Keio University Business School

CMGI, Inc. [1]

CMGI conducts operational business such as internet advertising services, consulting relating to net services business, and mail list management, postage and packaging relating to direct mail (DM). The company also invests in newly-emerging internet companies from the start-up stage. As of March 1999, the company had invested in more than 35 net companies, with total investments for the period from 1995 to 1999 amounting to some $250 million. Since its initial public offering (IPO) at $8 per share in 1994, CMGI has seen the value of its stock skyrocket since the middle of 1998 to reach $183 at the end of March 1999 (result converted on the basis of no stock split-ups; refer to Appendix 1 for changes in stock value). Just when CMGI seemed to be steaming ahead in this way, it was unexpectedly given a strong warning by the Securities and Exchange Commission (SEC). This came about because the total market capitalization of the public equity stocks had exceeded 40% of the total value of the company's assets, a situation which needed to be rectified within one year for the company to avoid being stripped of its right to be listed on the NASDAQ. David Wetherell, CEO of CMGI, was anxious about this situation, coming as it did just when CMGI stocks had surged ahead and the company was starting to attract considerable media attention as a soldier of fortune in the American net industry. There was a pressing urgency to change the corporate structure and strategy.

The history of CMGI

CMGI is a company with more than 30 years of history, having been established in 1968 as the College Marketing Group, Inc., (the company name was changed to the current CMGI in 1998). At first the company conducted direct mail (DM) register sales and operations (posting, packaging, data base management) for the university student market. Looking back at the business format of that time, in 1999 CMGI@Ventures General Part-

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[1] This case was compiled based on publicly released information as the basis for class discussion by Masahiro Okada, assistant professor of Keio Business School (June 2000).

ner (GP), John Callahan, stated that although numerous online companies are being established almost on a daily basis, only those with the greatest understanding of the needs of their clients will survive. He went on to say that CMGI has a deep understanding of its clients, and places the utmost importance on know-how about how to approach them, pointing out that good deal of this comes from CMGI's marketing experience in DM and data bases which have been the tools of the trade since the company was established."

This simple DM company was acquired by current CEO, David Wetherell, in 1986, at which time its name was changed to CMG Information Services. Later, in 1994, CMGI made its initial public offering as a DM company of modest success. In the same year, CMGI was to encounter the "internet." The company conducted its first investment of around $1 million in a net-related software venture known as Booklink Technologies, making a capital gain in the vicinity of $72 million a year later. Taking this opportunity, CMGI began to rapidly shift towards today's net keiretsu-like business model.

Using the profits from the sale of Booklink Technologies stock as a resource, CMGI established its venture capital division, CMGI@Ventures (wholly-owned subsidiary) in 1995, commencing real investment in net companies from that time through this VC division. This investment division registered a series of major successes right from the outset. This includes investment in typical portal sites Lycos and GeoCities. In 1995, @Ventures gained 80% equity in Lycos with an investment of $2 million, followed by a further investment of $1.8 million. Through the April 1996 IPO, holdings thinned out to 18% but the market capitalization of held stock had reached $700 million by March 1999 (around 180-fold). The company's 1996 investment of around $2 million in GeoCities also resulted in the gaining of 54% equity in that company, and while these holdings were reduced to 29% at the beginning of 1999, their value at that time stood near $260 million (around 140-fold).

At the same time as this sparkling investment business, CMGI continued on with its more sober DM-related business. The wholly-owned subsidiary, Vicinity, was responsible for the sale and data base management of DM mail lists, a business conducted since foundation, but as holdings in this company fell below 50% due to the exercising of employee stock options, it came to be incorporated into the @Ventures investment portfolio as a minority company in terms of capital participation and removed as a consolidated company. Fulfillment service in mail order, extending from DM posting and order processing to product packaging and sending, remained strong as a company business, however, with fulfillment service in internet electronic commerce being added as of 1995. This brought the contribution of this business to company revenue up to around 77% (as at end April 1999). (Refer to Appendix 2).

The CMGI business model

The current CMGI business format involves he building of a network across four net-related business fields (electronic commerce, contents and community, marketing and advertising, and element technology) which encompasses company business in which the majority is held and businesses in which minority investment has been made (this is also referred to by the company as a keiretsu), to maximize the value of the group companies through inter-company synergy.

On its home page, CMGI explains its business model as follows.

CMGI's business model is distinct and inimitable. It consists of a network of diverse yet integrated companies in four Internet-related fields. The almost sixty companies that comprise the CMGI network are either majority-owned, and considered part of its operating group, or the beneficiaries of strategic investment capital from CMGI@Ventures. ... The combined reach of CMGI companies totals more than 50% of the World Wide Web universe. ... CMGI is a company in constant motion: expanding through ongoing expansion and strategic investment in opportunities that further support and enhance the CMGI business model; encouraging core growth of operating companies and investments; management insights and cross-marketing. ... Becoming part of the CMGI network not only improves the potential for success of the company that is joining: it improves the potential for every CMGI company and for CMGI as a whole.

Having the two aspects of a operating company and an investment company, CMGI has under its umbrella its own business and a group of minority owned companies through @Ventures (refer to Appendix 3). By linking both aspects with a network, however, allows both groups to assist each other in a synergistic way. In order to enable communication between the companies making up the network, CMGI holds a "summit" meeting of the CEOs and CTOs of each company as a forum to encourage the exchange of best practices and ideas. The summit was expanded in January 1999 to incorporate marketing Vice Presidents. This in itself it made possible because of CMGI's firm upholding of a policy when selecting new investments of not investing in companies which would come into direct competition with another company already within the group.

