SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For Fiscal Year Ended July 31, 1996

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
[NO FEE REQUIRED]

For the Transition Period From________________ to ________________

Commission File 0-22846

CMG Information Services, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code (508) 684-3600

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

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

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

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

Yes X No

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

The aggregate market value of voting stock held by non-affiliates of the Registrant was $ 87,162,405 as of October 22, 1996.

On October 22, 1996, the Registrant had outstanding 9,174,990 shares of Common Stock, $.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 1996 Annual Report to Shareholders are incorporated by reference into Parts I, II and IV of this Report. Portions of the definitive proxy statement (the "Definitive Proxy Statement") to be filed with the Securities and Exchange Commission relative to the Company's 1996 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

TABLE OF CONTENTS
FORM 10-K ANNUAL REPORT
FISCAL YEAR ENDED JULY 31, 1996
CMG INFORMATION SERVICES, INC.

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

PART I

ITEM 1. - BUSINESS

General

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

Direct marketing is the use of mail order, telemarketing, electronic interactive media and other methods of direct contact of targeted customers and prospects to promote products and services. Direct marketing, unlike other forms of advertising which are disseminated to a broad audience through print and broadcast media, enables businesses to reallocate marketing and advertising dollars to more effective forms of advertising sent directly to a defined set of consumers. This defined set is identified through analysis and segmentation of large amounts of data on past customers and future prospects. From this information, specific targeted marketing strategies and personalized communications can be generated which focus on those customers and prospects who, according to their buying habits and customer profile, are most likely to respond.

CMG's emergence into the direct marketing products and services arena is being driven by the distinctive yet synergistic competencies of its operating businesses.

CMG's List Division provides educational and business-to-business publishers with comprehensive, highly segmented, and accurate lists for direct marketing to millions of customers nationwide. Our services help publishers develop and implement effective direct marketing programs using both conventional and on-line media. CMG believes that its databases of university faculty and information-buyers make it a leading supplier of mailing lists and related services to educational and professional publishers. The Company's twenty years of experience supplying lists to the direct marketing industry, together with its expertise in the use of computer technology to develop, segment, enhance, maintain and market customer and prospect list databases, permit the Company to offer its publisher clients a full range of list services.

CMG Direct Interactive (CMGDI or Direct Interactive) is at the forefront of leveraging its expertise in direct marketing, database design/development and project management to invest in the creation of new database management products and a suite of product and service offerings that will enable sophisticated direct interactive marketing environments. These new products will enable Direct Interactive to take advantage of the demand for data management services created from the Internet and interactive media, while continuing to grow and invest in its computer list services, including list order fulfillment, merge/purge and other direct mail cost saving services.

SalesLink provides literature fulfillment, sales lead/inquiry management, business-to-business telemarketing, and print-on-demand, primarily to the mutual fund, high-tech and bio-tech industries.

CMG @Ventures' focus is on strategic investment and development opportunities. Its mission is to assist the commercialization of electronic content, products and services via the Internet and interactive media. Drawing upon significant investment resources, strong technical talent, and a management team steeped in the Internet, electronic publishing and managing consortia, @Ventures has successfully made ten strategic investments.

@Ventures has invested in five consolidated subsidiaries: 58% owned Lycos, Inc. (Lycos), 61% owned GeoCities, 100% owned NetCarta Corporation (NetCarta), 92% owned Black Sun Interactive, Inc. (Black Sun), and 54% owned Freemark Communications, Inc. (Freemark). At July 31, 1996 @Ventures had invested in minority ownership positions in three affiliates: 45% owned Vicinity Corporation (Vicinity), 46% owned TeleT Communications (TeleT) and 37% owned Ikonic, Inc. (Ikonic). Subsequent to July 31, 1996 @Ventures sold its investment in TeleT for a gain, receiving cash and Premiere Technologies common stock and invested in two additional minority ownership positions: 46% ownership in Parable, LLC (Parable) and 27% ownership in Silknet. The Company is entitled to 77.5% of the net capital gains of @Ventures and 22.5% are attributable to @Ventures partners. In fiscal 1997, the Company's share will be increased to 80%. All of CMG @Ventures investments are early stage companies and there can be no assurance that their products or services will be commercially successful.

CMG's three wholly owned start-up Internet companys, ADSmart Corporation (ADSmart), InfoMation Publishing Corporation (InfoMation) and Planet Direct Corporation (Planet Direct) are being developed to further benefit from direct marketing opportunities on the Internet by providing advertising services, personal electronic newspapers and comprehensive Internet service content offerings.

Direct Marketing Industry

The use of direct marketing by businesses to target and communicate with potential customers has increased due in part to the relative cost efficiency of direct marketing as compared to other advertising methods, as well as the rapid development of affordable computer technology. Prior to and during much of the 1970's, the costs associated with selling products and services either through mass marketing or through personal sales calls were relatively low, while the costs of database development were prohibitive for all but the largest businesses. In the 1980's, the costs of developing and implementing computer technologies to analyze and target potential customers declined while the costs of traditional marketing increased significantly. In addition, concerns have been raised about the efficacy of traditional forms of marketing. Direct marketing remains one of the few advertising media allowing an accurate measure of results through a review of response rates thereby increasing the effectiveness of the selling effort.

The increasing popularity of direct marketing has created a substantial need for comprehensive, current and accurate information to identify high probability purchasers from the millions of consumers in North America. This information, if properly packaged in a database with the appropriate software, can be used in all aspects of direct marketing: market sizing, distribution channel selection and balancing, sales lead generation, territorial resource allocation and customer prioritization and qualification. In the absence of this information, the selling process results in higher expense per sales contact and lost revenue from unidentified customers. These factors have created increasing demand for lower cost information regarding the identity, location and purchasing history of potential customers. For many businesses, this information can be crucial to their marketing success.

Direct marketers of information products, including book and magazine publishers, financial institutions, seminar coordinators and professional associations, generate significant demand for affordable, current, highly-segmented mailing list databases, and mailing list database services. In addition, these information product vendors have sought new ways to obtain value from their customer databases by more effectively analyzing and/or selling their customer and prospect lists.

The Internet and World Wide Web

The Internet is a global collection of thousands of computer networks interconnected to enable commercial organizations, educational institutions, government agencies and individuals to communicate electronically, access and share information and conduct business. While the Internet was historically used by a limited number of academic institutions, defense contractors and government agencies primarily for remote access to host computers and for sending and receiving electronic mail, commercial organizations and individuals are increasingly dominating the use of the Internet. Recent technological advances, including increases in microprocessor speed and the development of easy-to-use graphical user interfaces, combined with cultural and business changes, have led to the Internet being integrated into the operations and strategies of commercial organizations and the activities of individuals.

Much of the recent growth in Internet use by businesses and individuals has been driven by the emergence of a network of servers and information available on the Internet called the World Wide Web. The Web is a network medium that is rich in content, activities and format. The Web medium includes a wide range of content such as magazines, news feeds, radio broadcasts, and corporate, product, educational, research, and political information, as well as activities, including customer service, electronic commerce, reservations, banking, games and discussion groups. International Data Corporation estimates that the number of individuals with access to the Internet is projected to reach 199 million users in 1999, of which 125 million users are estimated to be accessing the Web. The Company believes that recent trends in the establishment of Internet access services such as AT&T's WorldNet will facilitate access to the Internet and result in an increase in the number of users of the Internet. An increase in the number of users of the Internet could result in higher traffic to the Company's sites.

The Web can be accessed using software that allows non-technical users to exploit the capabilities of the Internet easily. Electronic documents or "Web pages" which may contain textual, audio and video information, are published on Web sites in a common format. Each Web site could contain hundreds of Web pages. Users can view these Web pages by using widely available software called "Web browsers" such as the Netscape Navigator or the Microsoft Internet Explorer. Users specify which electronic documents they wish to view with their Web browser by entering each document's unique electronic Web address, or Universal Resource Locator ("URL"). Alternatively, users can navigate the Web by making use of the hypertext link capability of Web documents. Hypertext links are active areas on a Web page which can be located anywhere else on the Web. This feature enables users to move from one page to of content and activity to another related or "linked" page, without having to know the underlying address or URL of either document.

The rapid deployment of the Web has introduced fundamental and structural changes in the way information can be produced, distributed and consumed, lowering the cost of publishing information and extending its potential reach. Companies from many industries are publishing product and the company information or advertising materials and collecting customer feedback and demographic information interactively. The structure of Web documents allows an organization to publish significant quantities of product information while simultaneously allowing each user to view selectively only those elements of the information which are of particular interest. This feature makes possible the dynamic tailoring of information delivery to each user's interests in a cost effective and timely fashion. The Web, by facilitating the publishing and exchange of information, is dramatically increasing the amount of information to users.

Interactive Marketing Industry

Direct Marketing is undergoing rapid, fundamental change, as customers needs evolve and technology advances. Marketing channels and media outlets are expanding in number and diversifying in scope, and powerful database technologies are able to target both broad markets and individual customers with ever-greater precision.

The emergence of the Internet into homes and offices has provided direct marketers with a powerful new distribution mechanism - interactive media. Interactive marketing is a subset of direct marketing. It differentiates itself from traditional direct marketing channels in that the consumer has flexibility and control over what is being presented, when they view the products or services and which types of products or services they are viewing.

In contrast to conventional media, the Internet offers capabilities to target advertising to specific audiences, to measure the popularity of content, to make timely changes in response, to reach worldwide audiences cost-effectively and to create innovative and interactive advertisements. By collecting customer feedback and demographic information, advertisers can direct highly customized marketing campaigns at defined targets. In addition, the Internet enables advertisers to transact with prospective customers much more rapidly than with conventional media.

The Company believes that advertisers will seek to advertise on Web sites that offer a high volume of traffic and feature flexible advertisement programs capable of reaching targeted audiences. Likewise, the Company believes that as advertisers increasingly embrace the Internet as an advertising vehicle, their participation will subsidize in part the creation and expansion of the information and resources available on the Web which in turn is expected to stimulate further traffic flow. However, the Internet as an advertising medium is still evolving and, consequently, advertisers seek demonstration of its effectiveness as a media purchase. Due to the limited information and experience on Web advertising and a general unfamiliarity with the concept of interactive advertising, advertisers require assistance with the design and placement of advertisements on the Internet.

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

Products and Services

CMG Lists

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

CMG understands that there is only one other supplier of faculty mailing lists and two other suppliers of college and university administrator lists. In addition, CMG believes that it has identified virtually all North American textbook publishers and that it supplies mailing lists derived from the College List database to a majority of them.

CMG also believes that most of the largest North American publishers of books for professionals contribute their customer lists exclusively to the Information Buyers List database and have agreed not to contribute their customer lists to any other book buyer databases. These publishers also purchase mailing lists and list services from the Company. Accordingly, CMG believes that the Information Buyers List database is the only database of its kind and that the College List database is the dominant database of its kind and that these databases make CMG a leading supplier of mailing lists and related services to educational and professional publishers.

The College List Database. The College List database, which the Company believes is the dominant list of its type, includes approximately 700,000 names and addresses of college and university deans, administrators and faculty at every college, university, and junior college in North America. The Company classifies each course taught, and the faculty teaching it, into one of approximately 4,000 subject codes, which permits the Company to identify all faculty teaching any particular course or subject and create lists identifying the faculty so they can be targeted.

The resulting lists are valuable to publishers, as the classification system of specific subject codes permits them to choose the professors most likely to select a given book for a course and then to send promotional materials and/or a sample copy of the textbook to them. In addition, the database classification system helps publishers identify areas of study where new titles are needed and define the size of the potential market.

The College List is compiled by the Company from course schedules and other source documents published by colleges and universities and is updated twice annually (i.e. each semester). The Company augments the information available from the schedules with school catalogs, supplemental questionnaires, telephone calls, and various other source documents collected from colleges and universities.

The Information Buyers List Database. The Information Buyers List database includes approximately 11 million names and addresses of professionals who purchase books, periodicals, seminars and other information products through mail order. The Information Buyers List is assembled from over 150 proprietary lists of over 100 publishers and other organizations. Combining these separate customer lists into a single database permits the Company to offer its clients a larger group of potential customers across a broader range of target categories than could be obtained from any single list. In addition to its size and diversity, the database is also valuable because it is limited primarily to those consumers who have actually purchased through mail order and are therefore thought to be more likely to do so in the future. The Information Buyers List is segmented under the same 4,000 subject codes as the College List.

When a participant's customer list is added to the database, the Company uses its software to segment the list into the subject codes and to supplement the database with information derived from the participant's customer list, such as recency of purchase, gender and home or office address distinctions. This classification system permits the Company to identify professionals that have purchased information products pertaining to any given subject and to create lists identifying the purchasers so they can be targeted.

The lists derived from the Information Buyers List database are used by publishers and other companies in the business-to-business and consumer publishing direct mail markets. The high degree of segmentation of the database enables the Company to extract very specific, and thus, more responsive niches of professionals with a demonstrated interest in purchasing very specific types of information products. This level of selectivity also enables the Company to identify and build other valuable lists that are not obvious properties of the individual component lists used by the Company to maintain the database.

The Elementary/High School List Database. In 1992, the Company introduced the Elementary/High School List or "ElHi List" database. In January 1994, the ElHi List included the names and addresses of approximately 84,000 public elementary and high schools, approximately 16,000 public school district offices, approximately 8,400 public libraries and approximately 140,000 administrators. The ElHi List is segmented into over 30 public school district demographic categories and is used by publishers of textbooks, supplemental educational materials and magazines and school supply distributors, among others. The ElHi List is compiled from federal, state and local government files and the names of school administrators and staff are developed through state directories, mailings and telephone. CMG successfully completed the compilation of the ElHi list in fiscal 1995. The Elementary and High School list consists of more than 2.8 million names of teachers and administrators associated with public elementary through high schools. This database greatly enhances CMG's ability to service its educational publishing clients and builds on CMG's reputation and distinctive competence in the educational publishing industry.

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

Database Services

CMG Direct Interactive.

CMG Direct Interactive's goal is to be the premier provider of direct, interactive marketing environments, supplying innovative, world-class database and direct marketing solutions to customers in a diverse range of businesses. In all products and services, CMGDI's goal is to increase clients' ability to identify and interact with their own customers on an individual basis. To accomplish this task, the company draws on the CMG family's long history of successful database direct marketing, and augments that experience with a serious commitment to unlock the potential of bold new technologies.

Most businesses do not have the technology or expertise to build, maintain or enhance their mailing lists or databases in-house. CMG Direct Interactive offers these businesses a comprehensive service set including database design, program specification, programming, testing, debugging and ongoing maintenance and enhancement.

For clients that want to build a customer database, the Company provides database analysis, design, software development, testing, debugging, and maintenance. Once the database software is completed, the Company collects customer and prospect data from its clients in a variety of forms for standardization and inclusion into each client's customized database. This involves working in depth with clients to discern their database maintenance, fulfillment and reporting requirements, converting these requirements to computer program specifications, and managing the project from start to finish.

Database management involves processing customer data, segmenting the processed information to provide the level of detail and selectivity desired, storing the information, and updating it to make it readily accessible for the client's promotional, analytical and list rental activities. Lists may be combined and enhanced with additional demographic information and other lists to form databases which can be used as the basis of additional client promotions or marketed to other list users.

