SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): June 29, 1999

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

Delaware	0-22846	04-2921333
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

100 BRICKSTONE SQUARE, ANDOVER, MA 01810
(Address of principal executive offices and zip code)

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

Item 5. Other Events

As reported by CMGI, Inc. in its current report on Form 8-K filed on July 14, 1999, CMGI has entered into a Purchase and Contribution Agreement dated as of June 29, 1999 (the "Agreement") by and among itself, Compaq Computer Corporation ("Compaq"), Digital Equipment Corporation, a wholly-owned subsidiary of Compaq ("Digital"), AltaVista Company, a wholly-owned subsidiary of Digital ("Altavista"), and Zoom Newco Inc., a wholly-owned subsidiary of CMGI ("Newco") which provides, among other things, Compaq and Digital will contribute to Newco certain assets and liabilities constituting the Altavista division of Digital (the "Altavista Business"). Set forth in exhibits to this report is certain historical financial information of the Altavista Business, and of Zip2 corporation and Shopping.com, which will become wholly-owned subsidiaries of Newco following the consummation of the transactions contemplated by the Agreement.

Item 7. Financial Statement, pro forma Financial Information and Exhibits.

(c) Exhibits.

23.1 Consent of PricewaterhouseCoopers LLP, independent accountants, filed herewith.

23.2 Consent of Singer Lewak Greenbaum & Goldstein LLP, independent auditors, filed herewith.

99.1 Audited financial statements of AltaVista as of and for the years ended December 31, 1996, 1997 and 1998 and unaudited financial statements of the AltaVista Business as of March 31, 1999 and for the three months ended March 31, 1999 and 1998.

99.2 Audited financial statements of Zip2 Corporation as of and for the years ended December 31, 1996, 1997 and 1998 and unaudited financial statements of Zip2 Corporation as of March 31, 1999 for the three months ended March 31, 1999 and 1998.

99.3 Audited financial statements of Shopping.com as of and for the years ended January 31, 1999, 1998 and 1997.

SIGNATURES

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

Date: August 12, 1999

CMGI, Inc.

By: /s/ Andrew J. Hajducky III

Andrew J. Hajducky III
Executive Vice President, Chief Financial Officer and Treasurer

EXHIBIT INDEX

Exhibit No.	DESCRIPTION
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99.3	Audited financial statements of Shopping.com as of and for the years ended January 31, 1999, 1998 and 1997. Filed herewith.

Exhibit 23.1

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-71863) and Form S-8 (Nos. 333-06745 and 033-86742) of CMGI, Inc. of our reports dated as follows:

- June 29, 1999 relating to the financial statements of AltaVista,
- April 2, 1999 relating to the financial statements of Zip2 Corporation, and
- June 9, 1999, except as to Note 12, which is as of July 3, 1999 relating to the financial statements of Shopping.com

which appear in the CMGI, Inc. Current Report on Form 8-K dated August 12, 1999.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

San Jose, California
August 9, 1999

Exhibit 23.2

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference of our report, dated June 17, 1997, except for Note 6, for which the date is June 9, 1999, relating to the financial statements of Shopping.com included in this Form 8-K dated August 12, 1999 in the previously filed Registration Statements of CMGI, Inc. on Form S-3 (No. 333-71863) and Forms S-8 (Nos. 333-06745 and 033-86742).

/s/ SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
August 11, 1999

EXHIBIT 99.1

AltaVista
Financial Statements
December 31, 1998

ALTAVISTA

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Compaq Computer Corporation

In our opinion, the accompanying balance sheet and the related statements of operations, of changes in owner's net investment and of cash flows present fairly, in all material respects, the financial position of AltaVista (the "Business") at December 31, 1998, and the results of its operations and its cash flows for the period from June 12, 1998 through December 31, 1998 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Business's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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 financials statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Boston, Massachusetts
June 29, 1999

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Compaq Computer Corporation

In our opinion, the accompanying balance sheet and the related statements of operations, of changes in owner's net investment and of cash flows present fairly, in all material respects, the financial position of AltaVista (the "Business") at December 31, 1997, and the results of its operations and its cash flows for the period from January 1, 1998 through June 11, 1998, and the years ended December 31, 1997 and 1996 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Business's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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 financials statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Boston, Massachusetts
June 29, 1999

ALTAVISTA

BALANCE SHEETS
(in thousands)

	Predecessor	Business
	December 31,	
	1997	1998
ASSETS		
Current assets:		
Accounts receivable, less allowance of $1,427 and $2,832	$ 6,290	$ 12,819
Prepaid expenses	481	350
Total current assets	6,771	13,169
Property and equipment, less accumulated depreciation	10,418	24,173
Goodwill and other intangible assets, net	31	226,488
Investments	-	500
Total assets	$ 17,220	$ 264,330
LIABILITIES AND OWNER'S NET INVESTMENT		
Current liabilities:		
Long-term debt, current portion	$ -	$ 658
Accounts payable	702	691
Salaries, wages and related items	455	455
Accrued partner fees	281	7,656
Deferred revenue	500	150
Other current liabilities	667	774
Total current liabilities	2,605	10,384
Commitments and contingencies		
Long-term debt	-	1,656
Net contribution from owner	28,738	321,856
Accumulated deficit	(14,123)	(69,566)
Owner's net investment	14,615	252,290
Total liabilities and owner's net investment	$ 17,220	$ 264,330

The accompanying notes are an integral part of these financial statements.

ALTAVISTA

STATEMENTS OF OPERATIONS
(in thousands)

	Predecessor			Business
	Year ended December 31,		Period from January 1, 1998 through June 11,	Period from June 12, 1998 through December 31,
	1996	1997	1998	1998
Revenues	$ 900	$ 13,813	$ 13,622	$ 23,517
Cost of revenues	1,963	5,008	3,445	6,964
Gross profit (loss)	(1,063)	8,805	10,177	16,553
Operating expenses:				
Sales and marketing	941	5,615	5,426	23,900
Product development	3,475	6,000	5,413	7,210
General and administrative	1,784	2,785	1,744	3,806
Amortization of intangible assets	19	25	8	50,982
Loss from operations	(7,282)	(5,620)	(2,414)	(69,345)
Interest expense	32	114	79	221
Loss before income taxes	(7,314)	(5,734)	(2,493)	(69,566)
Income taxes	-	-	-	-
Net loss	$ (7,314)	$ (5,734)	$ (2,493)	$ (69,566)

The accompanying notes are an integral part of these financial statements.

ALTAVISTA

STATEMENTS OF CHANGES IN OWNER'S NET INVESTMENT
(in thousands)

	Net Contribution from Owner	Accumulated Deficit	Total Owner's Net Investment
Balance, January 1, 1996	$ 1,454	$ (1,075)	$ 379
Net loss	-	(7,314)	(7,314)
Net contribution from owner	12,055	-	12,055
Balance, December 31, 1996	13,509	(8,389)	5,120
Net loss	-	(5,734)	(5,734)
Net contribution from owner	15,229	-	15,229
Balance, December 31, 1997	28,738	(14,123)	14,615
Net loss	-	(2,493)	(2,493)
Net contribution from owner	11,536	-	11,536
Balance, June 11, 1998	40,274	(16,616)	23,658
Net loss	-	(69,566)	(69,566)
Net contribution from owner	321,856	-	321,856
Balance, December 31, 1998	$ 321,856	$ (69,566)	$ 252,290

The accompanying notes are an integral part of these financial statements.

ALTAVISTA

STATEMENTS OF CASH FLOWS
(in thousands)

	Predecessor			Business
	Year ended December 31,		Period from January 1, 1998 through June 11,	Period from June 12, 1998 through December 31,
	1996	1997	1998	1998
Cash flows from operating activities:				
Net loss	$ (7,314)	$ (5,734)	$ (2,493)	$ (69,566)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	854	2,685	2,079	54,147
Provision for bad debts	-	1,427	1,220	2,516
Changes in operating assets and liabilities:				
Accounts receivable	(573)	(7,144)	(3,248)	(7,017)
Prepaid expenses	(181)	(300)	(3,577)	3,708
Accounts payable	37	665	47	(58)
Salaries, wages and related items	161	290	371	(371)
Deferred revenue	100	400	(187)	(163)
Other current liabilities	118	830	(329)	7,681
Net cash used in operating activities	(6,798)	(6,881)	(6,117)	(9,123)
Cash flows from investing activities:				
Purchase of intangible assets	(75)	-	-	(477)
Purchases of property and equipment	(5,182)	(8,348)	(5,419)	(2,906)
Investments	-	-	-	(500)
Net cash used in investing activities	(5,257)	(8,348)	(5,419)	(3,883)
Cash flows from financing activities:				
Repayment of long-term debt	-	-	-	(436)
Net change in contribution from owner	12,055	15,229	11,536	13,442
Net cash provided by financing activities	12,055	15,229	11,536	13,006
Net increase in cash	$ -	$ -	$ -	$ -
Noncash investing activities:				
Contribution of net assets from owner	$ -	$ -	$ -	$ 308,414
Purchase of URL	$ -	$ -	$ -	$ 2,930
Noncash financing activities:				
Note payable from purchase of URL	$ -	$ -	$ -	$ 2,750

The accompanying notes are an integral part of these financial statements.

NOTE 1 - DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF BUSINESS

AltaVista (the "Business") provides Internet search and navigation technology, enabling the delivery of information through broad-based search capabilities. The Business's objective is to deliver the most personally relevant Internet results faster than anyone else on the Internet. With the leverage from numerous partnerships, the business is extending its services to delivering highly personalized e-Commerce offerings and local content through an integrated network of new media and e-Commerce partners.

BASIS OF PRESENTATION

These financial statements present the assets, liabilities, changes in owner's net investment, results of operations and cash flows applicable to the operations of the Business. The financial statements of the Business are derived from the historic books and records of Digital Equipment Corporation ("Digital") through June 11, 1998. As a result of the acquisition of Digital by Compaq Computer Corporation ("Compaq") on June 11, 1998, the financial statements of the Business after the acquisition date are derived from the historic books and records of Compaq and reflect the "pushdown" of Compaq's bases in the assets and liabilities.

The statement of operations includes all revenues and costs directly attributable to the Business, including charges for shared facilities, functions and services used by the Business and provided by Digital or Compaq. Certain costs and expenses have been allocated based on management's estimates of the cost of services provided to the Business by Digital or Compaq. Such costs include corporate research and engineering expenses, corporate selling and marketing expenses and corporate general and administrative expenses (see Note 6). Such allocations and charges are based on either a direct cost pass-through or a percentage of total costs for the services provided based on factors such as headcount or the specific level of activity directly related to such costs (i.e., direct spending). Management believes that these allocations are based on assumptions that are reasonable under the circumstances. However, these allocations and estimates are not necessarily indicative of the costs and expenses which would have resulted if the Business had been operated as a separate entity.

The Business has incurred recurring losses from operations through December 31, 1998. Compaq has committed to provide the funds required for the conduct of the Business's operations at least through December 31, 1999 or to the date, if earlier, on which it ceases to be the controlling shareholder. The historical operating results may not be indicative of future results.

USE OF ESTIMATES

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

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Business to a concentration of credit risk consist of accounts receivable. The Business's accounts receivable are derived primarily from advertising revenue earned from customers located in the U.S. The Business maintains reserves for potential credit loss. Historically such losses have not been significant and have been within management's expectations.

During all the periods presented, the Business derived substantially all of its revenues from the Procurement and Trafficking Agreement (the "Agreement") with DoubleClick, Inc. ("DoubleClick"). Under the Agreement, DoubleClick is the exclusive third-party provider of advertising services on specified pages within the Business's web site. The agreement was amended on January 7, 1998 to extend the term of the Agreement through December 1999, and to provide that either party may terminate the Agreement, after July 1998, upon 90 days prior written notice. The Agreement is expected to continue to account for a significant portion of the Business's revenues. The termination of the Agreement, or any development materially affecting the business or financial condition of DoubleClick would have a material adverse effect on the Business's results of operations and financial position. Accounts receivable from DoubleClick comprised 77% and 77.8% of gross accounts receivable as of December 31 1997 and 1998, respectively.

BUSINESS RISKS

The Business is subject to risks and uncertainties common to growing technology-based companies, including rapid technological change, growth and commercial acceptance of the Internet, dependence on third-party technology, new service introductions and other activities of competitors, dependence on key personnel, international expansion, and limited operating history.

CASH

Cash received from operations by the Business is swept by Compaq or Digital and recorded as reductions of net contribution from owner; disbursements made by Compaq or Digital on behalf of the Business are recorded as increases to net contribution from owner.

PROPERTY AND EQUIPMENT

Property and equipment were recorded at fair market value at the date of the acquisition by Compaq. Minor replacements, maintenance and repairs are charged to current operations. Depreciation is computed by applying the straight-line method over the estimated useful lives of the related assets as follows:

	Estimated Useful Lives In Years
Machinery and equipment	5-10
Furniture and fixtures	3-10
Buildings and improvements	10-33

Leasehold improvements are amortized over the shorter of the useful life of the improvement or the life of the related lease.

REVENUE RECOGNITION

The Business's revenues are derived primarily from short term advertising contracts negotiated by DoubleClick in accordance with the terms of the Agreement. The Business records as revenues its contractual percentage of the total revenues generated from the delivery of advertisements. Such revenues are recognized in the periods in which the advertisement is delivered, provided that no significant obligations remain and collection of the resulting receivable is probable. To the extent DoubleClick does not collect billings from the advertisers, or grants additional discounts, the Business is at risk for its contractual percentage of such bad debts and additional discounts. Provisions for bad debts and additional discounts are provided at the time of revenue recognition based upon historical experience and current economic conditions. Net revenues derived from the Agreement represented 22%, 58%, 68%, and 74% of the Business's total net revenues for the years ended December 31, 1996 and 1997 and for the period January 1, 1998 through June 11, 1998, and for the period June 12, 1998 to December 31, 1998, respectively.

The Business has recently entered into agreements with partners whereby the Business receives a percentage of revenues generated by the partners through e-Commerce transactions. Such revenues are recognized by the Business upon notification from the partners of revenues earned by the Business and, to date, have not been significant.

Also included in revenue is the exchange by the Business of advertising space on the Business' web site for reciprocal advertising space or traffic in other web sites or receipt of services. Revenue from these transactions is recognized during the period in which the advertisements are placed and are recorded at the lower of estimated fair value of the service received or the estimated fair value of the advertisement given. Revenues from these transactions represented 7% and 5% of total net revenues for the period January 1, 1998 through June 11, 1998 and for the year ended December 31, 1997, respectively. Revenues for barter transactions were immaterial for the period from June 12, 1998 through December 31, 1998 and for the year ended December 31, 1996.

DEFERRED REVENUE

Deferred revenue primarily comprises cash collections in advance of revenue associated with certain contracts and is recognized at the time the Business's obligations under the contracts are fulfilled.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's financial instruments, which include accounts receivable, accounts payable, accrued expenses and notes payable approximate their fair values at December 31, 1997 and 1998.

INTANGIBLE ASSETS

Intangible assets primarily consist of trademarks and goodwill resulting from the "pushdown" of the fair market value of the intangible assets attributable to the Business as recorded on Compaq's books resulting from the acquisition of Digital. Intangible assets also relate to the Business's purchase of Universal Resource Locators ("URL"). Intangible assets are being amortized on a straight-line basis over their estimated useful lives of three years.

IMPAIRMENT OF LONG-LIVED ASSETS

The Business reviews for the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The Business has not identified any such impairment losses.

INVESTMENTS

Compaq obtained equity interests in one privately held company which is intended to be contributed to the Business. The investment resulted in the Business owning less than 20% of the investee. Accordingly, the investment is accounted for under the cost method. The investment was purchased near December 31, 1998, therefore, its carrying value approximates fair value. For non-quoted investments, the Business's policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values.

PRODUCT DEVELOPMENT

Product development costs are expensed as incurred. Software development costs subsequent to the establishment of technological feasibility are capitalized and amortized to cost of software. Based upon the Business's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Business between completion of the working model and the point at which the product is ready for general release have been insignificant.

ADVERTISING EXPENSE

The Business expenses advertising costs the first time the advertisement is published or broadcasted. Included in sales and marketing is approximately $0, $2,339,000, $2,465,500 and $2,880,000 for the years ended December 31, 1996 and 1997 and for the period January 1, 1998 through June 11, 1998, and for the period June 12, 1998 to December 31, 1998, respectively.

INTEREST EXPENSE

Interest expense represented $32,000, $114,000, $79,000 and $221,000 for the years ended December 31, 1996 and 1997 and for the period January 1, 1998 through June 11, 1998, and for the period June 12, 1998 to December 31, 1998, respectively. There was no direct interest expense incurred by the Business until the purchase of the URL in July 1998 (Note 3). Prior to that date, interest expense corresponded to an allocation of Digital's or Compaq's worldwide interest expense based upon the Business' proportionate share of total assets. Management believes that this method provides a reasonable basis for allocation within the Business' historical statement of operations.

INCOME TAXES

The Business was not a separate taxable entity for federal, state or local income tax purposes and its operations are included in the consolidated Digital or Compaq tax returns. The Business accounts for income taxes under the separate return method in accordance with SFAS No. 109, "Accounting for Income Taxes." Under the separate return method, deferred tax assets generated from operating losses required a full valuation allowance because given the history of operating losses, realizability of such tax benefit is not probable.

STOCK-BASED COMPENSATION PLANS

As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," the Business accounts for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principals Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Under APB 25, no stock compensation expense has been recorded for any of the periods presented in the accompanying financial statements.

