CMGI INC
Form 10-Q
March 10, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended January 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 000-23262

CMGI, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**04-2921333**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1100 Winter Street	**02451**

Waltham, Massachusetts	
(Address of principal executive offices)	**(Zip Code)**

(781) 663-5001

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of March 6, 2006, there were 486,381,124 shares of the registrant s Common Stock, $.01 par value per share outstanding.

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CMGI, INC.

FORM 10-Q

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CMGI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	January 31, 2006	July 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 159,701	$ 192,483
Available-for-sale securities	3,274	278
Accounts receivable, trade, net of allowance for doubtful accounts of $1,594 and $2,107 at January 31, 2006 and July 31, 2005, respectively	215,925	162,913
Inventories	92,163	78,689
Prepaid expenses and other current assets	9,094	11,800
Current assets of discontinued operations	1,733	2,912
Total current assets	481,890	449,075
Property and equipment, net	42,942	40,579
Investments in affiliates	27,957	22,528
Goodwill	181,925	177,250
Other intangible assets	18,952	21,364
Other assets	3,586	5,888
Non-current assets of discontinued operations	2,362	5,000
	$ 759,614	$ 721,684
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 65	$ 1,670
Current installments of obligations under capital lease	305	304
Revolving line of credit		24,785
Accounts payable	156,499	134,252
Current portion of accrued restructuring	8,767	11,251
Accrued income taxes	3,393	2,778
Accrued expenses	48,291	43,024
Other current liabilities	2,883	3,797
Current liabilities of discontinued operations	1,999	2,576
Total current liabilities	222,202	224,437
Revolving line of credit	35,786	
Long-term debt, less current installments	65	98
Long-term portion of accrued restructuring	7,754	7,912
Obligations under capital leases, less current installments	675	823
Other long-term liabilities	17,358	17,101
Non-current liabilities of discontinued operations	98	98

Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at January 31, 2006 and July 31, 2005		
Common stock, $0.01 par value per share. Authorized 1,400,000,000 shares; issued and outstanding 486,231,977 at January 31, 2006 and 484,576,758 shares at July 31, 2005	4,862	4,846
Additional paid-in capital	7,452,030	7,453,851
Deferred compensation		(6,213)
Accumulated deficit	(6,987,443)	(6,983,260)
Accumulated other comprehensive income	6,227	1,991
Total stockholders equity	475,679	471,215
	$ 759,614	$ 721,684

See accompanying notes to interim unaudited condensed consolidated financial statements

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CMGI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2006	**2005**	**2006**	**2005**
Net revenue	$ 318,849	$ 292,025	$ 622,258	$ 545,249
Operating expenses:				
Cost of revenue	288,445	253,327	560,882	475,824
Selling	5,293	5,302	10,681	10,959
General and administrative	20,276	20,340	41,393	40,435
Amortization of intangible	1,206	1,305	2,412	2,612
Restructuring, net	5,326	977	6,303	2,313
Total operating expenses	320,546	281,251	621,671	532,143
Operating income (loss)	(1,697)	10,774	587	13,106
Other income (expense):				
Interest income	1,384	877	2,557	1,507
Interest expense	(722)	(590)	(1,274)	(1,013)
Other gains (losses), net	(1,119)	(1,158)	2,117	(2,600)
Equity in income (losses) of affiliates, net	5	303	(398)	77
	(452)	(568)	3,002	(2,029)
Income (loss) from continuing operations before income taxes	(2,149)	10,206	3,589	11,077
Income tax expense	758	1,020	1,701	2,546
Income (loss) from continuing operations	(2,907)	9,186	1,888	8,531
Discontinued operations, net of income taxes:				
Loss from discontinued operations	(3,408)	(1,950)	(6,071)	(1,848)
Net income (loss)	$ (6,315)	$ 7,236	$ (4,183)	$ 6,683
Basic and diluted earnings (loss) per share:				
Earnings (loss) from continuing operations	$ (0.01)	$ 0.02	$ 0.00	$ 0.02
Loss from discontinued operations	(0.01)	(0.00)	(0.01)	(0.00)
Net earnings (loss)	$ (0.02)	$ 0.02	$ (0.01)	$ 0.02
Shares used in computing basic earnings (loss) per share	482,727	475,072	482,373	472,472