If a client's mailing list is being combined with other lists or if a client purchases several lists for a direct marketing campaign, the lists are often combined into one master list. Typically, these lists will contain duplicate names. The Company's merge/purge (duplicate elimination) software recognizes and eliminates duplicate names, thereby preventing duplicate mailings and, thus, lowering client mailing costs. In addition, identifying these multiple prospects enables the direct-response client to recognize the duplicate name as a multi-buyer. CMGDI also minimizes postal costs through postal pre-sorting, bar coding and address standardization.

Direct Interactive also offers private database management as a service for large volume mailers who mail to the same target lists regularly. A private database is a targeted collection of mailing lists that is used repeatedly by a restricted group of mailers. Ordinarily, this type of mailer would have to contact a list broker, order lists and perform a number of processing functions for each mailing. A private database maintained and updated by the Company provides the mailer or group of mailers with a pool of mailing lists which have proven effective for their mailing needs. Using the Company's services, the mailer can perform research on the private database, select the names most likely to respond and pay only for names used for targeting. Mailing costs are reduced, lead times are shortened and the mailer gains more precise targeting capability.

Private databases are part of Direct Interactive's overall strategy to give the Company's clients greater ability to analyze, access, and eventually update their customer and prospect databases. In addition to continual enhancements to existing software, this strategy is being achieved in part by reengineering the Company's proprietary database management software from a mainframe to a client server environment. The Company believes that this transition will result in more cost efficient and effective access to data for its clients and a corresponding increase in the market for the Company's systems and services.

With a number of pathbreaking applications in development or the early stage of beta testing, CMGDI enables marketers to rapidly assimilate, analyze, manage, and apply vast quantities of information from disparate sources. In so doing, the company helps marketers identify and fulfill customers' specific needs.

Very large-scale data warehouses are a vital cornerstone in the creation of one-to-one marketing environments. CMGDI is developing creative products and services to efficiently manage these immense repositories, helping customers maximize access to critical information the data warehouses contain.

CMGDI is developing advanced software products and systems that will create direct, interactive marketing environments (DIMEs). These DIMEs combine techniques of very large scale database marketing with interactive data collection and analysis to enable the complete direct marketing and sales cycle including commerce on the Internet. This total environment makes possible one-to-one marketing and ongoing, customer beneficial relationships.

Planned offerings to customers in fiscal 1997 include an advanced Data Warehouse Manager, a graphical, object-based end-user data access and query tool; and an advanced interactive targeting framework.

SalesLink

Mutual funds receive thousands of requests daily for fund prospectuses, marketing materials and other product literature. The volume of such requests, and the increasing competitiveness of the mutual fund industry, place a premium on filling requests rapidly and cost-effectively. The Company believes that rather than building the costly and specialized computer and management systems necessary to conduct cost effective literature fulfillment internally, mutual funds have increasingly turned to outside providers of fulfillment, sales lead/inquiry management and business-to-business telemarketing services. Most of SalesLink's mutual fund clients previously performed these services in-house and the Company has been informed by other mutual funds that they are analyzing the relative costs and benefits of outsourcing these services rather than performing them in-house. SalesLink contracts with mutual funds to take and fulfill orders for fund literature and other materials, and to assist in the management of sales leads and inquiries arising from this activity. In addition to mutual funds, SalesLink also provides literature and product fulfillment to high technology, bio technology and consumer electronics businesses.

SalesLink provides clients with three specialized direct marketing services: (i) product and literature fulfillment; (ii) sales lead/inquiry management; and (iii) inbound/outbound telemarketing. Most of SalesLink's revenue is derived from clients that are mutual funds.

Product and Literature Fulfillment. On behalf of its fulfillment clients, SalesLink takes orders for promotional literature and products from its client's customers and prospects and "fulfills" the orders by assembling and shipping the items requested. Depending on the client, the product or literature may be sent directly to the end-user or to a broker or distributor. SalesLink's mutual fund product and literature fulfillment services begin with the receipt of orders by SalesLink's inbound telemarketing staff. Telemarketers answer calls by mutual fund company name and key order requests into computers. Some clients electronically transmit orders received by their own telemarketing staffs directly into SalesLink's computers. Orders are then generated and presented to the fulfillment production floor where fulfillment packages, including mailing labels, are assembled and shipped. As necessary adjuncts to fulfillment services, SalesLink provides product and literature inventory control and warehousing. SalesLink also offers customer support and management reports detailing orders, shipments, billings, back orders, and returns.

Sales Lead/Inquiry Management. In sales lead/inquiry management, SalesLink provides prospects with information about a product or service that one of SalesLink's clients is marketing. In response, SalesLink receives sales inquiries and maintains central customer databases of the names and addresses of each person inquiring about the product. SalesLink's clients use the databases for market research, sales follow-up and management reports. Depending on the criteria supplied by the client, SalesLink eliminates non-productive leads, distributes sales inquiries to the client's sales force and ships fulfillment packages containing the client's literature or products. After the disposition of the inquiry, SalesLink is able to produce reports allowing the client to evaluate the effectiveness of the marketing program which generated the inquiry and evaluate the performance of the client's sales force in handling the inquiry.

Telemarketing. SalesLink's telemarketing group offers comprehensive inbound business-to-business telemarketing services to support its sales inquiry management and order processing activities. Telemarketing services include lead qualification, order processing fulfillment and marketing analysis. SalesLink also offers outbound business telemarketing services that are tailored to an individual client's needs. Outbound telemarketing programs can be used to update a client's existing database, survey possible markets or prequalify sales leads.

New Products and Services. SalesLink has evolved a number of new products and services to further its strategy to diversify into new vertical industry markets. Most notably, the business delivered its new SL Flagship proprietary software and the supporting data warehouse architecture. The system enables customers and client service personnel to instantly access, manipulate and analyze response data about customers prospects. With SL Flagship, customers avoid the time and costs of extensive programming by making critical marketing decisions using PC-based tools. Additionally, SalesLink has begun expanding its capability of providing print-on-demand fulfillment services. SalesLink further strengthened its management infrastructure over the past year and began a new Total Quality Management initiative aimed at improving its already "best in the industry" client service. SalesLink has begun cross-selling with CMGDI and @Ventures companies. In fiscal 1997 SalesLink intends to integrate @Ventures technologies into various information and end product delivery mechanisms to enable customers to make increasingly efficient and effective sales and marketing decisions.

Internet Investments

Lycos, Inc.

Lycos, CMG's publicly traded subsidiary offers one of the most popular catalog and search tools on the World Wide Web (the

Web). Lycos' underlying "spider" technology was designed to find, index, and filter information on the Web, providing users with easy access to what's available on the Internet.

In the beginning, the technology enabled users to explore the Web by topical, word-specific searches. In September 1996, however, Lycos unveiled major additions to its service. The catalog now can find any picture, sound, or topic on the Web. In addition, Lycos has also expanded to become a full-fledged source of editorial content. Services include Point Reviews, critical assessments of web sites; City Guides, links to sites of regional interest; and Sites by Subject, a directory of sites organized around 16 major categories and hundreds of subcategories.

This ever-expanding suite of services has made Lycos site one of the most-frequently visited on the Web and a significant advertising revenue generator. Additionally, Lycos generates revenues through the licensing of its technology. Lycos had 160 advertising customers at the end of fiscal 1996, including IBM, Hilton, Ford, and Disney. Likewise, Lycos has attracted 24 licensee partners worldwide including AT&T, Bertlesmann, and the Swedish Postal Service. Lycos has also successfully partnered with other CMG companies. GeoCities offers Lycos searches in each of its neighborhoods and Black Sun provides users a 3D interface to Lycos' Point Reviews.

GeoCities

GeoCities builds and operates innovative, advertiser-supported special-interest communities on the Web. As the most popular and largest collection of free home pages on the web, GeoCities hosts 27 theme-based online communities and has attracted more than 140,000 "homesteaders", or GeoCitizens.

Since launching its first four neighborhoods in June 1995, GeoCities has steadily expanded its free services to foster a greater feeling of community. Users receive a free megabyte of disk storage space, three levels of home page editing capability, live help chat, visitor counters, guest books, free e-mail, and mapping utilities. GeoCitizens can search their favorite neighborhood with a custom-designed Lycos search engine, and soon will be able to create their own 3D home pages with Black Sun's VRML programs.

In communities with names like Silicon Valley, Wall Street, Napa Valley, and TimesSquare, GeoCitizens create special-interest content and share their home page thoughts and passions with like-minded friends and neighbors worldwide. User traffic has increased to 54 million page views and 250 million hits per month, according to GeoCities' Nielsen I/PRO audited report for August 1996. As a result, the overall service is now consistently ranked among the 15 most-visited sites on the Web.

Advertisers are attracted to GeoCities self-defined audiences, high traffic, and innovative custom marketing programs. These programs provide brands with high impact marketing opportunities within and well beyond GeoCities neighborhoods. GeoCities' GeoRewards program is expected to generate even more traffic as well as allowing advertisers access to GeoCitizens' home pages. And a new online GeoStore will offer loyal GeoCitizens the opportunity to shop online and will serve as an additional revenue source for the company.

Vicinity Corporation

Since its inception in August 1995, Vicinity Corporation has rapidly established itself as a premier supplier of graphically-oriented ("GeoEnabled"), content and services exclusively for the Web. Vicinity's GeoEnabling services apply a spatial filter to business listings, classified ads, current events listings and other data, to give end users a customizable, local view of information.

Vicinity licenses its Your Town family of services to leading web search and directory services, travel services, Yellow Pages providers, newspapers, and other businesses, who brand the Vicinity services with their own company and service names, their own graphical wrappers, and their own look and feel and attitude. Included in the Your Town family are Vicinity interactive geographic maps, business directories, proximity searching, driving directions, advertising functionality, and other services.

Among Vicinity's current customers are such leading web sites as BellSouth, GTE SuperPages, InfoSeek, Levi's Dockers, and Yahoo! as well as companies from the CMG family - Lycos, Planet Direct, and GeoCities.

The Your town suite was launched in July 1996. The same month, Vicinity announced its expansion into European markets. The company will offer high quality, detailed, street-level interactive, web-based maps of most of continental Europe in September 1996.

NetCarta Corporation

NetCarta makes web sites and intranets easier to manage and navigate, by providing tools that improve Web quality and consistency. As web sites become more numerous and complex, these tools will be critical to companies and individuals interested in improving their productivity and online communications.

NetCarta Corporation is the leading provider of client/server-based tools that simplify Web site management. NetCarta's software solutions enhance individual online productivity and enable corporations to efficiently and cost-effectively manage diverse web content.

The company's core technology is the NetCarta WebMap -- a compact database that provides a visual guide to the structural relationships among all resources in a web site. NetCarta WebMaps help webmasters analyze and manage their sites, and help individuals find information on the Web more efficiently. Fiscal 1996 offerings to customers were:

* NetCarta WebMapper is a powerful site/server content management tool that allows webmasters to clarify relationships among web objects, analyze and verify links, and track site changes.

* CyberPilot Pro, released in April 1996, is a combination browser accelerator and map maker that allows users to browse, create, and publish maps of any site on the Web.

* CyberPilot, a low-cost viewing tool, enables users to view existing WebMaps. Cyberpilot was developed as a cost-effective client complement to NetCarta WebMapper for reading published maps of corporate intranet or Internet sites.

* The NetCarta WebMap Library, launched in July, is an expanding online library of more than 25,000 NetCarta WebMaps of corporate, entertainment, education, and government sites.

NetCarta has also developed and licensed its technology for product development and partnering with original equipment manufactures (OEMs), who incorporate the technology into their own products. OEM clients include DocuMagix Corp., which recently released DocuMagic HotMap, a NetCarta WebMap maker and viewing tool.

Within the CMG family, NetCarta technology has been incorporated in Ikonic's Ringmaster web content coordination software, and NetCarta software is available in GeoCities' online storefront. Lycos also offers users NetCarta WebMaps for the majority of the content on its a2z Sites by Subject service.

Black Sun Interactive

Black Sun Interactive, with headquarters in San Francisco and Munich, develops servers and authoring tools for use in three-dimensional web site environments.

Black Sun is the first company to offer multi-user interaction based on VRML (virtual reality modeling language) programs. Now, it is leveraging its core business expertise in extensible client/server architectures and distributed databases to create the infrastructure for 3D environments that allow individuals to meet, work, and play on the Web as naturally as they do in the real world.

All Black Sun products are built on open industry programming standards (such as VRML and Java), run on all major operating systems, and provide well-documented plug-ins for maximum extensibility and integration.

Black Sun's fiscal 1996 product offerings were:

* CyberGate, a stand-alone multi-user VRML browser for visiting virtual worlds and interacting with other people in those worlds.
* CyberHub Client, released for beta in September 1996, adds multi-user functionality to the leading VRML browsers. It is available for Netscape's Navigator 3.0 live 3D browser and Silicon Graphics' Cosmo Player.
* CyberHub, a high-performance multi-user interaction server that allows web site operators to turn their sites into online 3D communities of any size.
* CyberSockets (in beta), is Black Sun's API (application plug-in) for accessing the multi-user services of CyberHub. Based on VRML and Java, it allows developers to add multi-user capabilities to existing applications and games, and to customize product offerings for vertical markets such as education, conferencing, and entertainment.

Also during fiscal 1996, Black Sun teamed with Lycos to release Point World, the first large-scale multi-user VRML environment based on the popular web site review service. In August 1996, Black Sun announced a strategic partnership with GeoCities to bring VRML-based multi-user interaction to GeoCities' popular web destinations.

Freemark Communications, Inc.

Freemark aims to provide the world's simplest e-mail service at no cost to end-users. Freemark developed the first business model for advertiser-supported Internet mail, and provides consumers with completely free e-mail service by allowing national and local brand advertisers to sponsor personal mail delivery.

Unlike the majority of online and Internet players whose businesses serve the technically elite segment of the computing market, Freemark's service is aimed at the roughly 50 million Americans who live in PC-equipped households but for whom online use is daunting. The company also targets small businesses and affinity organizations. Freemark's broad consumer appeal has enabled it to attract national brand advertisers, including RJR Nabisco food products, The Wall Street Journal and Citibank.

TeleT Communications

In September of 1996, CMG sold its equity interest in TeleT Communications to Premiere Technologies in a stock and cash transaction. With TeleT, Premiere establishes itself as a pioneer in leveraging the power of the Internet to develop a product that links telephones and computers into one interchangable business tool. Although TeleT is no longer a formal member of the CMG family of companies, Planet Direct's Internet service offering will benefit from the enhanced value of the combined services of Premiere and TeleT and joint marketing and distribution programs will continue with NetCarta Corporation, GeoCities and Lycos, Inc.

Ikonic Interactive

Ikonic provides site design and development services, consultation, and products for companies that want to establish brand-building Web sites. With 11 years of experience designing intuitive interfaces for a range of interactive media, Ikonic is a recognized leader in creating personalized, dynamic content. In September 1996, Ikonic's Products Group released Ringmaster, the first web site content coordination tool. Ringmaster enables editors, webmasters, and contributors to coordinate web content submissions easily, within a single application.

