company is liable for Engage's debt. In addition, on May 28, 2004, the Creditors Committee filed a complaint in the U.S. Bankruptcy Court against David Wetherell, George McMillan, Andrew Hajducky and Christopher Cuddy, in their individual capacities as former officers and/or directors of Engage. The Complaint asserts the following causes of action: (i) breaches of fiduciary duties, (ii) fraudulent misrepresentations, (iii) negligent misrepresentations, and (iv) unfair and deceptive trade practices. The Creditors Committee seeks unspecified monetary and other damages. The Company is obligated to indemnify each of Messrs. Wetherell, McMillan and Hajducky in connection with the foregoing action, subject to the terms of the Company's certificate of incorporation and by-laws. On August 23, 2004, the U.S. Bankruptcy Court entered an order consolidating the foregoing two cases into a single proceeding. In May 2005, the parties reached a conditional settlement of the consolidated cases covering the Company and Messrs. Wetherell, McMillan and Hajducky. Under the terms of the conditional settlement, the Company has agreed to release any claims under the $2.0 million promissory note and to pay the plaintiffs the sum of $2.5 million, of which $500,000 will be provided by a third party under an applicable insurance contract. The settlement is subject to approval by the Bankruptcy Court, and the parties anticipate a ruling within 30 days. If the settlement is not approved by the Bankruptcy Court, the settlement shall be deemed void and discovery in the underlying litigation would resume.

Item 5. ***Other Information***

During the quarter ended April 30, 2005, we made no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors, as described in our most recent proxy statement.

Item 6. ***Exhibits***

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

SIGNATURE

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

CMGI, Inc.

Date: June 9, 2005

By: /s/ THOMAS OBERDORF

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

EXHIBIT INDEX

Item	Description
10.1	Employment Offer Letter from ModusLink Corporation to W. Kendale Southerland, dated April 7, 2005, is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated April 7, 2005 (File No. 000-23262).
10.2	Amendment to Limited Liability Company Agreement of CMG@Ventures III, LLC, dated April 29, 2005, is incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated April 29, 2005 (File No. 000-23262).
10.3	Amendment No. 1 to Limited Liability Company Agreement of @Ventures V, LLC, dated April 29, 2005.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

AMENDMENT NO. 1 TO THE
LIMITED LIABILITY COMPANY AGREEMENT OF
@VENTURES V, LLC

This Amendment No. 1 to the Limited Liability Company Agreement of @Ventures V, LLC dated as of April 29, 2005, amends that certain Limited Liability Company agreement of @Ventures V, LLC dated May 14, 2004 (the "Agreement") and is by and among the persons whose signatures appear below, each of whom is a Managing Member or an Associate Member.

Whereas, on April 22, 2005, Modus Media, Inc., a wholly-owned subsidiary of CMGI, Inc., sold to the LLC its equity interest in Open Channel Solutions, Inc. ("OCS"); and

Whereas, the parties hereto intend for OCS to be a Portfolio Company, and for the Percentage Interest of each Member with respect to OCS to be lower than the Percentage Interests set forth on Schedule A to the Agreement;

Now, therefore, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration of the agreements hereinafter set forth, the parties hereby agree as follows:

1. Percentage Interest for OCS. With respect to the equity interest purchased by the LLC from Modus Media, Inc., the Percentage Interest of each Member in such Investment shall be as set forth next to his or its name below:

Member	Percentage Interest
CMG@Ventures Capital Corp.	95.556%
Peter H. Mills	2.222%
Marc D. Poirier	2.222%

2. Defined Terms. All capitalized terms used in this Amendment No. 1 and not otherwise defined herein, shall have those meanings ascribed to them in the Agreement.

IN WITNESS WHEREOF, the Members have signed and sworn to this Amendment No. 1 under penalties of perjury as of the date first written above.

MANAGING MEMBER:

CMG@VENTURES CAPITAL CORP.

By: /s/ Peter L. Gray

Name: Peter L. Gray
Title: Secretary

ASSOCIATE MEMBERS:

/s/ Peter H. Mills

Peter H. Mills

/s/ Marc D. Poirier

Marc D. Poirier

EXHIBIT 31.1

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

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

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

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

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

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

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

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

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

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

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

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

Date: June 9, 2005

By: /s/ Joseph C. Lawler

Joseph C. Lawler
President and Chief Executive Officer

EXHIBIT 31.2

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

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

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

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

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

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

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

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

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

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

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

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

Date: June 9, 2005

By: /s/ Thomas Oberdorf

Thomas Oberdorf
Chief Financial Officer and Treasurer

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of CMGI, Inc. (the "Company") for the fiscal quarter ended April 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Joseph C. Lawler, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: June 9, 2005

By: /s/ Joseph C. Lawler

Joseph C. Lawler
President and Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of CMGI, Inc. (the "Company") for the fiscal quarter ended April 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Thomas Oberdorf, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: June 9, 2005

By: /s/ Thomas Oberdorf

Thomas Oberdorf
Chief Financial Officer and Treasurer