Shares used in computing diluted earnings (loss) per share	482,727	485,719	487,351	480,905

See accompanying notes to interim unaudited condensed consolidated financial statements

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CMGI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended January 31,	
	2006	**2005**
Cash flows from operating activities of continuing operations:		
Net income (loss)	$ (4,183)	$ 6,683
Less loss from discontinued operations	(6,071)	(1,848)
Income from continuing operations	1,888	8,531
Adjustments to reconcile net income (loss) to net cash used for continuing operations:		
Depreciation	4,701	4,680
Amortization of intangible assets	2,412	2,612
Stock-based compensation	3,789	3,303
Non-operating (gains) losses, net	(351)	(549)
Gain on sale of building	(2,749)	
Equity in income (losses) of affiliates	398	(77)
Non-cash restructuring charges	312	158
Changes in operating assets and liabilities, excluding effects from acquired and divested subsidiaries:		
Trade accounts receivable, net	(52,324)	(43,853)
Inventories	(13,382)	(15,016)
Prepaid expenses and other current assets	1,729	558
Accounts payable, accrued restructuring and expenses	22,357	26,268
Refundable and accrued income taxes, net	1,042	604
Other assets and liabilities	(1,534)	1,251
Net cash used for operating activities of continuing operations	(31,712)	(11,530)
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(8,463)	(4,481)
Net proceeds from sale of building	2,749	
Net cash impact of Modus acquisition, including retirement of Modus indebtedness		(68,073)
Proceeds from affiliate distributions	546	1,098
Investments in affiliates	(5,833)	(4,405)
Net cash used in investing activities of continuing operations	(11,001)	(75,861)
Cash flows from financing activities of continuing operations:		
Repayments of long-term debt	(1,638)	(422)
Repayments on capital leases	(149)	(149)
Proceeds from revolving line of credit	11,001	
Proceeds from issuance of common stock	627	3,859

Net cash provided by financing activities of continuing operations	9,841	3,288
Cash flows from discontinued operations (Revised see Note B):		
Operating cash flows	(74)	47
Investing cash flows	(165)	(606)
Net cash used for discontinued operations	(239)	(559)
Net effect of exchange rate changes on cash and cash equivalents	329	1,112
Net decrease in cash and cash equivalents	(32,782)	(83,550)
Cash and cash equivalents at beginning of period	192,483	271,865
Cash and cash equivalents at end of period	$ 159,701	$ 188,315

See accompanying notes to interim unaudited condensed consolidated financial statements

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CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

A. NATURE OF OPERATIONS

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

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

On August 2, 2004, CMGI completed its acquisition of Modus Media, Inc., a privately held provider of supply chain management solutions (Modus), which conducted business through its wholly owned subsidiary, Modus Media International, Inc. CMGI acquired Modus in order to expand the geographic presence of its supply chain management offerings, diversify its client base, broaden its product and service offerings and bolster its management team. Modus Media International, Inc. has been renamed ModusLink Corporation, and the Company s supply chain management businesses previously operated by Modus and SalesLink are now operated under the ModusLink name. SalesLink s marketing distribution services business is managed by ModusLink and continues to operate under the name SalesLink. Through the formation of ModusLink, CMGI has created a supply chain management market leader with fiscal 2005 revenue of $1.1 billion, 42 locations in 14 countries (including six locations in Japan operated by an entity in which the Company has a 40% interest), including a significant China presence, and a widely diversified client base that includes leaders in technology, software and consumer electronics.

During the three months ended January 31, 2006, CMGI s Board of Directors authorized the divestiture of a business unit within the Company s Americas reporting segment. Management has determined that this planned divestiture meets the criteria for held for sale accounting for a discontinued operation in accordance with the provisions of Statement of Financial Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . As such, the operating results of the business unit have been segregated from continuing operations and have been reported as discontinued operations in the accompanying condensed balance sheets, statements of operations, cash flows and related notes to the condensed consolidated financial statements for all periods presented.

B. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by CMGI in accordance with accounting principles generally accepted in the United States of America (US GAAP). In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of the Company s financial position, results of operations and cash flows at the dates and for the periods indicated. While the Company believes that the disclosures presented are adequate to make the information not misleading, these condensed consolidated financial statements should be read in conjunction with the audited financial statements and related

CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

notes for the year ended July 31, 2005 which are contained in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on October 14, 2005. The results for the three-month and six-month periods ended January 31, 2006 are not necessarily indicative of the results to be expected for the full fiscal year. Certain prior year amounts in the condensed consolidated financial statements have been reclassified in accordance with US GAAP to conform to the current year presentation.

Discontinued operations reporting has been applied for certain of the Company s divestitures (see Note O). During the three months ended January 31, 2006, the Company has revised its presentation of discontinued operations in its statement of cash flows to separately disclose the operating, investing and financing portions of the cash flows attributable to its discontinued operations, which in prior periods were reported on a combined basis as a single amount.

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

In addition to its three current operating segments, the Company reports an Other category. The Other category represents corporate expenses consisting primarily of directors and officers insurance costs, costs associated with maintaining certain of the Company s information technology systems and certain corporate administrative functions such as legal and finance, as well as certain administrative costs related to the Company s venture capital affiliates. The Other category also consists of any residual results from operations that exist through the cessation of operations of Equilibrium, CMGI Solutions, MyWay, iCast, NaviPath, ExchangePath, and Activate, each of which have been divested or substantially wound down, as these entities do not meet the aggregation criteria under SFAS No. 131 with respect to the Company s current reporting segments. The historical results of these companies were previously reported in the Enterprise Software and Services (Equilibrium and CMGI Solutions), Portals (MyWay and iCast) and Managed Application Services (NaviPath, ExchangePath, and Activate) segments, respectively. The Other category s balance sheet information includes certain cash equivalents, available-for-sale securities, investments and other assets, which are not identifiable to the operations of the Company s operating business segments.

In accordance with accounting principles generally accepted in the United States of America, all significant intercompany transactions and balances have been eliminated in consolidation. Accordingly, segment results reported by the Company exclude the effect of transactions between the Company and its subsidiaries and between the Company s subsidiaries.

C. NEW ACCOUNTING PRONOUNCEMENTS

In November 2005, the FASB issued a FASB Staff Position (FSP) FAS123(R)-3, Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards. This FSP requires an entity to follow either the transition guidance for the additional-paid-in-capital pool as prescribed in SFAS No. 123(R), Share-Based Payment, or the alternative transition method as described in the FSP. An entity that adopts SFAS No. 123(R) using the modified prospective application may make a one-time election to adopt the transition method described in this FSP. An entity may take up to one year from the later of its initial adoption of SFAS No. 123(R) or the effective date of this FSP to evaluate its available transition alternatives and make its one-time election. This FSP became effective in November 2005. We continue to evaluate the impact that the adoption of this FSP could have on our financial statements.

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CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards SFAS No. 154, Accounting Changes and Error Corrections which replaces APB Opinion No. 20 Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28. SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is not practicable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by the Company in the first quarter of fiscal 2007. Although the Company will continue to evaluate the application of SFAS No. 154, management does not currently believe adoption will have a material impact on the Company s results of operations or financial position.

D. GOODWILL AND INTANGIBLE ASSETS

The purchase price of the assets acquired and the liabilities assumed in a business combination are subject to an allocation period in accordance with SFAS 141, Business Combinations. In connection with the Modus acquisition, the allocation period for all adjustments other than those related to tax loss carryforwards expired during the quarter ended October 31, 2005, while the allocation period for tax adjustments will still remain open in accordance with SFAS 109, Accounting for Income Taxes. During the three months ended January 31, 2006, the Company recorded a purchase accounting adjustment of $0.3 million related to a deferred tax balance in Asia. During the six months ended January 31, 2006, total after-tax purchase accounting adjustments of $4.7 million were recorded, of which $3.9 million related to the restructuring of a facility in Europe (see Note G), $0.4 million related to the elimination of redundant positions in the Americas, $0.1 million related to an asset write-down in Europe and $0.3 million related to the previously mentioned tax adjustment in Asia.