Ikonic's revenue base has shifted over the past few years, solidifying Ikonic's position in the web community. By the fourth quarter of fiscal 1996, 77% of Ikonic's revenues were derived from the Internet. New service customers included American Express, Microsoft, Virgin Records, and Pacific Bell.

Parable

In August 1996, CMG @Ventures invested in Parable, LLC. Parable is a start-up software firm developing unique and unprecedented multimedia tools and technology. Potential customers include entertainment, media, publishing and software companies developing interactive titles for distribution on the Internet, CD-ROM, and other digital delivery channels.

Planet Direct

In June, CMG announced the formation of Planet Direct, an Internet service designed to draw on the strengths of the companies within the corporate CMG family to create a comprehensive, new offering. Planet Direct plans to provide Internet users a rich, deeply personalized experience, through a content model organized around customers' personal interests and the places they live. The goal is to create a global network of communities on the Web, each with its own local content flavor.

Rather than becoming a "top-down" information provider, Planet Direct follows a community-generated content model, giving users a true platform from which to make themselves heard. It has been designed to elicit interesting and expansive content, created in large part by members of the local communities it serves. Marketed as "Where You Live On-Line", Planet Direct is intended to be a home page in the actual and metaphoric senses of the word. It is the virtual barber shop, or coffee house, or town hall.

In other words, Planet Direct will be a central meeting point where users will congregate with fellow residents to share all manner of experiences. On subjects from entertainment, to civic affairs, to personal finance, to sports, the service will consist of vibrant interactive communities at the "X/Y" intersection of personal interests and geography. This means localized content that is appealing to users' interests, as well as specific to their locations.

To build the network, Planet Direct is partnering with Internet Service Providers (ISPs) in domestic and international local markets. In each of these markets, Planet Direct will be offered as a cobranded service of both CMG and the respective local ISP. Cobranding the service with ISPs will accomplish a number of goals. It helps Planet Direct leverage business and content opportunities in local markets, via the ISPs' existing ties to their own geographic regions. Additionally, compared to commercial online services, Planet Direct's cost-of-acquisition for new customers will be minimal, because ISP partners come to Planet Direct with existing client bases. For the ISPs, a Planet Direct affiliation opens new advertising revenue streams and helps differentiate them from competitors. This gives Planet Direct partners the preemptive edge they need to acquire, retain, and expand their customer bases.

Planet Direct's development strategy exemplifies the synergies within the CMG family. ADSmart and other Direct Interactive products will form the basis of Planet Direct's advertising strategy. The personalized targeting ADSmart technology will allow advertising through Planet Direct to be more responsive than through traditional mass-market ads. And the involvement of ISPs greatly enhances Planet Direct's ability to acquire precise clickstream information --the linchpin behavioral data that drives the entire Direct Interactive strategy. Because advertisers can use it to pinpoint their audiences with such accuracy, CMG believes this data will allow Planet Direct to sell advertising at substantially higher-than-average rates.

On the content side, InfoMation's personalized Internet newspaper forms a crucial segment of the Planet Direct service. So, too, does Lycos, with its geographically organized City Guides and broader search capabilities. GeoCities brings its vast experience providing personalized home pages to the Planet Direct suite, and Parable's easy-to-use software will help Planet Direct users create those home pages. Black Sun's three-dimensional chat and other VRML offerings are also an exciting component of the Planet Direct model. And although it is no longer owned by CMG, former affiliate TeleT (Premiere Technologies) will also work closely with Planet Direct to provide advanced telephony services.

InfoMation

CMG's personal electronic newspaper business was initiated in February 1996 when CMG acquired the exclusive perpetual license to sell BBN Corporation's PINpaper technology. This new technology collects and organizes information from the Web, from major news wires, and within corporate databases, delivering it to end-users to their specification.

InfoMation will use CMG Direct Interactive's data warehouse and data access and targeting tools to capture and analyze compelling amounts of clickstream data. This data will be extremely useful for one-to-one target marketing because it will be derived from sustained personal profile and preference data obtained by monitoring user behavior. The product is thus positioned to accumulate what every advertiser wants - demographic and psychographic profiles of customers.

Further, InfoMation will be an integral part of the Planet Direct service, will be distributed on Lycos and other web sites, and will be sold to corporations wishing to manage information flow in corporate intranet environments. This is expected to allow InfoMation to gain market share and advertising revenue.

ADSmart

Web publishers are seeking to develop the means to sell, schedule, serve and track the highly targeted advertising that is so critical to their profitability. Advertising agencies are looking for information and results to understand and measure the role web advertising should play in meeting their clients' marketing goals. ADSmart is being developed to bridge the gap by drawing on the combined targeting and tracking resources of CMG's core direct marketing business and the web advertising expertise of CMG portfolio companies.

ADSmart expects to grow the Internet advertising market by helping agencies and web sites better understand each other's needs, streamlining the advertising buying process, and licensing its technology to individual web sites to manage their own targeted ad sales and delivery. Lycos, GeoCities, Vicinity, NetCarta, Planet Direct and InfoMation are charter members of ADSmart.net, a network of web sites which agencies can evaluate and book online.

ADSmart's proprietary methodology enables direct mapping of audiences defined by ad campaigns. The benefits are increased response rates -- due to higher ad relevance to viewers, cost effectiveness for advertisers -- who spend less to reach the same number of interested viewers, and improved agency productivity -- due to a centralized contact point and on-line booking of ads on ADSmart.net sites.

Business Strategy

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

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

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

Pursue Innovative Advertising Solutions. The Company is actively seeking to develop innovative ways for advertisers to reach their target audiences through the Internet effectively. The Company designs and offers customized packages which include the ability to change advertisements quickly and frequently, to link a specific search term to an advertisement, to conduct advertising test campaigns with rapid result delivery and to track daily usage statistics. The Company is currently developing software that will provide it with the ability to target ads based on demographics and usage patterns.

Augment database offerings. The Company has expended significant resources to develop the most comprehensive and accurate databases of their kind available to publishers. The Company believes that its College List database is the dominant list of its kind and that the Information Buyers List database is the only list of its kind, complemented by the ElHi list database, which was successfully compiled in fiscal 1995 and is positioned to be cross sold to gain market share. The Company intends to maintain or improve its market position by expanding the number, size, nature, comprehensiveness and segmentation of its database offerings.

Maintain focus on marketers of information-based products. Publishers are among the largest users of direct marketing services and constitute the Company's largest client base. As society becomes more information driven, the amount and value of business and educational information sold by publishers will increase, as will the value of the effective direct marketing of this information. The Company will continue to focus on the publishing industry to participate in this growth.

Expand technological capabilities and computer services. The Company believes that technological innovation will continue to increase the effectiveness of direct marketing. Accordingly, the Company is increasing its technological capabilities through the enhancement of existing software and the reengineering of the Company's proprietary database software. This transition will give the Company's clients greater ability to access, analyze and eventually update their own databases through the use of the Company's computer services and software.

Cross-sell products and services. The Company is involved in many aspects of the direct marketing sales cycle. The Company has experienced initial success in increasing the number of products and services purchased by its existing clients and intends to further this expansion.

Sales and Marketing

The Company markets its products and services through a marketing staff using both telemarketing and direct sales. The Company maintains separate marketing staffs for each product and service area, enabling the marketing personnel to develop strong customer relationships and expertise in their respective areas. The Company advertises its products and services through direct mail, space advertising, directory listings, trade shows and Company sponsored user groups. In addition, the Company's subsidiary, Lycos, has complemented the activities of its direct sales force by retaining NetRep, a New York based Internet advertising sales agency, to serve as a sales representative on a commission basis.

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

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

Competition

CMG Information Services, Inc. competes on the basis of the accuracy, size, and comprehensiveness of its principal databases: the College List and the Information Buyers List. The Company believes that the College List is the dominant database of its kind and has only one competitor, while the ElHi list is a new product offering that will compete with the same competitor as the College List. The Information Buyers List is the only list of its kind. Direct Interactive's products and services compete with numerous other service bureaus and compete on the basis of their effectiveness in processing customer and prospect list databases for publishers. The Company believes that no other service bureau concentrates on the list processing needs of the publishing industry to the same extent as the Company.

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

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

SalesLink has two prominent competitors, Harte-Hanks Direct Marketing, a division of Harte-Hanks Communications, Inc. and Output Technologies, Inc., for the mutual fund literature fulfillment component of its business, and also competes with the internal fulfillment operations of the mutual funds themselves. SalesLink competes on the basis of pricing, geographic proximity to its clients and the speed and accuracy with which orders are processed. There are many businesses that compete with SalesLink's other services.

Research and Development

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

During fiscal year 1996, the Company expended $6,971,000, or 24.5% of net sales, on research and development. In addition, during fiscal year 1996, the Company recorded $2,691,000 of in-process research and development expenses in connection with acquisitions of subsidiaries and investments in affiliates.

Intellectual Property and Proprietary Rights

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

Employees

As of July 31, 1996, the Company employed a total of 505 persons on a full-time basis. In addition, depending on client demand, SalesLink utilizes manpower agencies to contract between 50 and 75 persons on a temporary, part-time basis. None of the Company's employees are represented by a labor union. The Company believes that its relations with its employees are good.

Segment Information

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

Significant Customers

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

ITEM 2. - PROPERTIES

Facilities

The location and general character of the Company's principal properties by industry segment as of July 31, 1996 are as follows:

Lists and Database Services and Corporate Headquarters

The Company leases approximately 34,000 square feet of executive office, engineering, sales and operations space in Wilmington, Massachusetts, under a lease which expires in 2000.

Subsequent to July 31, 1996, the Company entered into a lease for approximately 30,000 square feet of executive office, engineering, sales and operations space in Andover, Massachusetts, which expires in 2002.

Fulfillment Services

The Company's operations are conducted from an approximately 175,000 square foot leased facility in Boston, Massachusetts. The lease for this facility expires in 1998. Additionally, the Company leases an approximately 51,000 square foot operating facility in Bedford Park, Illinois under a lease which expires in 1999.

Investment and Development

The Company leases approximately 40,000 square feet of office, engineering, sales and operations space in Cambridge, Massachusetts, Marlboro, Massachusetts, New York, New York, Pittsburgh, Pennsylvania, Beverly Hills, California, Menlo Park, California, San Francisco, California, Scotts Valley, California and Munich, Germany under leases which expire from 1996 to 2000. This industry segment also shares a portion of the Company's Wilmington, Massachusetts facility described above.

Computer Operations

The Company's computer systems are primarily maintained at its Wilmington, Massachusetts, Boston, Massachusetts, and Pittsburgh, Pennsylvania locations. The Company's operations are dependent in part upon its ability to protect its operating systems against physical damage from fire, floods, earthquakes, power loss, telecommunications failures, break-ins and similar events. The Company does not presently have a disaster recovery plan. Despite the implementation of network security measures by the Company, its servers are also vulnerable to computer viruses, break-ins and similar disruptive problems. The occurrence of any of these events could result in interruptions, delays or cessations in service to users of the Company's products and services which could have a material adverse effect on the Company's business, results of operations and financial condition.

ITEM 3. - LEGAL PROCEEDINGS

The Company is not a party to any material litigation.

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

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

PART II

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

(a) Market information is set forth in Note 16 of the Notes to Consolidated Financial Statements referred to in Item 8(a) below and incorporated herein by reference.

(b) On October 22, 1996, there were 133 holders of record of common stock.

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

ITEM 6. - SELECTED CONSOLIDATED FINANCIAL DATA

The information set forth on page 20 of the 1996 Annual Report to Shareholders is incorporated herein by reference and is filed herewith as Exhibit 13.1.

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

The information set forth on pages 21-27 of the 1996 Annual Report to Shareholders is incorporated herein by reference and is filed herewith as Exhibit 13.2.

ITEM 8. - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) The following consolidated financial statements of the Company and independent auditors' report set forth on pages 28-42 of the 1996 Annual Report to Shareholders are incorporated herein by reference and are filed herewith as Exhibit 13.3:

- Consolidated Balance Sheets as of July 31, 1996 and 1995
- Consolidated Statements of Operations for the three years ended July 31, 1996
- Consolidated Statements of Stockholders' Equity for the three years ended July 31, 1996
- Consolidated Statements of Cash Flows for the three years ended July 31, 1996
- Notes to Consolidated Financial Statements
- Independent Auditors' Report

(b) Selected Quarterly Financial Data (unaudited) is set forth in Note 16 of the Notes to Consolidated Financial Statements referred to in Item 8 (a) above and incorporated herein by reference.

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

None.

PART III

ITEM 10. - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated by reference from the portions of the Definitive Proxy Statement entitled "Proposal 1--Election of Directors" and "Additional Information."

ITEM 11. - EXECUTIVE COMPENSATION

Incorporated by reference from the portion of the Definitive Proxy Statement entitled "Executive Compensation."

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

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

ITEM 13. - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

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

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

1. Financial Statements. The financial statements as set forth under Item 8 of this report on Form 10-K are incorporated herein by reference.

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

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

3. Exhibits. Pursuant to Rule 12b-32 and General Instruction G, the following Exhibits are required to be filed with this Report by Item 14 above and are incorporated by reference by the reference source cited in the Exhibit Index below or are filed herewith.

On November 10, 1993, the Company filed with the SEC a Registration Statement on Form S-1, as amended by Amendment No. 1 filed with the SEC on December 14, 1993, Amendment No. 2 filed with the SEC on January 10, 1994, Amendment No. 3 filed with the SEC on January 19, 1994, Amendment No. 4 filed with the SEC on January 24, 1994 and Post Effective Amendment No. 1 filed with the SEC on January 25, 1994.

EXHIBIT INDEX

Exhibit No.	Title	Method of Filing
3 (i) (1)	Amendment to the Restated Certificate of Incorporation	Incorporated by reference to Exhibit 3 (i) (1) to the Registrant's quarterly report on Form 10-Q for the quarter ended April 30, 1996.
3 (i) (2)	Restated Certificate of Incorporation	Incorporated by reference from Registration Statement Form S-1 as amended, filed on November 10, 1993
3 (ii)	Restated By-Laws	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
4.	Specimen Stock Certificate representing the Common Stock	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.01	Form of Indemnification Agreement between the Registrant and its Directors	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.04	Lease, dated November 21, 1991, Between the Registrant and Ballardvale Park Associates II Limited Partnership	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.05	Lease Agreement, dated September 2, 1992, between SalesLink Corporation, the subsidiary of the Registrant, and American National Bank & Trust Company of Chicago as Trustee under Trust No. 1001971-01	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993

10.06	Amendment to Lease, dated May 10, 1992, between SalesLink Corporation, the subsidiary of the Registrant, and Drydock Associates Limited Partnership	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.07	1986 Stock Option Plan, as amended	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.08	CMG Stock and Profit-Sharing Plan and Trust	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.09	CMG/SalesLink Savings and Retirement 401(k) Plan	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.10	Employment Agreement, dated August 1, 1993, between the Registrant and David S. Wetherell	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.11	Incentive Compensation Agreement dated August 1, 1990, between the Registrant and Richard Torre	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.12	Fulfillment and Inventory Management Agreement between SalesLink Corporation, the subsidiary of the Registrant, and MFS Financial Services, Inc.	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.13	Fulfillment and Mailing Agreement, dated January 1, 1993, between SalesLink Corporation, the subsidiary of the Registrant, and Kemper Financial Services, Inc.	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.14	Agreement, dated January 15, 1991, between ListLab, a division of the Registrant, and Prentice-Hall, Business and Professional Publishing Division	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.16	Account Indebtedness Letter Agreement, dated as of November 9, 1993, between the Registrant and David S. Wetherell	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.17	Amendment to Account Indebtedness Letter Agreement, dated as of January 10, 1994, between the Registrant and David S. Wetherell	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.18	Amendment No. 1 to the Employment Agreement, dated January 20, 1994, between the Registrant and David S. Wetherell	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.20	Amendment No. 2 to Account Indebtedness Letter Agreement, dated January 25, 1994 between the Registrant and David S. Wetherell	Incorporated by reference from Registration Statement Form S-1, as amended, filed on November 10, 1993
10.22	Loan Agreement dated as of July 31, 1995, between the Registrant, SalesLink Corporation, CMG Securities Corp. and United States Trust Company	Incorporated by reference to Exhibit 10.22 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.