While other VCs in Silicon Valley invest broadly across the spectrum of fields involved in information technology, from software to hardware, CMGI's venture investments were focused on service businesses on the internet. With a policy of taking a leadership role as a participating investor, CMGI investments were also made at the initial stages as much as possible. In fact, CMGI had board members in the majority of companies in which it invested. But CMGI did not only invest in venture projects; it was also very active in incubating such ventures. The support functions of the company business arm in the form of management know-how, finances and personnel were provided as backup for the growth of ventures in terms of both capital and management skills.

Money-losing corporations

A partner in CMGI@Ventures, Callahan, made the following comment:

We have continued to say that, in baseball terminology, we are now at the top of the first. However, the game is probably entering the second innings by now. Certainly CMGI has hit two fabulous home runs, at least in the area of investment, but this has not been evident in the business profits.

As Callahan stated, the basis of CMGI's market value lay in its latent profits. All companies in which CMGI invested were running at a loss, and it was expected that results would be produced because of the effect of CMGI's network. Some argued that the end of this phenomenon of loss-making companies being so highly valued was imminent, saying that it is profits, after all, that talk.

The position of the founding business

While the presence in revenue accounted for by the DM-related business (mail list and data base management, fulfillment, etc.), in operation since establishment, could not be entirely dismissed, it was slowly beginning to lose its strategic value as part of the CMGI Group. The dominant perception among CMGI management was that the greatest value was in getting net business models up and running, rapidly increasing their value and producing capital gains through either IPO or sell-offs, making it the best way of meeting the expectations of stockholders. This approach is evident even in the fact that Vicinity, a operating company since inception, was relegated to the position of affiliated company and left as was after it became a minority company due to the exercising of employee stock options.

Well-known net business analyst, Steve Harmon, had this to say.

> There is some "dead wood" in the CMGI@Ventures business portfolio. Another thing that can be said with certainty is that CMGI will swiftly move away from its original DM business. Although SalesLink conducts the order processing, DM posting, and product packaging and posting that goes with direct marketing, it is the only operating company remaining in CMGI's DM division.

Someone else remarked that, "Although CMGI is moving away from the DM business to become a 100% net business, it will continue to apply the lessons learned in the DM business to companies in which it invests and to its own business companies. Not only has a company that was a sleepy DM business just five years ago become a major player in the world of net business, but it has also become the hub of the growth engine for the massive internet itself."

Investment failures: Freemark

Although CMGI appeared at a glance to be riding the crest of a wave, of course not all investments were successful. There were failures too. A case in hand is the investment in, and withdrawal from, Freemark. This was a venture company which provided free e-mail services to web users, earning its money from advertising revenue. In 1994, CMGI began investing in this company at its earliest stages, but services were still not available by October 1996. In December 1996, CMGI suddenly cut off all investment and other support, liquidating the company at a point where member numbers were around the 50,000 mark. Its main rival at the time, Juno, already had one million registered members at that point.

In addition to having already obtained member introduction agreements from Citibank and several university alumni, Freemark had also gained advertising support from fifty companies, including high profile organizations such as the Wall Street Journal, the New York Times, Wired, Life Savers and Campbell's Soup.

Bing Crosby, responsible at the time for contents development, does admit that a large part of the reason for the failure of the company lay with their own management.

> While CMGI contributed half, or $8.5 million, of the $17 million capital that was put up, we went through that entire amount in two years developing the business. Our competitor at the time, Juno, however, had not only received $20 million in capital from its main investing bank, D. E. Shaw, but also assur-

> ances of future investment up to a maximum of $100 million. This was vastly different to our situation. When we went to CMGI asking for extra capital, CMGI quickly decided to cut their losses and fold the company. This was a the major error in CMGI's vision. Another point of failure was that when we asked for $25,000 a month while we looked for another investor, even that was rejected and the company liquidated with no hesitation whatsoever. At that time it seemed that CMGI had determined to recover even a small amount of its capital by selling off to a third party the mail addresses and personal information of the 50,000 people who had registered to that point. The first thing that happened though was that CMGI suddenly left 50,000 users out on the streets. Not only that, they also mistakenly assumed that their mail addresses had some resale value.
>
> This failure was due to their carte blanche application of the "common sense built up through DM." They thought that they could sell the list of registered Freemark members at a high price just as they would the DM address list on paper in the DM industry. Because those 50,000 people actually abandoned their addresses the second Freemark went under and transferred to the services of another company, that list lost all value in an instant. In other words, despite investing $8 million, CMGI had no idea what an e-mail service was. Freemark just happened to be fortunate enough to sell its operations to Mail.com, but the list itself had no more value than scrap paper.

Crosby continues.

> Being from the world of package software, the upper management of CMGI never grasped the concept of having clients download software. But not only that, they were bent on their forte of "postal distribution" of diskettes with serial numbers, just as with off-the-shelf software. Even though they could have had Freemark banner advertising on CMGI group companies Lycos and GeoCities, consumers were never able to download mail software!
>
> CMGI's saying that their failure with Freemark stemmed from "being too far ahead of market needs" is nothing more than a convenient excuse. Think about the advantages the first participant enjoys in this industry. If you try to say it was too early, take a look at Juno. They are enjoying enormous success. CMGI simply did not have a deep understanding of e-mail. Nor did they real-

ize that this market had more than enough room for two companies to prosper.

At the time, Freemark was preparing a contents delivery service for distribution to users' mailboxes of news, sports, weather and other contents from a multitude of sources, much like InfoBeat is conducting now. CMGI, however, had no comprehension of the value of this.

In this way, Crosby vented his criticism of CMGI, but says the criticism is only for the CMGI of that time (1996). "It is not that surprising really considering CMGI's lack of experience in investing in this area at that stage. The company seems to have been completely transformed now (March 1999), providing a good deal of support and joint marketing to the companies in which it invests."

Warning from the Securities and Exchange Commission

In March 1999, right at the time when the CMGI stocks had soared and the company's operating model was being widely lauded in IT industry journals (Upside, The Red Herring, Industry Standard, etc.), an article in Forbes magazine [2] revealed that CMGI had received the following warning from the Securities and Exchange Commission (SEC).

As of the end of October 1998 the total market capitalization of the public equity stocks held by your company [3] has exceeded 40% of the total value of the company's assets. Should you fail to rectify this situation, you will be considered an investment company rather than a operating company. As such, you will need to re-register under the Securities and Exchange Law as a mutual fund. A period of grace of one year will be granted should you decide to rectify the situation to comply with the aforementioned 40% rule.

Should this become a reality and CMGI be viewed as an investment company, not only would the company lose its qualification to be listed on the NASDAQ, but being registered as a mutual fund would make the company subject to legal restrictions highly inconvenient to management. Specifically, investment companies are unable to issue stock options to staff, which in turn would inevitably lead to a significant downturn in morale among employees. The company would also be required to have capital amounting to more than three times its liabilities. Furthermore, corporate activities which would affect

[2] Charles Dubow 1999. "CMGI scrambles to avoid registering as mutual fund." Forbes, March 10, 2000: www.forbes.com/tool/html/99/Mar/0310/mu9.htm

[3] In this instance public equity stocks refers to minority holdings (less than 50%) of other company stocks.

transactions between companies in which investments were made would be completely prohibited. This was tantamount to a denial of the very strategy of the company in which strategic investments were made to create a network of affiliated companies which would actively contribute to the growth of CMGI family companies (incubation), and in which maximum synergy is pursued to maximize the market value of each company.

Immediately obvious to CEO Wetherell was that a situation in which the company would be legally viewed as an investment company, therefore necessitating registration as a mutual fund, must be avoided at all costs. This meant that the company was in a situation in which it had to reduce the proportion of total market capitalization of the public equity stocks it held to a level no more than 40% of the total value of the company's assets by the end of October 1999. There was no time to lose in correcting the strategic line of "maximization of corporate value through dispersed investment with minority holdings." Not only did Wetherell have to swiftly determine a specific plan for conformation with the 40% rule, but was also forced to consider essential matters such as what corporate structure was going to be most beneficial to the company and stockholders, the identity of the company, and what exactly were the basic differences between a operating company and an investment company.

The 1940 Investment Company Act

The intent of the enactment of this federal legislation lies in the Public Utility Holding Company Act of 1935. This 1935 Act was passed to prevent holding companies with companies under their corporate umbrella of highly public characteristics, such as electricity, gas and water utilities, from acting counter to the interests of investors in those umbrella companies and of general consumers. Such acts might include the use of earnings from public utilities being used to make up losses in other companies in the group, or accommodating subcontracting companies in collusion with the holding company in the same field of public works without sufficient market competition. It was the extended application of this philosophy to general business that led to the 1940 Investment Company Act. Under this law, when the value of public equity stock of companies in which minority shares are held (market capitalization) exceeds the total assets (market capitalization) of the company which holds those stocks, the company in question is classified as an investment company, and the stocks it issues must be registered as a mutual fund, the primary purpose of existence of which is to generate operating profits through the holding, transacting and reinvestment of securities. Registering as a mutual fund would dramatically interfere with the management activities of the company itself, given that the company would be prohibited from being involved in the management of other corporations in which it held stock.

While the 1940 Investment Company Act was passed with a view to protecting investors and consumers, as noted above, it has, in substance, given rise to the following kind of secondary effects in modern corporate management. Specifically, in order for management to be actively involved in the business of a publicly-owned company, it must have a certain level of "business characteristics" (total market capitalization of the public equity stocks held by the company must be less than 40% of the total value of the company's assets).

Four options

When faced with the situation in which "the proportion of total market capitalization of the public equity stocks it held had to be reduced to a level no more than 40% of the total value of the company's assets by the end of October 1999," CMGI had four courses of action to chose from.

The first was to grow the value of the existing majority-owned subsidiaries within CMGI and make IPOs to further increase market capitalization. This would result in a decrease in the relative share of public equity securities market capitalization.

The second option was to acquire new companies. Naturally, this was meaningless unless the company became a majority holder.

The third course was to create new businesses within CMGI and actively develop these, while maintaining a majority holding, to increase value.

The fourth option was, as a last resort, to liquidate some of the public equity securities to reduce the proportion represented by such stock in the total value of assets to less than 40%.

So, which of these four options should be selected for implementation? Would it be valid to combine a couple of the options? On what criteria should selection be based? Wetherell undertook his decision-making duties with the belief that it was important to envisage future scenarios that would stem from each option should it be chosen.