The changes in the carrying amount of goodwill for the six months ended January 31, 2006 are as follows:

	Americas	Europe	Asia	Total
		(in thousands)		
Balance as of July 31, 2005	$ 77,764	$ 26,960	$ 72,526	$ 177,250
Adjustments to goodwill from acquisition of Modus	373	4,043	259	4,675
Balance as of January 31, 2006	$ 78,137	$ 31,003	$ 72,785	$ 181,925

	Goodwill	Customer Relationships	Developed Technology	Trade Names	Total
			(in thousands)		
Balance as of July 31, 2005	$ 177,250	$ 17,576	$ 2,332	$ 1,456	$ 198,614
Adjustments to goodwill and other intangible assets from the acquisition of Modus	4,416				4,416
Net carrying amount	181,666	17,576	2,332	1,456	203,030
Amortization expense		(731)	(292)	(183)	(1,206)

Balance as of October 31, 2005	$ 181,666	$ 16,845	$ 2,040	$ 1,273	$ 201,824
Goodwill adjustment from the acquisition of Modus	259				259
Net carrying amount	181,925	16,845	2,040	1,273	202,083
Amortization expense		(731)	(292)	(183)	(1,206)
Balance as of January 31, 2006	$ 181,925	$ 16,114	$ 1,748	$ 1,090	$ 200,877

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CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The amortization of intangible assets for the six months ended January 31, 2006 and 2005 would have been primarily allocated to selling expenses had the Company recorded the expenses within the functional operating expense categories.

E. EMPLOYEE STOCK BENEFIT PLANS

Employee Stock Purchase Plan

On October 4, 1994, the Board of Directors of the Company adopted the 1995 Employee Stock Purchase Plan (the Plan). The purpose of the Plan is to provide a method whereby all eligible employees of the Company and its subsidiaries may acquire an equity interest in the Company through the purchase of shares of common stock. Under the Plan, employees may purchase the Company s common stock through payroll deductions at an option price equal to 85% of the fair market value of the Company s common stock on either the first business day or last business day of the applicable quarterly period, whichever is lower. During fiscal year 2002, the Plan was amended to increase the aggregate number of shares to 3.0 million. During the six months ended January 31, 2006 and 2005, the Company issued approximately 113,000 and 98,000 shares, respectively, under the Plan. As of January 31, 2006, approximately 860,000 shares were available for issuance under the Plan.

Stock Option Plans

The Company currently awards stock options under four plans: the 2004 Stock Incentive Plan (the 2004 Plan), the 2002 Non-Officer Employee Stock Incentive Plan (2002 Plan), the 2000 Stock Incentive Plan (2000 Plan) and the 2005 Non-Employee Director Plan (the 2005 Plan). Options granted under the 2004 Plan, 2002 Plan and the 2000 Plan are generally exercisable as to 25% of the shares underlying the options beginning one year after the date of grant, with the option being exercisable as to the remaining shares in equal monthly installments over the next three years. Stock options granted under these plans have contractual terms of five to seven years. The Company may also grant awards other than stock options under the 2004 Plan, 2002 Plan and 2000 Plan.

In December 2005, at the Company s Annual Meeting of Stockholders, the stockholders of the Company approved the 2005 Plan, pursuant to which the Company may grant non-qualified stock options to certain members of the Board of Directors. The 2005 Plan replaced the Company s Amended and Restated 1999 Stock Option Plan For Non-Employee Directors (1999 Plan). No additional options will be granted under the 1999 Plan; however, all then-outstanding options under the 1999 Plan shall remain in effect in accordance with their respective terms. Up to 2,000,000 shares of common stock may be issued pursuant to awards granted under the 2005 Plan (subject to adjustment in the event of stock splits and other similar events). The 2005 Plan provides that each eligible director who is elected to the Board for the first time after this plan is adopted will automatically be granted an option to acquire 200,000 shares of Common Stock (the Initial Option). Each Affiliated Director who ceases to be an Affiliated Director and is not otherwise an employee of the Company or any of its subsidiaries or affiliates will be granted, on the date such director ceases to be an Affiliated Director but remains as a member of the Board of Directors, an Initial Option to acquire 200,000 shares of Common Stock under the plan. Each Initial Option will vest and become exercisable as to 1/36th of the number of shares of Common Stock originally subject to the option on each monthly anniversary of the date of grant, provided that the optionee serves as a director on such monthly anniversary date. On the date of each annual meeting of stockholders of the Company commencing with the 2005 Meeting, each eligible director who has served on the Board for at least six months will automatically be granted an option to purchase 24,000 shares of Common Stock (an Annual Option), provided that such eligible director serves as a director on the applicable anniversary date. Each Annual Option will vest and become exercisable on a monthly basis as to 1/36th of the number of shares originally subject to the option on each monthly anniversary of the date of grant, provided that the optionee serves as a director on such monthly anniversary date. Stock options granted under the 2005 Plan

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CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

have contractual terms of 10 years. Outstanding options under the 2005 Plan at January 31, 2006 expire through December 2015.