10.24	Extension Agreement dated August 4, 1995 to Fulfillment and Mailing Agreement dated January 1, 1993, between SalesLink Corporation and Kemper Financial Services, Inc.	Incorporated by reference to Exhibit 10.24 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.
10.25	Fulfillment Master Purchase Agreement dated March 28, 1994, between SalesLink Corporation and Fidelity Investments Institutional Service Company, Inc.	Incorporated by reference to Exhibit 10.25 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.
10.26	Literature Fulfillment Agreement dated August 1, 1995, between SalesLink Corporation and Vista Capital Management	Incorporated by reference to Exhibit 10.26 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.
10.27	License Agreement dated June 16, 1995, as amended, between the Registrant, CMG@Ventures, L.P., Carnegie Mellon University, and Lycos, Inc.	Incorporated by reference to Exhibit 10.27 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.
10.28	Agreement and Plan of Reorganization dated as of November 8, 1994, as amended, among the Registrant, BookLink Technologies, Inc., America Online, Inc. and BLT Acquisition Corporation	Incorporated by reference from Report on Form 8-K as filed with the commission 01/01/95 (File No. 0-22846)
10.29	1995 Employee Stock Purchase Plan	Incorporated by reference to Exhibit 10.29 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.
10.30	1986 Stock Option Plan, as amended	Incorporated by reference to Exhibit 10.30 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.
10.31	Termination Amendment as of July 31, 1994 terminating CMG Stock and Profit-Sharing Plan and Trust	Incorporated by reference to Exhibit 10.31 to the Registrant's annual report on Form 10-K for the year ended July 31, 1995.
10.32	Partnership Agreement by and among CMG-@Ventures, Inc., CMG@Ventures Capital Corp., the Registrant and various Profit Partners	Incorporated by reference to Exhibit 10.32 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1996.
10.33	Master Agreement dated as of February 13, 1996 between BBN Corporation and the Registrant.	Incorporated by reference to Exhibit 10.33 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1996.
10.34	1995 Stock Option Plan for Non-Employee Directors	Incorporated by reference to Exhibit 10.34 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1996.
10.35	Amendments dated February 9, 1996 and March 4, 1996 to License Agreement dated June 16, 1995, between the Registrant, CMG-@Ventures L.P., Carnegie Mellon University and Lycos, Inc.	Incorporated by reference to Exhibit 10.35 to the Registrant's quarterly report on Form 10-Q for the quarter ended January 31, 1996.
11	Statement of Computation of Earnings Per Share	Filed herewith

13.1	Selected Consolidated Financial Data	Filed herewith
13.2	Management's Discussion and Analysis of Financial Condition and Results of Operations	Filed herewith
13.3	Consolidated Financial Statements, Supplementary Data, and Independent Auditors' Report	Filed herewith
22	Subsidiaries of the Registrant	Filed herewith
23	Consent of Independent Auditors	Filed herewith
27	Financial Data Schedule	Filed herewith

(B) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the fiscal quarter ended July 31, 1996.

REPORT OF INDEPENDENT AUDITORS
ON FINANCIAL STATEMENT SCHEDULE

The Board of Directors
CMG Information Services, Inc.:

Under date of September 16, 1996, we reported on the Consolidated Balance Sheets of CMG Information Services, Inc. as of July 31, 1996 and 1995, and the related Consolidated Statements of Operations, Stockholders' Equity, and Cash Flows for each of the years in the three year period ended July 31, 1996, which are included in the Form 10-K for the year ended July 31, 1996. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule of Valuation and Qualifying Accounts in the Form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG PEAT MARWICK LLP
KPMG PEAT MARWICK LLP

Boston, Massachusetts
September 16, 1996

CMG INFORMATION SERVICES, INC.
SCHEDULE II
Valuation and Qualifying Accounts
For the years ended July 31, 1994, 1995, 1996

Accounts Receivable, Allowance for Doubtful Accounts	Balance at beginning of period	Additions Charged to Costs and Expenses (Bad Debt Expense)	Deductions (Charged against Accounts Receivable)	Balance at end of period
1994	$ 96,000	$ 96,000	$ 55,000	$137,000
1995	$137,000	$ 60,000	$ 49,000	$148,000
1996	$148,000	$294,000	$ --	$442,000

SIGNATURES

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

CMG INFORMATION SERVICES, INC.
(Registrant)

Date: October 28, 1996

By: /s/ David S. Wetherell

David S. Wetherell, President

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

Signature	Title
/s/ David S. Wetherell ------------------------------ David S. Wetherell	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Andrew J. Hajducky III ------------------------------ Andrew J. Hajducky III, CPA	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
/s/ Gregory M. Avis ------------------------------ Gregory M. Avis	Director
/s/ John A. McMullen ------------------------------ John A. McMullen	Director

Exhibit 11

CMG INFORMATION SERVICES, INC.
STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS
(in thousands, except per share data)

	Year Ended July 31,		
	1996	1995	1994
Primary:			
Income from continuing operations	$ 14,322	$ 4,762	$ 1,960
Discontinued operations, net of income taxes:			
Loss from operations of BookLink Technologies, Inc.	--	(690)	(159)
Gain on disposal of BookLink Technologies, Inc.	--	24,143	--
Net Income	$ 14,322	$ 28,215	$ 1,801
Weighted average common and common equivalent shares outstanding:			
Shares outstanding at the beginning of the year	8,839	8,767	4,086
Conversion of 250 shares of Series A Convertible Preferred Stock	--	--	1,926
Weighted average shares issued during the year	165	18	1,411
Weighted average common stock equivalents	678	606	369
Weighted average common and common equivalent shares outstanding	9,682	9,391	7,792
Income from continuing operations	$ 1.48	$ 0.51	$ 0.25
Discontinued operations, net of income taxes:			
Loss from operations of BookLink Technologies, Inc.	--	(0.07)	(0.02)
Gain on disposal of BookLink Technologies, Inc.	--	2.56	--
Primary net income per share	$ 1.48	$ 3.00	$ 0.23
Fully diluted:			
Income from continuing operations	$ 14,322	$ 4,762	$ 1,960
Discontinued operations, net of income taxes:			
Loss from operations of BookLink Technologies, Inc.	--	(690)	(159)
Gain on disposal of BookLink Technologies, Inc.	--	24,143	--
Net Income	$ 14,322	$ 28,215	$ 1,801
Weighted average common and common equivalent shares outstanding:			
Shares outstanding at the beginning of the year	8,839	8,767	4,086
Conversion of 250 shares of Series A Convertible Preferred Stock	--	--	1,926
Weighted average shares issued during the year	165	18	1,411
Weighted average common stock equivalents	894	959	378
Weighted average common and common equivalent shares outstanding	9,898	9,744	7,801
Income from continuing operations per share	$ 1.45	$ 0.49	$ 0.25
Discontinued operations,			

net of income taxes:			
Loss from operations of BookLink Technologies, Inc.	--	(0.07)	(0.02)
Gain on disposal of BookLink Technologies, Inc.	--	2.48	--
Fully diluted net income per share	$ 1.45	$ 2.90	$ 0.23

All share information contained in the per share calculations has been adjusted to reflect 2-for-1, 3-for-2 and 2.6-for-1 common stock splits effected as stock dividends on February 2, 1996, March 17, 1995 and November 9, 1993, respectively.

Selected Consolidated Financial Data - The following table sets forth selected consolidated financial information of the company for the five years in the period ended July 31, 1996. This selected financial information should be read in conjunction with the company's Consolidated Financial Statements and related Notes.

(in thousands, except per share data)

	Years Ended July 31,				
	1996	1995	1994	1993	1992
Consolidated Statement of Operations Data:					
Net sales	$ 28,485	$ 22,293	$ 19,388	$ 16,548	$ 13,827
Cost of sales	19,437	13,014	11,329	10,028	9,025
Research and development expenses	6,971	--	--	--	--
In-process research and development expenses	2,691	--	--	--	--
Selling, general and administrative expenses	19,960	6,387	4,792	4,225	3,773
Operating income (loss)	(20,574)	2,892	3,267	2,295	1,029
Interest income (expenses), net	2,691	225	(96)	(323)	(383)
Gain on sale of available-for-sale securities	30,049	4,781	--	--	--
Gain on issuance of stock by subsidiary	19,575	--	--	--	--
Other income (expense), net	(746)	(292)	--	(139)	18
Income tax expense	(16,673)	(2,844)	(1,211)	(627)	(279)
Income from continuing operations	14,322	4,762	1,960	1,206	385
Gain from discontinued operations	--	23,453	(159)	--	--
Cumulative effect of change in method of accounting for income taxes	--	--	--	--	463
Net income	$ 14,322	$ 28,215	$ 1,801	$ 1,206	$ 848
Fully diluted earnings per share:					
Income from continuing operations before cumulative effect of change in method of accounting for income taxes	$ 1.45	$ 0.49	$ 0.25	$ 0.19	$ 0.06
Discontinued operations	--	2.41	(0.02)	--	--
Cumulative effect of change in accounting principle	--	--	--	--	0.07
Net income	$ 1.45	$ 2.90	$ 0.23	$ 0.19	$ 0.13
Weighted average shares outstanding-fully diluted	9,898	9,744	7,801	6,310	6,226
Consolidated Balance Sheet Data:					
Working capital	$ 72,009	$ 47,729	$ 5,925	$ (1,441)	$ (2,075)
Total assets	109,503	80,486	12,740	7,260	6,835
Long-term obligations	555	508	165	931	1,425
Redeemable convertible preferred stock	--	--	--	250	250
Stockholders' equity (deficit)	53,992	55,490	8,867	174	(1,015)

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management's discussion & analysis of financial condition & results of operations 21
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The discussion in this report contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below in "Risk Factors that May Affect Future Results", as well as those discussed in this section and elsewhere in this report.

Overview

In 1986, CMG Information Services, Inc. was formed through the acquisition of College Marketing Group, Inc. which had been in operation since 1968. Since its origins, the Company has expanded the breadth and depth of its product and service offerings to the direct marketing industry. The Company completed and introduced the College List database in 1973, and diversified its mailing list product offerings in 1982 through the introduction of the Information Buyers List database. In 1992, the Company introduced its Elementary/High School List database. In the course of creating and developing these databases and lists, the Company also developed expertise in servicing and managing customer and prospect lists compiled by its clients, leading to the establishment of the Company's ListLab and ListLine services in 1987 and 1989, respectively. In 1989, the Company also completed the acquisition of the business of SalesLink Corporation (SalesLink), which provides "fulfillment services" including sales lead/inquiry management, product and literature fulfillment, and business-to-business telemarketing services.

In February of 1994, the Company formed a new subsidiary, BookLink Technologies, Inc. (BookLink), which developed InternetWorks, a PC-based viewer/browser for the Internet. In December 1994, the Company sold all outstanding stock of BookLink to America Online (AMER) for 1,420,000 shares of AMER common stock. After selling its AMER stock, the Company realized a pretax gain on the transaction in excess of $70 million.

In February 1995, the Company formed its Internet investment and development arm, CMG @Ventures L.P., to provide intellectual and financial capital to companies seeking to further the commercialization of the Internet and other interactive media through the development and application of information-based direct marketing products and services. The Company owns 100% of the capital and is entitled to 77.5% of the net capital gains of CMG @Ventures, L.P. During fiscal year 1995, the Company, (through CMG @Ventures) acquired, formed or invested in four new companies. Two new consolidated subsidiaries, Lycos, Inc. (Lycos), an Internet search and guide company, and NetCarta Corporation (NetCarta), a developer of Internet Web navigation and content management tools, were acquired and two minority investments were made including Freemark Communications, Inc. (Freemark) an innovator in the development of advertising sponsored e-mail services that are free to consumers, and Ikonic Inc., a developer of web sites and interactive media. In fiscal year 1996, Lycos successfully completed an initial public offering of 3,135,000 shares of its common stock, raising net proceeds to Lycos of $46 million.

The Company continued its growth and development in fiscal year 1996 with the acquisition, formation or investment in eight new companies. CMG @Ventures added four new investments in companies, including Black Sun Interactive, Inc. (Black Sun), a developer of three dimensional interactive software, GeoCities, a builder and operator of special-interest online communities, Vicinity Corporation (Vicinity), a provider of geographically oriented content and services for the World Wide Web, and TeleT Communications (TeleT), a marketer of products which allow direct telephone-to-Internet access for adding or editing Web pages, and also enable users to communicate in their own voices to other Web users. CMG @Ventures' investment in TeleT was made in April 1996 and totalled $750,000. In September 1996, subsequent to fiscal 1996 year end, CMG @Ventures sold its equity investment in TeleT to Premiere Technologies, Inc. receiving cash and Premiere Technologies, Inc. common stock with a total value of approximately $8,250,000 at the date of closing. Also, subsequent to fiscal 1996 year end, CMG @Ventures, acquired a minority investment interest in Parable LLC (Parable), a start-up software firm developing multimedia tools and technology.

In August 1995, the Company formed a new subsidiary, CMG Direct Interactive, Inc. (CMGDI) from the Company's former ListLab division. In addition to the Company's traditional list management services, CMGDI is rapidly evolving into a database and Internet systems company, focusing on direct marketing solutions. As a result of this evolution, the Company's "lists and list services" segment is now referred to as the "lists and database services" segment and includes the operating results of this subsidiary.

Also during fiscal 1996, the Company formed three new wholly owned subsidiaries, ADSmart Corporation (ADSmart), InfoMation Publishing Corporation (InfoMation) and Planet Direct Corporation (Planet Direct). ADSmart was formed to capitalize on Internet advertising opportunities, and InfoMation will organize and deliver news feeds, web content and internal information to customers via environments such as the Internet. Planet Direct was formed to combine and leverage the Company's Internet technologies to provide a content based product for Internet service providers.

The Company has adopted a strategy of seeking opportunities to realize significant gains through the selective sale of investments or having separate subsidiaries sell minority interests to outside investors. The Company believes that this strategy provides the ability to significantly increase shareholder value as well as provide capital to support the growth in the Company's subsidiaries and investments. Gains from such transactions have been substantial in recent years. The size and timing of these transactions are dependent on market and other conditions that are beyond the Company's control. Accordingly, there can be no assurance that the Company will be able to generate gains from such transactions in the future.

In fiscal 1997, the Company will continue to develop and refine the products and services of its businesses, with the goal of significantly increasing revenue as new products are commercially introduced.

Discontinued Operations of SalesLink Subsequently Retained

During the second quarter of fiscal 1996, the Company decided to retain its subsidiary SalesLink as part of the Company's continuing operations. SalesLink was identified for disposition during the fourth quarter of fiscal 1995 and had been accounted for as a discontinued operation from that time until the second quarter of fiscal 1996. The decision was made to continue to operate SalesLink because of its potential synergies with the Company's newly formed subsidiary, CMGDI. Accordingly, the operating results of SalesLink are now included in continuing operations, classified as the Company's fulfillment services segment, and fiscal year 1995 and 1994 amounts have been reclassified to present SalesLink within continuing operations in the accompanying consolidated financial statements.

During fiscal years 1996, 1995 and 1994 SalesLink generated sales of $12,070,000, $11,086,000 and $8,900,000, respectively, and operating income of $1,566,000, $1,755,000 and $1,425,000, respectively. The total assets and liabilities of SalesLink were $4,314,000 and $1,211,000, respectively, as of July 31, 1995.

Results of Operations

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

	Fiscal Year Ended July 31,		
	1996	1995	1994
Net sales	100%	100%	100%
Cost of sales	68	58	59
Research and development expenses	24	--	--
In-process research and development expenses	9	--	--
Selling, general and administrative expenses	71	29	25
Operating income (loss)	(72)	13	16
Interest income, net	9	1	--
Gain on sale of available-for-sale securities	105	21	--
Gain on issuance of stock by subsidiary	69	--	--
Equity in losses of affiliates	(10)	(1)	--
Minority interest	8	--	--
Income tax expense	(59)	(13)	(6)
Income from continuing operations	50%	21%	10%

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

Fiscal 1996 Compared to Fiscal 1995

Net sales increased $6,192,000, or 27.8%, to $28,485,000 in 1996 from $22,293,000 in 1995. The increase was primarily attributable to a sales increase of $5,660,000 from the Company's investment and development segment which was formed during the third quarter of fiscal 1995 and includes current year sales of $5,257,000 from Lycos, Inc. Additionally, fulfillment services segment sales increased $984,000 reflecting several new hi-tech and healthcare customers, and lists and database services segment sales declined $452,000 due to consolidation in the educational publishing industry and curtailed direct mail activity due to high paper and postage costs in the first half of the year. As the portfolio companies of the investment and development segment continue to develop and introduce their products commercially, the Company expects to report significant future revenue growth in this segment.

Cost of sales increased $6,423,000, or 49.4%, to $19,437,000 in 1996 from $13,014,000 in 1995, due primarily to an increase of $4,910,000 in costs related to the Company's new investment and development segment, an increase of $574,000 in the fulfillment services segment resulting from higher sales, and an increase of $939,000 in the cost of sales for the lists and database services segment. In the lists and database services segment, cost of sales as a percentage of net sales increased to 62.3% in 1996 from 51.4% in 1995. This increase is primarily attributable to increases in operating expenses related to the launching of the Company's new Elementary/High School Database product line. Prior to fiscal 1996 all costs related to the development of the Elementary/High School Database product were capitalized. With the development of this list now complete and operations having commenced, operating costs are being incurred and previously capitalized costs are now being amortized.

Research and development expenses totaled $6,971,000 in 1996, consisting of $5,219,000 related to the operations of the investment and development segment, $1,559,000 incurred by CMGDI within the lists and database services segment and $193,000 relating to the fulfillment services segment. In addition, the Company recorded $2,691,000 of in-process research and development expenses related to the acquisition of several Internet investments. No research and development costs were incurred in fiscal year 1995. The Company anticipates it will continue to devote substantial resources to product development and that these costs may substantially increase in future periods.

Selling expenses increased $7,113,000, or 235%, to $10,138,000 in 1996 from $3,025,000 in 1995. This increase was primarily attributable to a $6,426,000 selling expense increase in the Company's new investment and development segment, reflecting the sales and marketing efforts related to various product launches. Additionally, selling expense increases of $541,000 and $146,000 were incurred by the lists and database services and fulfillment services segments, respectively. Selling expenses increased as a percentage of net sales to 35.6% in fiscal 1996 from 13.6% in fiscal 1995. As the Company's subsidiaries continue to introduce new products and expand sales, the Company expects to incur significant promotional expenses, as well as expenses related to the hiring of additional sales and marketing personnel and increased advertising expenses, and anticipates that these costs will substantially increase in future periods.

General and administrative expenses increased $6,460,000, or 192%, to $9,822,000 in fiscal 1996 from $3,362,000 in fiscal 1995. This increase was attributable to the creation of the investment and development business segment during the third quarter of fiscal 1995, which had expense increases of $5,729,000, including payroll, facilities, goodwill amortization, legal and accounting, depreciation and other general and administrative costs. Additionally, lists and database services segment general and administrative expenses increased $471,000, reflecting the strengthening of CMGDI's management infrastructure, and general and administrative costs for the Company's fulfillment services segment increased $260,000 over prior year. General and administrative expenses increased as a percentage of net sales to 34.5% from 15.1% in fiscal 1995. The Company anticipates that its general and administrative expenses will continue to increase significantly in absolute dollar amounts as the Company's subsidiaries, particularly in the investment and development segment, continue to grow and expand their administrative staffs and infrastructures.

Equity in losses of affiliates resulted from the Company's minority ownership in certain investments, which were made through CMG @Ventures and are accounted for under the equity method. Under the equity method of accounting the Company's proportionate share of each affiliate's operating losses and amortization of the Company's net excess investment over its equity in each affiliate's net assets is included in equity in losses of affiliates. The 1995 results reflect one investment, Freemark, which was acquired during the third quarter of 1995, with $306,000 equity in losses being recognized in fiscal 1995, compared with $2,915,000 for fiscal 1996, which included results from the Company's minority ownership in Freemark, Ikonic, GeoCities, Vicinity, and TeleT. During the fourth quarter of fiscal 1996, the Company increased its ownership in Freemark and GeoCities above 50% and, accordingly, began including their operating results in the Company's consolidated operating results beginning the dates on which controlling interests were obtained. Also, subsequent to year-end the Company sold its interest in TeleT and acquired a minority interest in Parable. See Note 17 of Notes to Consolidated Financial Statements. The Company expects its remaining portfolio companies to continue to invest in development of their products and services, and to recognize operating losses, which will result in future charges recorded by the Company to reflect its proportionate share of such losses.

Gain on sale of available-for-sale securities occurred when the Company sold its remaining 1,020,000 shares of America Online (AMER) common stock, realizing a gain of $30,049,000 in October 1995. Gain on issuance of stock by subsidiary represents the Company's $19,575,000 gain recorded as a result of the sale of stock by its subsidiary, Lycos, in an initial public offering in April 1996. This gain from the Lycos stock offering reflects the increase in the Company's proportionate share of Lycos' equity. See Note 7 of Notes to Consolidated Financial Statements for a more complete description of this transaction. Interest income, net, increased primarily due to income from investment of the proceeds from the sale of the AMER stock and the Lycos public offering.

Minority interest increased to $2,169,000 in fiscal 1996 from $14,000 in fiscal 1995, reflecting minority interest in net losses of consolidated subsidiaries within the Company's investment and development business segment.

The Company's effective tax rates for the fiscal years ended July 31, 1996 and 1995 were 53.8% and 37.4%, respectively. The effective rate in fiscal 1996 differed from the federal statutory rate of 35% primarily due to the provision for state income taxes and the Company's inability to record a tax benefit from operating losses of certain entities not included in the Company's consolidated income tax return. The effective rate in fiscal 1995 differed from the federal statutory rate of 34% primarily due to the provision for state income taxes.

Fiscal 1995 Compared to Fiscal 1994

Net sales increased $2,900,000, or 15.0%, to $22,293,000 in 1995 from $19,388,000 in 1994. The increase was primarily attributable to sales by the Company's fulfillment services segment which grew by $2,186,000, resulting from an expanded customer base and increased sales to existing customers. Sales in the lists and database services segment increased $714,000 due to an increase in the names available for sale, additional lists under management, the creation of the new Elementary and High School List database and the Teachers Who Respond database, and increased customer demand for those names.

Cost of sales increased $1,685,000, or 14.9%, to $13,014,000 in 1995 from $11,329,000 in 1994 as a result of sales increases. In the lists and database services segment, cost of sales as a percentage of net sales, however, decreased to 51.4% in 1995 from 53.3% in 1994 due to the absorption of significant fixed costs across a greater sales level, the results of cost containment measures, and the realization of operating efficiencies.

Selling expenses increased $716,000, or 31.0%, to $3,025,000 in 1995 from $2,309,000 in 1994, including increases of $323,000, $339,000 and $54,000 in the lists and database services, fulfillment services and investment and development segments, respectively. These increases were primarily attributable to increases in payroll expenses, marketing, promotional and other costs incurred in conjunction with the Company's sales growth, the addition of CMG @Ventures and Lycos and the development of new product offerings. Selling expenses increased as a percentage of net sales to 13.6% in 1995 from 11.9% in 1994.

General and administrative expenses increased $879,000, or 35.4%, to $3,362,000 in 1995 from $2,483,000 in 1994. The increase was primarily attributable to the creation of the investment and development business segment which had expenses of $569,000 and to incremental costs incurred to support the requirements of a public entity, which included payroll, insurance, legal and accounting fees. General and administrative expenses increased as a percentage of sales to 15.1% in 1995 from 12.8% in 1994.

Equity in losses of affiliates in fiscal 1995 resulted from the Company's 40.2% ownership in one affiliate, Freemark. Under the equity method of accounting, the Company included its $306,000 proportionate share of Freemark's operating losses in equity in losses of affiliates.

Interest income (expense) improved $321,000 to income of $225,000 in 1995 from net expenses of ($96,000) in 1994, primarily due to the repayment of all long-term debt and line of credit borrowings and income from short-term investments, as a result of funds received from the Company's initial public offering in fiscal 1994. Gain on sale of available-for-sale securities occurred when the Company sold 400,000 shares of AMER common stock, realizing a gain of $4,781,000.

The Company's effective tax rates for the fiscal years ended July 31, 1995 and 1994 were 37.4% and 38.2%, respectively. The effective rate in both 1995 and 1994 differed from the federal statutory rate of 34% primarily due to the provision for state income taxes.

Discontinued operations reflect a loss from the Company's wholly owned subsidiary BookLink Technologies, Inc. and a gain on disposal of BookLink which was sold to AMER for 1,420,000 shares of AMER common stock. The market value of the stock on the date of closing (December 23, 1994) was $38,162,000.

Liquidity and Capital Resources

During fiscal 1996, the Company improved its working capital position from $47,729,000 at July 31, 1995 to $72,009,000 at July 31, 1996 and increased its cash and cash equivalents from $9,423,000 to $63,387,000, while continuing to make significant investments in the future of its business. The increases in cash and working capital were primarily a result of the Company's sale of its AMER common stock and the initial public offering of stock by one of the Company's consolidated subsidiaries, Lycos, offset by the Company's uses of its capital.

During the first quarter of fiscal 1996, the Company sold its remaining 1,020,000 shares of AMER common stock, receiving net proceeds of $57,462,000. In April 1996, Lycos, sold 3,135,000 of its common shares in an initial public offering, receiving net proceeds of $46,021,000 and reducing the Company's ownership in Lycos from approximately 76% to approximately 58%. The Company's entire interest in Lycos (consisting of 8,000,000 shares of common stock) is owned by its majority-owned subsidiary limited partnership, CMG @Ventures, L.P. (See Notes 7 and 8 of Notes to Consolidated Financial Statements). The Company's interest in Lycos is subject to further reduction because CMG @Ventures, L.P. is obligated to sell to Lycos up to a total of 927,300 shares of common stock of Lycos, as necessary, to provide shares issuable upon exercise of options granted by Lycos under its stock option plans. Of these 927,300 shares, CMG @Ventures, L.P. is obligated to sell 666,576 shares to Lycos at a purchase price of $0.01 per share and 260,724 shares at prices ranging from $0.29 per share to $9.60 per share.

During fiscal year 1996 the Company, through its limited partnership subsidiary, CMG @Ventures, L.P. invested in eight companies, including Lycos, NetCarta, Black Sun, Freemark, GeoCities, Ikonic, TeleT, and Vicinity.

In August 1995, CMG @Ventures formed Black Sun and provided a total of $4,000,000 in funding in fiscal 1996. Also, during fiscal 1996, CMG @Ventures provided $4,500,000 funding to NetCarta and $1,000,000 to Lycos. In December 1995, CMG @Ventures invested $1,750,000 to increase its ownership in Ikonic from 19.8% to 36.8%. With its increase in ownership in Ikonic, the Company began using the equity method of accounting, rather than the cost method, for its investment in Ikonic. On July 31, 1996, Black Sun successfully completed an equity financing, issuing preferred stock to an outside party in exchange for $2,000,000, and reducing CMG @Ventures' ownership in Black Sun to 92%.

CMG @Ventures invested $1,000,000 to purchase an initial 44.9% ownership interest in GeoCities in January 1996, and increased its ownership to 61.2% with an additional $1,100,000 investment in June 1996. Also in June 1996, Freemark successfully completed a $5,100,000 equity financing. Pursuant to this transaction, CMG @Ventures invested an additional $3,200,000 in Freemark, including the conversion of $1,670,000 in notes which had been funded to Freemark during fiscal 1996, and thereby increased its ownership from 43.8% to 54.3%. The Company accounted for its investments in GeoCities and Freemark on the equity method during the period CMG @Ventures owned minority interests. Beginning in June 1996, when controlling interests were acquired, the Company, accordingly, began including the operating results of GeoCities and Freemark in the Company's consolidated operating results.

In February and June 1996, CMG @Ventures invested $2,000,000 to acquire a 44.8% interest in Vicinity and $750,000 to acquire a 45.6% interest in TeleT. During fiscal 1996, the Company's investments in Vicinity and TeleT were accounted for on the equity method. Subsequent to July 31, 1996, CMG @Ventures sold its equity interest in TeleT to Premiere Technologies in exchange for $550,000 in cash and 320,883 shares of Premiere stock. The market value of the Premiere stock at the date of closing was approximately $7,700,000.

The Company has committed to fund CMG @Ventures a total of $35,000,000, of which $24,145,000 has been funded as of July 31, 1996. Subsequent to fiscal 1996 year end, CMG @Ventures invested $2,000,000 to acquire a 46% minority interest in Parable, which will be accounted for on the equity method, and funded an additional $1,910,000 to NetCarta. The Company's subsidiary, Lycos, has a $5,000,000 commitment under a "Premier Provider" agreement with Netscape Communications Corporation.