The breach of the 40% rule on this occasion was directly attributable to the swift upward surge, exceeding all expectations, of Lycos and Geocities stocks, meaning that there was a possibility that the situation would right itself depending on stock movements (should there be a large downturn on the stock market) before any of the four options were put into action. Either way, the CMGI Board decided to ensure conformity with the 40% rule by October 1999, and management undertook the responsibility for this.

Ultimately, the CEO, Wetherell, decided to approach the situation by focusing on the two means from among the four options which would yield the most immediate results. They were active acquisition (majority holdings) and the sell off of existing public equity stocks.

Stock liquidation since October 1998

In March 1999, Wetherell resigned as a board member of Lycos. In the public domain the reason for this was given as "his expression of opposition to the proposed merger of Lycos and USA Networks," but in reality the reason was that as long as he was a board member of Lycos he was considered a Lycos insider, and timing for the sale of stocks would be limited to right after the announcement of results. In other words, he would have been unable to maneuver disposal of CMGI held Lycos stocks. From 1998 to 1999, CMGI had already sold off some $50 million worth of Lycos stock, about which the company's legal advisor, Bill Williams, had this to say.

We started to sell of Lycos stocks but we were unable to sell them as quickly as we wanted to because of restrictions placed on insiders [4].

In the first half of fiscal 2000 (August through December 1999 and January 2000), CMGI sold 3,155,000 of its Yahoo stocks for $675 million. In the same period, it sold 260,000 Open Market, Inc. stocks for $9.2 million. From January 2000, another 356,500 Yahoo stocks were disposed of, bringing in $64.7 million to CMGI. At the same time, some holdings in Lycos, Reel.com, Sage Enterprises and Amazon.com were also sold, constituting a capital gain of around $100 million.

Corporate acquisitions since October 1998

In CMGI's first quarter of fiscal 2000 (August through October 1999), CMGI made several acquisitions. The largest in scale by a significant margin was the acquisition of the portal, Alta Vista, with its powerful search engine (ranked 15th in the number of people

[4] BostonHerald.com. "CMGI could face mutual fund regulation as internet stakes rise." Sunday, March 14, 1999.

accessing the site), at a cost of $2.3 billion. This was achieved through a stock swap with Compaq Computer, the parent company with 100% holdings in Alta Vista. Compaq transferred 83% of its equity in Alta Vista to CMGI, retaining 17% of the company to keep one seat of the board of directors. In consideration for this, CMGI gave to Compaq 19 million CMGI common stock, and preference stock equivalent in value to 1.8 million common stock. The market capitalization of this was $2.3 billion. Compaq also became the largest stockholder in CMGI (16.4%) through this transaction.

Acquisitions continued after Alta Vista, including Cha! Technologies Services, iAtlas and Signatures Network. The promised price of these three acquisitions, however, was CMGI stocks equivalent to a market price of $64 million and the provision of $113 million operating funds, making them of a much smaller scale than the Alta Vista acquisition. This was followed, nonetheless, by announcements of large-scale acquisitions of AdForce ($545 million) and Flycast Communications ($904 million).

Major acquisitions continued on into 2000 as well. In February 2000, the acquisition (94.1%) of the e-commerce service company, Tallen, Inc., went through for $920 million, followed in March by the closure on the acquisition of yesmail.com, a marketing company using e-mail under a free registration system, for $671 million. On the market, the majority opinion was that conformity to the 40% rule was achieved at the time when Alta Vista was acquired. Wetherell made comments to the following effect in an interview at the time of the Alta Vista acquisition.

Alta Vista was not acquired to avoid the lurking Investment Company Act, but it was a nice side-benefit that the result was conformity with the 40% rule [5].

While conducting acquisitions based on majority holding, CMGI was also conducting investment as a minority holder through CMGI@Ventures. Although thirteen companies (Raging Bull, Asimba, Virtual Ink., Ancestry.com, Furniture.com, HotLinks, Medical Village, NextMonet.com, ONElist, OneCore.com. eCircles.com, advoco.com and Carparts.com) were acquired in the first nine months of the 1999 accounting year (August 1998 through April 1999), the total cost was no more than around $10 million. Even in the first quarter of the 2000 accounting year (August through October 1999), minority investments were made in eleven companies through CMGI@Ventures which amounted to around $10.6 million.

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[5] Judge, Paul. "CMGI Gets AltaVista — And a New Strategy," Businessweek Online, July 12, 1999.

IPO since October 1998

In October 1999 CMGI made an IPO for NaviSite in which it had a majority holding (89.6%). Approximately 5.5 million stocks were issued at $14 each, reducing the ratio of holdings to 71.8%, and resulting in the procurement of some $69.6 million.

Postal strategy to become an operating company

It is likely that the acquisition of Alta Vista was a major turning point in the CMGI corporate strategy. To that point the company had been in the spotlight as having been a successful investment-type model in which earnings were gained from capital gains in public equity stocks. From that time on, however, the corporate strategy shifted to a business-type model. On this point, Wetherell said that the company will be able to do even more for Alta Vista than Compaq did and that Compaq had not provided Alta Vista with effective strategies. His objective was to use the CMGI corporate network — for example, Raging Bull, a popular notice board relating to finance and securities, or the iCast of Web casting (broadcasting services via the internet) — to further enhance Alta Vista contents and services to attract a lot more "eyeballs" (viewers).

Several advantages were thought to be had by shifting the emphasis from investment company to operating company. For investment-type companies, which rely on profits from the sale of public equity stocks, profits always tend to be unpredictable (Table 6). In addition, business management is always forced to be aware of breaching the 1940 Investment Company Act, depending on the state of the market. One of the advantages of shifting to a operating company focusing on portals, therefore, was that a more stable income structure could be realized by placing the emphasis on advertising income. Phil Benyola, research associate with investment advisor Raymond James, also pointed out that, "the Alta Vista acquisition could lead to a larger portal strategy." In other words, by creating partner relationships between Lycos and Yahoo, in which CMGI is a minority holder, and Alta Vista, the strengths of each of those (Alta Vista's search features and Lycos' personalization and community functions) can be combined to provide a strong competitive edge. There are barriers to this strategy, however. In the event that the company attempts to buy all remaining Lycos stocks, the market capitalization is already a high $4 billion, and such a move would also put it in direct competition with the field's number one company, Yahoo [6].

[6] Raynovich, Scot, "CMGI may seek stability through portal strategy," Redherring.com, June 24, 1999.

Aggressive expansion of venture investment funds

In this way, CMGI continued its downsizing of its investment area while expanding the business side from October 1998 onwards. As of the beginning of 2000, however, the company established a string of large-scale VC in quick succession. January 2000 saw the inception of The @Ventures Technology Fund ($1 billion), specializing in B to B internet technology and infrastructure companies. To that point, CMGI had repeatedly invested in Alta Vista, CarParts.com, Furniture.com, Lycos, MotherNature.com and Raging Bull, that is B to C investments. This B to B investment, however, was to further strengthen investment in B to B corporations, such as Chemdex, Engage and NaviSite, in which investment was already completed.

In March 2000, an announcement was made that the CMGI@Ventures Global Partners Fund ($1 billion), specializing in internet infrastructure, was to be established on the European, Asian and Latin American markets through collaboration with two other companies (Hicks, Muse, Tate & Furst Incorporated and Pacific Century CyberWorks Limited. Each company provided capital of $500 million for a total of $1.5 billion, with investment commencing in the latter half of 2000).

The Internet Capital Group and the 1940 Investment Company Act

CMGI was not the only "mock internet investment company" to breach the 40% rule. In May 1999, the Internet Capital Group (ICG) also received a warning from the SEC. ICG had a operating model similar to that of CMGI, with investments of minority holdings in around thirty net businesses. In order to avoid the 40% rule breach, ICG went on to sell off public equity stocks that it held, as well as petitioning the SEC for exemption from the Investment Company Act, which seems to have resulted in a period of grace of approximately one year.

As far as the SEC is concerned, cases such as those of CMGI and ICG have only started to appear very recently since entrepreneurs have begun to create businesses focusing on the web. Davis Polk investment management group's Pierre de Saint Phalle made the following observation.

"The SEC is getting more familiar with the problem, thanks to its dealings with both CMGI and ICG. However, it doesn't help that companies like ICG have been mentioned in the press in the same breath as venture capital firms like Benchmark Capital and others. While differences exist, they can be hard to see."

"It's sometimes difficult to distinguish a company with an operating focus from a company with an investment focus. And it's very difficult for the SEC to grant an exemptive order to an operating company when the entire world mischaracterizes a company as an investment company of a venture capital fund" [7].

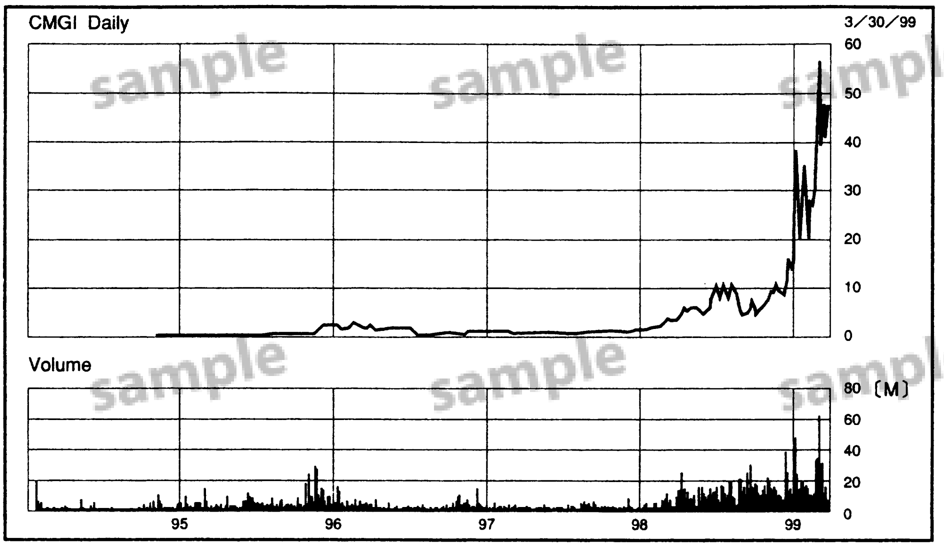
September 1999 interview with Wetherell

Although we are often labeled a VC or investment company, we have been a operating company right from the word go. Our venture investment takes to formats — direct investment in, and development of, solution businesses based on long-term strategy, and investment by the VC division into companies which will quickly grow under their own steam. The CMGI operating model is to draw a synergistic effect from the two arms that are the business development division and VC division to ensure accelerated growth in companies in which we have invested. If we undertake everything as an operating company, as the scale increased we would end up becoming more removed from innovative technology and ideas. No matter how big we become as a operating company, by having VCs for which as many as 2000 business plans are floating around each month, we don't lose our connection with cutting-edge technology. This is a vitally important process, and this operating model gets stronger the bigger the scale becomes" [8].

[7] The Standard.com, "Success a Danger for Internet Capital Group," November 29, 1999.

[8] Nikkei Sangyo Shimbun, September 14, 1999.

Appendix 1: Change in CMGI stock value (January 1994 – March 1999)



(As the above diagram takes into account stock division, stock value is shown at around 1/4 of the apparent value. From www.bigcharts.com)

Appendix 2: CMGI revenue by segment and operating profit (end April 1999)

	Three months ended April 30		Nine months ended April 30	
	1999	1998	1999	1998
Net revenues:				
Investment and development	$10,610,000	$2,208,000	$20,424,000	$14,539,003
Fulfillment services	$33,045,000	$15,937,000	$99,608,000	$41,431,003
Total	$43,655,000	$18,145,000	$120,032,000	$55,970,003
Operating income (loss):				
Investment and development	−$35,632,000	−$25,048,000	−$77,991,000	−$53,093,003
Fulfillment services	$1,565,000	$1,547,000	$2,727,000	$3,757,003
Total	−$34,067,000	−$23,501,000	−$75,264,000	−$49,336,003

Appendix 3: CMGI structure (March 1999)

(Numbers shown after company names indicate the field. Refer to key below)

CMGI, Inc.

- Non-internet Business Companies (majority holdings) — 4 companies
  - CMG Direct (Direct marketing)
  - SalesLink (Fulfillment services) 6
  - InSolutions (Direct marketing)
  - On-Demend Solutions(Direct marketing)
- Internet Business Companies (majority holdings) — 8 companies
  - Activerse 6
  - ADSmart 1
  - Engage Technologies 1
  - NaviSite 6
  - NaviNet 6
  - Planet Direct
  - Magnitude Network 7
  - ZineZone 5
- Internet-related Companies (minority investment through @Ventures) — 23 companies
  - Lycos, Inc. (LCOS) 5
  - blaxxun 5
  - GeoCities (GCTY) 5
  - Vicinity 6
  - ThingWorld.com 4
  - KOZ 5
  - Silknet 6
  - Chemdex 2
  - Speech Machines 6
  - Softway Systems
  - TicketsLive
  - Critical Path 6
  - MotherNature.com 3
  - Raging Bull 5
  - Universal Learning Technology
  - Visto 7
  - Virtual Ink 6
  - Ancestory.com 5
  - ONElist
  - Furniture.com 3
  - OneCore Financial Network 6
  - Asimba 5
  - eCircles.com 5

Note: Apart from some non-internet business companies, the above companies belong to one of the following four field and seven classifications.

1. Marketing, advertising (B to B)
2. e-commerce (EC) (B to B)
3. e-commerce (EC) (B to C)
4. Contents and community (B to B)
5. Contents and community (B to C)
6. Element technology (B to B)
7. Element technology (B to C)

Appendix 4: Financial Statements

(extract from 10Q report for the 4th quarter ending at the end of April 1999. The CMGI accounting period is from August 1 through July 31.)

CMGI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	April 30, 1999	July 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,758	$ 61,537
Available-for-sale securities	886,242	5,764
Accounts receivable, trade, less allowance for doubtful accounts	30,216	21,431
Inventories	9,028	8,250
Prepaid expenses	5,757	2,991
Net current assets of discontinued operations	289	482
Other current assets	22,545	2,364
Total current assets	995,835	102,819
Property and equipment, net	17,885	13,403
Investments in affiliates	58,688	82,616
Goodwill and other intangible assets, net of accumulated amortization	148,348	57,496
Net non-current assets of discontinued operations	975	1,246
Other assets	24,851	2,238
	$1,246,582	$259,818
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 20,000	$ 27,656
Current installments of long-term debt	4,849	16,594
Accounts payable	19,068	10,809
Accrued income taxes	—	10,085
Accrued expenses	31,509	18,731
Deferred revenues	5,084	4,932
Deferred income taxes	317,691	—
Other current liabilities	2,354	1,228
Total current liabilities	400,555	90,035
Long-term debt, less current installments	16,878	1,373
Long-term deferred revenues	1,856	—
Deferred income taxes	10,407	15,536
Other long-term liabilities	7,020	4,428
Minority interest	83,868	15,310
Commitments and contingencies		

Preferred stock, $.01 par value. Authorized 5,000,000 shares; issued 35,000 shares Series B convertible, redeemable preferred stock at April 30, 1999, interest at 4% per annum	35,305	—
Stockholders' equity:		
Common stock, $.01 par value. Authorized 400,000,000 shares; issued 95,302,396 shares at April 30, 1999 and 92,135,772 shares at July 31, 1998	953	921
Additional paid-in capital	205,676	90,569
Net unrealized gain (loss) on available-for-sale securities	418,432	(436)
Unearned compensation	(717)	(1,442)
Retained earnings	66,349	43,524
Total stockholders' equity	690,693	133,136
	$1,246,582	$259,818

CMGI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Three months ended April 30		Nine months ended April 30	
	1999	1998	1999	1998
Net revenues	$ 43,655	$ 18,145	$120,032	$ 55,970
Operating expenses:				
Cost of revenues	42,169	17,230	114,917	45,180
Research and development	5,053	3,849	15,645	14,409
In-process research and development	4,500	9,250	4,500	10,125
Selling	11,282	6,203	26,452	21,951
General and administrative	14,7185,114		33,782	13,641
Total operating expenses	77,722	41,646	195,296	105,306
Operating loss	(34,067)	(23,501)	(75,264)	(49,336)
Other income (deductions):				
Interest income	852	573	2,159	1,712
Interest expense	(1,062)	(775)	(3,295)	(2,261)
Gain on sale of Lycos, Inc. common stock	—	24,850	45,475	41,938
Gain on sale of Premiere Technologies, Inc. common stock	—	—	—	4,174
Gain on sale of Amazon.com, Inc. common stock	—	—	7,002	—
Gain on stock issuance by Lycos, Inc.	—	24,294	20,253	24,208
Gain on stock issuance by GeoCities	859	—	29,373	—
Gain on sale of investment in Sage Enterprises, Inc.	—	—	19,057	—
Gain on sale of investment in Reel.com, Inc.	—	—	23,158	—
Equity in losses of affiliates	(3,553)	(4,247)	(13,101)	(8,763)
Minority interest	275	—	479	(28)
	(2,629)	44,695	130,560	60,980

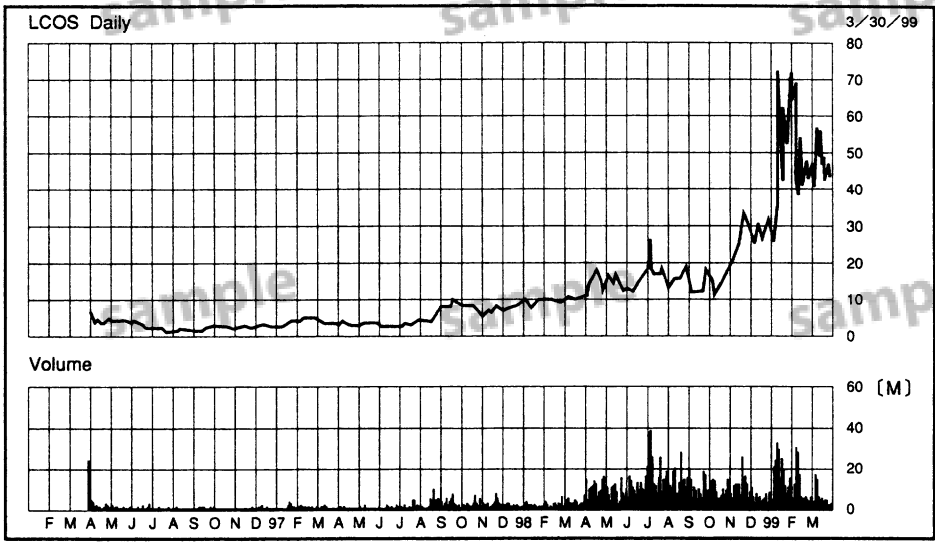
Income (loss) from continuing operations before income taxes	(36,696)	21,194	55,296	11,644
Income tax expense (benefit)	(9,473)	13,125	30,981	11,770
Income (loss) from continuing operations	(27,223)	8,069	24,315	(126)
Discontinued operations, net of income taxes:				
Loss from operations of lists and database services segment	(527)	(147)	(806)	(79)
Gain on sale of data warehouse product rights	—	—	—	4,978
Net income (loss)	$ (27,750)	$ 7,922	$ 23,509	$ 4,773

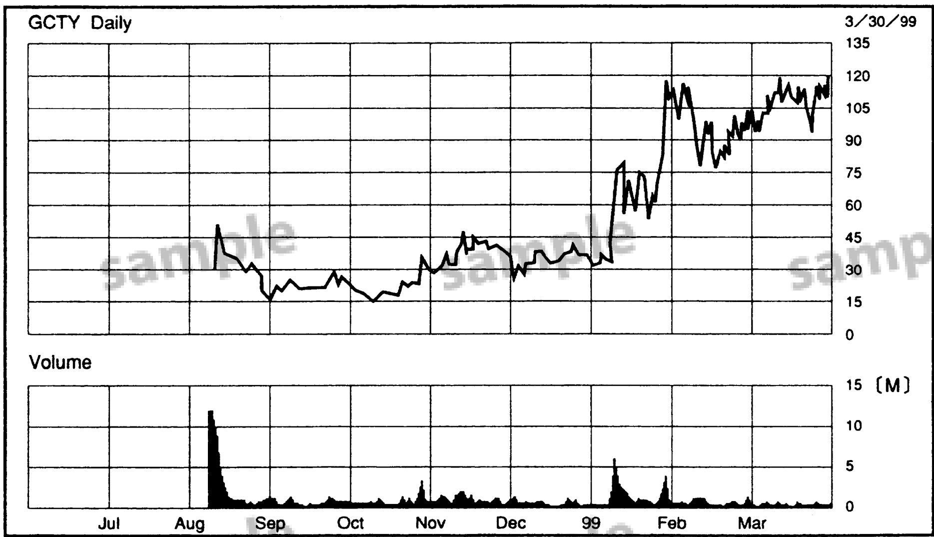
CMGI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine months ended April 30	
	1999	1998
Cash flows from operating activities:		
Income (loss) from continuing operations	$ 24,315	$ (126)
Adjustments to reconcile income (loss) from continuing operations to net cash used for continuing operations:		
Depreciation and amortization	12,047	4,481
Deferred income taxes	18,810	6,680
Non-operating gains, net	(144,318)	(70,320)
Equity in losses of affiliates	13,101	8,763
Minority interest	(479)	28
In-process research and development	4,500	10,125
Changes in operating assets and liabilities, excluding effects from acquisition and deconsolidation of subsidiaries:		
Trade accounts receivable	(6,016)	(4,256)
Inventories	(778)	(4,947)
Prepaid expenses	(2,470)	(2,263)
Accounts payable and accrued expenses	13,834	3,387
Deferred revenues	4,947	2,619
Refundable and accrued income taxes, net	1,042	8,539
Other assets and liabilities	(704)	(235)
Net cash used for operating activities of continuing operations	(62,169)	(37,525)
Net cash used for operating activities of discontinued operations	(280)	(2,675)
Net cash used for operating activities	(62,449)	(40,200)
Cash flows from investing activities:		
Additions to property and equipment continuing operations	(7,760)	(4,103)
Additions to property and equipment discontinued operations	(63)	(114)
Purchase of available-for-sale securities	(31,123)	—

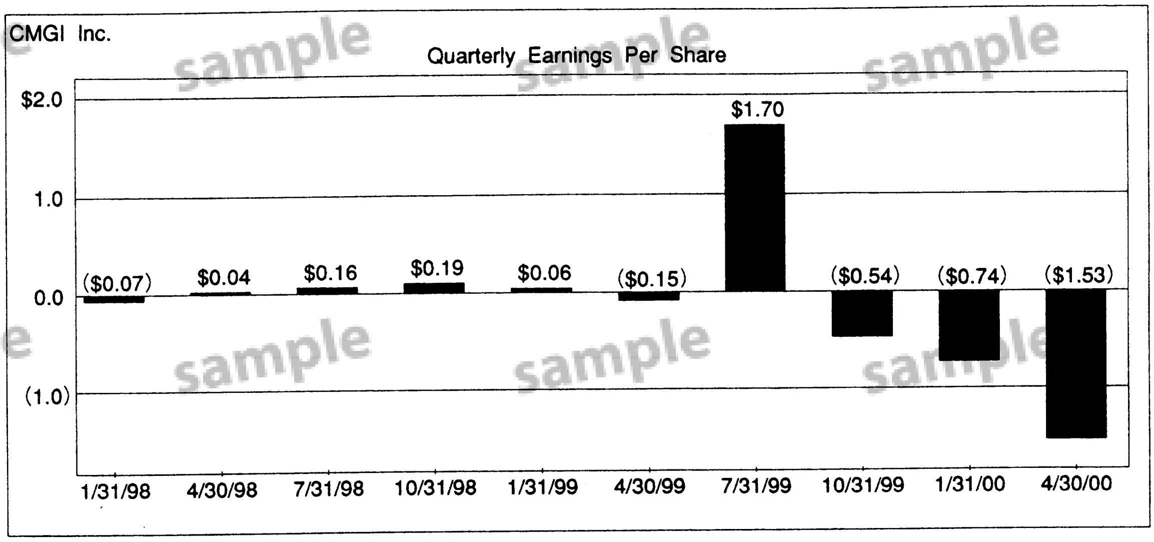
Proceeds from sale of Lycos, Inc. common stock	53,106	46,344
Proceeds from sale of Amazon.com, Inc. common stock	27,177	—
Proceeds from sale of Premiere Technologies, Inc. common stock	—	7,555
Proceeds from sale of data warehouse product rights discontinued operations	—	9,543
Investments in affiliates and acquisitions of subsidiaries, net of cash acquired	(49,383)	(13,913)
Reduction in cash due to deconsolidation of Lycos, Inc.	—	(41,017)
Other	1,600	217
Net cash provided by (used for) investing activities	(6,446)	4,512
Cash flows from financing activities:		
Net proceeds from (repayments of) notes payable	(6,656)	706
Repayments of long-term debt	(4,904)	(2,377)
Net proceeds from issuance of Series B convertible preferred stock	49,805	—
Net proceeds from issuance of common stock	5,655	23,095
Net proceeds from issuance of stock by subsidiaries	5,925	477
Other (709)	2,695	
Net cash provided by financing activities	49,116	24,596
Net increase (decrease) in cash and cash equivalents	(19,779)	(11,092)
Cash and cash equivalents at beginning of period	61,537	59,762
Cash and cash equivalents at end of period	$ 41,758	$ 48,670

Appendix 5: Change in Lycos and Geocities stock value
(From IPO to March 1999. From BigCharts.com)





Appendix 6: Changes in profit per CMGI stock



Quarter Ended:	10/31/98	1/31/99	4/30/99	7/31/99	10/31/99	1/31/00	4/30/00
Revenues	37.41	38.97	43.66	55.63	123.73	153.47	225.88
Net Income	38.39	13.15	(27.22)	397.87	(4.94)	(2.23)	(2.17)
Shares Outstanding	184.59	186.65	190.60	191.17	237.33	279.77	293.30
Earnings per Share: (Diluted) Net Income	0.19	0.06	(0.15)	1.70	(0.54)	(0.74)	(1.53)
Dividends	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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