EARNINGS PER SHARE

The Business is not a separate legal entity and has no historical capital structure. Therefore, historical earnings per share have not been presented in the financial statements.

COMPREHENSIVE INCOME

The Business has adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. To date, the Business has not had any transactions that are required to be reported in comprehensive income.

SEGMENT INFORMATION

Effective January 1, 1998, the Business adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). The Business identifies its operating segments based on business activities, management responsibility and geographical location. The Business has organized its operations in a single operating segment providing delivery of relevant and personalized e-Commerce offerings and local content. Further, the Business derives the vast majority of its revenue from its operations in the United States.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The new standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Business does not expect SFAS No. 133 to have a material effect on its financial position or results of operations.

In February 1998, the Accounting Standards Executive Committee ("AcSEC") issued Statement of Position ("SoP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SoP 98-1 establishes the accounting for costs of software products developed or purchased for internal use, including when such costs should be capitalized. The Business does not expect SoP 98-1, which is effective for the Business beginning January 1, 1999, to have a material effect on its financial position or results of operations.

In April 1998, the AcSEC issued SoP 98-5, "Reporting on the Costs of Start-Up Activities." Start-up activities are defined broadly as those one-time activities related to opening a new facility, introducing a new product or service, commencing some new operation or organizing a new entity. Under SoP 98-5, the cost of start-up activities should be expensed as incurred. SoP 98-5 is effective for the Business beginning January 1, 1999 and the Business does not expect its adoption to have a material effect on its financial position or results of operations.

NOTE 2 - -PROPERTY AND EQUIPMENT:

Property and equipment are summarized below (in thousands):

	Predecessor	Business
	December 31,	
	1997	1998
Land	$ -	$ 3,491
Buildings	-	8,451
Leasehold improvements	1,111	1,296
Machinery and equipment	11,002	11,480
Construction in-process	2,168	2,773
	14,281	27,491
Less: Accumulated depreciation	3,863	3,318
Property and equipment, net	$ 10,418	$ 24,173

Depreciation expense totaled $834,000, $2,660,000, $2,070,000, and $3,318,000 for the years ended December 31, 1996 and 1997 and for the period January 1, 1998 through June 11, 1998, and for the period June 12, 1998 to December 31, 1998, respectively.

NOTE 3 - INTANGIBLE ASSETS:

Intangible assets are summarized below (in thousands):

	Predecessor	Business
	December 31,	
	1997	1998
Goodwill	$ -	$ 255,600
Trademarks	75	18,500
Purchased URL sites	-	3,422
	75	277,522
Less: accumulated amortization	44	51,034
	$ 31	$ 226,488

COMPAQ ACQUISITION

On June 11, 1998, Compaq consummated its acquisition of Digital. The purchase price was allocated to the assets acquired and liabilities assumed based on Compaq's estimates of fair value. The fair value assigned to intangible assets acquired was based on a valuation prepared by an independent third-party appraisal company.

PURCHASED URL

In March 1996, the Business entered into an agreement pursuant to which the other party assigned to the Business all of its right, title and interest in and to the AltaVista URL and the Business agreed to grant the other party a nonexclusive license to use the AltaVista URL as part of their corporate name. In July 1998, the other party agreed to sell, transfer and assign to the Business all of its rights in and to the AltaVista URL granted under the original agreement for an aggregate consideration of approximately $3.3 million. The consideration paid consists of cash and a note payable of $2,750,000 (Note 5).

NOTE 4 - INVESTMENT:

In December 1998, Compaq purchased 500,000 shares of Series B preferred stock of Centraal Corporation ("Centraal"). The total consideration paid of approximately $500,000 has been included in long-term investments from the date of acquisition and represents an ownership of less than 10%. This investment is accounted for under the cost method of accounting.

NOTE 5 - LONG-TERM DEBT:

Long-term debt consists of a note payable related to the purchased URL which bears interest at an annual rate of 7%. The note plus accrued interest is payable in twelve quarterly installments commencing October 1, 1998.

Principal payments due under the note are as follows:

1999	$ 658
2000	932
2001	724
Total	$ 2,314

NOTE 6 - RELATED PARTY TRANSACTIONS:

The Business uses Digital or Compaq manufactured equipment for its operations which represents 60% of the total assets at December 31, 1997 and are not significant with respect to total assets at December 31, 1998. Digital manufactured equipment is recorded at fair market value at the date of acquisition.

ALLOCATED COSTS

The amounts allocated to the Business and included in the accompanying statement of operations are as follows (in thousands):

	Predecessor			Business
	Year Ended December 31,		Period from January 1, 1998 through June 11, 1998	Period from June 12, 1998 through December 31, 1998
	1996	1997		
Research and engineering expenses	$ 764	$ 558	$ 318	$ 388
Selling and marketing expenses	600	600	-	-
General and administrative expenses	1,001	1,082	631	973
Interest expense	32	114	79	145

Beginning January 1, 1998, selling and marketing expenses were not allocated from Compaq because these expenses were incurred directly by the Business.

NOTE 7 - INCOME TAXES:

Given the recent history of operating losses, deferred tax assets generated from operating losses required a full valuation allowance because realizability of such tax benefit is not probable. Accordingly, the accompanying statement of operations includes no benefit for income taxes.

Deferred tax assets and liabilities at December 31, 1998 and 1997 are comprised of the following (in thousands):

	Predecessor	Business
	December 31,	
	1997	1998
Receivable allowances	$ 655	$ 1,249
Capitalized research and development costs	1,752	1,534
Loss carryforwards	3,615	10,288
Property, plant and equipment	-	2,868
Other	14	201
Gross deferred tax assets	6,036	16,140
Intangible assets	-	(6,036)
Property, plant and equipment	(387)	-
Gross deferred tax liabilities	(387)	(6,036)
Deferred tax asset valuation allowance	(5,649)	(10,104)
	$ -	$ -

Net operating loss carryforwards will remain with Compaq after the assets and liabilities of the Business are transferred to the Company.

NOTE 8 - MARKETING AGREEMENTS:

PREMIER PROVIDER AGREEMENT WITH NETSCAPE

In June 1998, the Business entered into a Premier Provider agreement (the "Service Agreement") with Netscape Corporation ("Netscape"), whereby Netscape guaranteed a minimum number of exposures (as defined) for the Business's search and directory service on the Netscape's Page, as defined. The Service Agreement is for one year and the Business's minimum financial commitment under the Service Agreement is $14,150,000, of which $3,650,000 was paid upon execution of the Service Agreement and $3,500,000 was paid on July 15 and December 15, 1998. The remaining payment to satisfy the minimum financial commitment is payable on March 31, 1999. All exposures delivered above the minimum number of impressions will be payable at specified contractual rates. Amounts included in sales and marketing expense in the accompanying financial statements related to the Service Agreement are approximately $1,550,000 for the period from the date of the Service Agreement through June 11, 1998 and $10,000,000 for the period from June 12, 1998 through December 31, 1998.

The Business's primary obligation under the Service Agreement is to display certain Netscape buttons and/or information prominently on the Business's home page and pages linked thereto. Other obligations include the implementation of certain technologies to maintain compatibility with the Netscape's browser and the placement of certain hypertext links for keywords searched on the Business's Web site. Effective January 11, 1999, the Business terminated the Service Agreement without penalty.

PREMIER SEARCH SERVICES AGREEMENT WITH MICROSOFT

In September 1998, the Business and Microsoft (the "Portal") entered into a one year Premier Search Services Agreement (the "Search Services Agreement") whereby the Portal guaranteed a minimum number of impressions on the Portal's various internet search versions and Web site (referred to as the "Guaranteed Impressions"). For the Guaranteed Impressions, the Business shall pay $18 million, in four equal payments of $4.5 million as follows: the first payment was paid upon execution, the second, third and fourth payments are due 90 days, 180 days and 270 days, respectively after September 16, 1998. All impressions delivered above the Guaranteed Impressions will be payable at specified contractual rates, not to exceed a total amount paid of $23 million. Included in sales and marketing expense in the accompanying financial statements related to the Search Services Agreement for the period from June 12, 1998 to December 31, 1998 is approximately $6.2 million.

NOTE 9 - PENSIONS:

Upon consummation of the acquisition of Digital by Compaq, Compaq assumed certain of Digital's defined benefit and defined contribution plans of which employees of the Business were participants. The Business' employees who were eligible to participate in the Digital plans at the time of the acquisition continue to be eligible to participate in these plans. The benefits generally are based on years of service and compensation during the employee's career. Pension cost is based on estimated benefit formulas.

Additionally, Compaq assumed the defined benefit postretirement plans that provide medical and dental benefits for Business' retirees and their eligible dependents in the United States.

The statements of operations include allocated costs as fringe benefits included in general and administrative expense based upon an average cost per employee for the retirement plan and are not significant for any periods presented.

NOTE 10 - STOCK OPTION PLANS:

The following disclosure related to stock-based compensation includes information applicable to the Business derived from the historic books and records of Digital through June 11, 1998 and Compaq thereafter.

Included in the acquisition of Digital by Compaq on June 11, 1998, all outstanding Digital options were cancelled and Compaq issued, in exchange, a fully vested and exercisable option to purchase shares of Compaq stock. The Compaq options are subject to all other terms and conditions as applicable immediately prior to the acquisition.

The following table summarizes activities under the stock option plans related to employees of the Business:

	Shares	Price Per Share	Weighted Average Price Per Share
Digital Options			
Options outstanding, December 31, 1995:	25,894		$ 37.30
Options granted	38,890	$ 0.00 - 54.13	38.18
Options lapsed or canceled	(1,000)	56.00	56.00
Options exercised	(5,130)	0.00 - 22.88	5.53
Options outstanding, December 31, 1996:	58,654		40.32
Options granted	24,000	46.69 - 51.69	47.31
Options lapsed or canceled			
Options exercised	(4,931)	19.69 - 37.75	24.07
Options outstanding, December 31, 1997:	77,723		43.49
Options granted			
Options lapsed or canceled	-		-
Options exercised	(1,790)	19.69 - 37.75	21.65
Options outstanding, June 11, 1998	75,933		44.00
Compaq Options			
Options granted in the acquisition of Digital	150,997	9.90 - 39.23	22.03
Options granted	109,500	35.88	35.88
Options lapsed or canceled	(2,386)	36.71	36.71
Options exercised	(94,001)	9.90 - 23.48	20.69
Options outstanding, December 31, 1998	164,110		$ 31.82

The following table summarizes significant ranges of outstanding and exercisable options at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted Average Contractual Remaining Life (Years)	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
10.01 - 15.00	3,802	2.42	$ 11.50	3,802	$ 11.50
15.01 - 20.00	15,909	7.67	18.98	15,909	18.98
20.01 - 25.00	5,668	7.33	22.66	5,668	22.66
25.01 - 30.00	27,044	7.42	27.06	27,044	27.06
over 30.00	111,687	9.51	35.95	9,487	36.65
	164,110	8.74	$ 31.81	61,910	$ 19.48

The weighted average fair value per share of stock based compensation issued during the years ended December 31, 1996 and 1997 and during the period from June 12, 1998 through December 31, 1998 was $15.53, $17.23, and $13.53, respectively. There were no options issued during the period from January 1, 1998 to June 11, 1998. The fair value for these options was estimated using the Black-Scholes model with the following weighted average assumptions.

Assumptions Table:

	Predecessor			Business
	Year Ended December 31,		Period from January 1, 1998 Through June 11, 1998	Period from June 12, 1998 Through December 31, 1998
	1996	1997		
	Digital	Digital	Digital	Compaq
Expected option life (in years)	4	4	2	2
Risk-free interest rate	6.2%	6.3%	5.5%	4.6%
Volatility	35.0%	35.0%	35.0%	33.5%
Dividend yield	0.0%	0.0%	0.0%	0.2%

The table that follows summarizes the pro forma effect of net loss if the fair values of stock based compensation had been recognized in the period presented as compensation expense on a straight-line basis over the vesting period of the grant. The following pro forma effect on net loss for the periods presented is not representative of the pro forma effect on net loss in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1995.

(In thousands)

	Predecessor			Business
	Year Ended December 31,		Period from January 1, 1998 through June 11,	Period from June 12, 1998 through December 31,
	1996	1997	1998	1998
Net loss:				
As reported	$ (7,314)	$ (5,734)	$ (2,493)	$ (69,566)
Pro forma	(7,375)	(5,904)	(2,603)	(69,665)

NOTE 11 - SUBSEQUENT EVENTS:

ACQUISITIONS

Compaq acquired Shopping.com effective February 15, 1999. The aggregate purchase price of $256.9 million consisted primarily of $218.9 million in cash, the issuance of employee stock options with a fair value of $32 million and other acquisition costs.

Compaq also acquired Zip2 on April 1, 1999. The aggregate purchase price of $339.1 million consisted of $307.2 million in cash, the issuance of approximately 999,000 employee stock options with a fair value of $25.9 million and other acquisition costs.

Both acquisitions were intended to be included in the Business. On June 29, 1999, Compaq entered into a Purchase and Contribution Agreement (the "Purchase Agreement") with CMGI whereby Compaq agreed to effectively sell controlling interests in the Business including Zip2 and Shopping.com.

PROCUREMENT AND TRAFFICKING AGREEMENT WITH DOUBLECLICK

Effective January 1, 1999, the Agreement has been amended so that the Business could form its internal sales force to sell advertisements directly to advertisers. DoubleClick no longer has the exclusivity to sell advertisements on the Business's web site. DoubleClick only retains the exclusivity for delivering through its proprietary computer system the advertisements negotiated either by DoubleClick or by the Business. Under the new agreement, the Business is bearing substantially the entire economic risk of the transaction. This agreement is for a term of three years from the effective date and can be cancelled by either party with a 90 days notice period.

PREMIER SEARCH SERVICES AGREEMENT WITH MICROSOFT

The Search Services Agreement was amended in February 1999. Under the amended Search Services Agreement, Microsoft guaranteed a minimum number of impressions for a total consideration of $16.5 million. No additional payment is due if the number of impressions delivered exceeds the minimum number of impressions. A payment of $4.5 million has been made as of December 31, 1998. A second payment of $12 million is due after the effective date of the Search Services Agreement.

STOCK OPTION PLAN

On May 28, 1999, the Company adopted the AltaVista Company 1999 Stock Option Plan (the "Plan"). The Plan will be administered by a committee of the Board designated by the Board of Directors to administer the Plan and composed of individuals who are, to the extent necessary, "non-employee directors".

Subject to the terms of the Plan and applicable law, the committee will have the full authority to (a) designate participants; (b) determine the type, size, terms and conditions of awards made to participants; and (c) establish rules and regulations under and make any other determination necessary or desirable for the administration of the Plan. The number of shares with respect to which awards may be granted under the Plan is 20,000,000. As of June 29, 1999, there were 9,769,554 options outstanding under the Plan. Such options were issued at below fair market value. The corresponding compensation expense of approximately $169 million will be amortized over the vesting period from the date of grant.

AltaVista Business

Combined Financial Statements
March 31, 1999 and 1998

AltaVista Business

INDEX TO Combined FINANCIAL STATEMENTS

AltaVista Business
Combined Balance Sheets
(in thousands)

	December 31, 1998	March 31, 1999
		(unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ -	$ 2,586
Accounts receivable, net	12,819	13,070
Prepaid expenses	350	2,782
Total current assets	13,169	18,438
Property, plant and equipment, less accumulated depreciation	24,173	30,077
Goodwill and other intangible assets, net	226,488	468,205
Investments	500	13,980
Receivable from Compaq	-	9,805
Other noncurrent asset	-	560
Total assets	$ 264,330	$ 541,065
Liabilities and Owner's Net Investment		
Current liabilities:		
Long-term debt, current portion	$ 658	$ 1,170
Accounts payable	691	8,629
Salaries, wages and related items	455	527
Accrued partner fees	7,656	1,092
Deferred revenue	150	-
Other current liabilities	774	15,078
Capital lease obligation, current portion	-	248
Total current liabilities	10,384	26,744
Commitments and contingencies		
Long-term debt	1,656	1,429
Capital lease obligation	-	94
Net contribution from owner	321,856	633,054
Accumulated deficit	(69,566)	(120,256)
Owner's net investment	252,290	512,798
Total liabilities and owner's net investment	$ 264,330	$ 541,065

The accompanying notes are an integral part of these combined financial statements.

AltaVista Business
Combined Statements of Operations
(in thousands)

	Predecessor	Business
	Three Months Ended March 31, 1998	Three Months Ended March 31, 1999
	(unaudited)	(unaudited)
Advertising and service revenue	$ 6,514	$ 16,705
Product revenue	-	2,431
Total revenue	6,514	19,136
Cost of advertising and service revenue	1,514	5,200
Cost of product revenue	-	2,917
Total cost of revenue	1,514	8,117
Gross profit (loss)	5,000	11,019
Operating expenses:		
Sales and marketing	2,289	19,672
Product development	2,928	4,627
General and administrative	961	2,645
Amortization of intangible assets	-	34,667
Loss from operations	(1,178)	(50,592)
Interest expense	40	98
Loss before income taxes	(1,218)	(50,690)
Income taxes	-	-
Net loss	$ (1,218)	$ (50,690)

The accompanying notes are an integral part of these combined financial statements.

AltaVista Business
Combined Statement of Changes in Owner's Net Investment
(in thousands)

	Net Contribution from Owner	Accumulated Deficit	Total Owner's Net Investment
Balance, December 31, 1998	$ 321,856	$ (69,566)	$ 252,290
Net loss (unaudited)	-	(50,690)	(50,690)
Net contribution from owner (unaudited)	311,198	-	311,198
Balance, March 31, 1999 (unaudited)	$ 633,054	$ (120,256)	$ 512,798

The accompanying notes are an integral part of these combined financial statements.

AltaVista Business
Combined Statements of Cash Flows

	Predecessor	Business
	Three Months Ended March 31, 1998	Three Months Ended March 31, 1999
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net loss	$ (1,218)	$ (50,690)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	973	36,266
Provision for bad debts and concessions	457	1,181
Changes in operating assets and liabilities:		
Accounts receivable	(1,823)	(699)
Prepaid expenses	(266)	(2,050)
Receivable from Compaq	-	(9,805)
Accounts payable	(498)	772
Salaries, wages and related items	321	72
Deferred revenue	-	(150)
Other current liabilities	(200)	(5,468)
Net cash used in operating activities	(2,254)	(30,571)
Cash flows from investing activities:		
Purchase of investments	-	(13,480)
Purchases of property and equipment	(2,734)	(5,585)
Cash used in business combination, net of cash received	-	(224,193)
Net cash used in investing activities	(2,734)	(243,258)
Cash flows from financing activities:		
Repayment of long-term debt	-	(2,715)
Change in contribution from owner	4,988	279,130
Net cash provided by financing activities	4,988	276,415
Net increase in cash	-	2,586
Cash at beginning of period	-	-
Cash and cash equivalents at end of period	$ -	$ 2,586
Non-cash investing activities:		
Owner's stock options issued for acquisition	$ -	$ 32,068

The accompanying notes are an integral part of these combined financial statements.

Note 1 - Basis of Presentation and Summary of Significant Accounting Policies:

Basis of presentation

On June 29, 1999, Compaq Computer Corporation ("Compaq") announced it entered into an agreement to sell to CMGI, Inc. ("CMGI") AltaVista and its related properties, including Shopping.com and Zip2 (the "AltaVista Business"). The AltaVista Business provides search and navigation technology and personalized e-Commerce offerings and local content trough an integrated network of new media and e-Commerce partners.

The AltaVista Business operations were conducted by AltaVista, a division of Digital Equipment Corporation ("Digital") through June 11, 1998 and of Compaq thereafter, throughout the period covered by the Combined Financial Statements and by Shopping.com, a wholly owned subsidiary of Compaq, from the date of its acquisition. The combined financial statements of the AltaVista Business are derived from the historic books and records of Shopping.com, from the historic books and records of Digital through June 11, 1998, and from the historical books and records of Compaq thereafter as a result of the acquisition of Digital by Compaq.

The AltaVista Business has incurred recurring losses from operations through March 31, 1999. Compaq has committed to provide the funds required for the conduct of the Business's operations at least through December 31, 1999 or to the date, if earlier, on which it ceases to be the controlling shareholder. The historical operating results may not be indicative of future results.

Principles of consolidation

Effective February 15, 1999, Compaq completed a cash tender offer for Shopping.com, an online retailer that offers users an array of consumer products to buy. This acquisition is intended to be included in the AltaVista Business. Accordingly, Shopping.com is included in these combined financial statements from the date of acquisition. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash

Cash received from operations by the AltaVista Business is swept by Compaq or Digital and recorded as reductions of net contribution from owner; disbursements made by Compaq or Digital on behalf of the AltaVista Business are recorded as increases to net contribution from owner.

Effective as of the date of the acquisition of Shopping.com, these combined financial statements include the cash and cash equivalent balances carried by Shopping.com. The AltaVista Business considers all highly-liquid investments of Shopping.com with an original maturity of three months or less to be cash equivalents.

Revenue recognition

The AltaVista Business's revenues are derived primarily from short-term advertising contracts negotiated by DoubleClick in accordance with the terms of the Procurement and Trafficking Agreement (the "Agreement"). The AltaVista Business recorded as revenues its contractual percentage of the total revenues generated from the delivery of advertisements. Effective January 1, 1999, the AltaVista Business renegotiated the Agreement whereby the AltaVista Business is bearing the economic risk of the advertising transactions. Accordingly, the AltaVista Business now records the full sales amount as revenue upon delivery of advertisements. The amount payable to DoubleClick is reported as selling and marketing expenses.

Pursuant to the acquisition of Shopping.com, these combined financial statements include revenues resulting from the sales of consumer products. The AltaVista Business recognizes revenue for such transactions at the time the vendor ships the product to the customer. The AltaVista Business provides an allowance for sales returns based on historical experience. To date, the Business' sales returns have not been material.

Intangible assets

Intangible assets consist of trademarks and goodwill resulting from the "pushdown" of the fair market value of the intangible assets attributable to the AltaVista Business as recorded on Compaq's books as part of the acquisition of Digital and from the acquisition of Shopping.com. Intangible assets are being amortized on a straight-line basis over their estimated useful lives of three years.

Impairment of long-lived assets

The AltaVista Business reviews for the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The Alta Vista Business has not identified any such impairment losses.

Investments

Starting in 1998, Compaq obtained equity interests in several privately held companies which are intended to be included in the AltaVista Business. These investments resulted in the AltaVista Business owning less than 20% of the respective investees and, accordingly, are accounted for under the cost method. These investments were purchased recently, therefore, their carrying values approximate fair values. For these non-quoted investments, the AltaVista Business's policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. The AltaVista Business identifies and records impairment losses on long lived assets when events and circumstances indicate that such assets might be impaired. To date, no such impairment has been recorded.

Interim results

The interim combined financial statements as of March 31, 1999 and for the three months ended March 31, 1998 and 1999, have been prepared on the same basis as the financial statements as of December 31, 1998 and for the period from January 1, 1998 to June 11, 1998 and from June 12, 1998 to December 31, 1998, respectively, and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the AltaVista Business' financial position, results of operations and cash flows as of March 31, 1999 and for the three months ended March 31, 1998 and 1999. The results for the three months ended March 31, 1999 are not necessarily indicative of the results to be expected for the year ending December 31, 1999.

Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The new standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The AltaVista Business does not expect SFAS No. 133 to have a material effect on its financial position or results of operations.

Note 2 - Acquisitions:

Compaq acquisition

On June 11, 1998, Compaq consummated its acquisition of Digital. The purchase price was allocated to the assets acquired and liabilities assumed related to the Business based on Compaq's estimates of fair value. The fair value assigned to intangible assets acquired was based on a valuation prepared by an independent third party appraisal company and included intangibles aggregating $274.1 million (goodwill of $255.6 million and trademark of $18.5 million).

Shopping.com acquisition

Effective February 15, 1999, Compaq completed its acquisition of Shopping.com which is intended to be contributed to the AltaVista Business. The aggregate purchase price of $256.9 million consisted of $218.9 million in cash, the issuance of employee stock options with a fair value of $32 million and other acquisition costs. The transaction was accounted for under the purchase method of accounting. The results of operations of the acquired entity and the estimated fair market values of the acquired assets and liabilities have been included in the AltaVista Business's combined financial statements from the date of acquisition. The aggregate purchase price including liabilities assumed has been allocated to the assets acquired, consisting primarily of goodwill of approximately $271 million that is being amortized over a three year period. The purchase price allocation was based on the results of an independent third party appraisal.

At the time of the acquisition by Compaq, Shopping.com was a defendant in various litigation matters for which Compaq agreed to assume any ultimate liability for such matters. Any unrecorded costs incurred in connection with resolving these matters will, if incurred within one year of the acquisition, be added to the purchase accounting allocation or if incurred thereafter, charged to expense. An equal amount will be recorded as a capital contribution from Compaq.

The following unaudited pro forma consolidated amounts give effect to the acquisition of the AltaVista Business and the subsequent acquisition of Shopping.com as if they occurred on January 1, 1998:

	Year Ended December 31, 1998	Three Months Ended March 31, 1999
Net revenues	$ 45,261	$ 22,338
Net loss	$ 279,941	$ 68,820

CMGI acquisition

On June 29, 1999, Compaq entered into a Purchase and Contribution Agreement (the "Purchase Agreement") whereby Compaq agreed to effectively sell controlling interests in the AltaVista Business, including Shopping.com.

Note 3 - Intangible Assets:

	March 31, 1999
Goodwill	$ 526,284
Trademarks	20,000
Purchased URL sites	3,422
Other	4,200
	553,906
Less: accumulated amortization	85,701
	$ 468,205

Note 4 - Investments:

In December 1998, Compaq purchased on behalf of the Business 500,000 shares of Series B preferred stock of Centraal Corporation ("Centraal"). The total consideration paid of approximately $500,000 resulted in the AltaVista Business owning less than 20% of the investee.

In January 1999, Compaq purchased on behalf of the Business 2,023,635 shares of Series D preferred stock of Virage, Inc. ("Virage"). The total consideration paid of approximately $3,480,000 resulted in the AltaVista Business owning less than 20% of the investee.

In March 1999, Compaq purchased on behalf of the Business 2,000,000 shares of Series B preferred stock of Free PC.com for approximately $10,000,000.

Pursuant to the Purchase Agreement, these three investments are intended to be included in the AltaVista Business.

Note 5 - Subsequent Events:

Compaq acquired Zip2 on April 1, 1999. The aggregate purchase price of $339.1 million consisted of $307.2 million in cash, the issuance of employee stock options with a fair value of $25.9 million and other acquisition costs. Pursuant to the Purchase Agreement, Zip2 is intended to be included in the AltaVista Business.

EXHIBIT 99.2

Zip2 Corporation

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1998

ZIP2 CORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Zip2 Corp.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Zip2 Corp. and its subsidiary at December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

San Jose, California
April 2, 1999

ZIP2 CORP.
CONSOLIDATED BALANCE SHEET

	December 31, 1997	December 31, 1998	March 31, 1999 (unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 22,367,000	$ 16,028,000	$ 12,435,000
Accounts receivable, net of allowance of $130,000 and $180,000	704,000	956,000	994,000
Receivable from Compaq	-	-	1,585,000
Prepaid expenses and other current assets	878,000	466,000	511,000
Total current assets	23,949,000	17,450,000	15,525,000
Property and equipment, net	2,954,000	3,638,000	3,497,000
Goodwill, net	577,000	180,000	153,000
Other assets	460,000	535,000	812,000
	$ 27,940,00	$ 21,803,000	$ 19,987,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 390,000	$ 980,000	$ 348,000
Accrued liabilities	875,000	2,260,000	2,575,000
Deferred revenue	2,878,000	6,511,000	7,744,000
Notes payable, current	250,000	1,645,000	187,000
Payable to Compaq	-	-	7,883,000
Capital lease obligations, current	393,000	1,078,000	1,159,000
Total current liabilities	4,786,000	12,474,000	19,896,000
Notes payable, long-term	263,000	5,058,000	-
Capital lease obligations, long-term	1,219,000	2,600,000	2,716,000
	6,268,000	20,132,000	22,612,000
Commitments (Note 7)			
Shareholders' Equity:			
Convertible Preferred Stock, $0.001 par value; issuable in series; aggregate liquidation amount $40,539,000; 12,000,000 shares authorized; 9,412,112 shares issued and outstanding at December 31, 1997 and 1998	9,000	9,000	9,000
Common Stock: $0.001 par value; 20,000,000 shares authorized; 4,956,552 and 4,967,947 shares issued and outstanding at December 31, 1997 and 1998	5,000	5,000	7,000
Additional paid-in capital	40,088,000	54,621,000	61,008,000
Notes receivable from shareholders	(184,000)	(323,000)	(2,065,000)
Unearned compensation	-	(12,620,000)	(14,492,000)
Accumulated deficit	(18,246,000)	(40,021,000)	(47,092,000)
Total shareholders' equity	21,672,000	1,671,000	(2,625,000)
	$ 27,940,000	$ 21,803,000	$ 19,987,000

The accompanying notes are an integral part of these consolidated financial statements.

ZIP2 CORP.
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,			Three Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Net revenues:					
Service	$ -	$ 2,033,000	$ 4,058,000	$ 1,020,000	$ 1,953,000
Advertising	-	61,000	910,000	42,000	329,000
Total net revenues	-	2,094,000	4,968,000	1,062,000	2,282,000
Costs and expenses:					
Cost of service revenues	-	3,084,000	9,468,000	1,895,000	3,255,000
Sales and marketing	1,430,000	7,661,000	9,184,000	2,647,000	1,722,000
Product development	1,703,000	3,475,000	4,426,000	1,065,000	1,282,000
General and administrative	847,000	2,567,000	4,105,000	707,000	1,092,000
Total costs and expenses	3,980,000	16,787,000	27,183,000	6,314,000	7,351,000
Loss from operations	(3,980,000)	(14,693,000)	(22,215,000)	(5,252,000)	(5,069,000)
Interest Income	63,000	478,000	684,000	180,000	-
Interest and other expense	(10,000)	(63,000)	(244,000)	-	(2,002,000)
Net loss	$(3,927,000)	$(14,278,000)	$(21,775,000)	$(5,072,000)	$(7,071,000)

The accompanying notes are an integral part of these consolidated financial statements.

ZIP2 CORP.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Convertible Preferred Stock		Common Stock		Additional
	Shares	Amount	Shares	Amount	Paid-in Capital
Balances at December 31, 1995	-	$ -	2,189,600	$ 2,000	$ 16,000
Sale of Common Stock for cash and conversion of notes payable	-	-	284,350	-	29,000
Sale of Series A Preferred Stock for cash and conversion of notes payable, net	3,734,732	4,000	-	-	3,571,000
Sale of Series B Preferred Stock for cash and conversion of notes payable, net	2,420,600	2,000	-	-	12,049,000
Exercise of stock options for cash and notes receivable	-	-	1,706,086	2,000	170,000
Net loss	-	-	-	-	-
Balances at December 31, 1996	6,155,332	6,000	4,180,036	4,000	15,835,000
Sale of Series B Preferred Stock for cash, net	50,000	-	-	-	236,000
Pantheon acquisition, net	-	-	501,167	1,000	230,000
Sale of Series C Preferred Stock for cash and conversion of notes payable, net	3,206,780	3,000	-	-	23,697,000
Exercise of stock options for cash and notes receivable	-	-	275,349	-	90,000
Net loss	-	-	-	-	-
Balances at December 31, 1997	9,412,112	9,000	4,956,552	5,000	40,088,000
Exercise of stock options for cash and notes receivable	-	-	1,182,122	1,000	806,000
Issuance of warrants in conjunction with subordinated debt	-	-	-	-	560,000
Repurchases of unvested common stock	-	-	(1,170,727)	(1,000)	(527,000)
Unearned compensation	-	-	-	-	13,694,000
Amortization of unearned compensation	-	-	-	-	-
Net loss	-	-	-	-	-
Balances at December 31, 1998	9,412,112	9,000	4,967,947	5,000	54,621,000
Exercise of stock options for cash and notes receivable	-	-	1,993,976	2,000	1,954,000
Unearned compensation	-	-	-	-	2,874,000
Amortization of unearned compensation	-	-	-	-	-
Exercise of warrants in conjunction with subordinated debt	142,921	-	-	-	1,310,000
Exercise of warrants	-	-	101,532	-	271,000
Repurchases of unvested common stock	-	-	(80,436)	-	(22,000)
Payment for notes receivable	-	-	-	-	-
Net loss	-	-	-	-	-
Balances at March 31, 1999 (unaudited)	9,555,033	$ 9,000	6,983,019	$ 7,000	$61,008,000

	Notes Receivable from Shareholders	Unearned Compensation	Accumulated Deficit	Total Shareholders' Equity
Balances at December 31, 1995	$ -	$ -	$ (41,000)	$ (23,000)
Sale of Common Stock for cash and conversion of notes payable	-	-	-	29,000
Sale of Series A Preferred Stock for cash and conversion of notes payable, net	-	-	-	3,575,000
Sale of Series B Preferred Stock for cash and conversion of notes payable, net	-	-	-	12,051,000
Exercise of stock options for cash and notes receivable	(137,000)	-	-	35,000
Net loss	-	-	(3,927,000)	(3,927,000)
Balances at December 31, 1996	(137,000)	-	(3,968,000)	11,740,000
Sale of Series B Preferred Stock for cash, net	-	-	-	236,000
Pantheon acquisition, net	-	-	-	231,000
Sale of Series C Preferred Stock for cash and conversion of notes payable, net	-	-	-	23,700,000
Exercise of stock options for cash and notes receivable	(47,000)	-	-	43,000
Net loss	-	-	(14,278,000)	(14,278,000)

Balances at December 31, 1997	(184,000)	-	(18,246,000)	21,672,000
Exercise of stock options for cash and notes receivable	(270,000)	-	-	537,000
Issuance of warrants in conjunction with subordinated debt	-	-	-	560,000
Repurchases of unvested common stock	131,000	-	-	(397,000)
Unearned compensation	-	(13,694,000)	-	-
Amortization of unearned compensation	-	1,074,000	-	1,074,000
Net loss	-	-	(21,775,000)	(21,775,000)
Balances at December 31, 1998	(323,000)	(12,620,000)	(40,021,000)	1,671,000
Exercise of stock options for cash and notes receivable	(1,851,000)	-	-	105,000
Unearned compensation	-	(2,874,000)	-	-
Amortization of unearned compensation	-	1,002,000	-	1,002,000
Exercise of warrants in conjunction with subordinated debt	-	-	-	1,310,000
Exercise of warrants	-	-	-	271,000
Repurchases of unvested common stock	6,000	-	-	(16,000)
Payment for notes receivable	103,000	-	-	103,000
Net loss	-	-	(7,071,000)	(7,071,000)
Balances at March 31, 1999 (unaudited)	$(2,065,000)	$(14,492,000)	$(47,092,000)	$(2,625,000)

ZIP2 CORP.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,			Three Months Ended March 31,	
	1996	1997	1998	1998	1999
				(unaudited)	
Cash flows from operating activities:					
Net loss	$ (3,927,000)	$ (14,278,000)	$ (21,775,000)	$(5,072,000)	$(7,071,000)
Adjustments to reconcile net loss to net cash used in operating activities:					
Provision for doubtful accounts	-	130,000	50,000	-	-
Depreciation and amortization	36,000	630,000	2,471,000	320,000	550,000
Amortization of unearned compensation	-	-	1,074,000	268,000	1,002,000
Changes in assets and liabilities, net of effect of Pantheon acquisition:					
Accounts receivable	-	(659,000)	(302,000)	(646,000)	(38,000)
Receivable from Compaq	-	-	-	-	(1,585,000)
Prepaid expenses and other current assets	(470,000)	(366,000)	412,000	(137,000)	(45,000)
Other assets	(199,000)	(258,000)	(75,000)	229,000	(277,000)
Accounts payable	491,000	(307,000)	590,000	(73,000)	(632,000)
Accrued liabilities	457,000	163,000	1,385,000	112,000	315,000
Payable to Compaq	-	-	-	-	1,427,000
Deferred revenue	521,000	2,131,000	3,633,000	681,000	1,233,000
Net cash used in operating activities	(3,091,000)	(12,814,000)	(12,537,000)	(4,318,000)	(5,121,000)
Cash flows used in investing activities for acquisition of property and equipment	(742,000)	(1,138,000)	(26,000)	(15,000)	-
Cash flows from financing activities:					
Proceeds from issuance of Preferred Stock, net	15,626,000	23,936,000	-	-	1,870,000
Proceeds from issuance of Common Stock, net	35,000	28,000	140,000	18,000	494,000
Proceeds from notes payable	609,000	141,000	7,000,000	-	-
Repayment of notes payable	(11,000)	(226,000)	(250,000)	(245,000)	(589,000)
Repayment of capital lease obligations	-	(30,000)	(666,000)	742,000	(247,000)
Proceeds from shareholder notes receivable	-	15,000	-	-	-
Net cash provided by financing activities	16,259,000	23,864,000	6,224,000	515,000	1,528,000
Net increase (decrease) in cash and cash equivalents	12,426,000	9,912,000	(6,339,000)	(3,818,000)	(3,593,000)
Cash and cash equivalents at beginning of year	29,000	12,455,000	22,367,000	22,367,000	16,028,000
Cash and cash equivalents at end of year	$ 12,455,000	$ 22,367,000	$ 16,028,000	$18,549,000	$12,435,000
Supplemental disclosure of cash flow information:					
Cash paid for interest	$ 8,000	$ 63,000	$ 243,000		
Supplemental schedule of noncash investing and financing activities:					
Capital leases for equipment	$ -	$ 1,642,000	$ 2,732,000		
Common Stock for Pantheon acquisition	$ -	$ 231,000	$ -		
Common Stock for notes receivable, net	$ 137,000	$ 47,000	$ 139,000		
Notes payable converted to Preferred and Common Stock	$ 29,000	$ -	$ -		

The accompanying notes are an integral part of these financial statements.

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

THE COMPANY

Zip2 Corp., ("Zip2" or the "Company"), was incorporated in California on November 6, 1995. Through a comprehensive suite of Web development solutions and service offerings, the Company supports the delivery of localized editorial content, consumer information and advertising products by newspapers and other local media companies.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Zip2 Bay Area, Inc. ("Zip2 Bay Area"). Zip2 Bay Area was sold in August 1998. All intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity from date of purchase of three months or less to be cash equivalents. At December 31, 1997 and 1998, cash equivalents were composed primarily of investments in U.S. Treasury Bills, commercial paper and money market accounts stated at cost, which approximates fair value.

PROPERTY AND EQUIPMENT

Property and equipment, including leasehold improvements, are stated at cost net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three years. Leasehold improvements and assets acquired under capital lease obligations are amortized over the shorter of the estimated useful lives of the assets or the remaining lease term.

GOODWILL

Goodwill arising from the acquisition of Pantheon III, Inc. is being amortized using the straight-line method over three years from the acquisition date. At each balance sheet date, the Company measures whether any impairment exists with respect to the carrying amount of goodwill based upon the undiscounted value of expected future cash flows from the acquired business.

REVENUE RECOGNITION

The Company derives, or expects to derive, revenues from the delivery of Web development solutions, Web software applications hosting, technical and sales-related consulting services and from a share of advertising revenues generated by newspaper and other local media customers.

Revenues from the delivery of Web development solutions combined with consulting, Web hosting and other continuing service obligations are recognized ratably as service revenues over the contract terms which range from one to six years. Revenues from technical and sales-related consulting services are recognized as services are provided. Provisions for contract adjustments and losses are recorded in the period such items are identified. Deferred revenues represent the amount of cash received or invoices rendered prior to revenue recognition. Revenues from contractual rights to share in advertising revenues generated by newspaper and other local media customers are recognized as advertising revenues as the fees are earned and become receivable from the customer. Amounts payable due to newspaper and other local media customers from contractual rights to share in advertising revenues generated by the Company are recognized as costs of revenues in the period the related revenues are earned.

PRODUCT DEVELOPMENT COSTS

The Company accounts for product development costs in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." After technological feasibility is established using the "working model" approach, product development costs are capitalized. The capitalized costs are then amortized on a straight-line basis over the estimated product life or on the ratio of current revenues to total projected product revenue, whichever is greater. Since inception, the amount of costs qualifying for capitalization has been immaterial and as a result, all product development costs have been expensed as incurred.

STOCK-BASED COMPENSATION

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of APB No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock Based Compensation," ("SFAS No. 123"). Under APB No. 25, compensation cost is recognized based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock.

ADVERTISING COSTS

Advertising costs are expensed as incurred in accordance with SOP 93-7, "Reporting on Advertising." Advertising costs for the years ended December 31, 1996, 1997 and 1998, totaled $288,000, $519,000 and $969,000, respectively.

INCOME TAXES

Income taxes are accounted for using an asset and liability approach in accordance with SFAS No. 109, "Accounting for Income Taxes." The asset and liability approach requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The measurement of current and deferred tax liabilities and assets are based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consists primarily of cash and cash equivalents and accounts receivable. The Company limits its exposure to credit loss by depositing its cash and cash equivalents with financial institutions that management believes are of high credit quality. The Company believes that the risk associated with accounts receivable is mitigated, to some extent, by the fact that the Company's customer base is geographically dispersed and is composed primarily of large newspaper and other local media companies that management believes are financially secure.

During the year ended December 31, 1997, approximately 51% of the Company's net revenues were derived from one customer that holds shares of the Company's Series B and Series C Preferred Stock. At December 31, 1997, approximately 29% and 15% of accounts receivable, net, were due from two customers that hold shares of the Company's Series B and Series C Preferred Stock.

During the year ended December 31, 1998, two customers that hold shares of the Company's Preferred Stock accounted for 11% and 10% of net revenue, respectively. At December 31, 1998, one customer that holds shares of the Company's series B and Series C Preferred Stock accounted for 29% of accounts receivable, net.

COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. To date, the Company has not had any significant transactions that are required to be reported in comprehensive income.

SEGMENT INFORMATION

Effective January 1, 1998, the Company adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company operates in a single business segment that provides Web development solutions. The adoption of SFAS No. 131 did not have a material impact on the Company's financial statement disclosure.

INTERIM RESULTS (UNAUDITED)

The interim consolidated financial information as of March 31, 1999 and for the three months ended March 31, 1998 and 1999, have been presented on the same basis as the consolidated financial statements as of and for the year ended December 31, 1998, and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations, cash flows and shareholders' equity as of March 31, 1999 and for the three months ended March 31, 1998 and 1999. The results for the three months ended March 31, 1999 are not necessarily indicative of the results to be expected for the year ending December 31, 1999.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 1999, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 provides guidance over accounting for computer software developed or obtained for internal use including the requirement to capitalize specified costs and amortization of such costs. The Company will adopt the provisions of SOP 98-1 in its fiscal year ending December 31, 1999, and does not expect adoption to have a material impact on its financial position or results of operations.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivatives and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards of derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company will adopt SFAS No. 133 in its fiscal year ending December 31, 1999 and does not expect adoption to have a material impact on its financial position and results of operations.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). Start-up activities are defined broadly as those one-time activities related to opening a new facility, introducing a new product or service, commencing some new operation or organizing a new entity. Under SOP 98-5, the cost of start-up activities should be expensed as incurred. SOP 98-5 is effective for the Company beginning January 1, 1999 and the Company does not expect its adoption to have a material effect on its financial position or results of operations.

NOTE 2 - BALANCE SHEET COMPONENTS:

	December 31, 1997	December 31, 1998
Property and equipment, net:		
Computer equipment and software	$3,240,000	$5,859,000
Furniture and fixtures	65,000	68,000
Leasehold improvements	222,000	358,000
	3,527,000	6,285,000
Less: Accumulated depreciation and amortization	(573,000)	(2,647,000)
	$2,954,000	$3,638,000

At December 31, 1997 and 1998, property and equipment includes $1,642,000 and $4,374,000 of computer equipment, furniture and fixtures and leasehold improvements acquired under capital lease obligations, respectively. Accumulated amortization of assets under capital lease obligations totaled $164,000 and $1,371,000 at December 31, 1997 and 1998, respectively.

	December 31, 1997	December 31, 1998
Accrued liabilities:		
Payroll and related expenses	$ 608,000	$ 542,000
Accrued advertising	-	855,000
Other	267,000	863,000
	$ 875,000	$2,260,000

NOTE 3 - ACQUISITION:

PANTHEON III, INC. ACQUISITION

In July 1997, the Company acquired all of the outstanding stock of Pantheon III, Inc. ("Pantheon"), a Washington corporation involved in the development, marketing and support of data conversion software applications for the newspaper industry. The consideration for the acquisition totaled $907,000 and was composed of 501,167 shares of the Company's Common Stock, the assumption of outstanding Pantheon warrants and options in exchange for 59,166 and 45,145 warrants and options, respectively, to purchase the Company's Common Stock, assumption of Pantheon liabilities totaling $535,000 and direct acquisition costs totaling $130,000. The acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed on the basis of their fair values on the acquisition date, with the excess of $675,000 being allocated to goodwill. During the years ended December 31, 1997 and 1998, goodwill amortization totaled $98,000 and $396,000, respectively, including an impairment charge of $181,000 in 1998.

NOTE 4 - RELATED PARTY TRANSACTIONS:

The Company conducts a substantial portion of its business with newspapers and other local media companies that have also made strategic investments in the Company's Preferred Stock. The terms of such arrangements have historically been negotiated in parallel with negotiations for the purchase of Preferred Stock and may not necessarily reflect terms that would have resulted from negotiations with unrelated third parties.

During the years ended December 31, 1996, 1997 and 1998, service revenues derived from customers that also hold shares of the Company's outstanding Preferred Stock totaled $0, $1,224,000 and $1,861,000, respectively. During the years ended December 31, 1996, 1997 and 1998, advertising revenues derived from customers that also hold shares of the Company's outstanding Preferred Stock amounted to $0, $34,000 and $232,000, respectively.

In August 1998, the Company discontinued the operations of Zip2 Bay Area and sold certain Zip2 Bay Area assets for a nominal amount to a holder of outstanding Preferred Stock. The loss on the sale was immaterial.

NOTE 5 - INCOME TAXES:

Deferred tax assets, related primarily to net operating loss carryforwards, amounted to approximately $5,000,000 and $13,000,000 at December 31, 1997 and 1998, respectively. Valuation allowances have been provided in amounts equal to the assets because management believes that, based on a number of factors, it is more likely than not that the deferred tax assets will not be realized.

At December 31, 1998, the Company had approximately $30,000,000 of federal net operating loss carryforwards available to offset future taxable income which expire in varying amounts beginning in 2011. Under the Tax Reform Act of 1986, the amounts of and benefits from net operating loss carryforwards may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50%, as defined, over a three year period.

NOTE 6 - BORROWINGS:

NOTES PAYABLE

During 1996 and 1997, the Company issued notes payable to a financing company totaling $609,000 and $141,000, respectively. These notes payable are secured by certain computer equipment of the Company. In connection with the issuance of the notes payable during 1996, the Company granted the financing company warrants to purchase 46,812 shares of the Company's Series A Preferred Stock with an exercise price of $3.65 per share. The warrants expire on the later of August 2006 or five years following an initial public offering and had a nominal fair value on the date of the grant.

SUBORDINATED DEBT

In December 1998, the Company entered into a loan and security agreement with two holders of the Company's warrants and an unrelated party and issued subordinated notes totaling $7,000,000. Under the terms of the agreement, the notes bear interest at 12.75% per year and are secured by the Company's assets. In conjunction with the subordinated debt, warrants to purchase 136,897 shares of the Company's Series C Preferred Stock with an exercise price of $7.67 per share were issued to the note holders. The warrants expire on the later of seven years after the date of grant or three years after the closing of the Company's initial public offering. The warrants had an estimated fair value of $560,000 on the date of grant, which will be amortized to interest expense over the term of the related debt.

At December 31, 1997 and 1998, outstanding borrowings consist of the following:

	December 31, 1997	December 31, 1998
8.6% note; principal and interest payable monthly; due October 31, 1999	$ 275,000	$ 130,000
8.7% note; principal and interest payable monthly; due December 1, 1999	124,000	65,000
9.3% note; principal and interest payable monthly; due April 30, 2000	114,000	68,000
12.75% note; principal and interest payable beginning July 1999; due December 2002	-	7,000,000
Less: Discount associated with warrants	-	(560,000)
	513,000	6,703,000
Less: Current portion	250,000	1,645,000
	$ 263,000	$5,058,000

Principal payments due under the notes payable are $1,645,000, $2,818,000 and $2,800,000 for 1999, 2000 and 2001, respectively.

EQUIPMENT LEASE LINE

During 1997 and 1998, the Company obtained certain equipment lease lines from a leasing company. At December 31, 1997 and 1998, obligations under these lease arrangements consist of the following:

	December 31, 1997	December 31, 1998
$3,000,000 equipment lease line; equal monthly installments through April 2002	$1,612,000	$2,430,000
$1,500,000 equipment lease line; equal monthly installments through December 2002	-	1,248,000
$2,000,000 euqipment lease line; expires December 1999	-	-
	1,612,000	3,678,000
Less: Current portion	393,000	1,078,000
	$1,219,000	$2,600,000

Under the terms of the 1997 lease lines, warrants to purchase 13,136 and 7,082 shares of the Company's Series B and Series C Preferred Stock with exercise prices of $5.00 and $7.67 per share, respectively, were issued to the leasing Company. The warrants expire on the later of August 2002 or five years following an initial public offering and had a nominal fair value on the date of grant. Under the terms of the 1998 lease lines, a warrant to purchase 18,253 shares of the Company's Series C Preferred Stock with an exercise price of $7.67 per share was issued to the leasing Company. The warrant expires on the shorter of five years from the date of grant or two years following an initial public offering and had a nominal fair value on the date of grant.

NOTE 7 - COMMITMENTS:

ROYALTY OBLIGATIONS

The Company has obligations to pay minimum royalties to various companies for mapping content. The minimum obligations under the royalty agreements total $440,000 and $35,000 for the years ending December 31, 1999 and 2000, respectively.

LEASES

The Company leases office space and equipment under noncancelable operating and capital leases with various expiration dates through October 2001. Rent expense for the years ended December 31, 1996, 1997 and 1998 totaled $77,000, $415,000 and $910,000, respectively.

At December 31, 1998, future minimum lease payments under noncancelable operating and capital leases are as follows:

Year Ending December 31,	Capital Leases	Operating Leases
1999	$ 1,338,000	$ 1,159,000
2000	1,340,000	1,131,000
2001	1,170,000	687,000
2002	359,000	137,000
Total minimum lease payments	4,207,000	$ 3,114,000
Less: Amount representing interest	(529,000)	
Present value of capital lease obligations	3,678,000	
Less: Current portion	(1,078,000)	
Long-term portion of capital lease obligations	$ 2,600,000	

CONTINGENCIES

From time to time, the Company is involved in certain litigation, claims and assessments arising in the normal course of business. The Company believes that any potential liability with respect to such routine litigation, claim or assessment, individually or in the aggregate, is not likely to be material to the Company's financial position, results of operations or cash flows.

NOTE 8 - CONVERTIBLE PREFERRED STOCK:

At December 31, 1998, Convertible Preferred Stock consists of the following:

Series	Shares Authorized	Shares Outstanding	Liquidation Amount	Proceeds Net of Issuance Costs
A	4,000,000	3,734,732	$ 3,590,000	$ 3,575,000
B	4,000,000	2,470,600	12,353,000	12,287,000
C	4,000,000	3,206,780	24,596,000	23,700,000
	12,000,000	9,412,112	$ 40,539,000	$ 39,562,000

The holders of Preferred Stock have various rights and preferences as follows:

VOTING

Each share of Series A, Series B and Series C has voting rights equal to an equivalent number of shares of Common Stock into which it is convertible and votes together as one class with the Common Stock.

As long as any shares of Convertible Preferred Stock remain outstanding, the Company must obtain approval from a majority of the holders of Convertible Preferred Stock in order to alter the articles of incorporation as related to Convertible Preferred Stock, change the authorized number of shares of Convertible Preferred Stock, repurchase any shares of Common Stock other than shares subject to the right of repurchase by the Company, change the authorized number of Directors, authorize a dividend for any class or series other than Convertible Preferred Stock, create a new class of stock or effect a merger, consolidation or sale of assets where the existing shareholders retain less than 50% of the voting stock of the surviving entity.

DIVIDENDS

Holders of Series A, B and C Convertible Preferred Stock are entitled to receive noncumulative dividends at the per annum rate of $0.09613, $0.5 and $0.767 per share, respectively, when and if declared by the Board of Directors. The holders of Series A, B and C Convertible Preferred Stock will also be entitled to participate in dividends on Common Stock, when and if declared by the Board of Directors, based on the number of shares of Common Stock held on an as-if converted basis. No dividends on Convertible Preferred Stock or Common Stock have been declared by the Board from inception through December 31, 1998.

LIQUIDATION

In the event of any liquidation, dissolution or winding up of the Company, including a merger, acquisition or sale of assets where the beneficial owners of the Company's Common Stock and Convertible Preferred Stock own less than 51% of the resulting voting power of the surviving entity, the holders of Series A, B and C Convertible Preferred Stock are entitled to receive an amount of $0.9613, $5.00 and $7.67 per share, respectively, plus any declared but unpaid dividends prior to and in preference to any distribution to the holders of Common Stock. Should the Company's legally available assets be insufficient to satisfy the liquidation preferences, the entire amount of assets will be distributed ratably to the holders of Series A, B and C Convertible Preferred Stock.

After the payment has been made to the holders of the Preferred Stock in full, the remaining legally available assets would be distributed ratably to the holders of Series A Preferred Stock and the holders of Common Stock.

CONVERSION

Each share of Series A, B and C Convertible Preferred Stock is convertible, at the option of the holder, according to a conversion ratio, subject to adjustment for dilution. Each share of Series A, B and C Convertible Preferred Stock automatically converts into the number of shares of Common Stock into which such shares are convertible at the then effective conversion ratio upon: 1) the closing of a public offering of Common Stock at a per share price of at least $10 per share with gross proceeds of at least $17,000,000 or 2) the consent of not less than two-thirds of the then holders of the majority of Convertible Preferred Stock, subject to the limitation that the holders of Series A Preferred Stock shall not be entitled to more than three times the Liquidation Preference.

At December 31, 1998, the Company had reserved 4,000,000, 4,000,000 and 4,000,000 shares of Common Stock for the conversion of Series A, B and C Convertible Preferred Stock, respectively.

NOTE 9 - COMMON STOCK:

The Company's Articles of Incorporation, as amended, authorize the Company to issue 20,000,000 shares of $0.001 par value Common Stock. A portion of the shares issued for notes receivable are subject to rights of repurchase by the Company that lapse generally over a four year period from the earlier of the purchase date or employee hire date, as applicable, until all restrictions lapse. At December 31, 1998, there were 549,000 shares of Common Stock subject to repurchase.

NOTE 10 - STOCK OPTION PLANS:

In April 1996, the Company adopted the 1996 Stock Option Plan (the "1996 Plan"). The 1996 Plan provides for the granting of stock options to employees, consultants and directors of the Company. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to Company employees and consultants. The Company has reserved 3,093,336 shares of Common Stock for issuance under the 1996 Plan.

In September 1997, the Company adopted the 1997 Stock Option Plan (the "1997 Plan"). The 1997 Plan provides for the granting of stock options to employees, consultants and directors of the Company. Options granted under the 1997 Plan may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to Company employees and consultants. The Company has reserved approximately 600,000 shares of Common Stock for issuance under the 1997 Plan.

Options under the 1996 and 1997 Plans may be granted for periods of up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors, provided, however, that (i) the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively, and (ii) the exercise price of an ISO and NSO granted to a 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant, respectively. Options are exercisable immediately subject to repurchase options held by the Company which lapse over a maximum period of ten years at such times and under such conditions as determined by the Board of Directors. To date, options granted generally vest over four years.

The following table summarizes stock option activity under the Company's stock option plans:

	Year Ended December 31,					
	1996		1997		1998	
	Options Outstanding	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	-	$ -	87,500	$ 0.10	808,095	$ 0.46
Granted	1,834,686	0.10	1,209,299	0.25	3,175,204	1.07
Assumed in Pantheon acquisition	-	-	45,145	3.31	-	-
Exercised	(1,706,086)	0.10	(447,849)	0.16	(1,182,122)	0.70
Canceled	(41,100)	0.10	(86,000)	0.25	(325,885)	1.50
Outstanding at period end	87,500	0.10	808,095	0.46	2,475,292	0.99
Weighted average grant date fair value of options granted during the year		$ 0.04		$ 0.83		$ 4.26

At December 31, 1998, 1,064,031 options were available for grant under the Plans.

	Options Outstanding at December 31, 1998			Options Exercisable at December 31, 1998	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$ 0.10	20,000	7.59	$ 0.10	20,000	$ 0.10
0.25	112,968	8.50	0.25	109,968	0.25
0.40-$1.00	2,310,737	9.81	1.00	2,303,968	1.00
1.83-$3.66	31,587	7.72	3.39	31,587	3.39
	2,475,292	9.70	0.99	2,465,523	0.99

At December 31, 1998, approximately 267,000 options were vested.

UNEARNED STOCK-BASED COMPENSATION

In connection with certain stock option grants during the year ended December 31, 1998, the Company recognized unearned compensation totaling $13,694,000, which is being amortized over the four year vesting periods of the related options. Amortization expense recognized during the year ended December 31, 1998 totaled approximately $1,074,000.

MINIMUM VALUE DISCLOSURES

Had compensation cost for the Company's stock-based compensation plan been determined based on the minimum value method at the grant dates for the awards as prescribed by SFAS No. 123, the Company's net loss would have reflected an immaterial change.

The Company calculated the minimum value of each option grant on the date of grant using the Black-Scholes pricing method with the following assumptions: dividend yield at 0%; weighted average expected option term of five years; risk free interest rates of 6.2%, 6.2% and 5.4% for 1996, 1997 and 1998, respectively.

NOTES RECEIVABLE FROM SHAREHOLDERS

In connection with the issuance of Common Stock upon the exercise of stock options, notes receivable were received from certain officers and employees. These full-recourse notes, which accrue interest on unpaid balances at between 5.7% to 6.8% per annum and are secured by the related Common Stock, are due between 1999 and 2008. The Company may accelerate the amounts due, in part or in whole, upon certain events including termination of employment, payment default or sales of the pledged securities.

NOTE 11 - EMPLOYEE BENEFIT PLANS:

The Company sponsors a 401(k) defined contribution plan covering all employees. Contributions made by the Company are determined annually by the Board of Directors. There were no employer contributions under this plan during the years ended December 31, 1996, 1997 and 1998.

NOTE 12 - SUBSEQUENT EVENTS:

STOCK OPTION GRANTS

In January and February 1999, the Company granted to employees 201,000 options to purchase the Company's Common Stock at an exercise price of $1.00 per share. In connection with these stock option grants, the Company recognized unearned compensation totaling approximately $2,874,000, which is being amortized over the four year vesting periods of the related options.

MERGER WITH COMPAQ COMPUTER CORPORATION

On April 1, 1999, the Company consummated a merger agreement with Compaq Computer Corporation ("Compaq"). Under the terms of the merger agreement, each share of the Company's Convertible Preferred Stock and Common Stock was converted into the right to receive an amount per share equal to $307,000,000, divided by the number of issued and outstanding shares of Convertible Preferred Stock and Common Stock immediately prior to the consummation of the merger. Additionally, Compaq repaid the subordinated debt of the Company as part of the terms of the acquisition.

EXHIBIT 99.3

SHOPPING.COM
(A DEVELOPMENT STAGE COMPANY)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JANUARY 31, 1997

CONTENTS

JANUARY 31, 1997

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholder of
Shopping.com

We have audited the accompanying balance sheet of Shopping.com (a development stage company) as of January 31, 1997, and the related statements of operations, shareholders' deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shopping.com as of January 31, 1997, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company incurred a net loss of $201,697 and had negative cash flows from operations for the year ended January 31, 1997, and had a shareholders' deficit at January 31, 1997. These factors, among others, as discussed in Note 1 to the financial statements, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 6 to the financial statements, management of the Company discovered an error in the number of weighted-average shares outstanding, resulting in an understatement of previously reported loss per share.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
June 17, 1997, except for
Note 6, for which the
date is June 9, 1999

SHOPPING.COM
(A DEVELOPMENT STAGE COMPANY)
BALANCE SHEET
JANUARY 31, 1997

ASSETS

CURRENT ASSETS	
Cash	$ 63
Stock subscription receivable	23,000
Total current assets	23,063
FURNITURE AND EQUIPMENT, net	12,165
OTHER ASSETS	3,956
TOTAL ASSETS	$ 39,184

LIABILITIES AND SHAREHOLDERS' DEFICIT

CURRENT LIABILITIES	
Note payable - related party	$ 50,000
Accounts payable	35,986
Other accrued liabilities	31,845
Total current liabilities	117,831
COMMITMENTS	
SHAREHOLDERS' DEFICIT	
Preferred stock, Series A convertible, no par value 1,500,000 shares authorized no shares issued and outstanding	-
Preferred stock, Series B convertible, no par value 4,000,000 shares authorized no shares issued and outstanding	-
Common stock, no par value 4,000,000 shares authorized 1,152,500 shares issued and outstanding	123,050
Deficit accumulated during development stage	(201,697)
Total shareholders' deficit	(78,647)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 39,184

The accompanying notes are an integral part of these financial statements.

SHOPPING.COM
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JANUARY 31, 1997

OPERATING EXPENSES	$ 201,697
NET LOSS	$(201,697)
BASIC AND DILUTED LOSS PER SHARE	$ (0.18)
WEIGHTED-AVERAGE SHARES OUTSTANDING	1,152,500

The accompanying notes are an integral part of these financial statements.

SHOPPING.COM
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF SHAREHOLDERS' DEFICIT
FOR THE YEAR ENDED JANUARY 31, 1997

	Preferred Stock Series A Convertible		Preferred Stock Series B Convertible		Common Stock		Deficit Accumulated During Development Stage	Total
	Shares	Amount	Shares	Amount	Shares	Amount		
Balance, February 1, 1996	-	$ -	-	$ -	-	$ -	$ -	$ -
Issuance of common stock					1,152,500	23,050		23,050
Capital contributed by Cyber Depot, Inc. to purchase assets and develop proprietary software						100,000		100,000
Net loss							(201,697)	(201,697)
Balance, January 31, 1997	-	$ -	-	$ -	1,152,500	$ 123,050	$ (201,697)	$ (78,647)

The accompanying notes are an integral part of these financial statements.

SHOPPING.COM
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JANUARY 31, 1999

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$(201,697)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation of furniture and equipment	1,276
(Increase) decrease in	
Other assets	(3,956)
Increase (decrease) in	
Accounts payable	35,986
Other accrued liabilities	31,845
Net cash used in operating activities	(136,546)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of furniture and equipment	(13,441)
Net cash used in investing activities	(13,441)
CASH FLOWS FROM FINANCING ACTIVITIES	
Issuance of note payable - related party	50,000
Proceeds from the issuance of common stock	50
Capital contribution	100,000
Net cash provided by financing activities	150,050
Net increase in cash	63
CASH, BEGINNING OF YEAR	-
CASH, END OF YEAR	$ 63

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES
During the year ended January 31, 1997, the Company issued common stock in the amount of $23,000 for a subscription receivable.

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Line of Business

Shopping.com (the "Company") was incorporated in California on November 22, 1996. Cyber Depot, Inc. ("Cyber") was incorporated in California in January 1996 and among other business ventures commenced the design and development of proprietary software for the Internet shopping marketplace in February 1996. In March 1997, Cyber agreed to sell certain assets and liabilities and proprietary software to Shopping.com for 250,000 shares of Series A convertible preferred stock with warrants, and Shopping.com continued the design and development of the proprietary software. The operations of Cyber devoted to the design and development of the proprietary software are considered to be the predecessor operations of the Company and have been included with the operations of the Company since February 1996. The propriety software acquired by the Company in this transaction has been expensed as software research and development. The Company is engaged in the design and development of proprietary software for marketing a broad range of products and services to retail customers on the Internet. On July 11, 1997, the Company commenced selling products over the Internet through its website at http://www.shopping.com.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the Company as a going concern. However, the Company has experienced net losses of $201,697 for the year ended January 31, 1997. In addition, the Company has used, rather than provided, cash from its operations. In view of the matters described above, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn, is dependent upon the Company's ability to continue to meet its financing requirements and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Management has raised capital during 1997 through private placement offerings of equity and debt securities and completed an initial public offering ("IPO") in the latter part of 1997, which will provide sufficient funding to continue present operations and support future marketing and development activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

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

Revenue Recognition

The Company recognizes revenue at the time the vendor ships the product to the customer.

Net Loss Per Share

Net loss per share is based on the number of common shares issued in the initial capitalization of the Company.

Stock Subscription Receivable

At January 31, 1997, the Company had subscriptions to purchase its common stock of $23,000. This amount was collected subsequent to the balance sheet date; therefore, the amount is shown as an asset in the accompanying balance sheet.

Cash Equivalents

For the purpose of the statement of cash flows, the Company considers all highly-liquid investments purchased with original maturities of three months or less to be cash equivalents.

Furniture and Equipment

Furniture and equipment are recorded at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over estimated useful lives of three to 15 years as follows:

Computer hardware	5 years
Furniture and equipment	5 to 7 years

Maintenance and minor replacements are charged to expense as incurred. Gains and losses on disposals are included in the results of operations.

Advertising

The Company expenses advertising costs as incurred. There were no advertising costs for the year ended January 31, 1997.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Company utilizes Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

Fair Value of Financial Instruments

The Company measures its financial assets and liabilities in accordance with generally accepted accounting principles. For certain of the Company's financial instruments, including cash, accounts payable, and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities. The amounts shown for note payable also approximate fair value because current interest rates offered to the Company for debt of similar maturities are substantially the same.

Stock Options

The Financial Accounting Standards Board ("FASB") issued SFAS No. 123, "Accounting for Stock-Based Compensation," effective for fiscal years beginning after December 15, 1995. SFAS No. 123 establishes and encourages the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of grant and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current implicit value accounting method specified in Accounting Principles Bulletin ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation. The Company will use the implicit value based method and will be required to disclose the pro forma effect of using the fair value based method to account for its stock-based compensation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties

The Company's future revenues and any future profits are substantially dependent upon the widespread acceptance and use of the Internet and other online services as an effective medium of commerce by consumers. Rapid growth in the use of an interest in the Web, the Internet, and other online services is a recent phenomenon, and there can be no assurance that acceptance and use will continue to develop or that a sufficiently broad base of consumers will adopt, and continue to use, the Internet and other online services as a medium of commerce.

To remain competitive, the Company must continue to enhance and improve the responsiveness, functionality, and features of the Shopping.com online store. The Internet and the online commerce industry are characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies, and the emergence of new industry standards and practices that could render the Company's existing website and proprietary technology and systems obsolete. The Company's success will depend, in part, on its ability to license leading technologies useful in its business, enhance its existing services, develop new services and technology that address the increasingly sophisticated and varied needs of its prospective customers, and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

A significant barrier to online commerce and communications is the secure transmission of confidential information over public networks. The Company relies on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information, such as customer credit card numbers. There can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments will not result in a compromise or breach of the algorithms used by the Company to protect customer transaction data.

The online commerce market, particularly over the Internet, is new, rapidly evolving, and intensely competitive, which competition the Company expects to intensify in the future. Barriers to entry are minimal, and current and new competitors can launch new websites at a relatively low cost. The Company currently or potentially competes with a variety of other companies.

The Company carries no inventory, has no warehouse employees or facilities, and relies on rapid fulfillment from its vendors. To satisfy customer orders, the Company has no long-term contracts or arrangements with any of its manufacturers or distributors that guarantee the availability of merchandise, the continuation of particular payment terms, the extension of credit limits, or the shopping schedules.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties (Continued)

The Company regards its Shopping.com brand name and related software as proprietary and relies primarily on a combination of copyright, trademark, trade secret and confidential information laws, and employee and third party non-disclosure agreements and other methods to protect its proprietary rights. There can be no assurance that these protections will be adequate to protect against technologies that are substantially equivalent or superior to the Company's technologies. The Company does not currently hold any patents or have any patent applications pending for itself or its products and has not obtained federal registration for any of its trademarks.

Earnings per Share

The FASB issued SFAS No. 128, "Earnings Per Share," which is effective for financial statements issued for periods ending after December 31, 1997. SFAS No. 128 requires public companies to present basic loss per share and, if applicable, diluted loss per share instead of primary and fully-diluted loss per share.

NOTE 2 - FURNITURE AND EQUIPMENT

Furniture and equipment at January 31, 1997 consisted of the following:	
Computer hardware	$12,761
Furniture and equipment	680
	13,441
Less accumulated depreciation	1,276
TOTAL	$12,165

NOTE 3 - COMMITMENTS

Litigation

The Company is involved in certain litigation in the normal course of business. The Company does not believe that the resolution of any suit will result in any material adverse effect on the Company's financial position, results of operations, or cash flows.

NOTE 3 - COMMITMENTS (Continued)

Leases

The Company leases a facility for its corporate offices under a non-cancelable operating lease agreement that expires in 2002. Future minimum lease payments under this non-cancelable operating lease are as follows:

Year Ending January 31,	
1998	$ 75,489
1999	117,282
2000	125,798
2001	131,594
2002	137,390
Thereafter	40,565
TOTAL	$628,118

Rent expense was $13,451 for the year ended January 31, 1997.

NOTE 4 - NOTE PAYABLE - RELATED PARTY

The Company has a note payable to a related party which is personally guaranteed by an officer of the Company. In addition, the note is personally guaranteed by a vice president of the Company and secured by a second deed of trust on a residence owned by the vice president. The note accrues interest at the highest rate permitted by California law (approximately 11% at January 31, 1997) and is due 90 days from January 13, 1997.

Subsequent to year-end, $51,000 was repaid which includes accrued interest of $1,000.

NOTE 5 - INCOME TAXES

For the year ended January 31, 1997, the Company did not provide a provision for income taxes due to the net loss incurred. At January 31, 1997, the Company has approximately $98,000 and $49,000 in net operating loss carryforwards for federal and state income tax purposes, respectively, that expire in 2012 and 2002, respectively. The components of the Company's deferred tax assets and liabilities for income taxes consist of a deferred tax asset relating to the net operating loss carryforwards of approximately $36,000. The other components of the Company's deferred tax assets and liabilities are immaterial. The Company has established a valuation allowance of approximately $36,000 to fully offset its deferred tax asset as the Company does not believe the recoverability of this deferred tax asset is more likely than not.

NOTE 6 - RESTATEMENT

Loss per share and common shares outstanding have been restated to correct an error discovered by management in the computation of common shares outstanding.

NOTE 7 - SUBSEQUENT EVENTS (UNAUDITED)

Series A Convertible Preferred Stock

In March 1997, the Company issued 500,000 shares of Series A convertible preferred stock ("Series A Preferred") in connection with the acquisition of certain assets and liabilities and proprietary software developed by Cyber (see Note 1). The historical cost of the assets and liabilities and proprietary software acquired was approximately $100,000, which is the amount used to value the 500,000 shares of Series A Preferred. In April 1997, the Company sold 500,000 shares of Series A Preferred for a price of $0.40 per share. The holders of the Series A Preferred are entitled to receive a non-cumulative dividend of $0.04 per share per annum, payable in cash at the option of the Company.

Each share of Series A Preferred is convertible into shares of common stock at the option of the holder. In addition, Series A Preferred will be automatically converted into shares of common stock based upon the effective conversion price immediately upon the closing of an IPO of not less than $6,000,000.

The Series A Preferred has a liquidation preference of $0.40 per share, plus all declared and unpaid dividends prior to the payment of any amount to the holders of common stock.

NOTE 7 - SUBSEQUENT EVENTS (UNAUDITED) (CONTINUED)

Series A Convertible Preferred Stock (Continued)

Each holder of Series A Preferred was issued one warrant for every two shares of Series A Preferred to purchase a share of the Company's common stock for $3.00 per share, resulting in 375,000 warrants being issued. Based on the financial condition of the Company at the time the warrants were issued, management estimates that the fair value of the Company's common stock was less than the exercise price of the warrants.

Series B Convertible Preferred Stock

During May to September 1997, the Company sold 536,500 shares of Series B convertible preferred stock ("Series B Preferred") for a price of $3.00 per share. The holders of the Series B Preferred are entitled to receive a non-cumulative dividend of $0.30 per share per annum, payable in cash at the option of the Company.

Each share of Series B Preferred is convertible into shares of common stock at the option of the holder. In addition, Series B Preferred will be automatically converted into shares of common stock based upon the effective conversion price immediately upon the closing of an IPO of not less than $6,000,000.

The Series B Preferred has a liquidation preference of $3.00 per share, plus all declared and unpaid dividends prior to the payment of any amount to the holders of common stock.

Each holder of Series B Preferred was issued one warrant for every two shares of Series B Preferred to purchase a share of the Company's common stock for $3.00 per share, resulting in 268,250 warrants being issued. Based on the financial condition of the Company at the time the warrants were issued, management estimates that the fair value of the Company's common stock approximates the exercise price of the warrants.

Upon the effective date of the Company's IPO, the 536,500 outstanding shares of Series B Preferred were converted into 536,500 shares of the Company's common stock.

Stock Options

The Company's board of directors adopted the 1997 Stock Option Plan (the "Plan") and reserved 250,000 shares of common stock for grants of stock options under the Plan. Generally, options granted under the Plan expire the earlier of 10 years from the date of grant (five years in the case of an incentive stock option granted to a holder of 10% or more of the Company's outstanding capital stock) or three months after the optionee's termination of employment or service. The Company had not granted any stock options as of January 31, 1997, therefore, the disclosures required by SFAS No. 123 are not applicable.

NOTE 7 - SUBSEQUENT EVENTS (UNAUDITED) (CONTINUED)

Notes Payable

In June and July 1997, the Company issued $950,000 of subordinated notes. The notes bear interest at 10% per annum and are unsecured. The notes are due at the earlier of nine months from the date of issuance or closing of the IPO.

In connection with the note agreement, each note holder is entitled to receive 333 warrants for each $1,000 loaned to purchase the Company's common stock for $6.00 per share. There is a twelve-month "lock-up" on the warrants and the common stock underlying these warrants.

En Pointe Technologies, Inc.

On September 15, 1997 the Company entered into an agreement with En Pointe Technologies, Inc. ("En Pointe") whereby:

. En Pointe made an investment in the Company by purchasing $600,000 of subordinated notes. In connection therewith, the Company issued 199,800 warrants to purchase the Company's common stock at $4.50 per share. As a result of these warrants being issued with an exercise price less than the fair market value of similar warrants, the Company will recognize additional financing cost;

. En Pointe granted the Company a license to En Pointe's proprietary EPIC Software for five years in exchange for 125,000 shares of the Company's common stock valued at $6.00 per share. The Company has agreed to pay an annual maintenance and upgrade fee of $100,000. The initial annual fee is to be paid concurrent with the funding of the $600,000 subordinated notes;

. En Pointe has also agreed to provide (i) consulting services to the Company by customizing its EPIC Software and (ii) information system services for a quarterly fee estimated to be $60,000 and $50,000, respectively. The initial quarterly fees of $60,000 and $50,000 are to be paid concurrent with the funding of the $600,000 subordinated notes;

. In the event that the Company does not complete its IPO within one year, the Company is obligated to pay En Pointe $1,000,000 for the licensing of the EPIC Software.

Stock Split

At the completion of the Company's IPO in December 1997, the Company effected a one-for-two reverse stock split of its common stock. All share and per share data have been retroactively restated to reflect this stock split.

SHOPPING.COM

REPORT AND FINANCIAL STATEMENTS
JANUARY 31, 1998 AND 1999

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholder of Shopping.com

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Shopping.com and its subsidiary at January 31, 1998 and 1999, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
Costa Mesa, California
June 9, 1999, except as to Note 12,
which is as of July 2, 1999

SHOPPING.COM
CONSOLIDATED BALANCE SHEET

	January 31, 1998	January 31, 1999
Assets		
Current assets		
Cash and cash equivalents	$ 4,761,000	$ 90,000
Accounts receivable, net of allowance for doubtful accounts of $10,000 and $61,000	169,000	648,000
Prepaid and other current assets	666,000	1,465,000
Deposits		1,373,000
Total current assets	5,596,000	3,576,000
Property and equipment, net	2,846,000	1,972,000
Other assets	216,000	546,000
Total assets	$ 8,658,000	$ 6,094,000
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities		
Accounts payable	$ 777,000	$ 5,580,000
Notes payable		3,000,000
Other accrued liabilities	583,000	12,252,000
Current portion of capital lease obligations	211,000	250,000
Total current liabilities	1,571,000	21,082,000
Capital lease obligations, net of current portion	229,000	92,000
Total liabilities	1,800,000	21,174,000
Commitments and contingencies (Note 9)		
Shareholders' Equity (Deficit)		
Common stock, no par value 20,000,000 shares authorized; 4,002,000 and 10,212,406 shares issued and outstanding	14,817,000	42,102,000
Unearned compensation	(557,000)	(58,000)
Accumulated deficit	(7,402,000)	(57,124,000)
Total shareholders' equity (deficit)	6,858,000	(15,080,000)
Total liabilities and shareholders' equity (deficit)	$ 8,658,000	$ 6,094,000

The accompanying notes are an integral part of these financial statements.

SHOPPING.COM
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended January 31, 1998	Year Ended January 31, 1999
Net sales	$ 851,000	$ 8,122,000
Cost of sales	856,000	10,122,000
Gross loss	(5,000)	(2,000,000)
Operating expenses:		
General and administrative	2,324,000	19,193,000
Advertising and marketing	2,006,000	10,087,000
Product development	658,000	3,288,000
Stock-based compensation	675,000	6,696,000
Loss on disposal of assets	25,000	1,539,000
Total operating expenses	5,688,000	40,803,000
Loss from operations	(5,693,000)	(42,803,000)
Other income (expense):		
Interest expense	(1,195,000)	(5,819,000)
Interest income	15,000	71,000
Total other income (expense)	(1,180,000)	(5,748,000)
Loss before extraordinary item	(6,873,000)	(48,551,000)
Extraordinary loss (Note 6)		(1,171,000)
Net loss	$ (6,873,000)	$(49,722,000)
Basic and diluted per share amounts:		
Loss before extraordinary item	$ (4.03)	$ (10.10)
Extraordinary Item	$ --	$ (0.24)
Net loss	$ (4.03)	$ (10.34)
Weighted average shares outstanding	1,786,894	4,808,069

The accompanying notes are an integral part of these financial statements.

SHOPPING.COM

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)

	Preferred Stock Series A Convertible		Preferred Stock Series B Convertible		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance, January 31, 1997	-	$ -	-	$ -	1,152,500	$ 123,000
Sale of common stock					100,000	2,000
Issuance of common stock for services					38,000	54,000
Contribution of domain name						90,000
Sale of Series A Preferred Stock	1,000,000	200,000				
Issuance of Series A Preferred Stock, for net assets	500,000	100,000				(100,000)
Sale of Series B Preferred Stock, net			1,073,000	749,000		
Beneficial conversion feature						327,000
Issuance of common stock for software					125,000	1,000,000
Sale of common stock in IPO, net					1,300,000	9,374,000
Conversion of Series A and B Preferred to Common Stock	(1,500,000)	(300,000)	(1,073,000)	(749,000)	1,286,500	1,049,000
Issuance of warrants, net						1,666,000
Unearned compensation						1,232,000
Amortization of unearned compensation						
Net loss						
Balance, January 31, 1998	-	-	-	-	4,002,000	14,817,000
Exercise of stock options					5,175	5,000
Issuance of common stock for services					121,226	2,878,000
Conversion of debt to common stock					3,806,701	1,833,000
Issuance of warrants, net						13,290,000
Exercise of warrants					2,277,304	3,082,000
Stock-based compensation - employees						2,869,000
Stock-based compensation - nonemployees						3,328,000
Amortization of unearned compensation						
Net loss						
Balance, January 31, 1999		$ -		$ -	10,212,406	$42,102,000

	Unearned Compensation	Accumulated Deficit	Total
Balance, January 31, 1997	$ -	$ (202,000)	$ (79,000)
Sale of common stock			2,000
Issuance of common stock for services			54,000
Contribution of domain name			90,000
Sale of Series A Preferred Stock			200,000
Issuance of Series A Preferred Stock, for net assets			
Sale of Series B Preferred Stock, net			749,000
Beneficial conversion feature		(327,000)	
Issuance of common stock for software			1,000,000
Sale of common stock in IPO, net			9,374,000
Conversion of Series A and B Preferred to Common Stock			
Issuance of warrants, net			1,666,000
Unearned compensation	(1,232,000)		
Amortization of unearned compensation	675,000		675,000
Net loss		(6,873,000)	(6,873,000)
Balance, January 31, 1998	(557,000)	(7,402,000)	6,858,000
Exercise of stock options			5,000
Issuance of common stock for services			2,878,000
Conversion of debt to common stock			1,833,000
Issuance of warrants, net			13,290,000
Exercise of warrants			3,082,000
Stock-based compensation - employees			2,869,000
Stock-based compensation - nonemployees			3,328,000
Amortization of unearned compensation	499,000		499,000
Net loss		(49,722,000)	(49,722,000)
Balance, January 31, 1999	$ (58,000)	$(57,124,000)	$(15,080,000)

The accompanying notes are an integral part of these financial statements.

SHOPPING.COM
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended January 31, 1998	1999
Cash flows from operating activities:		
Net loss	$ (6,873,000)	$ (49,722,000)
Adjustments to reconcile net loss to net cash used in operating activities		
Common stock issued for services	54,000	2,878,000
Warrants issued for services		2,914,000
Amortization of debt issuance costs	91,000	1,149,000
Amortization of debt discount	1,082,000	2,462,000
Amortization of beneficial conversion feature		1,999,000
Extraordinary loss on conversion of notes payable		1,171,000
Stock-based compensation - employees	675,000	3,368,000
Stock-based compensation - nonemployees		3,328,000
Accrued interest converted to Common Stock		142,000
Depreciation and amortization	163,000	600,000
Loss on disposal of assets	25,000	1,539,000
Allowance for doubtful accounts	10,000	61,000
Changes in assets and liabilities:		
Accounts receivable	(179,000)	(636,000)
Prepaid expenses	(771,000)	(799,000)
Deposits		(196,000)
Other assets	(34,000)	(354,000)
Accounts payable	546,000	4,803,000
Other accrued liabilities	265,000	12,018,000
Stock subscription	23,000	
Net cash used in operating activities	(4,923,000)	(13,275,000)
Cash flows from investing activities:		
Purchase of property and equipment	(1,564,000)	(1,006,000)
Net cash used in investing activities	(1,564,000)	(1,006,000)
Cash flows from financing activities:		
Proceeds from the issuance of note payable - related party	305,000	
Payments on note payable - related party	(355,000)	
Payment on capital lease obligations	(9,000)	(333,000)
Proceeds from the issuance of notes payable	1,750,000	4,825,000
Payments on notes payable	(1,750,000)	(850,000)
Proceeds from exercise of warrants		1,905,000
Payment of debt issuance costs	(241,000)	(942,000)
Proceeds from the issuance of Series A Preferred Stock, net	200,000	
Proceeds from the issuance of Series B Preferred Stock, net	1,483,000	
Proceeds from the issuance of 8% Debentures		5,000,000
Proceeds from the issuance of Common Stock, net	9,865,000	5,000
Net cash provided by financing activities	11,248,000	9,610,000
Net increase (decrease) in cash and cash equivalents	4,761,000	(4,671,000)
Cash and cash equivalents, beginning of period	-	4,761,000
Cash and cash equivalents, end of period	$ 4,761,000	$ 90,000

Supplemental disclosure of cash flow information - Note 3

The accompanying notes are an integral part of these financial statements.

NOTE 1 - THE COMPANY

Shopping.com (the "Company") was incorporated in California on November 22, 1996. Cyber Depot, Inc. ("CyberDepot") was incorporated in California in January 1996 and among other business ventures commenced the design and development of proprietary software for the Internet shopping marketplace in February 1996. In March 1997, CyberDepot exchanged substantially all of its assets and liabilities and proprietary software for 500,000 shares of Series A Preferred Stock and Common Stock warrants (Note 7). The Company and CyberDepot are considered to be entities under common control; accordingly, CyberDepot's results have been combined with the Company since February 1996.

The Company is an Internet-based electronic retailer marketing a broad range of products to both consumers and trade customers. The Company employs proprietary information systems along with industry software to provide its customers with access to an automated marketplace of products, which consist of inventories of multiple manufacturers and distributors, price comparisons, detailed product descriptions, delivery status of products ordered and back order information. The Company commenced selling products over the Internet in July 1997 and completed its initial public offering ("IPO") in November 1997.

The Company's fiscal year ends on January 31; accordingly, all references to 1998 and 1999 are for the years ended January 31, 1998 and 1999, respectively.

The Company has incurred losses from operations through January 31, 1999. Compaq Computer Corporation ("Compaq") has committed to provide the funds required for the conduct of the Company's operations at least through January 31, 2000 or to the date, if earlier, on which it ceases to be the controlling shareholder (Notes 11 and 12).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany transactions and balances have been eliminated.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The valuation of warrants, equity and debt securities, allowances for doubtful accounts, product returns, and litigation reserves require the use of significant estimates. The Company believes the techniques and assumptions used in establishing these estimates are appropriate.

FAIR VALUE OF FINANCIAL INSTRUMENTS

It is management's belief that the carrying amounts for the Company's financial instruments are reasonable estimates of their related fair values due to the short-maturity of these instruments.

CASH AND CASH EQUIVALENTS

The Company considers all highly-liquid investments with an original maturity of three months or less to be cash equivalents.

DEPOSITS

Deposits primarily consist of cash held by a third party that was collected on behalf of the Company from the exercise of stock options and warrants. Of the total $1,373,000 outstanding as of January 31, 1999, $1,177,000 represent the deposits held by the third party.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in these accounts and believes that it is not exposed to any significant credit risk.

Accounts receivable are typically unsecured and are derived from revenues earned from customers primarily located in the United States. The Company generally requires no collateral from its customers for non-credit card sales. To date, the Company has not experienced any material losses.

During 1998 and 1999, the Company sold products to its lead underwriter in its IPO that accounted for approximately 40% and 2% of total net sales, respectively. During 1998 and 1999, the Company purchased products from four and two vendors, respectively, that represented 10% or more of total purchases. These vendors represented 85% and 49% of total purchases in 1998 and 1999, respectively.

LONG-LIVED ASSETS

The Company assesses potential impairments to its long-lived assets when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset. The amount of the impairment loss is based on the difference between the related asset's carrying value and the expected future discounted net cash flows.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation and amortization using the straight-line method over the following estimated useful lives:

Computer equipment	5 years
Purchased software	3 to 5 years
Furniture and equipment	5 to 7 years
Leasehold improvements	5 years

Leasehold improvements and assets under capital leases are amortized over the term of the lease or estimated useful lives, whichever is shorter. Maintenance and minor replacements are charged to expense as incurred. Gains and losses on disposals are included in the results of operations. During 1999, the Company wrote-off the $1,201,000 carrying value of certain purchased software which management determined had no future benefit.

ISSUANCE COSTS

Issuance costs are amounts paid or the estimated value of warrants issued to placement agents or financial consultants to obtain debt or equity financing. The Company allocates issuance costs for debt issued with warrants between debt and equity based on the relative fair value of the individual elements at the time of issuance. Debt issuance costs are recorded as deferred charges and are amortized over the term of the related debt using the effective interest method. Equity issuance costs are deducted from the proceeds of the related equity securities.

STOCK-BASED COMPENSATION

The Company accounts for employee stock compensation arrangements in accordance with provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and complies with the disclosure provisions of Statement of Financial Accounting Standards "Accounting for Stock-Based Compensation" ("SFAS 123"). Under APB 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's Common Stock and the exercise price. Unearned compensation is amortized over the vesting period of the related options.

STOCK SPLIT

At the completion of the Company's IPO in November 1997, the Company effected a one-for-two reverse stock split of its Common Stock. All share and per share data have been retroactively restated to reflect this stock split.

REVENUE RECOGNITION

The Company recognizes revenue at the time the vendor ships the product to the customer. The Company provides an allowance for sales returns based on historical experience. To date, the Company's sales returns have been insignificant.

ADVERTISING

The Company expenses advertising costs the first time the advertisement is published or broadcasted. Included in advertising and marketing is $899,000 and $6,234,000 in advertising expense for 1998 and 1999, respectively.

PRODUCT DEVELOPMENT

Product development expenses consist principally of payroll, consulting fees, and related expenses for development and maintenance of the Company's web site, including depreciation of computer equipment and purchased software. All product development costs have been expensed as incurred.

INCOME TAXES

Income taxes are computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

NET LOSS PER SHARE

The Company computes net loss per share in accordance with SFAS 128 "Earnings per Share" and SEC Staff Accounting Bulletin No. 98 ("SAB 98"). Under the provisions of SFAS 128 and SAB 98, basic and diluted net loss per share is computed by dividing the net loss available to common shareholders for the period by the weighted average number of Common Stock outstanding during the period. The calculation of diluted net loss per share excludes potential common shares if the effect is antidilutive.

COMPREHENSIVE INCOME

Effective February 1, 1998, the Company adopted the provisions of SFAS 130, "Reporting Comprehensive Income." SFAS 130 establishes standards for reporting comprehensive income and its components in financial statements. Comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. To date, the Company has not had any material transactions that are required to be reported in comprehensive income.

SEGMENT INFORMATION

Effective February 1, 1998, the Company adopted the provisions of SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." The Company operates in a single business segment that provides eCommerce to individuals and businesses. The adoption of SFAS 131 did not have a material impact to the Company's financial statement disclosure.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 1998, Statement of Position 98-1 "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1") was issued. SOP 98-1 provides guidance over accounting for computer software developed or obtained for internal use including the requirement to capitalize specified costs and amortization of such costs. The Company will adopt the provisions of SOP 98-1 for the fiscal year ending January 31, 2000, and does not expect adoption to have a material impact on its financial position and results of operations.

In April 1998, SOP 98-5 "Reporting on the Costs of Start-Up Activities" was issued. Start-up activities are defined broadly as those one-time activities relating to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer, commencing some new operation or organizing a new entity. Under SOP 98-5, the cost of start-up activities should be expensed as incurred. SOP 98-5 is effective for the Company's year ending January 31, 2000. The Company does not expect adoption to have a material impact to its financial position and results of operations.

NOTE 3 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

In February and September 1998, the Company executed two separate agreements with the same party whereby it issued 47,059 and 66,667 shares of Common Stock, respectively, in exchange for radio advertising valued at $2,675,000. The value of the advertising was based on the fair value of the Common Stock issued. During 1999, the Company entered into two separate agreements for investor and public relation services in exchange for shares of Common Stock and stock options (Note 9). In September 1997, the Company entered into an agreement whereby it issued 125,000 shares of the Company's Common Stock in exchange for a five year software license. The estimated fair value of the software license was $1,000,000. The value of other services provided in exchange for Common Stock was based on the fair value of the Common Stock issued.

The Company entered into the following non-cash investing and financing activities:

	Year Ended January 31, 1998	1999
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Common Stock issued or to be issued for services	$ 54,000	$ 4,497,000
Warrants and options issued or to be issued for services		3,100,000
Exercise of warrants		1,177,000
Common Stock issued for software license	1,000,000	
Conversion of debt into Common Stock		1,833,000
Series A Preferred Stock and Common Stock warrants issued in exchange for net assets	100,000	
Contribution of domain name	90,000	
Equipment acquired under capital leases	449,000	236,000
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	56,000	86,000
Cash paid for taxes	-	-

NOTE 4 - COMPOSITION OF CERTAIN BALANCE SHEET COMPONENTS

Prepaid and other current assets consist of the following:

	January 31, 1998	January 31, 1999
Advertising	$ 458,000	$ 104,000
Insurance	112,000	20,000
Investor and public relations		1,295,000
Other	96,000	46,000
	$ 666,000	$ 1,465,000

Property and equipment consist of the following:

	January 31, 1998	January 31, 1999
Computer equipment	$ 1,229,000	$ 1,698,000
Purchased software	1,469,000	475,000
Furniture and equipment	237,000	309,000
Leasehold improvements	59,000	103,000
	2,994,000	2,585,000
Less accumulated depreciation and amortization	(148,000)	(613,000)
Total	$ 2,846,000	$ 1,972,000

Included in property and equipment at January 31, 1998 and 1999 is equipment acquired under capital leases of $449,000 and $685,000 with related accumulated amortization of $11,000 and $134,000, respectively. During 1997, 1998, and 1999, the Company recorded $1,000, $147,000 and $577,000 in depreciation expense, respectively.

Other assets consist of the following:

	January 31, 1998	January 31, 1999
Deposits	$ 105,000	$ 487,000
Other	111,000	59,000
	$ 216,000	$ 546,000

Other accrued liabilities consist of the following:

	January 31, 1998	January 31, 1999
Legal	$ 331,000	$ 1,000,000
Litigation reserves	113,000	8,510,000
Investor and public relations		1,805,000
Termination and severance		307,000
Payroll and vacation	76,000	151,000
Gift certificates		150,000
Other	63,000	329,000
	$ 583,000	$ 12,252,000

NOTE 5 - NET LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per share:

	Year Ended January 31, 1998	Year Ended January 31, 1999
Loss before extraordinary item	$ (6,873,000)	$ (48,551,000)
Preferred stock dividends from beneficial conversion feature	(327,000)	
Loss before extraordinary item available to common shareholders	(7,200,000)	(48,551,000)
Extraordinary loss (Note 6)		(1,171,000)
Net loss available to common shareholders	$ (7,200,000)	$ (49,722,000)
Weighted average shares outstanding	1,786,894	4,808,069
Basic and diluted per share amounts:		
Loss before extraordinary item	$ (4.03)	$ (10.10)
Extraordinary item	$ -	$ (0.24)
Net loss	$ (4.03)	$ (10.34)

The following table sets forth potential dilutive securities that are not included in the diluted net loss per share calculation above because to do so would be antidilutive in the periods indicated:

	Year Ended January 31, 1998	1999
Weighted average effect of potential dilutive securities:		
Series A Preferred Stock	734,000	
Series B Preferred Stock	324,000	
Common Stock warrants	19,000	754,000
Common Stock options	61,000	447,000
	1,138,000	1,201,000

NOTE 6 - BORROWINGS

CONVERTIBLE DEBENTURES

In June, July and November 1998, the Company issued $1,250,000, $1,250,000 and $2,500,000, respectively of 8% convertible debentures ("the 8% Debentures"). Interest is payable quarterly, two years from the issuance date ("the Maturity Date") or upon conversion. The Company, at its option, may pay any accrued interest in shares of Common Stock at the Conversion Price then in effect, as defined. The Debentures are convertible into Common Stock at a conversion price equal to the lower of (i) the lowest market price for any three days in the 30 days preceding conversion; or (ii) $16.00 per share (the "Base Rate"), which is subject to a 10% reduction in the event of contract breach, as defined. The holders of the 8% Debentures may convert up to 20% of the original principal amount between 30 days and 90 days after issuance, up to an additional 25% (45% cumulative) 120 days after issuance, up to an additional 35% (80% cumulative) 150 days after issuance, with the balance being convertible at anytime thereafter. Any 8% Debentures not previously converted as of the Maturity Date automatically convert into Common Stock at the applicable conversion rate, as defined.

The holders of the 8% Debentures receive one warrant to purchase one share of Common Stock for each two shares of Common Stock issued in connection with the corresponding conversion of the 8% Debentures. The warrants attributable to each conversion have an exercise price equal to the lesser of (i) 120% of the lowest market price for any three trading days prior to conversion or (ii) 125% of the Base Rate. The warrants expire in June 2003. The Company has the right to redeem all or any portion of the Debentures, subject to a Redemption Premium, as defined. The holders of the 8% Debentures may require the Company to redeem the outstanding portion of the 8% Debentures in the event of a contract breach, as defined. Additionally, in the event of contract default, the holders may consider the 8% Debentures immediately due and payable.

In connection with the issuance of the 8% Debentures, the Company issued warrants and made payments to placement agents, which were recorded as debt and equity issuance costs. The debt issuance costs were originally being amortized as additional interest expense ratably over the term of the 8% Debentures. In November and December of 1998, the entire $5,000,000 principal amount, plus accrued interest, of the 8% Debentures was converted into 3,323,781 shares of Common Stock and 1,627,153 warrants were issued and then exercised into 1,627,153 shares of Common Stock.

PROMISSORY NOTES

In December 1998, the Company issued a $2,500,000 secured promissory note with a 10% per annum interest rate payable in 30 days provided however, if within 30 days the Company closes a financing transaction, as defined, the holder had the right to convert the note into the same class of security as the defined financing transaction. In conjunction with the promissory note, the Company issued 500,000 warrants to purchase common stock at a price of $7.00 per share, subject to adjustment, which expire in December 2001. The promissory note was secured by a Non-Recourse Guaranty and Pledge Agreement with a former officer and current shareholder of the Company. In exchange for this guaranty, the former officer received 130,000 warrants to purchase common stock at a price of $7.00 per share, subject to adjustment, which expire in December 2003. The secured promissory note is also secured by all assets of the Company. The secured promissory note was paid in full in February 1999.

In September 1998, the Company issued a $500,000 promissory note to a related party (a director of the Company is also a member of the Board of Directors of the corporation to which the Company issued the promissory note) that was due at the earlier of the Company receiving $500,000 in additional financing from another source or October 1998. The Company also issued 30,000 warrants to purchase shares of Common Stock at an exercise price of $2.25 per share. The warrants expire in September 2003. During October 1998, the Company repaid $200,000 and renegotiated a revised due date of the earlier of the Company receiving $300,000 in additional financing from another source or December 1998. In connection with the modification, the Company also issued 30,000 additional warrants to purchase shares of the Company's Common Stock at an exercise price of $1.65 that expire in November 2003. The remaining balance of $300,000 was paid in January 1999.

In August 1998, the Company issued a $500,000 convertible promissory note that is due six months from the date of issuance, with an interest rate of 8% per annum, that have been converted into Common Stock at a rate of $10.00 per share. In connection with the issuance of the convertible promissory note, the Company issued 50,000 warrants to purchase shares of Common Stock at an exercise price of $10.00 that expires in August 2001. The Company also issued warrants to purchase 10,000 shares of Common Stock to the placement agent, the value of which has been accounted for as debt and equity issuance costs. The warrants issued to the placement agent contain the same terms and conditions as the warrants issued with the convertible promissory note. In January 1999, the note plus accrued interest, were converted into 156,196 shares of Common Stock.

In May through July 1998, the Company issued $1,325,000 of unsecured promissory notes at an interest rate of 8% per annum with principal and accrued interest due six months from the date of issuance. In conjunction with the issuance, the promissory note holders received a total of 132,500 warrants to purchase shares of Common Stock that are exercisable until May 2001 (10,000 warrants are exercisable until June 2001) at an exercise price of $14.00 per share. In November 1998, the Company provided the note holders with the option to convert the promissory notes or extend the maturity date by 90 days in exchange for warrants with an exercise price of $7.00 to purchase the Company's Common Stock. Of the total promissory notes, $475,000 plus accrued interest, were converted into shares of Common Stock and $350,000 was paid in January 1999. The Company issued an additional 71,250 warrants to the note holders. The holder of the remaining unpaid $500,000 principal balance has filed a complaint against the Company contending that it is entitled to convert the note into Common Stock. The balance has not yet been paid. As a result of the conversion of the notes to Common Stock, the Company recognized a

$1,171,000 extraordinary loss which represents the excess of the fair value of the Common Stock and warrants over the carrying value of the note on the date of conversion. In addition, the Company issued warrants to purchase 20,000 shares of Common Stock at an exercise price of $14.00 per share to the placement agent, the value of which has been accounted for as debt and equity issuance costs.

In September 1997, the Company issued a $600,000 note to a shareholder of the Company with an interest rate of 10% per annum that was due the earlier of nine months or the closing of an IPO. In conjunction with the note, the Company issued 199,800, five year warrants with an exercise price of $4.50 per share. The note was paid in full in 1998.

During June through July 1997, the Company issued $1,150,000 in subordinated promissory notes each with an interest rate of 10% per annum that were due the earlier of nine months from the date of issuance or the closing of an IPO. The note holders were issued 333 warrants for every $1,000 of note principal at an exercise price of $6.00 per share that were exercisable any time after the earlier of 90 days after the effective date of the Company's IPO or one year from the date of issuance. The notes were paid in full in 1998.

The Company allocates the proceeds received from debt or convertible debt with detachable warrants using the relative fair value of the individual elements at the time of issuance. The amount allocated to the warrants is accounted for as debt discount and is amortized to interest expense over the expected term of the debt using the effective interest method. The carrying amount of convertible debt has been reduced by any related unamortized debt discount and issuance costs on the date of conversion to Common Stock.

In accordance with the FASB's Emerging Issues Task Force ("EITF") Topic No. D-60 ("Topic D-60"), the Company accounts for the beneficial conversion feature of convertible debt securities based on the difference between the conversion price and the fair value of the Common Stock into which the security is convertible, multiplied by the number of shares into which the security is convertible. The amount attributable to the beneficial conversion feature is recognized as additional interest expense over the most beneficial conversion period using the effective interest method. Any unamortized beneficial conversion feature is recognized as interest expense when the related debt security is converted into Common Stock. During 1999, the Company recognized $1,999,000 in expense for the beneficial conversion feature of its convertible debt.

NOTE 7 - SHAREHOLDERS' EQUITY

CONVERTIBLE PREFERRED STOCK

The Company's Series A and Series B Convertible Preferred Stock (collectively referred to as the "Preferred Stock") is convertible upon issuance into Common Stock at the option of the holder or automatically converts into shares of Common Stock based upon the Conversion Price, immediately upon the closing of an IPO of not less than $6,000,000. The initial Conversion Price per share for the Series A Preferred Stock and Series B Preferred Stock was $.20 and $1.50, respectively, and was subsequently increased to $.40 and $3.00, respectively, as a result of the reverse Common Stock split. The Conversion Price was subject to further adjustment, as defined. The Series A Preferred Stock and Series B Preferred Stock had a liquidation preference of $0.20 and $1.50 per share, respectively, plus all declared and unpaid dividends. The Series A Preferred Stock and Series B Preferred Stock were entitled to receive non-cumulative dividends of $.02 and $.15 per share, respectively. The Preferred Stock holders were entitled to vote on an "as converted" basis. Total shares authorized for issuance of the Series A and Series B Preferred Stock was 1,500,000 and 4,000,000, respectively.

During April through August 1997, the Company issued 1,073,000 of its Series B Convertible Preferred Stock at an issuance price of $1.50 per share with issuance costs of approximately $125,000. Upon the consummation of the Company's IPO, each two shares of the Preferred Stock were converted into one share of Common Stock.

In accordance with Topic D-60, the Company accounted for the beneficial conversion feature of its convertible Preferred Stock based on the difference between the conversion price and the estimated fair value of the Common Stock into which the security is convertible, multiplied by the number of shares into which the security is convertible. The resultant allocation of the proceeds to the beneficial conversion feature was accounted for as a dividend on the date the Preferred Stock was issued.

In accordance with Topic D-60, the Company accounted for the beneficial conversion feature of its convertible Preferred Stock based on the difference between the conversion price and the estimated fair value of the Common Stock into which the security is convertible, multiplied by the number of shares into which the security is convertible. The resultant allocation of the proceeds to the beneficial conversion feature was accounted for as a dividend on the date the Preferred Stock was issued.

Each holder of the Series A and Series B Preferred Stock was issued one warrant for every four shares of the Series A and Series B Preferred Stock to purchase Common Stock at an exercise price of $.40 and $3.00 per share, respectively. The Company allocated the proceeds received from the Preferred Stock using the relative fair value of the individual elements at the time of issuance. The estimated value of the warrants issued to the Series A Preferred Stock holders was determined to be de minimis. The $407,000 allocated to the warrants associated with the Series B Convertible Preferred Stock is included in Common Stock.

COMMON STOCK

In November 1997, the Company completed its IPO by issuing 1,300,000 shares of Common Stock for gross proceeds of $11,700,000. In addition to issuance costs of $2,326,000, the Company issued 122,000, four year warrants with an exercise price of $14.40 per share with an estimated value of $504,000.

COMMON STOCK WARRANTS

A summary of the Company's warrant activity is provided below.

	January 31,					
	1998			1999		
	Issued	Exercised	Outstanding	Issued	Exercised	Outstanding
Beginning balance	-	-	-	1,348,004	-	1,348,004
Series A Preferred Stock	375,000		375,000			
Series B Preferred Stock	268,254		268,254		(97,402)	(97,402)
8% Debentures			-	1,627,153	(1,627,153)	
Promisory Notes	582,750		582,750	813,750	(233,150)	580,600
Services	122,000		122,000	1,645,088	(669,152)	975,936
Ending Balance	1,348,004	-	1,348,004	5,433,995	(2,626,857)	2,807,138

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Prices	Number Outstanding at January 31, 1999	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at January 31, 1999	Weighted Average Exercise Price
$1.78 - $3.25	772,501	3.66	$2.72	772,501	$2.72
$4.50 - $7.00	1,284,200	3.39	$6.47	1,284,200	$6.47
$10.00 - $16.00	416,357	3.66	$14.05	416,357	$14.05
$21.92 - $24.00	334,080	4.14	$22.13	334,080	$22.13
	2,807,138			2,807,138	

The Company obtained a valuation for its warrants from an independent firm that used the Black-Scholes option valuation model with the following weighted-average assumptions:

	Year Ended January 31, 1998	1999
Dividend Yield	0%	0%
Risk free interest rate	6%	5%
Expected volatility	61%	87%
Expected term - years	5.0	4.7

The weighted average fair value of the warrants issued during 1998 and 1999 was $2.94 and $7.63, respectively.

STOCK OPTION PLAN

In July 1997, the Company adopted the 1997 Stock Option Plan (the "1997 Plan") that provides for the issuances of options to employees, directors and consultants of the Company for up to a maximum of 750,000 shares of Common Stock. Generally, options granted under the 1997 Plan expire the earlier of ten years from the date of grant, (or five years in the case of an incentive stock option granted to a holder of 10% or more of the Company's outstanding Common Stock), or three months after the optionee's termination of employment. The options vest over periods ranging from two to five years. Options are exercisable for consideration in the form of cash or Common Stock previously held by the optionee. The 1997 Plan may be suspended or terminated at the discretion of the Board of Directors. As of January 31, 1999, 208,000 options are available for future grant under the 1997 Plan.

In 1998 and 1999, the Company issued options to directors and employees with exercise prices below the fair market value of the underlying Common Stock on the date of grant resulting in $675,000 and $3,368,000 in compensation expense, respectively. During 1999, the Company issued a total of 287,500 options to non-employees resulting in additional compensation expense of $3,328,000 as determined using the Black-Scholes option valuation model.

A summary of the activity related to the Company's stock options issued under the 1997 Plan, options issued to directors outside of the 1997 Plan, and options issued to non-employees follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding, January 31, 1997	-	-
Granted	230,000	$3.00
Cancelled	(10,000)	$3.00
Options outstanding, January 31, 1998	220,000	$3.00
Granted	2,534,500	$8.44
Exercised	(5,175)	$2.50
Cancelled	(24,125)	$2.74
Options outstanding, January 31, 1999	2,725,200	$9.60
Options exercisable, January 31, 1999	2,530,325	$7.91

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at January 31, 1999	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at January 31, 1999	Weighted Average Exercise Price
$1.78 - $3.00	1,612,700	5.04	$1.92	1,442,825	$ 1.94
$13.47 - $16.00	787,500	4.42	$15.36	787,500	$15.36
$18.49 - $21.00	325,000	4.46	$20.81	300,000	$21.00
	2,725,200			2,530,325	

FAIR VALUE DISCLOSURE

The Company applies the measurement principles of APB No. 25 in accounting for options issued to employees under its stock option plan and options issued to Directors. If the Company had elected to recognize compensation expense based on the fair value at the grant dates as prescribed by SFAS 123, the Company's net loss would have been increased to the pro forma amounts indicated below.

	Year Ended January 31, 1998	1999
Net loss available to common shareholders:		
As reported	$(7,200,000)	$(49,722,000)
Pro forma	$(7,659,000)	$(56,135,000)
Basic and diluted loss per common share:		
As reported	$(4.03)	$(10.34)
Pro forma	$(4.29)	$(11.68)

The pro forma effects presented above are not likely to be representative of the effects on reported net loss for future years. The fair value of options issued to employees, non-employees and directors was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended January 31, 1998	1999
Dividend yield	0%	0%
Risk free interest rate	5%	5%
Expected volatility	60%	85%
Expected term - years	3.5	4.6

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The weighted average fair values and exercise prices of options follows:

	Year Ended January 31, 1998		1999	
	Fair Value	Exercise Price	Fair Value	Exercise Price
Issued at below market value	$5.72	$3.00	$12.40	$16.00
Issued at market value			$ 3.25	$ 5.52
All options	$5.72	$3.00	$ 4.86	$ 7.71

COMMON STOCK EQUITY LINE

In December 1998, the Company entered into a Common Stock Private Equity Line Subscription Agreement (the "Common Stock Line") whereby the Company, at its option, may put shares of Common Stock to the subscriber for a maximum of $60,000,000 at a put price that is equal to the lesser of (i) 83% of the Common Stock fair market value or (ii) the Common Stock fair market value less $.50 on the put date. The Common Stock Line includes the payment of semi-annual commitment fees of $100,000 in the event the subscriber does not receive a defined amount of proceeds from its sale of the Company's

Common Stock. In conjunction with the Common Stock Line, the Company issued 490,385 warrants to purchase the Company's Common Stock at an exercise price of $8.38 per share, with semi-annual reset provisions, that are exercisable over a 7 year period. The estimated value of the warrants issued is approximately $4,440,000 and represents the estimated value of the Company's right to put its Common Stock to the subscriber. No Common Stock has been sold under the Common Stock Equity Line.

NOTE 8 - INCOME TAXES

The Company did not record a provision for income taxes in 1998 and 1999 due to net losses incurred. The Company's deferred tax assets and liabilities comprise the following:

	January 31, 1998	January 31, 1999
Deferred tax assets:		
Net operating loss carryforwards	2,583,000	$ 17,277,000
Stock-based compensation	7,000	1,379,000
Property and equipment		383,000
Litigation reserves	46,000	3,478,000
Accrued expenses	258,000	11,000
Other	4,000	52,000
	2,898,000	22,580,000
Valuation allowance	(2,898,000)	(22,580,000)
	$ -	$ -

The Company has net operating loss carryforwards for both federal and state purposes of $6,295,000 and $41,628,000 as of January 31, 1998 and 1999, respectively. Federal and state net operating loss carryforwards begin expiring in the years 2005 and 2011, respectively. Due to ownership changes, the net operating loss carryforwards are subject to an annual limitation on the amount that can be utilized. A full valuation allowance has been recorded based on management's expectation that the Company's net deferred tax assets, more likely than not, will not be realized based on estimated future taxable income.

The income tax benefit differs from the amount computed by applying the statutory federal income tax rate to net loss as follows:

	Year Ended January 31, 1998	Year Ended January 31, 1999
Computed expected tax benefit	(35%)	(35%)
State income tax benefit, net of federal benefit	(6%)	(6%)
Non-deductible interest expense		2%
Change in valuation allowance	41%	39%
	0%	0%

NOTE 9 - COMMITMENTS AND CONTINGENCIES

SEC INVESTIGATION

In March 1998, the Company became aware that the SEC had initiated a private investigation to determine whether the Company, its lead underwriter in its IPO and market maker, (the "Market Maker"), or any of its officers, directors, employees, affiliates, or others had engaged in fraudulent activities in connection with transactions in the Company's Common Stock in violation of federal securities laws. This investigation resulted in the SEC temporarily suspending trading of the Company's stock for 10 days in March 1998. Due to the uncertainty regarding the outcome of the investigation, management is unable to determine whether it will have a material adverse effect on the Company's financial position, results of operations and cash flows. An accrual has not been recorded in the financial statements for any loss that may result from the outcome of the investigation.

LITIGATION

During the six months ended July 31, 1998, various similar class action lawsuits were filed against the Company, certain officers of the Company, and the Market Maker (the "Defendants") on behalf of all persons who purchased shares of the Company's Common Stock between November 25, 1997 and March 26, 1998 alleging violations of the various state and federal securities laws by the Defendants. The complaints charge that the Defendants participated in a scheme and wrongful course of business to manipulate the price of the Company's Common Stock, and the Defendants seek compensatory damages in unspecified amounts. Compaq anticipates entering into a mediation where the damages that may be awarded would be within a range between $2,400,000 and $9,000,000. In addition, management believes that the Company's directors' and officers' liability insurance carrier may reimburse a portion of any amounts awarded.

In February 1999, a complaint was filed against the Company by a financial advisor alleging that the Company owes $3,465,000 for breach of a warrant agreement and an additional $2,886,000 as a transaction fee. The Company filed an answer on April 9, 1999 denying the liability. Management is unable to determine whether the outcome of this complaint will have a material adverse effect on its financial position, results of operations and cash flows.

During 1999, the Company allegedly entered into a one-year consulting agreement (for the period from December 1998 to November 1999) with a firm (the "Consulting Firm") whereby the Consulting Firm was to provide investor and public relation services in exchange for 153,000 shares of Common Stock. As of January 31, 1999, the shares of Common Stock have not been issued. The Company recorded a liability of $1,555,000 based upon the fair value of the Common Stock on the commencement of the agreement and recorded approximately $260,000 in expense related to this agreement in 1999. In March 1999, the Consulting Firm filed a Demand for Arbitration claiming that the Company owes approximately $3,000,000 of Common Stock pursuant to the contract. Management is unable to determine whether the outcome of this complaint will have a material adverse effect on its financial position, results of operations and cash flows. An accrual has not been recorded in the financial statements for any loss that may result from the outcome of this litigation.

During 1999, the Company was negotiating a one-year consulting agreement (for the period from February 1998 to January 1999) with a company (the "Consultant") whereby the Consultant was to provide public relation services in exchange for $5,000 upon execution of the agreement, monthly payments from $5,000 to $7,000, 7,000 shares of Common Stock, and 30,000 options with exercise prices of $22.50 and $25.00 (15,000 each) that are exercisable over a three-year period. In June 1998, the Company wrote to the Consultant giving the Consultant notice of termination of services and offered 2,917 shares of Common Stock and a total of 6,250 stock options as a reimbursement for services previously provided. The Company has recorded $250,000 as expense that represents the fair value of the Common Stock and the estimated fair value of the stock options. As of January 31, 1999, neither the Common Stock nor the stock options have been issued. In May 1999, the Company received a letter from the Consultant claiming that it is owed $1,184,000 due to the Company's failure to deliver all of the stock and options pursuant to the original agreement. Management is unable to determine whether the outcome of this complaint will have a material adverse effect on its financial position, results of operations and cash flows. An accrual has not been recorded in the financial statements for any loss that may result from the outcome of this litigation.

The Company is a defendant in several complaints in which management believes that i) it is not probable that a liability has been incurred and ii) the amount of any potential loss cannot be reasonably estimated. Accordingly, an accrual has not been recorded in the financial statements.

The Company and its shareholder (Note 11) have been subject to certain claims related to contracts entered into by former management of the Company. The Company and its shareholder intend to defend such claims as they arise; however, no assertion can be made that additional claims for similar contracts will not be made. In addition, the Company is involved in certain litigation other than that described above arising in the normal course of business. The Company believes any liability with respect to such routine litigation, individually or in the aggregate, is not likely to be material to the Company's financial position, results of operations and cash flows. An accrual of $8,510,000 has been recorded for amounts management believes the Company will incur and pay for the aggregate losses resulting from the outcome of the aforementioned litigation.

Compaq has agreed to assume any liability that currently exists or may exist as a result of the outcome of the Company's threatened and pending litigation.

EMPLOYMENT AGREEMENT

In June 1998, the President, Chief Executive Officer, and director (the "Former Officer") of the Company resigned. Pursuant to a Termination and Buy Out Agreement, the Former Officer will receive payments totaling $500,000, with $100,000 paid on or before July 31, 1998 and the balance due in $50,000 increments on or before each succeeding fiscal quarter end, beginning October 31, 1998 until fully paid. In addition, the Former Officer received options to purchase 150,000 shares of the Company's Common Stock at an exercise price of $16.00 per share. The Company recorded a charge for the estimated fair value of the options (Note 7). In September 1998, the Company approved the conversion of $350,000 of its unpaid liability related to the Termination and Buy Out Agreement for Common Stock at the then fair market value of $1.37 per share, resulting in an issuance of 255,474 common shares.

LEASES

The Company leases facilities for its corporate offices under non-cancelable operating lease agreements that expire in 2002 and 2004, and have annual rent increases of approximately 4% and 5%, respectively. The Company also leases certain office equipment under operating and non-cancelable capital lease arrangements. Future minimum lease payments follow:

Year Ending January 31,	Operating	Capital
2000	$1,008,000	$ 283,000
2001	1,220,000	58,000
2002	1,271,000	31,000
2003	1,205,000	15,000
2004	1,218,000	
Thereafter	204,000	
	$6,126,000	387,000
Amount representing interest		(45,000)
Capital lease obligations		$ 342,000

Rent expense for 1998 and 1999 was $116,000 and $221,000, respectively.

NOTE 10 - RELATED PARTY TRANSACTIONS

Total employee advances outstanding as of January 31, 1998 and 1999 were $18,000 and $2,000, respectively, which are included in accounts receivable. As of January 31, 1999, $36,000 in advances to a shareholder were included in accounts receivable. During 1998, the Company made $154,000 in advances to a then current officer of the Company, which was fully repaid during the year. During 1998, the Company made $16,000 in advances to CyberDepot, which were fully repaid during the year. A then current officer of the Company is the principal shareholder of CyberDepot.

During 1998 and 1999, the Company entered into an agreement with a consultant who was also a shareholder of the Company, under which the Company incurred $23,000 and $52,000, respectively, in consulting expenses.

During 1998 and 1999, the Company sold $342,000 and $124,000 in products to its lead underwriter in its IPO and current shareholder of the Company. As of January 31, 1998 and 1999, $96,000 and $28,000 is included in accounts receivable, respectively.

During 1998 and 1999, the Company incurred legal expenses of approximately $528,000 and $283,000, respectively, from law firms that are also shareholders of the Company. As of January 31, 1998 and 1999, approximately $354,000 and $155,000 remains outstanding which are included in other accrued liabilities, respectively.

During 1998 and 1999, the Company purchased $233,000 and $85,000 of products from a shareholder of the Company. As of January 31, 1998, $114,000 was due to this shareholder.

During 1999, the Company paid $69,000 in consulting fees to an entity in which a then current officer and director of the Company is the president and principal shareholder.

In June 1998, the Company entered into a three year consulting agreement with CyberDepot whereby CyberDepot will receive $22,000 per month and received 100,000 options to purchase shares of the Company's Common Stock at $21.00 per share. The Company recorded a charge for the estimated fair value of the options (Note 7). A then former officer and current shareholder of the Company is the principal shareholder of CyberDepot. During 1999, the Company paid $165,000 in consulting fees under the agreement. The Company paid $581,000 to CyberDepot in February 1999 which represents the total monthly fees over the remaining three year term. This payment was made as a result of the change in control provision included in the agreement.

During 1998, the Company issued promissory notes for a total of $305,000 to an affiliate of the Company's lead underwriter in its IPO. The note was paid in full from the proceeds of the IPO.

NOTE 11 - SUBSEQUENT EVENT - COMPAQ PURCHASE

On January 15, 1999, Compaq announced a tender offer to purchase all of the outstanding shares of the Common Stock of the Company for $19.00 per share as set forth in the Offer to Purchase agreement. On January 21, 1999, the offer price was reduced to $18.25 per share. Effective February 15, 1999, Compaq completed the acquisition of the Company.

NOTE 12 - SUBSEQUENT EVENTS

PURCHASE BY CMGI

On June 29, 1999, Compaq announced it entered into an agreement to exchange a portion of its ownership in both the AltaVista business and two of its second-tier subsidiaries, Shopping.com and Zip2 Corporation, among other assets ("Alta Vista Business") to CMGI, Inc. Compaq will retain 18.5% equity ownership in AltaVista or its successor. In return, Compaq will receive 18,994,975 CMGI common shares and CMGI preferred shares convertible into 1,809,045 CMGI common shares, which combined, would represent a 16.4% equity ownership in CMGI, on a fully diluted basis. In addition, CMGI will issue a $220 million three-year note to Compaq, bringing total consideration for CMGI's 81.5% ownership in the AltaVista Business to approximately $2.3 billion. The agreement, subject to normal regulatory approvals, is binding on both parties and does not require shareholder approval for the closing.

ARBITRATION

In July 1999, an arbitration proceeding against the Company commenced demanding damages in amount to be proven, but no less than $300,000,000 and/or an order for specific performance related to agreements entered into in December and January of 1999. The agreements included provisions in which the Company would receive a portion of the sale proceeds from products and services to be provided by a vendor (the "Vendor") and sold on the Company's website. The Vendor has also made a settlement demand of $35,000,000. Management is unable to determine whether the outcome of this complaint will have a material effect on its financial position, results of operations and cash flows. An accrual has not been recorded in the financial statements for any loss that may result from the outcome of this litigation.