In December 2004, at the Company s Annual Meeting of Stockholders, the stockholders of the Company approved the 2004 Plan pursuant to which the Company may grant stock options, stock appreciation rights, restricted stock awards and other equity-based awards for the purchase of up to an aggregate of 15,000,000 shares of common stock of the Company (subject to adjustment in the event of stock splits and other similar events). The maximum number of shares with respect to which stock options may be granted to any one participant under the 2004 Plan may not exceed 6,000,000 shares per calendar year. The maximum number of shares with respect to which awards other than stock options and stock appreciation rights may be granted under the 2004 Plan is 5,000,000 shares.

In March 2002, the Board of Directors adopted the 2002 Plan, pursuant to which 4,150,000 shares of common stock were reserved for issuance (subject to adjustment in the event of stock splits and other similar events). In May 2002, the Board of Directors approved an amendment to the 2002 Plan in which the total shares available under the plan were increased to 19,150,000. Under the 2002 Plan, non-statutory stock options or restricted stock awards may be granted to the Company s or its subsidiaries employees, other than those who are also officers or directors, as defined. The Board of Directors administers this plan, approves the individuals to whom options will be granted, and determines the number of shares and exercise price of each option. Outstanding options under the 2002 Plan at January 31, 2006 expire through 2013.

In October 2000, the Board of Directors adopted the 2000 Plan, pursuant to which 15,500,000 shares of common stock were reserved for issuance (subject to adjustment in the event of stock splits and other similar events). Under the 2000 Plan, non-qualified stock options or incentive stock options may be granted to the Company s or its subsidiaries employees, consultants, advisors or directors, as defined. The Board of Directors administers this plan, approves the individuals to whom options will be granted, and determines the number of shares and exercise price of each option. Outstanding options under the 2000 Plan at January 31, 2006 expire through 2012.

The 1999 Plan, approved in fiscal year 2000, replaced the Company s 1995 Directors Plan. No options under the 1995 Director s Plan remain in effect. Pursuant to the 1999 Plan, 2,000,000 shares of the Company s common stock were initially reserved for issuance.

Stock Option Valuation and Expense Information under SFAS No. 123(R)

On August 1, 2005, the Company adopted SFAS No. 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company s employees and directors including employee stock options and employee stock purchases based on estimated fair values. The following table summarizes stock-based compensation expense related to employee stock options, employee stock purchases and nonvested shares under SFAS No. 123(R) for the three and six months ended January 31, 2006 which was allocated as follows:

	For the three months ended January 31, 2006	For the six months ended January 31, 2006
	(in thousands)	
Cost of goods sold	$ 147	$ 284
Selling	200	405
General and administrative	1,432	3,100
	$ 1,779	$ 3,789

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CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The Company uses a lattice-binomial model to value stock options. The use of a lattice-binomial model requires the use of extensive actual employee exercise behavior data and the use of a number of complex assumptions including expected volatility, risk-free interest rate and expected life. The weighted-average estimated value of employee stock options granted during the three and six months ended January 31, 2006 was $0.97 and $1.00 per share, respectively, using the lattice-binomial model with the following weighted-average assumptions:

	For the three months ended January 31, 2006	For the six months ended January 31, 2006
Expected volatility	79.47%	80.52%
Risk-free interest rate	4.30%	4.26%
Expected life (in years)	4.29	4.29

The volatility assumption is based on the weighted average for the most recent one-year and long term volatility measures of the Company s stock as well as certain of the Company s peers. Prior to August 1, 2005, the Company had used its historical stock price volatility in accordance with SFAS No. 123 for purposes of its pro forma information.