The Company's investments in Black Sun, Freemark, GeoCities, Ikonic, TeleT and Vicinity as well as its other Internet related investments in Lycos and NetCarta were made through its majority-owned subsidiary limited partnership, CMG @Ventures, L.P. and its wholly owned subsidiary CMG @Ventures, Inc. The Company owns 100% of the capital interest and has all voting rights, and is entitled to 77.5% of the net capital gains, as defined, of these investments. The remaining 22.5% interest in the net capital gains on these investments are attributed to profit partners, including the President and Chief Executive Officer of the Company. Subsequent to July 31, 1996 the sharing of the net gains will be changed to 80% to the Company and 20% to the profit partners. The Company is responsible for all operating expenses of CMG @Ventures, L.P.

During fiscal year 1996, the Company also formed CMG Direct Interactive from the Company's former ListLab division and formed three new wholly owned subsidiaries, ADSmart, InfoMation, and Planet Direct. CMG has begun funding and intends to provide all required funding for start-up costs of these new ventures.

The Company's consolidated capital expenditures were $7,068,000 in fiscal 1996. Additional computer equipment was leased in fiscal 1996, primarily under operating leases. The Company's accounts receivable, accounts payable and accrued expenses increased $5,321,000, $5,925,000 and $3,539,000, respectively, compared with July 31, 1995, primarily as a result of the formation or acquisition of new consolidated subsidiaries. Minority interest in the Company's July 31, 1996 balance sheet increased $27,092,000 compared with July 31, 1995, primarily reflecting the impact of minority interests in the sales of stock by Lycos and Black Sun and the consolidation of Freemark and GeoCities in fiscal 1996.

Of the Company's consolidated cash and available-for-sale securities at July 31, 1996, 65% was held by subsidiaries that are not wholly owned by the Company. This percentage may vary significantly over time. The Company's ability to access assets held by its majority-owned subsidiaries through dividends, loans, or other transactions is subject in each instance to a fiduciary duty owed to minority shareholders of the relevant subsidiary. In addition, dividends received from a subsidiary that does not consolidate with the Company for tax purposes are subject to tax. Therefore, under certain circumstances, a portion of the Company's consolidated cash and available-for-sale securities may not be readily available to the Company or certain of its subsidiaries.

At July 31, 1995, the Company's credit agreement included two revolving lines of credit totaling $5.0 million. Since July 31, 1995, these lines have lapsed and the Company has not pursued renewal. Lycos has a $1.0 million credit facility which expires on June 1, 1997. No balances were outstanding under this agreement at July 31, 1996.

The Company believes that existing working capital will be sufficient to fund its current operations, investments and capital expenditures for the foreseeable future. Should additional capital be needed to fund future investment and acquisition activity, the Company may seek to raise additional capital through additional public or private offerings of shares of the Company or its subsidiaries' stock, or through debt financings.

Accounting Pronouncement

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which established financial accounting and reporting standards for stock-based employee compensation plans. Companies are encouraged, rather than required, to adopt a new method that accounts for stock compensation awards based on their fair value using an option pricing model. Companies that do not adopt this new method will be required to make pro forma footnote disclosures of net income as if the fair value-based method of accounting required by SFAS No. 123 had been applied. The Company is required to adopt SFAS No. 123 beginning in fiscal 1997. Adoption of this pronouncement is not expected to have a material impact on the Company's financial position or results of operations because the Company intends to make pro forma footnote disclosures instead of adopting the new accounting method.

Risk Factors That May Affect Future Results

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

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

* The development of the Internet, the level of usage of the Internet, future acceptance of the Company's Internet related products and services, demand for Internet advertising, the introduction of new products and services by the Company and its affiliates or its competitors and potential expense increases associated with the Company's investments at the early stages of development may materially affect the Company's operations. As a result, the Company's mix of services and products may undergo substantial changes as the Company reacts to competitive and other developments in the overall Internet market. If widespread commercial use of the Internet does not develop, or if the Internet does not develop as an effective advertising medium, the Company's business, results of operations and financial condition will be materially adversely affected.

* The Company's business model envisions additional opportunities to realize value through gains on its strategic investment and development activities over the next few years. Additionally, the Company's business model envisions potentially leveraging its investment in present and future Internet development opportunities through public and private placement of portions of such investments with outside investors. The Company's business model is therefore significantly impacted by capital market conditions and the availability of future funding from public and private markets.

* Along with its investment and development segment, the Company's lists and database services and fulfillment services segments are subject to industry related risks, including continued acceptance of the Company's products and services, the introduction of new products and services by the Company or its competitors, changes in the mix of services sold and the channels through which those services are sold, product pricing and cost changes, general economic conditions and specific economic conditions in the direct marketing and Internet industries.

consolidated balance sheets 28

(in thousands, except share amounts)

	July 31, 1996	July 31, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	$ 63,387	$ 9,423
Available-for-sale securities	13,069	56,228
Accounts receivable, trade, less allowance for doubtful accounts of $442 and $148 in 1996 and 1995	10,666	5,345
License fees receivable	1,032	--
Prepaid expenses and other current assets	2,199	370
Refundable income taxes	--	666
Deferred income taxes	213	--
Total current assets	90,566	72,032
Property and equipment	14,657	7,176
Less accumulated depreciation and amortization	6,196	4,389
Net property and equipment	8,461	2,787
Investments in affiliates	4,073	2,700
Costs in excess of net assets of subsidiaries acquired, net of accumulated amortization of $718 in 1996 and $287 in 1995	2,299	1,280
Other assets	4,104	1,687
	$ 109,503	$ 80,486
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,251	$ 1,326
Accrued expenses	6,245	2,706
Deferred income taxes	--	19,886
Deferred revenues	4,620	--
Other	441	385
Total current liabilities	18,557	24,303
Deferred income taxes	9,122	--
Other long term liabilities	555	508
Minority interest	27,277	185
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $.01 par value per share. Authorized 5,000,000 shares; none issued	--	--
Common stock, $.01 par value per share. Authorized 40,000,000 shares; issued and outstanding 9,166,747 shares at July 31, 1996 and 8,838,720 shares at July 31, 1995	92	88
Additional paid-in capital	9,243	7,062
Net unrealized holding gain	--	18,005
Retained earnings	44,657	30,335
Total stockholders' equity	53,992	55,490
	$ 109,503	$ 80,486

see accompanying notes to consolidated financial statements

consolidated statements of operations

(in thousands, except per share amounts)

	Years Ended July 31,		
	1996	1995	1994
Net sales	$ 28,485	$ 22,293	$ 19,388
Operating expenses:			
Cost of sales	19,437	13,014	11,329
Research and development	6,971	--	--
In-process research and development	2,691	--	--
Selling	10,138	3,025	2,309
General and administrative	9,822	3,362	2,483
Total operating expenses	49,059	19,401	16,121
Operating income (loss)	(20,574)	2,892	3,267
Other income (deductions):			
Interest income (expense), net	2,691	225	(96)
Gain on sale of available-for-sale securities	30,049	4,781	--
Gain on issuance of stock by subsidiary	19,575	--	--
Equity in losses of affiliates	(2,915)	(306)	--
Minority interest	2,169	14	--
	51,569	4,714	(96)
Income from continuing operations before income taxes	30,995	7,606	3,171
Income tax expense	16,673	2,844	1,211
Income from continuing operations	14,322	4,762	1,960
Discontinued operations, net of income taxes:			
Loss from operations of BookLink Technologies, Inc.	--	(690)	(159)
Gain on disposal of BookLink Technologies, Inc.	--	24,143	--
Net income	$ 14,322	$ 28,215	$ 1,801
Primary earnings (loss) per share:			
Income from continuing operations	$ 1.48	$ 0.51	$ 0.25
Loss from discontinued operations of BookLink Technologies, Inc.	--	(.07)	(.02)
Gain on disposal of BookLink Technologies, Inc.	--	2.56	--
Net income	$ 1.48	$ 3.00	$ 0.23
Fully diluted earnings (loss) per share:			
Income from continuing operations	$ 1.45	$ 0.49	$ 0.25
Loss from discontinued operations of BookLink Technologies, Inc.	--	(.07)	(.02)
Gain on disposal of BookLink Technologies, Inc.	--	2.48	--
Net income	$ 1.45	$ 2.90	$ 0.23
Weighted average shares outstanding:			
Primary	9,682	9,391	7,792
Fully Diluted	9,898	9,744	7,801

see accompanying notes to consolidated financial statements

(in thousands, except share amounts)

	Common stock	Additional paid-in capital	Net unrealized holding gain	Retained earnings	Treasury stock	Related party receivable	Total stockholders' equity
Balance at July 31, 1993 (4,085,538 shares)	$ 41	$ 291	$ --	$ 319	$ (43)	$ (434)	$ 174
Net income	--	--	--	1,801	--	--	1,801
Issuance of common stock (2,792,136 shares)	28	6,294	--	--	--	--	6,322
Conversion of preferred stock into common (1,925,926 shares)	19	231	--	--	--	--	250
Retirement of treasury stock (36,886 shares)	--	(43)	--	--	43	--	--
Decrease in related party receivable	--	--	--	--	--	320	320
Balance at July 31, 1994 (8,766,714 shares)	88	6,773	--	2,120	--	(114)	8,867
Net income	--	--	--	28,215	--	--	28,215
Net unrealized holding gain	--	--	18,005	--	--	--	18,005
Issuance of common stock (72,006 shares)	--	103	--	--	--	--	103
Tax benefit of stock option exercises	--	186	--	--	--	--	186
Decrease in related party receivable	--	--	--	--	--	114	114
Balance at July 31, 1995 (8,838,720 shares)	88	7,062	18,005	30,335	--	--	55,490
Net income	--	--	--	14,322	--	--	14,322
Issuance of common stock (328,027 shares)	4	367	--	--	--	--	371
Tax benefit of stock option exercises	--	695	--	--	--	--	695
Effect of subsidiaries' equity transactions	--	1,119	--	--	--	--	1,119
Sale of available-for-sale securities	--	--	(18,005)	--	--	--	(18,005)
Balance at July 31, 1996 (9,166,747 shares)	$ 92	$ 9,243	$ --	$ 44,657	$ --	$ --	$ 53,992

see accompanying notes to consolidated financial statements

consolidated statements of cash flows

(in thousands)

	Years Ended July 31,		
	1996	1995	1994
Cash flows from operating activities:			
Income from continuing operations	$ 14,322	$ 4,762	$ 1,960
Adjustments to reconcile income from continuing operations to net cash provided by (used for) continuing operations:			
Depreciation and amortization	2,823	896	979
Deferred income taxes	8,283	(92)	102
Gain on sale of available-for-sale securities	(30,049)	(4,781)	--
Gain on issuance of stock by subsidiary	(19,575)	--	--
Equity in losses of affiliates	2,915	306	--
Minority interest	(2,169)	(14)	--
In-process research and development	2,691	--	--
Changes in operating assets and liabilities, excluding effects of acquired companies:			
Accounts and license fees receivable	(7,269)	314	(1,499)
Prepaid expenses and other current assets	(1,762)	(54)	(132)
Other assets	(685)	(78)	(44)
Accounts payable and accrued expenses	8,232	564	974
Deferred revenues	4,595	--	--
Refundable and accrued income taxes	12,876	(444)	(813)
Net cash provided by (used for) continuing operations	(4,772)	1,379	1,527
Net cash used for discontinued operations	--	(589)	(485)
Net cash provided by (used for) operating activities	(4,772)	790	1,042
Cash flows from investing activities:			
Net decrease in related party receivable	--	114	320
Additions to property and equipment	(7,068)	(1,474)	(1,002)
Sale of property and equipment	705	--	--
Payments related to disposal of BookLink Technologies, Inc.	--	(650)	--
Income taxes paid related to disposal of BookLink Technologies, Inc. and available-for-sale securities	(20,554)	(3,846)	--
Proceeds from sale or maturities of available-for-sale securities	69,918	15,531	--
Purchase of available-for-sale securities	(25,526)	--	--
Investments in affiliates and acquisitions of subsidiaries	(9,892)	(3,006)	--
Cash acquired through acquisitions of subsidiaries	3,882	--	--
Other	(772)	(966)	(267)
Net cash provided by (used for) investing activities	10,693	5,703	(949)
Cash flows from financing activities:			
Sale of common stock, net	371	128	6,272
Net proceeds from issuance of stock by subsidiaries	48,058	--	--
Net repayments under line of credit	--	(3)	(1,072)
Cash overdraft	--	--	(799)
Other	(386)	(150)	(1,539)
Net cash provided by (used for) financing activities	48,043	(25)	2,862
Net increase in cash and cash equivalents	53,964	6,468	2,955
Cash and cash equivalents at beginning of year	9,423	2,955	--
Cash and cash equivalents at end of year	$ 63,387	$ 9,423	$ 2,955

See accompanying notes to consolidated financial statements

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation and Presentation
The consolidated financial statements of CMG Information Services, Inc. (the Company) include its wholly owned and majority-owned subsidiaries, CMG Direct Interactive, Inc. (CMGDI), SalesLink Corporation (SalesLink), CMG @Ventures, Inc., CMG @Ventures, L.P., Lycos, Inc. (Lycos), NetCarta Corporation (NetCarta), Black Sun Interactive, Inc. (Black Sun), Freemark Communications, Inc. (Freemark), ADSmart Corporation, InfoMation Publishing Corporation, Planet Direct Corporation, and GeoCities. Lycos is a majority-owned public subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company accounts for investments in businesses in which it owns between 20% and 50% using the equity method. Financial information related to BookLink Technologies, Inc. (BookLink) has been presented as discontinued operations (see note 5).

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

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

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

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

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

(d) Statement of Cash Flows
Investments with maturities of three months or less at the time of acquisition are considered cash equivalents.

Net cash provided by (used for) operating and investing activities reflects cash payments for interest expense and income taxes as follows:

	Fiscal Years ended July 31,		
	1996	1995	1994
Interest expense	$ 26,000	$ 23,000	$ 144,000
Income taxes	$16,069,000	$6,753,000	$1,087,000

During 1996, in a non-cash transaction, the Company's consolidated subsidiary, Lycos, acquired Point Communications Corporation (Point) in exchange for 526,316 shares of Lycos stock. During fiscal year 1995 significant non-cash transactions included the sale of BookLink in exchange for available-for-sale securities (see note 5) and the acquisition of one subsidiary, NetCarta, in exchange for notes payable (see note 8). During 1994, preferred stock with a stated value of $250,000 was converted into common stock.

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

The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, interest income, realized gains and losses and declines in value judged to be other than temporary are included in interest and other income. The cost of securities sold is based on specific identification.

(f) Accounting for Impairment of Long-Lived Assets
In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, the Company records impairment losses on long-lived assets used in operations when indicators of impairment are present. On an on-going basis, management reviews the value and period of amortization or depreciation of long-lived assets. During this review, the Company reevaluates the significant assumptions used in determining the original cost of long-lived assets. Although the assumptions may vary from transaction to transaction, they generally include revenue growth, operating results, cash flows and other indicators of value. Management then determines whether there has been a permanent impairment of the value of long-lived assets based upon events or circumstances which have occurred since acquisition.

(g) Fair Value of Financial Instruments
The carrying value for cash and cash equivalents, accounts receivable and accounts payable, approximates fair value because of the short maturity of these instruments.

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

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

(i) Investments in Affiliates
The Company's investments in affiliated companies for which its ownership exceeds 20%, but which are not majority-owned or controlled, are accounted for using the equity method. Under the equity method, the Company's proportionate share of each affiliate's operating results and amortization of the Company's excess investment over its equity in each affiliate's net assets is included in "equity in losses of affiliates". The unamortized excess of the Company's investments in affiliates over its equity in the underlying net assets of those affiliates at the date of acquisition was $2,847,000 and $2,381,000 at July 31, 1996 and 1995, respectively. Amortization is recorded on a straight-line basis over periods ranging from five to ten years.

(j) Costs in Excess of Net Assets of Subsidiaries Acquired
The costs in excess of net assets of subsidiaries acquired (goodwill) are principally being amortized over periods ranging from five to twenty years. The Company accounts for goodwill at the lower of amortized cost or fair value.

(k) Deferred Mailing List Costs
Costs incurred to enhance or maintain the Company's mailing lists are expensed in the period incurred.

Costs incurred to develop a new mailing list are capitalized until the mailing list has been satisfactorily compiled for marketability. Deferred mailing list costs are amortized over a five year period.

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

(m) Research and Development Costs
Expenditures related to the development of new products and processes, including significant improvements and refinements to existing products and the development of software, are expensed as incurred, unless they are required to be capitalized. Software development costs are required to be capitalized when a product's technological feasibility has been established by completion of a working model of the product and ending when a product is available for general release to customers. At July 31, 1996 and 1995, capitalized software development costs of $344,000 and $251,000, respectively, are included in the Company's Consolidated Balance Sheets. Additionally, at the date of acquisition, the Company evaluates the components of the purchase price of each acquisition or investment to identify amounts paid for in-process research and development. Upon completion of acquisition accounting and valuation (based on independent appraisals), such amounts are charged to expense if technological feasibility had not been reached at the acquisition date.

(n) Accounting for Income Taxes
Income taxes are accounted for under the asset and liability method under which 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.

(o) Earnings Per Share
Earnings per share is computed based on the weighted average number of common shares outstanding during each period, after giving effect to stock options and convertible preferred shares considered to be dilutive common stock equivalents.

The weighted average number of common shares outstanding prior to the Company's January 1994 initial public offering (IPO), have been determined pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, whereby common stock issued for consideration below the IPO price and stock options and warrants granted with exercise prices below the IPO price during the twelve-month period preceding the date of the initial filing of the registration statement have been included in the calculation of common equivalent shares, using the treasury stock method, as if they were outstanding for all related periods.

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

(q) New Accounting Pronouncement
In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation", which established financial accounting and reporting standards for stock-based employee compensation plans. Companies are encouraged, rather than required, to adopt a new method that accounts for stock compensation awards based on their fair value using an option pricing model. Companies that do not adopt this new method will be required to make pro forma footnote disclosures of net income as if the fair value-based method of accounting required by SFAS No. 123 had been applied. The Company is required to adopt SFAS No. 123 beginning in fiscal 1997. Adoption of this pronouncement is not expected to have a material impact on the Company's financial position or results of operations because the Company intends to make pro forma footnote disclosures instead of adopting the new accounting method.

(2) Discontinued Operations of SalesLink Subsequently Retained

During the second quarter of fiscal 1996, the Company decided to retain its subsidiary SalesLink as part of the Company's continuing operations. SalesLink was identified for disposition during the fourth quarter of fiscal 1995 and had been accounted for as a discontinued operation from that time until the second quarter of fiscal 1996. The decision was made to continue to operate SalesLink because of its potential synergies with the Company's newly formed subsidiary CMGDI. Accordingly, the operating results of SalesLink are now included in continuing operations, classified as the Company's fulfillment services segment, and fiscal year 1995 and 1994 amounts have been reclassified to present SalesLink within continuing operations in the accompanying consolidated financial statements.

During fiscal years 1996, 1995 and 1994, SalesLink generated sales of $12,070,000, $11,086,000 and $8,900,000, respectively, and operating income of $1,566,000, $1,755,000 and $1,425,000, respectively. The total assets and liabilities of SalesLink were $4,314,000 and $1,211,000, respectively, as of July 31, 1995.

(3) Segment Information

The Company's continuing operations have been classified in three primary business segments, (i) lists and database services, (ii) fulfillment services, and (iii) investment and development. Lists and database services, which has historically included customer and prospect list databases and list services, began increasing its database capacity during fiscal 1996, positioning itself to serve additional markets, including database opportunities afforded by the Internet. Fulfillment services, which are provided by SalesLink, include telemarketing, sales/lead inquiry management, and product and literature fulfillment. Investment and development is a business segment formed during the third quarter of fiscal year 1995 to focus on strategic investment and development opportunities afforded by the Internet and interactive media markets. Corporate and other includes available-for-sale securities and certain cash equivalents which are not identifiable to the operations of the Company's primary business segments.

During the fiscal years ended July 31, 1996, 1995 and 1994 one significant customer accounted for approximately 13%, 14% and 12%, respectively, of net sales in the lists and database services segment. In the fulfillment services segment, three customers individually accounted for 15%, 15% and 13% of segment net sales in fiscal 1996 and 19%, 19% and 12% of segment net sales in fiscal 1995. Similarly, three customers individually accounted for 28%, 16% and 11% of fulfillment services segment 1994 net sales. Summarized financial information by business segment for the fiscal years ended July 31, 1996, 1995 and 1994 is as follows:

	Years Ended July 31,		
	1996	1995	1994
Sales:			
Lists and database services	$ 10,750,000	$11,202,000	$10,488,000
Fulfillment services	12,070,000	11,086,000	8,900,000
Investment and development	5,665,000	5,000	---
	$ 28,485,000	$22,293,000	$19,388,000
Operating income (loss):			
Lists and database services	$ (2,179,000)	$ 1,782,000	$ 1,842,000
Fulfillment services	1,566,000	1,755,000	1,425,000
Investment and development	(19,961,000)	(645,000)	---
	$(20,574,000)	$ 2,892,000	$ 3,267,000
Total assets:			
Lists and database services	$ 8,338,000	$10,424,000	$ 8,661,000
Fulfillment services	6,366,000	4,314,000	3,651,000
Investment and development	68,256,000	5,243,000	---
Corporate and other	26,543,000	60,505,000	---
	$109,503,000	$80,486,000	$12,312,000
Capital expenditures:			
Lists and database services	$ 3,224,000	$ 492,000	$ 342,000
Fulfillment services	791,000	794,000	660,000
Investment and development	3,053,000	188,000	---
	$ 7,068,000	$ 1,474,000	$ 1,002,000
Depreciation and amortization:			
Lists and database services	$ 906,000	$ 546,000	$ 562,000
Fulfillment services	450,000	326,000	417,000
Investment and development	1,467,000	24,000	---
	$ 2,823,000	$ 896,000	$ 979,000

(4) Available-for-Sale Securities

At July 31, 1996, available-for-sale securities consist of U.S. Government agency obligations, carried at fair value, which the Company does not intend to hold to maturity. The fair value of each investment at July 31, 1996 approximates its amortized cost.

At July 31, 1995, available-for-sale securities included 1,020,000 shares of America Online (AMER) stock. The unrealized holding gain, based on the change in market value of the stock from date of acquisition to July 31, 1995, is presented in the equity section of the July 31, 1995 Consolidated Balance Sheet, net of deferred income taxes. During fiscal 1996, the Company sold 1,020,000 shares of AMER stock. The net proceeds from the sale were $57,462,000 and the Company realized a gain on the sale of $30,049,000.

During fiscal 1995, the Company sold 400,000 shares of AMER stock. The net proceeds from the sale were $15,531,000. The Company realized a gain on the sale of $4,781,000.

(5) Discontinued Operations

On November 8, 1994, the Company entered into a definitive agreement to sell all outstanding stock of its wholly owned subsidiary, BookLink to AMER for $30,000,000 of AMER common stock. The Company closed the transaction on December 23, 1994 by exchanging all of the outstanding shares (800,000 shares) of BookLink common stock for 1,420,000 shares (adjusted to reflect a 2-for-1 stock split) of AMER common stock. Discontinued operations reflect a loss from BookLink operations and a gain on disposal of $24,143,000, net of income taxes of $13,144,000, in fiscal 1995. The market value of the AMER stock on the date of closing was $38,163,000, and deferred income taxes of $13,144,000 were provided as part of the transaction.

The Company's consolidated financial statements reflect the results of BookLink as discontinued operations for all periods presented. Accordingly, the net results of discontinued operations have been reflected as loss from discontinued operations in the Consolidated Statements of Operations. BookLink's fiscal 1995 results of operations included sales, loss before income taxes and income tax benefit of $100,000, $1,149,000 and $459,000, respectively. Booklink's fiscal 1994 results included $266,000 loss before income taxes and a $107,000 income tax benefit.

(6) Property and Equipment

Property and equipment consists of the following:

	July 31, 1996	July 31, 1995
Machinery and equipment	$ 8,344,000	$3,738,000
Software	2,871,000	759,000
Office furniture and equipment	1,592,000	1,284,000
Leasehold improvements	953,000	617,000
Other equipment	897,000	778,000
	$14,657,000	$7,176,000

(7) Transactions in Stock of Subsidiaries

In October 1995, the Company's majority-owned subsidiary, Lycos acquired 100% of Point, a company involved in reviewing and ranking sites on the Internet, in exchange for a minority interest in Lycos. The former owner of Point also received an option to purchase 343,000 additional shares of Lycos at an exercise price of $2.00 per share. The option has a ten-year term and became fully vested at the closing of Lycos' initial public offering in April 1996. As a result of this transaction, the Company's ownership interest in Lycos was reduced from approximately 80% to approximately 76% and the Company's net equity in Lycos increased by $190,000, net of $132,000 of deferred income taxes. The increase has been reflected as an equity transaction included in "effect of subsidiaries' equity transactions" in the accompanying Consolidated Statements of Stockholders' Equity.

In April 1996, Lycos sold 3,135,000 shares of its previously unissued common stock in an initial public offering at $16 per share, receiving net proceeds of $46,021,000. With this transaction, the Company's ownership interest in Lycos was reduced from approximately 76%, to approximately 58%, and the Company's net investment in Lycos increased from approximately $1 million to approximately $20.6 million, resulting in the recognition of a pretax gain of $19,575,000. This gain reflects the increased book value of the Company's investment in Lycos resulting from the net proceeds received by Lycos from the sale of its stock. The Company provided $8,026,000 for deferred income taxes resulting from the gain.

On July 31, 1996, another of the Company's subsidiaries, Black Sun, successfully completed an equity financing, issuing 400,000 shares of preferred stock to an outside party in exchange for $2,000,000. With this transaction, the Company's net equity in Black Sun increased from approximately $780,000 to approximately $2,082,000. Since at the time of the transaction Black Sun was engaged principally in research and development, the resulting $768,000 increase, net of $534,000 of deferred income taxes, has been reflected as an equity transaction included in "effect of subsidiaries' equity transactions" in the accompanying Consolidated Statements of Stockholders' Equity.

The above gain on issuance of stock by subsidiary and effects of subsidiaries' equity transactions are reported net of the 22.5% interest attributed to CMG @Ventures' profit partners (see note 8).

Lycos develops and provides on-line guides to the Internet's World Wide Web, enabling users of the Internet to identify, select, and access the resources and information of interest to them. Black Sun develops three dimensional interactive software. The Company's entire interests in Lycos and Black Sun are owned by its majority-owned subsidiary limited partnership, CMG @Ventures, L.P. The Company's interest in Lycos (consisting of 8,000,000 shares of common stock) is subject to further reduction because CMG @Ventures, L.P. is obligated to sell to Lycos up to a total of 927,300 shares of common stock of Lycos to provide shares issuable upon exercise of options granted by Lycos under its stock option plans. Of these 927,300 shares, CMG @Ventures, L.P. is obligated to sell 666,576 shares to Lycos at a purchase price of $0.01 per share and 260,724 shares at prices ranging from $0.29 per share to $9.60 per share.

(8) Investment in Affiliates and Subsidiaries

During fiscal year 1995 the Company, through its subsidiary limited partnership, CMG @Ventures, L.P. (CMG @Ventures), invested in two affiliates. In fiscal 1995, the Company included its share of the prorata losses from one affiliate, Freemark, in the other income section of the Consolidated Statement of Operations as the Company owned in excess of 20% of the outstanding stock of this affiliate. The Company owned less than 20% of the other affiliate, Ikonic, Inc. (Ikonic), and as such it was accounted for under the cost method of accounting.

Also, during fiscal year 1995, the Company acquired NetCarta for $773,000. The acquisition of NetCarta was primarily funded through term notes which are included in other current and long term liabilities in the accompanying Consolidated Balance Sheets. The notes require payment in three annual installments (including interest at the annual rate of 6%) of $334,000, $233,000 and $233,000, the first installment of which was paid in fiscal year 1996. The acquisition was accounted for using the purchase method. Accordingly, the purchase price was allocated to assets acquired based on their estimated fair values.

During fiscal year 1995, the Company also formed and incorporated Lycos, capitalizing it with an initial $1,000,000. The Company then purchased, for $500,000 and 20% of Lycos, Inc. stock, an exclusive license to the Lycos software technology from Carnegie Mellon University.

During fiscal year 1996 the Company, through CMG @Ventures, invested in or acquired eight companies, including Lycos, NetCarta, Black Sun, Freemark, GeoCities, Ikonic, TeleT Communications (TeleT), and Vicinity Corporation (Vicinity).

In August 1995, CMG @Ventures formed Black Sun and provided a total of $4,000,000 in funding in fiscal 1996. Also, during fiscal 1996, CMG @Ventures provided $4,500,000 funding to NetCarta and $1,000,000 to Lycos. In December 1995, CMG @Ventures invested $1,750,000 to increase its ownership in Ikonic from 19.8% to 36.8%. With its increase in ownership in Ikonic, the Company began using the equity method of accounting, rather than the cost method, for its investment in Ikonic. On July 31, 1996, Black Sun successfully completed an equity financing, issuing preferred stock to an outside party in exchange for $2,000,000, and reducing CMG @Ventures' ownership in Black Sun to 92%. (See Note 7)

CMG @Ventures invested $1,000,000 to purchase an initial 44.9% ownership in GeoCities in January 1996, and increased its ownership to 61.2% with an additional $1,000,000 investment in June 1996. Also in June 1996, Freemark successfully completed a $5,100,000 equity financing. Pursuant to this transaction, CMG @Ventures invested an additional $3,200,000 in Freemark, including the conversion of $1,670,000 of notes which had been funded to Freemark during fiscal 1996, and increased its ownership from 43.8% to 54.3%. The Company accounted for its investments in GeoCities and Freemark on the equity method during the period CMG @Ventures owned minority interests. Beginning in June 1996, when controlling interests were acquired, the Company, accordingly, began including the operating results of GeoCities and Freemark in the Company's consolidated operating results.

In February and June 1996, CMG @Ventures invested $2,000,000 to acquire a 44.8% interest in Vicinity and $750,000 to acquire a 45.6% interest in TeleT. During fiscal 1996, the Company's investments in Vicinity and TeleT were accounted for on the equity method.

The Company's investments in Lycos, NetCarta, Black Sun, Freemark, GeoCities, Ikonic, TeleT and Vicinity were made through its majority-owned subsidiary limited partnership, CMG @Ventures, L.P. and its wholly owned subsidiary CMG @Ventures, Inc. The Company owns 100% of the capital interest and has all voting rights, and is entitled to 77.5% of the net capital gains, as defined, of these investments. The remaining 22.5% interest in the net capital gains on these investments are attributed to profit partners, including the President and Chief Executive Officer of the Company. The Company is responsible for all operating expenses of CMG @Ventures, L.P.

The acquisition accounting and valuation for the Company's or its subsidiaries' investments in Freemark, NetCarta, GeoCities, Point, and Vicinity resulted in a total of $2,691,000 being identified as in-process research and development, which was expensed because technological feasibility had not been reached at the dates the investments were made.

(9) Accrued Expenses

Accrued expenses consist of the following:

	July 31, 1996	July 31, 1995
Accrued compensation and benefits	$1,538,000	$ 481,000
Accrued list owners' commissions	1,168,000	1,152,000
Other	3,539,000	1,073,000
	$6,245,000	$2,706,000

(10) Commitments

The Company leases office space, machinery and equipment, and automobiles under various noncancelable operating leases. Future minimum lease payments are as follows:

Year ending July 31:	
1997	$3,438,000
1998	3,464,000
1999	2,145,000
2000	593,000
2001	42,000
	$9,682,000

Total rent expense charged to continuing operations was $2,112,000, $1,093,000 and $890,000 for the years ended July 31, 1996, 1995 and 1994, respectively.

In April 1996, Lycos entered into a one year "Premier Provider" agreement ("the Agreement") with Netscape Communications Corporation ("Netscape") pursuant to which Lycos was designated one of five "Premier Providers" of search and navigation services accessible from the "Net Search" button on the Netscape browser. Under the terms of the Agreement, Lycos is obligated to make installment payments totaling $5 million over the term of the Agreement. The Company is recording the cost of the Agreement ratably over its one year term, included in "cost of sales" in the Consolidated Statements of Operations. Thus, included in "cost of sales" for the year ended July 31, 1996, is the prorated portion of the Agreement since the service commenced in April 1996.

(11) Stockholders' Equity

During fiscal year 1996, the Company's stockholders approved an increase in the Company's authorized common shares to 40,000,000.

On February 2, 1996, March 17, 1995 and November 9, 1993, the Company effected 2-for-1, 3-for-2 and 2.6-for-1 common stock splits, respectively, in the form of stock dividends. Accordingly, all data shown in the accompanying consolidated financial statements has been retroactively adjusted to reflect these events.

(12) Stock Option Plans

The Company has two stock option plans currently in effect: the 1986 Stock Option Plan (the "1986 Plan") and the 1995 Stock Option Plan For Non-Employee Directors (the "Directors' Plan"). The Directors' Plan was adopted by the Board of Directors on May 31, 1995, and was approved by the stockholders of the Company at the 1995 Annual Meeting of Stockholders. Options under both plans are granted at fair market value on the date of the grant.

Options granted under the 1986 Plan are generally exerciseable in equal cumulative installments over a three-to-ten year period beginning one year after the date of grant. Options under the Directors' Plan become exerciseable in five equal annual installments beginning immediately after each Annual Stockholders Meeting following grant. Outstanding options under both Plans at July 31, 1996, expire through 2005.

Under the 1986 Plan, non-qualified stock options may be granted to the Company's key employees. The Board of Directors administers this plan, selects the individuals to whom options will be granted, and determines the number of shares and exercise price of each option. 1,500,000 shares of the Company's common stock were initially reserved for issuance under this plan. During fiscal 1994, the Company's Board of Directors reserved 1,533,024 additional shares of common stock for issuance upon the exercise of options. Effective upon the acquisition of BookLink by America Online, the tandem stock options held by BookLink employees, which provided them with an option to purchase the Company's common stock or BookLink common stock, became null and void with respect to the option to purchase the Company's common stock. The number of options voided upon the sale was 398,250, having option strike prices ranging from $2.67 to $5.34. All BookLink options were assumed by America Online. See note 5 for additional information.

Pursuant to the Directors' Plan, 282,000 shares of the Company's common stock were initially reserved. Options for 47,000 shares are to be granted to each Director who is neither an officer or full time employee of the Company, nor an affiliate of an institutional investor which owns shares of common stock of the Company. Options were granted to existing Directors with five years of continuous service at the date the Plan was adopted, and are to be granted to future Directors at the time of election to the Board.

The status of the plans during the three fiscal years ended July 31, 1996, was as follows:

	Options available for grant	Options outstanding	Option price
Balance at July 31, 1993	229,086	411,840	$ 0.128-0.657
Authorized	1,533,024	--	--
Issued	(805,350)	805,350	1.539-3.334
Exercised	--	(75,234)	0.128-0.657
Balance at July 31, 1994	956,760	1,141,956	$ 0.231-3.334
Authorized	282,000	--	--
Issued	(600,338)	600,338	2.833-13.375
Exercised	--	(65,700)	0.231-1.539
Cancelled	473,520	(473,520)	1.539-5.334
Balance at July 31, 1995	1,111,942	1,203,074	$ 0.231-13.375
Issued	(228,456)	228,456	10.125-35.625
Exercised	--	(320,842)	0.231-8.25
Cancelled	88,830	(88,830)	0.231-12.875
Balance at July 31, 1996	972,316	1,021,858	$ 1.539-35.625

Options were exerciseable with respect to 142,896 shares at July 31,1996

(13) Employee Stock Purchase Plan

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

At the beginning of each of the Company's fiscal quarters, commencing with February 1, 1995, employees are granted an option to purchase shares of the Company's common stock at an option price equal to 85% of the fair market value of the Company's common stock on either the first business day or last business day of the applicable quarterly period, whichever is lower.

Employees purchased 8,324 and 7,374 shares of common stock of the Company during fiscal 1996 and 1995, respectively.

(14) Income Taxes

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

	Current	Deferred	Total
July 31, 1994:			
Federal	$1,017,000	$ 67,000	$ 1,084,000
State	92,000	35,000	127,000
	$1,109,000	$ 102,000	$ 1,211,000
July 31, 1995:			
Federal	$2,569,000	$ (70,000)	$ 2,499,000
State	367,000	(22,000)	345,000
	$2,936,000	$ (92,000)	$ 2,844,000
July 31, 1996:			
Federal	$7,758,000	$6,448,000	$14,206,000
State	632,000	1,835,000	2,467,000
	$8,390,000	$8,283,000	$16,673,000

Excluded from the tax provision in fiscal 1996 but included in deferred income tax liabilities are $666,000 provided for the effect of subsidiaries' equity transactions and $78,000 related to the difference in bases of acquired assets. Excluded from the tax provision in fiscal 1995 but included in deferred income tax liabilities were $10,810,000 provided for unrealized holding gains from the increase in the market value of available-for-sale securities and $ 9,298,000 owed in conjunction with the disposal of BookLink.

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

	July 31, 1996			July 31, 1995		
	Current	Non-current	Total	Current	Non-current	Total
Deferred tax assets:						
Accounts receivable allowance for bad debts	$ 82,000	$ --	$ 82,000	$ 61,000	$ --	$ 61,000
Other	131,000	--	131,000	161,000	153,000	314,000
Total gross deferred tax assets	213,000	--	213,000	222,000	153,000	375,000
Deferred tax liabilities:						
Gain on issuance of stock by subsidiary	--	8,042,000	8,042,000	--	--	--
Effect of subsidiaries' equity transactions	--	666,000	666,000	--	--	--
Differences in tax depreciation and amortization	--	336,000	336,000	--	96,000	96,000
Differences in bases of acquired assets	--	78,000	78,000	--	--	--
Gain on available-for-sale securities	--	--	--	20,108,000	--	20,108,000
Total gross deferred tax liabilities	--	9,122,000	9,122,000	20,108,000	96,000	20,204,000
Net deferred tax asset (liability)	$ 213,000	$ (9,122,000)	$ (8,909,000)	$ (19,886,000)	$ 57,000	$ (19,829,000)

State income tax expenses for the year ended July 31, 1994 have been reduced by approximately $178,000 resulting from the realization of state operating loss carryforwards.

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

	July 31,		
	1996	1995	1994

Provision for income taxes at federal statutory rate	$10,848,000	$2,586,000	$1,078,000
Increase (reduction) in income taxes resulting from:			
Amortization of goodwill	146,000	5,000	5,000
In-process research and development	784,000	--	--
Subsidiaries' operating losses not benefited	2,959,000	--	--
Equity in losses of affiliates	1,020,000	--	--
Minority interest	(759,000)	--	--
State income taxes, net of federal benefit	1,604,000	228,000	84,000
Other	71,000	25,000	44,000
Actual income tax expense	$16,673,000	$2,844,000	$1,211,000

(15) Lines of Credit

At July 31, 1995, the Company's credit agreement included two revolving lines of credit totaling $5.0 million. Since July 31, 1995 these lines have lapsed and the Company has not pursued renewal. Lycos has a $1.0 million credit facility which expires on June 1, 1997. No balances were outstanding under this agreement at July 31, 1996.

(16) Selected Quarterly Financial Information (unaudited)

The following table sets forth selected quarterly financial and stock price information for the years ended July 31, 1996 and 1995. The operating results for any given quarter are not necessarily indicative of results for any future period. The Company's common stock is traded on the NASDAQ National Market System ("NASDAQ/NMS") under the symbol CMGI. Included below are the high and low sales prices (adjusted for a 3-for-2 stock split effected on March 17, 1995, and a 2-for-1 stock split effected on February 2, 1996) during each quarterly period for the shares of common stock as reported by NASDAQ/NMS.

(in thousands, except per share data)

	Fiscal 1996 Quarter ended				Fiscal 1995 Quarter ended			
	Oct. 31	Jan. 31	Apr. 30	Jul. 31	Oct. 31	Jan. 31	Apr. 30	Jul. 31
Net sales	$ 5,835	$ 6,105	$ 7,484	$ 9,061	$5,663	$ 5,540	$ 5,978	$5,112
Cost of sales	3,593	3,827	5,266	6,751	3,108	3,285	3,488	3,133
Research and development expenses	500	1,449	1,751	3,271	--	--	--	--
In-process research and development expenses	--	452	--	2,239	--	--	--	--
Selling, general and administrative expenses	2,776	3,643	5,270	8,271	1,369	1,489	1,717	1,812
Operating income (loss)	(1,034)	(3,266)	(4,803)	(11,471)	1,186	766	773	167
Interest income, net	239	829	474	1,149	26	21	22	156
Gain on sale of available-for-sale securities	30,049	--	--	--	--	--	4,781	--
Gain on issuance of stock by subsidiary	--	--	19,575	--	--	--	--	--
Equity in losses of affiliates	(270)	(751)	(931)	(963)	--	--	(48)	(258)
Minority interest	43	257	517	1,352	--	--	--	14
Income tax (expense) benefit	(10,849)	286	(7,418)	1,308	(485)	(315)	(2,005)	(39)
Income (loss) from continuing operations	18,178	(2,645)	7,414	(8,625)	727	472	3,523	40
Gain (loss) from discontinued operations	--	--	--	--	(211)	23,664	--	--
Net income	$ 18,178	$(2,645)	$ 7,414	$ (8,625)	$ 516	$24,136	$ 3,523	$ 40
Market Price								
High	$ 18.00	$ 50.25	$ 47.25	$ 33.00	$ 5.59	$ 7.75	$ 9.25	$13.63
Low	$ 9.63	$ 17.38	$ 26.13	$ 12.25	$ 2.75	$ 4.92	$ 6.00	$ 5.50

(17) Subsequent Events (unaudited)

In August 1996, CMG @Ventures invested $2,000,000 to acquire a 46% minority interest in Parable LLC, a start-up software firm developing multi-media tools and technology, which will be accounted for on the equity method. Also, subsequent to July 31, 1996, the Company funded an additional $1,910,000 to NetCarta.

In September 1996, the Company sold its equity interest in TeleT to Premiere Technologies, Inc. (Premiere) in exchange for $550,000 and 320,883 shares of Premiere stock. The market value of the Premiere stock at the date of closing was approximately $7,700,000. The Company's entire interest in TeleT was owned by its majority-owned subsidiary limited partnership CMG @Ventures L.P.

Subsequent to July 31, 1996, the Company entered into noncancelable operating leases for office space and machinery and equipment with total future minimum lease payments of $4,065,000.

The Board of Directors CMG Information Services, Inc.:

We have audited the accompanying Consolidated Balance Sheets of CMG Information Services, Inc. and subsidiaries as of July 31, 1996 and 1995, and the related Consolidated Statements of Operations, Stockholders' Equity, and Cash Flows for each of the years in the three-year period ended July 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CMG Information Services, Inc. and subsidiaries at July 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended July 31, 1996, in conformity with generally accepted accounting principles.

/s/ KPMG PEAT MARWICK LLP

KPMG PEAT MARWICK LLP

Boston, Massachusetts
September 16, 1996

Exhibit 22

CMG INFORMATION SERVICES, INC.
SUBSIDIARIES OF THE REGISTRANT

1. SalesLink Corporation, a Massachusetts corporation.
2. CMG Securities Corporation, a Massachusetts corporation.
3. CMG @Ventures, Inc., a Delaware corporation.
4. CMG @Ventures Capital Corporation, a Delaware corporation.
5. CMG @Ventures, L.P., a Delaware limited partnership.
6. Lycos, Inc., a Delaware corporation
7. NetCarta Corporation, a California corporation
8. CMG Direct Interactive, Inc., a Delaware corporation.
9. Black Sun Interactive, Inc., a Delaware corporation.
10. Freemark Communications, Inc., a Delaware corporation.
11. GeoCities, a California corporation.
12. Planet Direct Corporation, a Delaware corporation.
13. CyberVillages Corporation, a Delaware corporation.
14. ADSmart Corporation, a Delaware corporation.
15. InfoMation Publishing Corporation, a Delaware corporation.

Exhibit 23

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
CMG Information Services, Inc.:

We consent to the incorporation by reference in the registration statements of CMG Information Services, Inc. on Form S-8 (File No. 33-86742 and File No. 33-06745) of our reports dated September 16, 1996, relating to the Consolidated Balance Sheets of CMG Information Services, Inc. and subsidiaries as of July 31, 1996 and 1995, and the related Consolidated Statements of Operations, Stockholders' Equity and Cash Flows and related schedule for each of the years of the three-year period ended July 31, 1996, which reports appear in the July 31, 1996 annual report on Form 10-K of CMG Information Services, Inc.

/s/ KPMG PEAT MARWICK LLP
KPMG PEAT MARWICK LLP

Boston, Massachusetts
October 28, 1996

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE JULY 31, 1996 CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED JULY 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS
JUL-31-1996
AUG-01-1995
JUL-31-1996
63,387
13,069
10,666
442
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90,566
14,657
6,196
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53,900
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0
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