The risk-free interest rate assumption is based upon the interpolation of various U.S. Treasury rates, as of the month of the grants.

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is a derived output of the lattice-binomial model. The determination of the expected life of employee stock options assumes that employees exercise behavior is a function of the option s remaining vested life and the extent to which the option is in-the-money. The lattice-binomial model estimates the probability of exercise as a function of these two variables based on the entire history of exercises and cancellations on all past option grants made by the Company. The expected life generated by these probabilities reflects actual and anticipated exercise behavior of options granted historically.

As stock-based compensation expense recognized in the condensed consolidated statement of operations for the three and six months ended January 31, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based partially on historical experience. In the Company s pro forma information required under SFAS No. 123 for the periods prior to August 1, 2005, the Company established estimates for forfeitures.

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CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Stock Options

The status of the plans during the six months ended January 31, 2006 is as follows:

	Number of shares	Weighted average exercise price
	(in thousands, except exercise price)	
Stock options outstanding, July 31, 2005	19,456	$ 1.71
Granted	1,749	1.66
Exercised	(55)	0.61
Forfeited	(1,791)	2.47
Stock options outstanding, October 31, 2005	19,359	$ 1.64
Granted	2,181	1.57
Exercised	(561)	0.78
Forfeited	(486)	2.06
Stock options outstanding, January 31, 2006	20,493	$ 1.65

As of January 31, 2006, unrecognized stock-based compensation related to stock options was approximately $10.1 million. This cost is expected to be expensed over a weighted average period of 2.6 years. The aggregate intrinsic value of stock options outstanding as of January 31, 2006 is approximately $4.3 million. The aggregate intrinsic value of stock options exercisable as of January 31, 2006 is approximately $3.0 million.

The following table summarizes information about the Company s stock options outstanding at January 31, 2006:

	Outstanding			Exercisable	
Range of exercise prices	Number of shares	Weighted average remaining contractual life	Weighted average exercise price	Number of shares	Weighted average exercise price
	(number of shares in thousands)				
$0.00 $1.00	2,856	5.4 years	$ 0.51	2,379	$ 0.50
$1.01 $2.50	16,272	5.3	1.50	6,279	1.49
$2.51 $5.00	1,301	4.7	3.89	1,258	3.91

\$5.01 \$25.00	17	1.1	23.48	17	23.48
\$25.01 \$50.00	38	1.8	30.17	38	30.17
\$50.01 \$150.00	9	4.0	132.44	9	132.44
	20,493	5.2 years	\$ 1.65	9,980	\$ 1.83

Nonvested Stock

Nonvested stock are shares of Common Stock that are subject to restrictions on transfer and risk of forfeiture until the fulfillment of specified conditions. In connection with the adoption of SFAS No. 123(R) on August 1, 2005, the Company reclassified approximately $6.2 million of recorded deferred compensation related to unamortized nonvested stock to additional paid-in capital. Nonvested stock is expensed ratably over the term

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CMGI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

of the restriction period, ranging from one to five years. Nonvested stock compensation expense for the three and six months ended January 31, 2006 is approximately $0.4 million and $0.9 million, respectively. Nonvested stock compensation expense for the three and six months ended January 31, 2005 is approximately $1.8 million and $3.3 million, respectively.

A summary of the status of our nonvested stock for the six months ended January 31, 2006, is as follows:

	Number of shares	Weighted average grant date fair value
	(in thousands)	
Nonvested stock outstanding, July 31, 2005	4,815	$ 1.55
Granted	985	1.66
Vested	(2,436)	1.23
Nonvested stock outstanding, October 31, 2005	3,364	$ 1.82
Granted	140	1.57
Vested	(79)	1.23
Canceled	(10)	1.59
Nonvested stock outstanding, January 31, 2006	3,415	$ 1.78

The fair value of nonvested shares is determined based on market price of the Company s common stock on the grant date. The total fair value of nonvested stock that vested during the six months ended January 31, 2006 was approximately $4.6 million. As of January 31, 2006, there was approximately $6.0 million of total unrecognized compensation cost related to nonvested stock to be recognized over a weighted-average period of 3.1 years.

Pro Forma Information under SFAS No. 123

Pro forma information regarding the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 for the three and six months ended January 31, 2005 is as follows: