



FORM 10-Q

CMGI INC - CMGI

Filed: June 11, 2007 (period: April 30, 2007)

Quarterly report which provides a continuing view of a company's financial position

Part I.

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2007

OR

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

For the transition period from _____ to _____

Commission File Number 000-23262

CMGI, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

04-2921333
(I.R.S. Employer
Identification No.)

1100 Winter Street
Waltham, Massachusetts
(Address of principal executive offices)

02451
(Zip Code)

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

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

Indicate by check mark whether the registrant is 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 (Check one).

Large accelerated filer 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

As of June 6, 2007, there were 488,602,614 shares outstanding of the registrant's Common Stock, \$.01 par value per share.

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CMGI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

ASSETS	April 30, 2007	July 31, 2006
Current assets:		
Cash and cash equivalents	\$ 137,325	\$ 131,728
Available-for-sale securities	848	2,554
Short-term investments	112,100	94,450
Accounts receivable, trade, net of allowance for doubtful accounts of \$1,224 and \$1,123 at April 30, 2007 and July 31, 2006, respectively	211,953	175,391
Inventories	67,566	77,887
Prepaid expenses and other current assets	13,243	11,638
Current assets of discontinued operations	<u>—</u>	<u>1,962</u>
Total current assets	<u>543,035</u>	<u>495,610</u>
Property and equipment, net	53,162	46,020
Investments in affiliates	26,736	20,655
Goodwill	181,376	181,239
Other intangible assets, net	12,922	16,540
Other assets	<u>3,020</u>	<u>3,139</u>
	<u>\$ 820,251</u>	<u>\$ 763,203</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of obligations under capital lease	\$ 456	\$ 321
Accounts payable	142,530	151,077
Current portion of accrued restructuring	4,461	5,368
Accrued income taxes	6,993	5,502
Accrued expenses	55,747	43,526
Other current liabilities	3,022	2,819
Current liabilities of discontinued operations	<u>3,057</u>	<u>4,775</u>
Total current liabilities	<u>216,266</u>	<u>213,388</u>
Revolving line of credit	24,786	24,786
Long-term portion of accrued restructuring	5,354	6,831
Obligations under capital leases, less current installments	446	548
Other long-term liabilities	13,211	15,629
Non-current liabilities of discontinued operations	2,256	4,106
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. Authorized 5,000,000 shares; zero issued or outstanding at April 30, 2007 and July 31, 2006	—	—
Common stock, \$0.01 par value per share. Authorized 1,405,000,000 shares; issued and outstanding 485,438,441 at April 30, 2007 and 483,948,888 shares at July 31, 2006	4,886	4,865
Additional paid-in capital	7,459,561	7,455,076
Accumulated deficit	(6,912,700)	(6,968,315)
Accumulated other comprehensive income	<u>6,185</u>	<u>6,289</u>
Total stockholders' equity	<u>557,932</u>	<u>497,915</u>
	<u>\$ 820,251</u>	<u>\$ 763,203</u>

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2007	2006	2007	2006
Net revenue	\$ 282,078	\$ 264,748	\$ 890,466	\$ 887,006
Operating expenses:				
Cost of revenue	252,111	235,886	789,923	796,768
Selling	3,404	5,108	10,489	15,789
General and administrative	24,494	21,710	67,056	63,103
Amortization of intangibles	1,206	1,206	3,618	3,618
Restructuring, net	(14)	2,582	2,181	8,885
Total operating expenses	<u>281,201</u>	<u>266,492</u>	<u>873,267</u>	<u>888,163</u>
Operating income (loss)	<u>877</u>	<u>(1,744)</u>	<u>17,199</u>	<u>(1,157)</u>
Other income (expense):				
Interest income	2,551	1,443	7,395	4,000
Interest expense	(660)	(795)	(1,901)	(2,069)
Other gains, net	5,073	21,976	34,025	24,093
Equity in income (losses) of affiliates, net	868	325	2,002	(73)
	<u>7,832</u>	<u>22,949</u>	<u>41,521</u>	<u>25,951</u>
Income from continuing operations before income taxes	8,709	21,205	58,720	24,794
Income tax expense (benefit)	(909)	(738)	3,378	963
Income from continuing operations	9,618	21,943	55,342	23,831
Discontinued operations, net of income taxes:				
Income (loss) from discontinued operations	(203)	(269)	273	(6,340)
Net income	<u>\$ 9,415</u>	<u>\$ 21,674</u>	<u>\$ 55,615</u>	<u>\$ 17,491</u>
Basic and diluted earnings per share:				
Earnings from continuing operations	\$ 0.02	\$ 0.04	\$ 0.11	\$ 0.05
Income (loss) from discontinued operations	(0.00)	(0.00)	0.00	(0.01)
Net earnings	<u>\$ 0.02</u>	<u>\$ 0.04</u>	<u>\$ 0.11</u>	<u>\$ 0.04</u>
Shares used in computing basic earnings per share	<u>484,756</u>	<u>483,188</u>	<u>484,523</u>	<u>482,614</u>
Shares used in computing diluted earnings per share	<u>490,553</u>	<u>485,927</u>	<u>487,169</u>	<u>486,868</u>

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended April 30,	
	2007	2006
Cash flows from operating activities of continuing operations:		
Net income	\$ 55,615	\$ 17,491
Income (loss) from discontinued operations	273	(6,340)
Income from continuing operations	<u>55,342</u>	<u>23,831</u>
Adjustments to reconcile income from continuing operations to net cash provided by (used in) continuing operations:		
Depreciation	10,452	8,108
Amortization of intangible assets	3,618	3,618
Stock-based compensation	3,789	5,348
Non-operating gains, net	(34,025)	(23,017)
Gain on sale of building	—	(2,749)
Equity in (income) losses of affiliates	(2,002)	73
Non-cash restructuring	101	312
Changes in operating assets and liabilities:		
Trade accounts receivable, net	(25,545)	(23,506)
Inventories	13,939	(5,004)
Prepaid expenses and other current assets	(988)	218
Accounts payable, accrued restructuring and accrued expenses	(8,931)	5,893
Prepaid and accrued income taxes, net	(2,101)	(109)
Other assets and liabilities	(878)	(507)
Net cash provided by (used in) operating activities of continuing operations	<u>12,771</u>	<u>(7,491)</u>
Cash flows from investing activities of continuing operations:		
Additions to property and equipment	(17,857)	(11,762)
Net proceeds from sale of building	—	2,749
Proceeds from affiliate distributions	34,978	28,628
Purchases of short-term investments	(942,800)	(188,900)
Maturities of short-term investments	925,150	101,400
Investments in affiliates	(7,178)	(5,834)
Business acquisition, net of cash acquired	(2,165)	—
Proceeds from sale of available for sale securities	—	69
Net cash used in investing activities of continuing operations	<u>(9,872)</u>	<u>(73,650)</u>
Cash flows from financing activities of continuing operations:		
Repayments of long-term debt	—	(1,638)
Repayments of capital leases	(267)	(213)
Proceeds from revolving line of credit	—	11,000
Proceeds from issuance of common stock	706	972
Net cash provided by financing activities of continuing operations	<u>439</u>	<u>10,121</u>
Cash flows from discontinued operations:		
Operating cash flows	(127)	161
Investing cash flows	—	(218)
Net cash used in discontinued operations	<u>(127)</u>	<u>(57)</u>
Net effect of exchange rate changes on cash and cash equivalents	<u>2,386</u>	<u>1,091</u>
Net increase (decrease) in cash and cash equivalents	5,597	(69,986)
Cash and cash equivalents at beginning of period	<u>131,728</u>	<u>192,483</u>
Cash and cash equivalents at end of period	<u>\$ 137,325</u>	<u>\$ 122,497</u>

See accompanying notes to condensed consolidated financial statements

CMGI, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A. NATURE OF OPERATIONS

CMGI, Inc. (together with its consolidated subsidiaries, "CMGI" or the "Company"), through its subsidiary, ModusLink Corporation ("ModusLink"), 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 business, @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 in recent years has led to the development, acquisition and operation of majority-owned subsidiaries focused on supply chain management services, as well as the strategic investment in emerging, innovative and promising technology companies. ModusLink is a supply chain management market leader with 36 locations in 13 countries with a significant presence in Asia and Europe. ModusLink serves diversified markets that include leaders in the hardware, software, consumer electronics, telecommunications and storage markets. On April 2, 2007, ModusLink acquired full ownership of its Japan-based joint venture. ModusLink previously had a 40% interest in the entity.

B. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for fair presentation have been included. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended July 31, 2006 which are contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on October 16, 2006. The results for the three month and nine month periods ended April 30, 2007 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 U.S. GAAP to conform to the current year presentation.

The Company reports three operating segments, Americas, Asia and Europe. In addition to its three operating segments, the Company reports an Other category. The Other category represents corporate expenses consisting primarily of costs associated with certain corporate administrative functions such as legal and finance which are not fully allocated to the Company's subsidiary companies, administration costs related to the Company's venture capital business and any residual results of operations from previously divested operations.

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

C. NEW ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" including an amendment of SFAS No. 115, which permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and

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establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company beginning in fiscal 2009. The Company is currently evaluating SFAS No. 159 and the impact that it may have on its results of operations or financial position.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires the measurement of defined benefit plan assets and obligations as of the date of the employer's fiscal year end statement of financial position (with limited exceptions). Under SFAS No. 158, the Company will be required to recognize the funded status of its defined benefit postretirement plan in The Netherlands and to provide the required disclosures as of July 31, 2007. The Company is currently evaluating the impact, if any, that SFAS No. 158 may have on its results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for the Company beginning in fiscal 2009. The Company is currently evaluating the impact, if any, that SFAS No. 157 may have on its results of operations or financial position.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." This SAB provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 establishes an approach that requires quantification of financial statement errors based on the effects on the company's balance sheet and statement of operations and the related financial statement disclosures. SAB No. 108 permits existing public companies to record the cumulative effect of initially applying this approach in the first fiscal year ending after November 15, 2006 by recording the necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. Additionally, the use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company is currently evaluating the impact that SAB No. 108 may have on its results of operations or financial position and will adopt this standard in fiscal 2007.

In July 2006, the FASB issued Interpretation No. 48 ("FIN No. 48") "Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109". This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for the Company beginning in fiscal 2008. The Company is currently evaluating the impact that FIN No. 48 may have on its results of operations or financial position.

D. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Company classifies all highly liquid investments with original maturities of 90 days or less at the time of purchase as a cash equivalent. Investments with maturities greater than 90 days to twelve months at the time of purchase are considered short-term investments.

As of April 30, 2007 and July 31, 2006, the Company had short-term investments in Auction Rate Securities ("ARS") of approximately \$112.1 million and \$94.5 million, respectively. ARS generally have long-term stated

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maturities of 20 to 30 years. However, these securities have certain economic characteristics of short-term investments due to a rate-setting mechanism and the ability to liquidate them through a Dutch auction process that occurs on pre-determined intervals of less than 90 days. These ARS are classified as short-term investments on the accompanying condensed consolidated balance sheets due to management's ability and intent regarding these securities and are accounted for as available-for-sale, in accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." As of April 30, 2007 and July 31, 2006, there were no unrealized gains or losses associated with these investments as cost approximates fair value.

E. 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 Media, Inc. ("Modus") acquisition, the allocation period for all adjustments other than those related to tax carryforwards and contingencies expired during the quarter ended October 31, 2005, while the allocation period for certain tax adjustments and contingencies will remain open in accordance with SFAS 109 "Accounting for Income Taxes." During the nine months ended April 30, 2007, total purchase accounting adjustments recorded were approximately \$0.1 million. An adjustment of \$1.1 million was recorded related to a tax contingency arising from a tax audit by the local tax authorities in Asia for a period prior to the acquisition of Modus, which was offset by adjustments related to the utilization of pre-acquisition net operating losses in the Americas, Europe and Asia regions of approximately \$1.2 million, \$0.3 million and \$0.2 million, respectively. Additionally, approximately \$0.7 million of goodwill was recognized in Asia as a result of ModusLink acquiring full ownership of its Japan-based joint venture. ModusLink previously had a 40% interest in the entity.

The changes in the carrying amount of goodwill by operating segment for the nine months ended April 30, 2007 are as follows:

	<u>Americas</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
		(in thousands)		
Balance as of July 31, 2006	\$78,625	\$30,743	\$71,871	\$181,239
Purchase price adjustments from acquisition of Modus	(1,168)	(274)	918	(524)
Goodwill from acquisition of Japan-based joint venture	—	—	661	661
Balance as of April 30, 2007	<u>\$77,457</u>	<u>\$30,469</u>	<u>\$73,450</u>	<u>\$181,376</u>

The Company is required to test goodwill for impairment annually or if a triggering event occurs in accordance with the provisions of SFAS No. 142 "Goodwill and Other Intangible Assets." The Company's policy is to perform its annual impairment testing for all reporting units, determined to be the Americas, Europe and Asia operating segments, in the fourth quarter of each fiscal year. The Company's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. Management uses third party valuation experts to assist in its determination of the fair value of reporting units subject to impairment testing. The Company operates in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. If our assumptions used in preparing our valuations of the Company's reporting units differ materially for purposes of impairment testing from actual future results, the Company may record impairment charges in the future and our financial results may be materially adversely affected.

F. SHARE-BASED PAYMENTS

Approximately 1.4 million stock options were awarded to new executives during the quarter ended April 30, 2007 at a weighted average exercise price of \$2.08 per share. The weighted average fair value was \$0.86 per share. The weighted average fair value was calculated using the binomial-lattice model with the following weighted average assumptions. The expected volatility was 49.68%, the risk-free rate was 4.53% and the expected life was 4.12.

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Additionally, approximately 0.8 million nonvested shares were awarded to certain executives during the quarter ended April 30, 2007 at a weighted average fair value of \$2.08 per share. The fair value of nonvested shares is determined based on the market price of the Company's common stock on the grant date.

G. OTHER GAINS (LOSSES), NET

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2007	2006	2007	2006
	(in thousands)			
Loss on impairment of marketable securities	\$ —	\$ —	\$ —	\$ (77)
Gain on sale of investments	4,719	22,609	34,971	23,155
Foreign exchange gains (losses)	324	(935)	(942)	(1,940)
Gain on sale of building	—	—	—	2,749
Other, net	30	302	(4)	206
	<u>\$ 5,073</u>	<u>\$ 21,976</u>	<u>\$ 34,025</u>	<u>\$ 24,093</u>

During the three months ended April 30, 2007 the Company recorded a gain on sale of investments of approximately \$4.7 million. Approximately \$1.6 million was a result of the acquisition by a third party of Mitchell International, Inc., an @Ventures portfolio company. Additionally, gains of approximately \$2.5 million and \$0.6 million, respectively, were recorded to adjust previously recorded gains on acquisitions of WebCT, Inc. and Realm Business Solutions, Inc., due to the release of funds held in escrow. WebCT, Inc. and Realm Business Solutions, Inc. were @Ventures portfolio companies that were acquired by third parties in previous reporting periods. During the nine months ended April 30, 2007, the Company recorded a gain on sale of investments of approximately \$35.0 million. In addition to the gains noted above, a gain of approximately \$28.7 million was recorded on the acquisition of Avamar Technologies, Inc. ("Avamar"), an @Ventures portfolio company, by a third party. Under the terms of the agreement, Avamar was acquired in a cash transaction valued at approximately \$165.0 million. The Company may also receive up to an additional \$3.3 million of consideration currently held in escrow, subject to the satisfaction of certain indemnification provisions of the transaction. These potential proceeds from escrow have not been included in the recorded gain. Additionally, during the nine months ended April 30, 2007, gains of approximately \$1.2 million and \$0.3 million, respectively, were recorded to adjust previously recorded gains on the acquisitions by third parties of Molecular, Inc. and Alibris, Inc., due to the release of funds held in escrow. Molecular, Inc. and Alibris, Inc. were also @Ventures portfolio companies that were acquired by third parties in previous reporting periods. The foreign currency exchange loss for the nine months ended April 30, 2007 relates primarily to unhedged foreign currency exposures in Asia.

During the three months ended April 30, 2006, the Company recorded gains of approximately \$19.4 million and \$3.2 million, respectively, as a result of the acquisitions of WebCT, Inc. and Realm Business Solutions, Inc. by third parties. In addition, during the nine months ended April 30, 2006, the Company recorded a gain of approximately \$0.5 million to adjust a previously recorded gain on the acquisition by a third party of Molecular, Inc., due to the release of funds held in escrow and the Company recorded approximately \$2.7 million related to the sale of a building in Ireland. During the three months and nine months ended April 30, 2006, the Company recorded foreign exchange losses of approximately \$0.9 million and \$1.9 million, respectively.

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H. RESTRUCTURING CHARGES

The following table summarizes the activity in the restructuring accrual for the three and nine months ended April 30, 2007:

	<u>Employee Related Expenses</u>	<u>Contractual Obligations</u>	<u>Asset Impairments</u>	<u>Total</u>
	(in thousands)			
Accrued restructuring balance at July 31, 2006	<u>\$1,521</u>	<u>\$ 10,678</u>	<u>\$ —</u>	<u>\$12,199</u>
Restructuring charges	198	2	—	200
Restructuring adjustments	(17)	(370)	—	(387)
Cash charges	<u>(852)</u>	<u>(726)</u>	—	<u>(1,578)</u>
Accrued restructuring balance at October 31, 2006	<u>\$ 850</u>	<u>\$ 9,584</u>	<u>\$ —</u>	<u>\$10,434</u>
Restructuring charges	522	1,563	259	2,344
Restructuring adjustments	(27)	218	(153)	38
Cash charges	(285)	(867)	—	(1,152)
Non-cash charges	—	—	(106)	(106)
Accrued restructuring balance at January 31, 2007	<u>\$1,060</u>	<u>\$ 10,498</u>	<u>\$ —</u>	<u>\$11,558</u>
Restructuring charges	105	7	—	112
Restructuring adjustments	97	(218)	(5)	(126)
Cash charges	(489)	(1,245)	—	(1,734)
Non-cash charges	—	—	5	5
Accrued restructuring balance at April 30, 2007	<u>\$ 773</u>	<u>\$ 9,042</u>	<u>\$ —</u>	<u>\$ 9,815</u>

It is expected that the payments of employee-related charges will be substantially completed by October 2007. The remaining contractual obligations primarily relate to facility lease obligations for vacant space resulting from the current and previous restructuring activities of the Company. The Company anticipates that contractual obligations will be substantially fulfilled by May 2012.

The net restructuring amounts for the three and nine months ended April 30, 2007 and 2006, respectively, would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities:

	<u>Three Months Ended April 30,</u>		<u>Nine Months Ended April 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(in thousands)			
Cost of revenue	\$ (38)	\$ 2,323	\$ 865	\$ 4,563
Selling	—	128	389	363
General and administrative	<u>24</u>	<u>131</u>	<u>927</u>	<u>3,959</u>
	<u>\$ (14)</u>	<u>\$ 2,582</u>	<u>\$ 2,181</u>	<u>\$ 8,885</u>

During the three months ended April 30, 2007 the Company recorded a net reduction to restructuring charges of approximately \$14,000. For the nine months ended April 30, 2007, the Company recorded net restructuring charges of approximately \$2.2 million. Restructuring charges consisted of approximately \$0.1 million for the three month period and approximately \$0.9 million for the nine month period, relating to a workforce reduction of approximately 7 and 48 employees for the three and nine month periods, respectively. For the three month period the \$0.1 million in workforce reduction relates to a shutdown of a facility in Korea. In addition to the above, for the nine month period the workforce reduction charges of approximately \$0.9 million

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primarily relate to the reorganization of the global sales team in the Europe region and the elimination of redundant positions related to the Company's hub and spoke initiative from the Americas region as well as a closure of the West Valley, Utah facility in the Americas. Additionally, during the nine month period the Company recorded approximately \$1.6 million relating to early termination charges and unutilized lease facilities for which the Company expects to realize no future economic benefit primarily due to the continued restructuring activities of the Netherlands facilities in the Europe region as well as restructuring activities from closure of the Utah facility. During the three and nine month periods, the Company also recorded net adjustments of approximately \$0.2 million and \$0.4 million, respectively, to decrease previously recorded restructuring estimates for facility lease obligations primarily based on changes to the underlying assumptions regarding the estimated length of time of the subleased space and the expected rent recovery rate related to the vacant space.

During the three and nine months ended April 30, 2006, the Company recorded net restructuring charges of approximately \$2.6 million and \$8.9 million, respectively. These charges consisted of approximately \$0.3 million for the three month period and \$4.3 million for the nine month period, relating to a workforce reduction of approximately 25 and 106 employees for the three and nine month periods, respectively, primarily related to the elimination of redundant positions in the Europe and the Americas regions. In addition, during the three and nine months ended April 30, 2006, the Company recorded approximately \$2.2 million and \$3.6 million, respectively, of facility lease obligations primarily due to the closure of plants in Ireland and Scotland and the consolidation of two plants in the Netherlands. During the three and nine month periods, respectively, the Company also recorded net adjustments of approximately \$0.1 million and \$0.7 million, respectively, to increase previously recorded restructuring estimates for facility lease obligations primarily based on changes to the underlying assumptions regarding the estimated length of time of the subleased space and the expected rent recovery rate related to the vacant space.

In addition, during the nine months ended April 30, 2006, the Company recorded a purchase accounting adjustment to goodwill of approximately \$4.3 million for restructuring activities related to the acquisition of Modus. These restructuring activities occurred primarily in the Americas and Europe regions in the amounts of \$0.4 million and \$3.9 million, respectively. The restructuring in the Americas region was employee severance related in connection with the elimination of redundant positions. The restructuring in Europe primarily related to the closure of the plant in Scotland and consists of approximately \$3.1 million of severance for 130 employees and \$0.8 million relating to unoccupied facilities for which the Company expects to realize no future economic benefits.

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The following table summarizes the restructuring accrual by operating segment and the Other category for the three and nine months ended April 30, 2007:

	<u>Americas</u>	<u>Asia</u>	<u>Europe</u> <u>(in thousands)</u>	<u>Other</u>	<u>Consolidated</u> <u>Total</u>
Accrued restructuring balance at July 31, 2006	<u>\$ 5,864</u>	<u>\$ 51</u>	<u>\$6,037</u>	<u>\$ 247</u>	<u>\$ 12,199</u>
Restructuring charges	87	—	95	18	200
Restructuring adjustments	(380)	(18)	10	1	(387)
Cash charges	(812)	55	(624)	(197)	(1,578)
Accrued restructuring balance at October 31, 2006	<u>\$ 4,759</u>	<u>\$ 88</u>	<u>\$5,518</u>	<u>\$ 69</u>	<u>\$ 10,434</u>
Restructuring charges	1,275	172	894	3	2,344
Restructuring adjustments	214	(167)	(9)	—	38
Cash charges	(927)	(37)	(121)	(67)	(1,152)
Non-cash charges	(259)	153	—	—	(106)
Accrued restructuring balance at January 31, 2007	<u>\$ 5,062</u>	<u>\$ 209</u>	<u>\$6,282</u>	<u>\$ 5</u>	<u>\$ 11,558</u>
Restructuring charges	—	112	—	—	112
Restructuring adjustments	(89)	(5)	(32)	—	(126)
Cash charges	(1,008)	(196)	(530)	—	(1,734)
Non-cash charges	—	5	—	—	5
Accrued restructuring balance at April 30, 2007	<u>\$ 3,965</u>	<u>\$ 125</u>	<u>\$5,720</u>	<u>\$ 5</u>	<u>\$ 9,815</u>

I. DERIVATIVES AND FINANCIAL INSTRUMENTS

The Company enters into forward currency exchange contracts to manage exposures to certain foreign currencies. The fair value of the Company's foreign currency exchange contracts is estimated based on the foreign exchange rates as of April 30, 2007. The Company's policy is not to allow the use of derivatives for trading or speculative purposes. At April 30, 2007, the notional value of the Company's foreign currency exchange contracts was to sell 12.9 million U.S. Dollars and to buy 9.5 million Euros.

The Company believes that its forward currency exchange contracts economically function as effective hedges of the underlying exposures; however, the foreign currency contracts do not meet the specific criteria for hedge accounting defined in SFAS No. 133, thus requiring the Company to record all changes in the fair value of these contracts in earnings in the period of the change. During the nine months ended April 30, 2007, the Company recorded a loss of approximately \$17,500 as a result of fair value changes on its outstanding forward currency exchange contracts. This loss has been included in "Other gains, net" in the Company's condensed consolidated statement of operations.

J. SEGMENT INFORMATION

Based on the information provided to the Company's Chief Operating Decision-Maker ("CODM") for purposes of making decisions about allocating resources and assessing performance, the Company 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 costs associated with certain corporate administrative functions such as legal and finance which are not fully allocated to the Company's subsidiary companies, administration costs related to the Company's venture capital affiliates and any residual results of operations from previously divested operations.

Management evaluates segment performance based on segment net revenue, operating income (loss) and "Non-GAAP operating income (loss)", which we define as operating income (loss) excluding net charges related

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to depreciation, long-lived asset impairment, amortization of intangible assets, stock-based compensation and restructuring. The Company believes that its Non-GAAP measure of operating income (loss) provides investors with a useful supplemental measure of the Company's operating performance by excluding the impact of non-cash charges and restructuring activities. Each of the excluded items (depreciation, long-lived asset impairment, amortization of intangible assets, stock-based compensation and restructuring) were excluded because they may be considered to be of a non-operational or non-cash nature. Historically, the Company has recorded significant impairment and restructuring charges and therefore management uses Non-GAAP operating income (loss) to assist in evaluating the performance of the Company's core operations. Non-GAAP operating income (loss) does not have any standardized definition and therefore is unlikely to be comparable to similar measures presented by other reporting companies. These Non-GAAP results should not be evaluated in isolation of, or as a substitute for, the Company's financial results prepared in accordance with U.S. GAAP.

For the three and nine months ended April 30, 2007, sales to Hewlett-Packard accounted for approximately 33% and 31%, respectively, of the Company's consolidated net revenue and sales to Advanced Micro Devices accounted for approximately 14% and 12%, respectively, of the Company's consolidated net revenue. For the three and nine months ended April 30, 2006, sales to Hewlett-Packard accounted for approximately 31% and 29% of the Company's consolidated net revenue, respectively. For the three months ended April 30, 2006, sales to Advanced Micro Devices accounted for approximately 12% of the Company's consolidated net revenue. For the nine months ended April 30, 2006, sales to Kodak accounted for approximately 12% of the Company's consolidated net revenue.

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Summarized financial information of the Company's continuing operations by operating segment and the Other category is as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2007	2006	2007	2006
	(in thousands)			
Net revenue:				
Americas	\$ 87,331	\$ 107,098	\$ 314,788	\$ 380,538
Asia	76,352	62,229	219,915	185,897
Europe	118,395	95,421	355,763	320,571
	<u>\$282,078</u>	<u>\$264,748</u>	<u>\$890,466</u>	<u>\$887,006</u>
Operating income (loss):				
Americas	\$ 608	\$ 3,542	\$ 13,424	\$ 15,012
Asia	7,660	2,613	25,412	13,841
Europe	(2,734)	(3,429)	(8,074)	(17,469)
Sub-total	5,534	2,726	30,762	11,384
Other	(4,657)	(4,470)	(13,563)	(12,541)
	<u>\$ 877</u>	<u>\$ (1,744)</u>	<u>\$ 17,199</u>	<u>\$ (1,157)</u>
Non-GAAP operating income:				
Americas	\$ 2,243	\$ 5,622	\$ 19,611	\$ 21,278
Asia	9,800	4,637	31,328	19,102
Europe	(645)	276	(2,228)	(6,366)
Sub-total	11,398	10,535	48,711	34,014
Other	(3,935)	(3,525)	(11,472)	(9,212)
	<u>\$ 7,463</u>	<u>\$ 7,010</u>	<u>\$ 37,239</u>	<u>\$ 24,802</u>
Non-GAAP operating income	\$ 7,463	\$ 7,010	\$ 37,239	\$ 24,802
Adjustments:				
Depreciation	(4,107)	(3,407)	(10,452)	(8,108)
Amortization of intangible assets	(1,206)	(1,206)	(3,618)	(3,618)
Stock-based compensation	(1,287)	(1,559)	(3,789)	(5,348)
Restructuring, net	14	(2,582)	(2,181)	(8,885)
GAAP operating income (loss)	\$ 877	\$ (1,744)	\$ 17,199	\$ (1,157)
Other income	7,832	22,949	41,521	25,951
Income tax expense (benefit)	(909)	(738)	3,378	963
Income (loss) from discontinued operations	(203)	(269)	273	(6,340)
Net income	<u>\$ 9,415</u>	<u>\$ 21,674</u>	<u>\$ 55,615</u>	<u>\$ 17,491</u>
			April 30,	July 31,
			2007	2006
			(in thousands)	
Total assets of continuing operations:				
Americas			\$ 242,300	\$ 239,387
Asia			224,674	204,164
Europe			187,171	177,049
Sub-total			654,145	620,600
Other			166,106	140,641
			<u>\$ 820,251</u>	<u>\$ 761,241</u>

[Table of Contents](#)**K. EARNINGS PER SHARE**

The Company calculates earnings per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common stock equivalents is included in the calculation of diluted earnings per share only when the effect of the inclusion would be dilutive.

For the three and nine months ended April 30, 2007, approximately 5.8 million and 2.6 million weighted average common stock equivalents, respectively, were included in the denominator in the calculation of diluted earnings per share. For the three and nine months ended April 30, 2007 approximately 3.5 million and 8.1 million common stock equivalent shares, respectively, and 0.9 million and 1.2 million, nonvested shares, respectively, were excluded from the denominator in the calculation of diluted earnings per share calculation as their inclusion would have been antidilutive.

For the three and nine months ended April 30, 2006, approximately 2.7 million and 4.2 million weighted average common stock equivalent shares, respectively, were included in the denominator in the calculation of diluted earnings per share. For the three and nine months ended April 30, 2006, approximately 9.0 million and 5.5 million common stock equivalent shares and approximately 1.2 million nonvested shares were excluded from the denominator in the diluted earnings per share calculation as their inclusion would have been antidilutive.

L. COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2007	2006	2007	2006
	(in thousands)			
Net income	\$ 9,415	\$ 21,674	\$55,615	\$17,491
Net unrealized holding gain (loss) on securities	(152)	(246)	(1,705)	2,662
Foreign currency translation adjustment arising during the period	279	983	1,601	2,317
Comprehensive income	<u>\$ 9,542</u>	<u>\$ 22,411</u>	<u>\$55,511</u>	<u>\$22,470</u>

The components of accumulated other comprehensive income are as follows:

	April 30, 2007	July 31, 2006
	(in thousands)	
Net unrealized holding gains on securities	\$ 623	\$ 2,328
Cumulative foreign currency translation adjustment	5,562	3,961
Accumulated other comprehensive income	<u>\$ 6,185</u>	<u>\$ 6,289</u>

M. INVENTORIES

Inventories at April 30, 2007 and July 31, 2006 consisted of the following:

	April 30, 2007	July 31, 2006
	(in thousands)	
Raw Materials	\$ 41,406	\$ 48,539
Work-in-process	1,098	1,248
Finished Goods	25,062	28,100
	<u>\$ 67,566</u>	<u>\$ 77,887</u>

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N. DISCONTINUED OPERATIONS AND DIVESTITURES

During fiscal year 2006, the Company divested SalesLink's marketing distribution services business to Automatic Data Processing, Inc. ("ADP"). The operations of this business have been classified in the Company's financial statements as discontinued operations. This business unit had previously been included within the Company's Americas reporting segment.

For the three and nine months ended April 30, 2007, the Company recorded a loss from discontinued operations of approximately \$0.2 million and income from discontinued operations of approximately \$0.3 million, respectively, primarily related to adjustments to previously recorded estimates for facility lease obligations based on changes to the underlying assumptions regarding the estimated length of time of the subleased space and the expected rent recovery rate related to the vacant space.

For the three months ended April 30, 2006, the Company recorded a loss from discontinued operations of approximately \$0.3 million representing net revenue of \$3.4 million less operating expenses of \$3.7 million. For the nine months ended April 30, 2006, the Company recorded a loss from discontinued operations of approximately \$6.3 million. The loss from discontinued operations reflects an operating loss from discontinued operations of approximately \$1.0 million, representing net revenue of \$10.6 million less operating expenses of \$11.6 million, a \$2.6 million impairment charge for an other than temporary decline in the carrying value of a note receivable and warrant as well as a loss on a business unit of \$2.8 million.

O. CONTINGENCIES

From time to time, the Company may become involved in litigation relating to claims arising out of operations in the normal course of business, which it considers routine and incidental to its business. The Company currently is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, would have a material adverse effect on the Company's business, results of operation or financial condition.

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

The matters discussed in this report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, which involve risks and uncertainties. All statements other than statements of historical information provided herein may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes", "anticipates", "plans", "expects" and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, those discussed in Part II—Item 1A. below and elsewhere in this report and the risks discussed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Overview

CMGI, through its subsidiary, ModusLink Corporation ("ModusLink"), provides industry-leading global supply chain management services. ModusLink provides extended supply chain management services and solutions to the technology industry on a global basis. These services and solutions include consulting and demand planning, sourcing and supply base management, manufacturing and product configuration, logistics management, marketing distribution and print-on demand, e-commerce, sales support and the complete range of after market services, from testing and repair to asset disposition.

We also invest in emerging, innovative and promising technologies and industries through our venture capital business, @Ventures. During the nine months ended April 30, 2007, an aggregate of approximately \$7.2 million was invested by @Ventures and approximately \$35.0 million of proceeds was received by @Ventures from liquidity events from portfolio companies.

Management evaluates operating performance based on net revenue, operating income (loss), and net income (loss), and, across its segments, on the basis of "non-GAAP operating income (loss)," which we define as operating income (loss) excluding net charges related to depreciation, long-lived asset impairment, restructuring, amortization of intangible assets and stock-based compensation. See Note J of the notes to the condensed consolidated financial statements for segment information, including a reconciliation of non-GAAP operating income (loss) to net income (loss).

During the latter part of fiscal 2005, we developed a set of strategic initiatives and an operating plan focused on increasing both revenue and profitability. We view the continued development of our global operational infrastructure and footprint as a primary source of differentiation in the marketplace. We believe that by leveraging our global footprint we will be able to optimize our clients' supply chains using multi-facility, multi-geographic solutions. In line with this focus, during fiscal 2005, we made our initial investment in the implementation of a new global systems infrastructure, the foundation of which will be run on an Enterprise Resource Planning ("ERP") system based on SAP.

During fiscal 2007, our focus is on executing against our strategic plan, including the continued implementation of the following initiatives to achieve our goals:

Drive sales growth through a combination of existing client penetration, and targeting new vertical markets; A significant portion of our revenues are currently generated from clients in the computing and software vertical markets. These verticals are mature and, as a result, gross margins in these verticals are low. To address this, we have expanded our sales focus to include three new vertical markets in addition to the computing and software verticals that we believe can benefit from our supply chain expertise. We believe these verticals,

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communications, storage devices, and consumer electronics, are experiencing faster growth than our historical markets, and represent opportunities to realize higher gross margins on our services. Companies in these markets often are early in their product life cycles and have significant need for a supply chain partner who will be an extension to their business models.

Increase the value delivered to clients through service expansion; We will continue to focus on and invest in expanding our new services and solutions such as e-commerce and logistics management services offerings, which we believe will increase the overall value of the supply chain solutions we deliver to our existing clients and to new clients. We expect these solutions will enhance our gross margins and drive greater profitability. Further, we believe that the addition of new services to existing clients will strengthen our relationship with these clients, and further integrate us with their business.

Drive operational efficiencies throughout our organization; As a result of the acquisition of Modus Media, Inc. (“Modus”) in August 2004, the Company has been running multiple information technology systems at a significant cost. Our strategy is to offer an integrated supply chain system infrastructure that extends from front-end order management through distribution and returns management. This end-to-end solution will enable clients to link supply and demand in real time, improve visibility and performance throughout the supply chain, and provide real-time access to information for greater collaboration and informed business decision making. We believe our clients will benefit greatly from a global integrated business solution while we reduce our operating costs. We currently expect to invest a total of approximately \$31.5 million in this initiative, of which approximately 62% has been incurred to date. Another program that we expect will drive further operational efficiencies in the future is the implementation of a global shared services model utilizing a centralized “hub” location to service multiple “spoke” locations across the Americas, Asia and Europe regions. We believe this initiative will yield improved process standardization and operating efficiency gains, as well as lower our operating costs.

We believe that successful execution of these initiatives will enable the Company to increase its annual gross margin percentage to approximately 12% to 14% compared to the gross margin of approximately 10.3% in fiscal 2006 and 11.3% for the nine months ended April 30, 2007. We also believe that these initiatives will allow us to reduce our overall selling, general and administrative, restructuring and amortization costs to approximately 7% of revenue, compared to 10.2% in fiscal 2006 and 9.4% for the first nine months of fiscal 2007. These actions are expected to result in an operating margin between 5% and 7%. We will continue to work toward these goals during fiscal 2007 and fiscal 2008 and expect to be operating at these levels as we enter fiscal 2009. Among the key factors that will influence our performance against these goals are successful execution and implementation of our strategic initiatives, global economic conditions, especially in the technology sector, demand for our clients’ products, and demand for outsourcing services.

For the three months ended April 30, 2007, the Company reported net revenue of approximately \$282.1 million, operating income of \$0.9 million, income from continuing operations before income tax benefit of \$8.7 million and net income of \$9.4 million. For the nine months ended April 30, 2007, the Company reported net revenue of approximately \$890.5 million, operating income of \$17.2 million, income from continuing operations before income taxes of \$58.7 million and net income of \$55.6 million. We currently conduct business in The Netherlands, Hungary, France, Ireland, Czech Republic, Singapore, Taiwan, China, Malaysia, Japan, Mexico and other foreign locations, in addition to our United States operations. At April 30, 2007, we had cash and cash equivalents, available for sale securities and short-term investments of approximately \$250.3 million, and working capital of \$326.8 million.

As a large portion of our revenue comes from outsourcing services provided to clients such as hardware manufacturers, software publishers, telecommunications carriers, broadband and wireless service providers and consumer electronics companies, our operating performance could be adversely affected by declines in the overall performance of the technology sector. The market for our supply chain management products and services is very competitive. We also face pressure from our clients to continually realize efficiency gains in

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order to help our clients maintain their gross margins and profitability. Increased competition and client demands for efficiency improvements may result in price reductions, reduced gross margins and in some cases loss of market share. As a result of these competitive and client pressures, the gross margins in our business are low. Increased competition arising from industry consolidation and/or low demand for our clients' products and services may hinder our ability to maintain or improve our gross margins, profitability and cash flows. We must continue to focus on margin improvement, through implementation of our strategic initiatives, cost reductions and asset and employee productivity gains in order to improve the profitability of our business and maintain our competitive position. We are reacting to margin and pricing pressures in several ways, including efforts to target new vertical markets, expand our service offerings and to lower our infrastructure costs. Our ERP and hub and spoke initiatives are key enablers to drive efficiencies and lower our operating costs. We also seek to lower our cost to service clients by moving work to lower-cost venues, establishing facilities closer to our clients to gain efficiencies, and other actions designed to improve the productivity of our operations.

Historically, a limited number of key clients have accounted for a significant percentage of our net revenue. For the three and nine months ended April 30, 2007, sales to Hewlett-Packard accounted for approximately 33% and 31%, respectively, of our consolidated net revenue and sales to Advanced Micro Devices accounted for approximately 14% and 12%, respectively, of our consolidated net revenue. For the three and nine months ended April 30, 2006, sales to Hewlett-Packard accounted for approximately 31% and 29%, respectively, of our consolidated net revenue. For the three months ended April 30, 2006, sales to Advanced Micro Devices accounted for approximately 12% of our consolidated net revenue. For the nine months ended April 30, 2006, sales to Kodak accounted for approximately 12% of our consolidated net revenue. In fiscal 2007, we have recognized lower annual revenues from Kodak as a result of changes to certain programs that we executed on their behalf in fiscal 2006. For the first nine months of fiscal 2007 sales to Kodak declined by approximately \$55.3 million as compared to fiscal 2006. In addition, as previously announced, in February 2007, the Company was recently informed that a business unit of Hewlett-Packard intends to migrate away from ModusLink a program which accounts for approximately \$100.0 million of annual revenue. The operating income associated with this program is estimated at less than \$3.0 million per year. The Company expects volumes associated with this program to decline in the fourth quarter and does not expect the loss of this program to have a significant impact on results for fiscal 2007. We expect to continue to derive the vast majority of our operating revenue from sales to a small number of key clients. We currently do not have any agreements which obligate any client to buy a minimum amount of products or services from us or designate us as an exclusive service provider. Consequently, our sales are subject to demand variability by our clients. The level and timing of orders placed by our clients vary for a variety of reasons, including seasonal buying by end-users, the introduction of new technologies and general economic conditions.

Basis of Presentation

The Company reports three operating segments, Americas, Asia and Europe. In addition to its three operating segments, the Company reports an Other category. The Other category represents corporate expenses consisting primarily of costs associated with certain corporate administrative functions such as legal and finance which are not fully allocated to the Company's subsidiary companies, administration costs related to the Company's venture capital affiliates and any residual results of operations from previously divested operations.

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.

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Three months ended April 30, 2007 compared to the three months ended April 30, 2006

Net Revenue:

	Three Months Ended April 30, 2007	As a % of Total Net Revenue	Three Months Ended April 30, 2006	As a % of Total Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 87,331	31.0%	\$107,098	40.5%	\$(19,767)	(18.5)%
Asia	76,352	27.0%	62,229	23.5%	14,123	22.7%
Europe	118,395	42.0%	95,421	36.0%	22,974	24.1%
Total	<u>\$ 282,078</u>	100.0%	<u>\$264,748</u>	100.0%	<u>\$ 17,330</u>	6.5%

Net revenue increased by approximately \$17.3 million for the three months ended April 30, 2007, as compared to the same period in the prior fiscal year. This increase was net of a decrease in revenue from Kodak quarter over quarter of approximately \$14.2 million in connection with a change in their supply chain model. The decline in Kodak revenue affected the Americas, Asia and Europe segments by approximately \$7.6 million, \$0.6 million, and \$6.0 million, respectively. In addition to the decline mentioned above, the net revenue in the Americas region was also negatively impacted by lower revenue of approximately \$6.8 million due to a change in a client's program. The remaining decrease in the Americas revenue of approximately \$5.4 million resulted primarily from a net overall decrease in client order volumes. Within the Asia region, the net revenue growth of approximately \$14.1 million resulted primarily from increased order volumes and new programs for certain clients, offset by the decline in Kodak revenue mentioned above. Within the Europe region, the net revenue growth of approximately \$23.0 million resulted from approximately \$29.0 million of higher revenue due to a net overall increase in order volumes, new business and new programs for certain clients, offset by the decline in Kodak revenue mentioned above.

A significant portion of the Company's client base operates in the technology sector, which is intensely competitive and very volatile. Our clients' order volumes vary from quarter to quarter for a variety of reasons, including market acceptance of their new product introductions and overall demand for their products. This business environment, and our mode of transacting business with our clients, does not lend itself to precise measurement of the amount and timing of future order volumes, and as a result, future sales volumes and revenues could vary significantly from period to period. The Company sells primarily on a purchase order basis, rather than pursuant to contracts with minimum purchase requirements. These purchase orders are generally for quantities necessary to support near-term demand for our clients' products.

Cost of Revenue:

	Three Months Ended April 30, 2007	As a % of Segment Net Revenue	Three Months Ended April 30, 2006	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 80,082	91.7%	\$ 95,816	89.5%	\$ (15,734)	(16.4)%
Asia	59,761	78.3%	51,469	82.7%	8,292	16.1%
Europe	112,268	94.8%	88,601	92.9%	23,667	26.7%
Total	<u>\$ 252,111</u>	89.4%	<u>\$ 235,886</u>	89.1%	<u>\$ 16,225</u>	6.9%

Cost of revenue consists primarily of expenses related to the cost of products purchased for sale or distribution as well as salaries and benefit expenses, consulting and contract labor costs, fulfillment and shipping costs, and applicable facilities costs. Cost of revenue increased by approximately \$16.2 million for the three months ended April 30, 2007 as compared to the three months ended April 30, 2006. Gross margin was approximately 10.6% for the third quarter of fiscal 2007 as compared to 10.9% for the third quarter of fiscal 2006.

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For the three months ended April 30, 2007, the Company's gross margin percentages within the Americas, Asia and Europe regions were approximately 8.3%, 21.7% and 5.2%, as compared to 10.5%, 17.3% and 7.1%, respectively, for the same period of the prior fiscal year. Within the Americas region the decline in cost of revenue of approximately \$15.7 million was in proportion to the decrease in revenue although gross margins declined by approximately 2.2% due to the decline in client order volumes and the associated sales and cost mix of client business as compared to the same quarter in the prior fiscal year. Within the Asia region, the gross margin increased by approximately 4.4% attributable to the increase in order volumes for certain client programs that resulted in higher margins as compared to the same quarter in the prior fiscal year. Within the Europe region, the gross margin decreased by approximately 1.9% as compared to the same quarter in the prior fiscal year. Although there was an increase in client order volumes, new business and new programs, gross margin decreased primarily due to higher contract labor costs and other direct manufacturing costs incurred for certain programs.

As a result of the lower overall cost of delivering the Company's products and services in the Asia region, particularly China, and the increasing demand for supply chain management services in that region, we expect gross margin levels in Asia to continue to exceed those earned in the Americas and Europe regions. However, we expect that there will continue to be pressure on gross margin levels in Asia as the market, particularly China, matures. Our gross margins are impacted by a number of factors, including competition, order volumes, pricing, client and product mix and configuration, and overall demand for our clients' products. A significant portion of the costs required to deliver our products and services is fixed in nature.

As outlined in our strategic initiative discussion in the Overview section above, the Company remains focused on margin improvement through several revenue and operating efficiency initiatives designed to improve the profitability of our business and maintain our competitive position.

Selling Expenses:

	Three Months Ended April 30, 2007	As a % of Segment Net Revenue	Three Months Ended April 30, 2006	As a % of Segment Net Revenue	\$ Change	% Change
			(in thousands)			
Americas	\$ 1,121	1.3%	\$1,902	1.8%	\$ (781)	(41.1)%
Asia	926	1.2%	1,446	2.3%	(520)	(36.0)%
Europe	1,357	1.1%	1,760	1.8%	(403)	(22.9)%
Total	<u>\$ 3,404</u>	1.2%	<u>\$5,108</u>	1.9%	<u>\$ (1,704)</u>	(33.4)%

Selling expenses consist primarily of compensation and employee related costs, sales commissions and incentive plans, travel expenses, facilities costs, consulting fees and marketing expenses. Selling expenses for the three months ended April 30, 2007 decreased by approximately \$1.7 million as compared to the prior three month period ended April 30, 2006, primarily as a result of a reduction in compensation and employee related costs, travel and entertainment expenses and consulting fees of approximately \$1.1 million, \$0.3 million and \$0.2 million, respectively. The decrease in compensation and employee related costs throughout the regions were the result of the reorganization of the global sales team. For the three months ended April 30, 2007 and 2006, compensation and employee related costs represented approximately 66% and 65% of total selling expenses, respectively.

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General and Administrative Expenses:

	Three Months Ended April 30, 2007	As a % of Segment Net Revenue	Three Months Ended April 30, 2006	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 5,077	5.8%	\$ 4,987	4.7%	\$ 90	1.8%
Asia	7,388	9.7%	6,191	9.9%	1,197	19.3%
Europe	<u>7,371</u>	6.2%	<u>6,075</u>	6.4%	<u>1,296</u>	21.3%
Sub-total	19,836	7.0%	17,253	6.5%	2,583	15.0%
Other	<u>4,658</u>	—	<u>4,457</u>	—	<u>201</u>	4.5%
Total	<u>\$ 24,494</u>	8.7%	<u>\$21,710</u>	8.2%	<u>\$ 2,784</u>	12.8%

General and administrative expenses within the Americas, Asia, and Europe operating segments consist primarily of compensation and employee related costs, facilities costs, information technology expenses, fees for professional services and depreciation expense. The general and administrative expenses for these operating segments increased by approximately \$2.6 million during the three months ended April 30, 2007, as compared to the same period in the prior fiscal year, primarily as a result of approximately \$1.7 million of information technology infrastructure charges consisting primarily of global software maintenance expenses and compensation and employee related costs of \$0.7 million. General and administrative expenses increased by approximately \$1.2 million within the Asia region primarily due to increases of approximately \$0.6 million of information technology infrastructure charges, \$0.3 million related to professional services and \$0.1 million related to compensation and employee related costs. Within the Europe region, general and administrative expenses increased by approximately \$1.3 million due to increases of approximately \$0.7 million of compensation and employee related costs and \$0.7 million of information technology infrastructure charges.

Amortization of Intangible Assets:

	Three Months Ended April 30, 2007	As a % of Segment Net Revenue	Three Months Ended April 30, 2006	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 531	0.6%	\$ 531	0.5%	\$ —	0.0%
Asia	510	0.7%	510	0.8%	—	0.0%
Europe	<u>165</u>	0.1%	<u>165</u>	0.2%	—	0.0%
Total	<u>\$ 1,206</u>	0.4%	<u>\$1,206</u>	0.5%	<u>\$ —</u>	0.0%

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of Modus. These intangible assets are being amortized over lives ranging from 1 to 7 years.

Restructuring, net:

	Three Months Ended April 30, 2007	As a % of Segment Net Revenue	Three Months Ended April 30, 2006	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ (89)	(0.1)%	\$ 320	0.3%	\$ (409)	(127.8)%
Asia	107	0.1%	—	0.0%	107	—
Europe	<u>(32)</u>	0.0%	<u>2,249</u>	2.4%	<u>(2,281)</u>	(101.4)%
Sub-total	(14)	0.0%	2,569	1.0%	(2,583)	(100.5)%
Other	—	—	<u>13</u>	—	<u>(13)</u>	(100.0)%
Total	<u>\$ (14)</u>	0.0%	<u>\$2,582</u>	1.0%	<u>\$ (2,596)</u>	(100.5)%

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During the three months ended April 30, 2007, the Company recorded a net reduction to restructuring charges of approximately \$14,000 as compared to net restructuring charges of approximately \$2.6 million for the same period in the prior fiscal year. The decrease of approximately \$2.6 million is primarily the result of a decrease of unutilized lease facilities charges for which the Company expects to realize no future economic benefits.

Interest Income/Expense:

During the three months ended April 30, 2007, interest income increased by \$1.1 million to approximately \$2.5 million from \$1.4 million for the same period in the prior fiscal year. The increase in interest income was primarily the result of higher average cash, cash equivalent and short-term investment balances during the current three month period as compared to the same period in the prior fiscal year.

Interest expense was approximately \$0.7 million for the three months ended April 30, 2007 and \$0.8 million for the same period in the prior fiscal year. In both periods, interest expense of approximately \$0.2 million was related to the Company's stadium obligation, and the remaining interest expense was primarily related to outstanding borrowings on a revolving bank credit facility.

Other Gains (losses), net:

During the three months ended April 30, 2007, the Company recorded a gain of approximately \$5.1 million as compared to a net gain of approximately \$22.0 million for the same period in the prior fiscal year. During the three months ended April 30, 2007 approximately \$1.6 million was a result of the acquisition by a third party of Mitchell International, Inc., an @Ventures portfolio company. Additionally, gains of approximately \$2.5 million and \$0.6 million, respectively, were recorded to adjust previously recorded gains on acquisitions of WebCT, Inc. and Realm Business Solutions, Inc., due to the release of funds held in escrow. WebCT, Inc. and Realm Business Solutions, Inc. were @Ventures portfolio companies that were acquired by third parties in previous reporting periods.

During the three months ended April 30, 2006, the Company recorded gains of approximately \$19.4 million and \$3.2 million, respectively, as a result of the acquisitions of WebCT, Inc. and Realm Business Solutions, Inc. by third parties. Additionally, the Company recorded foreign currency exchange gains of approximately \$0.3 million and foreign currency exchange losses of approximately \$0.9 million during the three month periods ending April 30, 2007 and 2006, respectively. The foreign currency exchange fluctuations relate primarily to unhedged foreign currency exposures in Asia and Europe.

Equity in income (losses) of affiliates, net:

Equity in income (losses) of affiliates, net, resulted from the Company's minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's net income (losses) is included in equity in income (losses) of affiliates. Equity in income of affiliates was approximately \$0.9 million for the three months ended April 30, 2007 as compared to approximately \$0.3 million for the three months ended April 30, 2006, primarily as a result of an increase in net income recognized by certain of the affiliate companies.

Income Tax Expense:

During the three months ended April 30, 2007, the Company recorded an income tax benefit of approximately \$0.9 million, as compared to an income tax benefit of approximately \$0.7 million for the same period in the prior fiscal year. The Company provides income tax expense related to federal, state and foreign income taxes based on projected taxable income for the year. For the three months ended April 30, 2007 and 2006, the Company's U.S. taxable income was also offset by net operating loss carryovers from prior years.

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Discontinued Operations:

For the three months ended April 30, 2007, the Company recorded a loss from discontinued operations of approximately \$0.2 million primarily related to changes to previously recorded estimates for facility lease obligations based on changes to the underlying assumptions regarding the estimated length of time required to sublease the vacant space and the expected rent recovery rate.

For the three months ended April 30, 2006, the Company recorded a loss from discontinued operations of approximately \$0.3 million representing net revenue of \$3.4 million less operating expenses of \$3.7 million.

The Company does not expect any future residual costs related to discontinued operations to be significant.

Nine months ended April 30, 2007 compared to the nine months ended April 30, 2006

Net Revenue:

	<u>Nine Months Ended April 30, 2007</u>	<u>As a % of Total Net Revenue</u>	<u>Nine Months Ended April 30, 2006</u>	<u>As a % of Total Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
			(in thousands)			
Americas	\$ 314,788	35.3%	\$ 380,538	42.9%	\$ (65,750)	(17.3)%
Asia	219,915	24.7%	185,897	21.0%	34,018	18.3%
Europe	<u>355,763</u>	40.0%	<u>320,571</u>	36.1%	<u>35,192</u>	11.0%
Total	<u>\$ 890,466</u>	100.0%	<u>\$ 887,006</u>	100.0%	<u>\$ 3,460</u>	0.4%

Net revenue within the Americas, Asia, and Europe segments increased by approximately \$3.5 million for the nine months ended April 30, 2007, as compared to the same period in the prior fiscal year. This increase was net of a decrease in revenue from Kodak year over year of approximately \$55.3 million in connection with a change in their supply chain model. This decline affected the Americas, Asia and Europe segments by approximately \$31.3 million, \$4.0 million and \$20.0 million, respectively. In addition to the decline mentioned above, the net revenue in the Americas region was also negatively impacted by lower revenue of approximately \$18.8 million due to a change in a client's program. The remaining decrease in the Americas revenue of approximately \$15.7 million resulted primarily from a net overall decrease in client order volumes. Within the Asia region, the revenue growth of approximately \$34.0 million resulted primarily from higher revenue due to increased order volumes and the launch of new programs for certain clients, partially offset by the decline in Kodak revenue mentioned above. Within the Europe region, the net revenue growth of approximately \$35.2 million resulted primarily from a net overall increase in order volumes, new client programs and new business, offset by the decline in Kodak revenue mentioned above.

Cost of Revenue:

	<u>Nine Months Ended April 30, 2007</u>	<u>As a % of Segment Net Revenue</u>	<u>Nine Months Ended April 30, 2006</u>	<u>As a % of Segment Net Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
			(in thousands)			
Americas	\$ 280,691	89.2%	\$ 341,400	89.7%	\$ (60,709)	(17.8)%
Asia	170,566	77.6%	150,465	80.9%	20,101	13.4%
Europe	<u>338,666</u>	95.2%	<u>304,903</u>	95.1%	<u>33,763</u>	11.1%
Total	<u>\$ 789,923</u>	88.7%	<u>\$ 796,768</u>	89.8%	<u>\$ (6,845)</u>	(0.9)%

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Cost of revenue consists primarily of expenses related to the cost of products purchased for sale or distribution as well as salaries and benefit expenses, consulting and contract labor costs, fulfillment and shipping costs, and applicable facilities costs. Cost of revenue decreased by approximately \$6.8 million for the nine months ended April 30, 2007 as compared to the nine months ended April 30, 2006. Gross margin improved to 11.3% for the nine months ended April 30, 2007 as compared to 10.2% for the same period in the prior fiscal year.

For the nine months ended April 30, 2007, the Company's gross margin percentages within the Americas, Asia and Europe regions were approximately 10.8%, 22.4% and 4.8%, as compared to 10.3%, 19.1% and 4.9%, respectively, for the same period of the prior fiscal year. Within the Americas region the decline in cost of revenue of approximately \$60.7 million was in proportion to the decrease in net revenue although the gross margin percentage improved by approximately 0.5% due to the sales and cost mix of client business as compared to the previous nine month period in the prior fiscal year. Within the Asia region, the gross margin increased by approximately 3.3% primarily attributable to an increase in order volumes for certain client programs resulting in higher margins as compared to the same period in the prior fiscal year. Within the Europe region cost of revenues increased by approximately \$33.8 million in proportion with the increase in net revenue and gross margin was consistent between periods.

Selling Expenses:

	Nine Months Ended April 30, 2007	As a % of Segment Net Revenue	Nine Months Ended April 30, 2006	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 3,210	1.0%	\$ 6,222	1.6%	\$ (3,012)	(48.4)%
Asia	2,923	1.3%	4,036	2.2%	(1,113)	(27.6)%
Europe	4,356	1.2%	5,531	1.7%	(1,175)	(21.2)%
Total	<u>\$ 10,489</u>	1.2%	<u>\$ 15,789</u>	1.8%	<u>\$ (5,300)</u>	(33.6)%

Selling expenses consist primarily of compensation and employee related costs, sales commissions and incentive plans, travel expenses, facilities costs, consulting fees and marketing expenses. Selling expenses decreased during the nine months ended April 30, 2007 as compared to the same period in the prior fiscal year by approximately \$5.3 million, primarily as a result of a decrease in compensation and employee related costs, consulting fees and travel expenses of approximately \$3.9 million, \$0.7 million and \$0.6 million, respectively. The decrease in compensation and employee related costs throughout the regions are the result of the reorganization of the global sales team. For the nine months ended April 30, 2007 and 2006, compensation and employee related costs represented approximately 62% and 66% of total selling expenses, respectively. The Company expects its selling expenses to continue to approximate 1% of net revenue for the remainder of fiscal 2007.

General and Administrative Expenses:

	Nine Months Ended April 30, 2007	As a % of Segment Net Revenue	Nine Months Ended April 30, 2006	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 14,743	4.7%	\$ 15,200	4.0%	\$ (457)	(3.0)%
Asia	19,390	8.8%	15,780	8.5%	3,610	22.9%
Europe	19,362	5.4%	19,608	6.1%	(246)	(1.3)%
Sub-total	\$ 53,495	6.0%	\$ 50,588	5.7%	\$ 2,907	5.7%
Other	13,561	—	12,515	—	1,046	8.4%
Total	<u>\$ 67,056</u>	7.5%	<u>\$ 63,103</u>	7.1%	<u>\$ 3,953</u>	6.3%

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General and administrative expenses within the Americas, Asia, and Europe operating segments consist primarily of compensation and other employee related costs, facilities costs, information technology expenses, fees for professional services and depreciation expense. The total general and administrative expenses for these operating segments increased by approximately \$2.9 million during the nine months ended April 30, 2007, as compared to the same period in the prior fiscal year due to approximately \$3.2 million of information technology infrastructure charges consisting primarily of global software maintenance expenses, offset by a decrease of approximately \$0.5 million of insurance expense. Within the Asia region general and administrative expenses increased by approximately \$3.6 million as compared to the prior year primarily due to approximately \$0.8 million associated with the new ERP system, \$1.4 million related to information technology infrastructure charges, and \$0.8 million associated with compensation and employee related costs.

The general and administrative expenses within the Other category represents corporate expenses consisting primarily of costs associated with certain corporate administrative functions such as legal and finance which are not fully allocated to the Company's subsidiary companies, administration costs related to the Company's venture capital affiliates and any residual results of operations from previously divested operations. General and administrative expenses within the Other category increased by approximately \$1.0 million as compared to the same period in the prior year. This increase was due to an increase in compensation and employee related costs of approximately \$2.0 million and professional fees of \$0.2 million, offset by a reduction of stock based compensation expense of approximately \$1.2 million.

The Company expects its total general and administrative expenses to approximate 9% of net revenue for fiscal 2007 due primarily to higher information technology expenditures associated with the Company's migration to a common ERP platform. These increased general and administrative costs are expected to be partially offset by cost savings in connection with the implementation of the hub and spoke shared services model.

Amortization of Intangible Assets:

	Nine Months Ended April 30, 2007	As a % of Segment Net Revenue	Nine Months Ended April 30, 2006	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 1,593	0.5%	\$ 1,593	0.4%	\$ —	0.0%
Asia	1,530	0.7%	1,530	0.8%	—	0.0%
Europe	495	0.1%	495	0.2%	—	0.0%
Total	<u>\$ 3,618</u>	0.4%	<u>\$ 3,618</u>	0.4%	<u>\$ —</u>	0.0%

The intangible asset amortization relates to certain amortizable intangible assets acquired by the Company in connection with its acquisition of Modus. These intangible assets are being amortized over lives ranging from 1 to 7 years.

Restructuring, net:

	Nine Months Ended April 30, 2007	As a % of Segment Net Revenue	Nine Months Ended April 30, 2006	As a % of Segment Net Revenue	\$ Change	% Change
	(in thousands)					
Americas	\$ 1,107	0.4%	\$ 1,111	0.3%	\$ (4)	(0.4)%
Asia	94	0.0%	245	0.1%	(151)	(61.6)%
Europe	958	0.3%	7,503	2.3%	(6,545)	(87.2)%
Sub-total	2,159	0.2%	8,859	1.0%	(6,700)	(75.6)%
Other	22	—	26	—	(4)	(15.4)%
Total	<u>\$ 2,181</u>	0.2%	<u>\$ 8,885</u>	1.0%	<u>\$ (6,704)</u>	(75.5)%

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During the nine months ended April 30, 2007, the Company recorded net restructuring charges of approximately \$2.2 million as compared to \$8.9 million in the same period of the prior fiscal year. The decrease of approximately \$6.7 million is primarily the result of a decrease in the amount of workforce reduction charges year over year of approximately \$3.4 million as well as \$3.1 million of lower unutilized lease facilities charges for which the Company expects to realize no future economic benefits.

Interest Income/Expense:

During the nine months ended April 30, 2007, interest income increased by \$3.4 million to approximately \$7.4 million from \$4.0 million for the same period in the prior fiscal year. The increase in interest income was the result of both higher average interest rates and higher average cash, cash equivalent and short-term investment balances during the current nine month period compared to the same period in the prior fiscal year.

Interest expense was approximately \$1.9 million and \$2.1 million for the nine months ended April 30, 2007 and 2006, respectively. In both periods, interest expense of approximately \$0.6 million was related to the Company's stadium obligation, and the remaining interest expense was primarily related to outstanding borrowings on a revolving bank credit facility.

Other Gains (losses), net:

Other gains, net included a net gain of approximately \$34.0 million for the nine months ended April 30, 2007 as compared to a net gain of approximately \$24.1 million for the same period in the prior fiscal year. The net gains in both periods primarily resulted from acquisitions by third parties of @Ventures portfolio companies and foreign currency exchange activity. During the nine months ended April 30, 2007 approximately \$1.6 million and \$28.7 million, respectively, resulted from acquisitions by third parties of Mitchell International, Inc. and Avamar Technologies, Inc. Additionally, gains of approximately \$4.7 million were recorded to adjust previously recorded gains on acquisitions of @Ventures portfolio companies acquired by third parties in previous reporting periods, due to the release of funds held in escrow.

During the nine months ended April 30, 2006 the Company recorded gains of approximately \$19.4 million and \$3.2 million, respectively, as a result of the acquisitions of WebCT, Inc. and Realm Business Solutions, Inc. by third parties. Additionally, during the nine month period the Company recorded a gain of approximately \$0.5 million to adjust a previously recorded gain on the acquisition by a third party of Molecular, Inc. due to the release of funds held in escrow. The Company also recorded a gain of approximately \$2.7 million related to the sale of a building in Ireland.

Other gains, net also included foreign currency exchange losses of approximately \$0.9 million and \$1.9 million, respectively, during the nine months ended April 30, 2007 and 2006. These foreign currency exchange losses related primarily to unhedged foreign currency exposures in Asia and Europe. The Company has operations in various countries throughout the world and its operating results and financial position can be affected by significant fluctuations in foreign currency exchange rates. The Company has historically used derivative financial instruments on a limited basis to assist in managing the exposure that results from such fluctuations, and expects to continue such practice.

Equity in income (losses) of affiliates, net:

Equity in income (losses) of affiliates, net, resulted from the Company's minority ownership in certain investments that are accounted for under the equity method. Under the equity method of accounting, the Company's proportionate share of each affiliate's net income (losses) is included in equity in income (losses) of affiliates. Equity in income (losses) of affiliates increased by \$2.1 million to income of approximately \$2.0 million for the nine months ended April 30, 2007 from a loss of approximately \$0.1 million for the nine months ended April 30, 2006 primarily as a result of an increase in net income recognized by certain of the affiliate companies.

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Income Tax Expense:

During the nine months ended April 30, 2007, the Company recorded income tax expense of approximately \$3.4 million, as compared to approximately \$1.0 million for the same period of the prior fiscal year. The Company provides income tax expense related to federal, state and foreign income taxes. For the nine months ended April 30, 2007 and 2006, the Company's U.S. taxable income was offset by net operating loss carryovers from prior years. The increase in income tax expense over the prior year was primarily a result of the utilization of pre-acquisition net operating loss carryforwards. The tax benefit associated with the utilization of acquired U.S. tax attributes was recorded as a credit to goodwill of approximately \$1.7 million for the nine months ended April 30, 2007.

Discontinued Operations:

For the nine months ended April 30, 2007, the Company recorded income from discontinued operations of approximately \$0.3 million primarily related to changes to previously recorded estimates for facility lease obligations based on changes to the underlying assumptions regarding the estimated length of time required to sublease the vacant space and the expected rent recovery rate.

For the nine months ended April 30, 2006, the Company recorded a loss from discontinued operations of approximately \$6.3 million. The loss from discontinued operations reflects an operating loss from discontinued operations of approximately \$1.0 million, representing net revenue of \$10.6 million less operating expenses of \$11.6 million, a \$2.6 million impairment charge for an other than temporary decline in the carrying value of a note receivable and warrant as well as a loss on a business unit of \$2.8 million.

The Company does not expect any future residual costs related to discontinued operations to be significant.

Liquidity and Capital Resources

Historically, the Company has financed its operations and met its capital requirements primarily through funds generated from operations, the issuance of CMGI common stock, the sale of our interests in subsidiaries, returns generated by our venture capital business and borrowings from lending institutions. As of April 30, 2007, the Company's primary sources of liquidity consisted of cash and cash equivalents, available for sale securities and short-term investments of approximately \$250.3 million. In addition, ModusLink has a revolving credit agreement (the "Loan Agreement") with a bank syndicate. The Loan Agreement is a three-year \$60.0 million revolving credit facility, with a scheduled maturity of October 31, 2008. Advances under the Loan Agreement may be in the form of loans or letters of credit. At April 30, 2007, approximately \$24.8 million of borrowings were outstanding under the Loan Agreement, and approximately \$0.1 million had been reserved in support of outstanding letters of credit. The Company's working capital at April 30, 2007 was approximately \$326.8 million.

Net cash provided by operating activities of continuing operations was approximately \$12.8 million for the nine months ended April 30, 2007, compared to net cash used in operating activities of continuing operations of approximately \$7.5 million for the nine months ended April 30, 2006. Cash provided by (used in) operating activities of continuing operations represents net income as adjusted for non-cash items and changes in working capital. The cash provided by operating activities of continuing operations for the nine months ended April 30, 2007 is primarily driven by income from continuing operations of approximately \$55.3 million as compared to income from continuing operations of approximately \$23.8 million for the period ended April 30, 2006. Cash flow from operating activities of continuing operations included an increase in accounts receivable of approximately \$25.5 million, and a decrease in accounts payable, accrued restructuring and accrued expenses of approximately \$8.9 million. This was offset by a decrease in inventory of approximately \$13.9 million. During the nine months ended April 30, 2007, non-cash items included depreciation expense of approximately \$10.5 million, amortization of intangible assets of \$3.6 million, stock-based compensation of \$3.8 million and non-operating gains, net of \$34.0 million. The approximately \$7.5 million of net cash used in operating activities

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for the nine months ended April 30, 2006 included an increase in accounts receivable and inventory of approximately \$23.5 million and \$5.0 million, respectively, related to increased sales for certain customer's products. Non-cash items primarily included approximately \$8.1 million of depreciation expenses, \$3.6 million of amortization of intangible assets, \$5.3 million of stock-based compensation expense and \$2.7 million related to a gain on the sale of a building in Europe.

We believe that our cash flows related to operating activities of continuing operations are dependent on several factors, including increased profitability, effective accounts receivable and inventory management practices, and optimization of the credit terms of certain vendors of the Company. Additionally our cash flows from operations are dependent on the overall performance of the technology sector, and the market for outsourcing services. The intensity of the competition in our markets is expected to continue to increase and this increased competition may result in price reductions, reduced gross margins and loss of market share. A one-percentage point decline in our gross margins earned during the nine months ended April 30, 2007, would have resulted in an \$8.9 million decline in our cash flows from operating activities. We continue to focus on margin improvement, through our efforts to target new vertical markets, expand our service offerings and lower our infrastructure costs in order to improve the profitability and cash flows of our business and maintain our competitive position. We believe our ERP and hub and spoke initiatives are key enablers to drive efficiencies and lower our operating costs. We also seek to lower our cost to service clients, by moving work to lower-cost venues and establishing facilities closer to our clients to gain efficiencies.

Investing activities of continuing operations used cash of approximately \$9.9 million and \$73.7 million for the nine months ended April 30, 2007 and 2006, respectively. The \$9.9 million of cash used in investing activities for the nine months ended April 30, 2007 resulted from the Company investing approximately \$17.7 million in short term investments, \$17.9 million in capital expenditures and \$7.2 million in investments in affiliates. These cash uses were partially offset by approximately \$35.0 million of proceeds from affiliate distributions consisting of proceeds of approximately \$1.6 million and \$28.7 million, respectively, resulting from acquisitions by third parties of Mitchell International, Inc. and Avamar Technologies, Inc., both of which were @Ventures portfolio companies and the release of funds held in escrow of \$4.7 million related to @Ventures portfolio companies acquired by third parties in previous reporting periods. The Company also used approximately \$2.2 million, net of cash acquired, to acquire full ownership of its Japan-based joint venture. The \$73.7 million of cash used for investing activities for the period ended April 30, 2006 results primarily from the Company investing approximately \$87.5 million in short term investments, \$11.8 million of capital expenditures and \$5.8 million of investments in affiliates. These decreases were partially offset by approximately \$2.7 million of proceeds from the sale of a building in Europe and approximately \$21.2 million and \$6.9 million of proceeds from the acquisition by third parties of two @Ventures portfolio companies, WebCT Inc. and Realm Business Solutions Inc., respectively. As of April 30, 2007, the Company had approximately \$26.7 million of investments in affiliates, which may be a potential source of future liquidity. However, the Company does not anticipate being dependent on liquidity from these investments to fund either its short-term or long-term operating activities. During the nine months ended April 30, 2007, the Company invested approximately \$6.5 million in a new ERP system in connection with its strategy to create a global integrated supply-chain system infrastructure that extends from front-end order management through distribution returns management. We currently expect to invest a total of approximately \$31.5 million in this initiative, of which approximately 62% has been incurred to date.

Financing activities of continuing operations provided cash of approximately \$0.4 and \$10.1 million, respectively for the nine months ended April 30, 2007 and 2006. The \$0.4 million of cash provided by financing activities for the nine months ended April 30, 2007 primarily related to approximately \$0.3 million of capital leases repayments offset by \$0.7 million related to proceeds from the issuance of common stock from the exercise of employee stock options and the employee stock purchase plan. For the nine months ended April 30, 2006 the \$10.1 million of cash provided by financing activities includes approximately \$11.0 million of borrowings under the revolving line of credit needed to support the demand for certain customer products, \$1.0 million of proceeds from the issuance of common stock from the exercise of employee stock options and the

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employee stock purchase plan and \$1.6 million of cash used in the repayment of a mortgage in connection with the sale of a building in Europe. We are not dependent on liquidity from financing activities to fund either our short-term or long-term operating activities; however, we have utilized our revolving line of credit to meet operating requirements in the past.

Given our cash resources as of April 30, 2007, we believe that we have sufficient working capital and liquidity to support our operations and strategic initiatives, as well as continue to make investments through our venture capital business over the next fiscal year and for the foreseeable future. However, should additional capital be needed to fund future investment and acquisition activity, then we may seek to raise additional capital through offerings of our stock, or through debt financing. There can be no assurance, however, that we will be able to raise additional capital on terms that are favorable to us, or at all.

Off-Balance Sheet Financing Arrangements

The Company does not have any off-balance sheet financing arrangements.

Contractual Obligations

A summary of the Company's contractual obligations is included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2006. The Company reviewed its contractual obligations as of April 30, 2007 and determined that there were no significant changes noted since those reported in the 10-K.

The Company applies the disclosure provisions of FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others", an Interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34, to our agreements that contain guarantee or indemnification clauses. These disclosure provisions expand those required by SFAS No. 5 by requiring that guarantors disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. The following is a description of arrangements in which the Company is a guarantor.

From time to time, the Company provides guarantees of payment to vendors doing business with certain of the Company's subsidiaries or former subsidiaries. These guarantees require that in the event that the subsidiary cannot satisfy its obligations with certain of its vendors, the Company will be required to settle the obligation. In 1999, a subsidiary of the Company entered into a facility lease with a term ending in November 2006. The Company issued a guaranty in connection with this lease. The Company divested of its interest in the subsidiary in 2002. During the quarter ended October 31, 2006, the Company became aware that this lease recently had been amended to extend the lease term through November 2016 with cumulative base rent of approximately \$16.4 million. The Company is currently evaluating the effect of this extension on its prior guaranty.

From time to time, the Company agrees to provide indemnification to its clients in the ordinary course of business. Typically, the Company agrees to indemnify its clients for losses caused by the Company including with respect to certain intellectual property, such as databases, software masters, certificates of authenticity and similar valuable intellectual property. As of April 30, 2007, the Company had no recorded liabilities with respect to these arrangements.

Critical Accounting Policies

The preparation of our quarterly financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, stock-based compensation expense, inventories, investments, income taxes, restructuring, impairment of long-lived assets,

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goodwill and other intangible assets, contingencies and litigation. Of the accounting estimates we routinely make relating to our critical accounting policies, those estimates made in the process of: preparing investment valuations; determining discounted cash flows for purposes of evaluating goodwill and intangible assets for impairment; determining future lease assumptions related to restructured facility lease obligations; and establishing income tax liabilities are the estimates most likely to have a material impact on our financial position and the results of operations. Some accounting policies may have a significant impact on amounts reported in these financial statements. A description of our critical accounting policies is contained in our Annual Report on Form 10-K for the fiscal year ended July 31, 2006 in the “Critical Accounting Policies” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” including an amendment of SFAS No. 115, which permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company beginning in fiscal 2009. The Company is currently evaluating SFAS No. 159 and the impact that it may have on its results of operations or financial position.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires the measurement of defined benefit plan assets and obligations as of the date of the employer’s fiscal year end statement of financial position (with limited exceptions). Under SFAS No. 158, the Company will be required to recognize the funded status of its defined benefit postretirement plan in The Netherlands and to provide the required disclosures as of July 31, 2007. The Company is currently evaluating the impact, if any, that SFAS No. 158 may have on its results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for the Company beginning in fiscal 2009. The Company is currently evaluating the impact, if any, that SFAS No. 157 may have on its results of operations or financial position.

In September 2006, the SEC issued Staff Accounting Bulletin (“SAB”) No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” This SAB provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 establishes an approach that requires quantification of financial statement errors based on the effects on the company’s balance sheet and statement of operations and the related financial statement disclosures. SAB No. 108 permits existing public companies to record the cumulative effect of initially applying this approach in the first fiscal year ending after November 15, 2006 by recording the necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. Additionally, the use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company is currently evaluating the impact that SAB No. 108 may have on its results of operations or financial position and will adopt this standard in fiscal 2007.

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In July 2006, the FASB issued Interpretation No. 48 (“FIN No. 48”) “Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109”. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for the Company beginning in fiscal 2008. The Company is currently evaluating the impact that FIN No. 48 may have on its results of operations or financial position.

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

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

Interest Rate Risk

The Company has from time to time used derivative financial instruments to reduce exposure to adverse fluctuations in interest rates on its borrowing arrangements. The derivatives the Company uses are basic instruments with liquid markets. At April 30, 2007, the Company was primarily exposed to the Prime Rate and the London Interbank Offered Rate (LIBOR) on its outstanding borrowing arrangements, and the Company had no open derivative positions with respect to its borrowing arrangements. A hypothetical 100 basis point increase in our interest rates would result in an approximate 10%, or \$0.2 million increase, in our interest expense for the nine months ended April 30, 2007.

We maintain a portfolio of highly liquid cash equivalents typically maturing in three months or less as of the date of purchase. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy.

Our exposure to market risk for changes in interest rates relates primarily to our investment in short-term investments. At April 30, 2007, the Company had available-for-sale securities, a significant portion of which are classified as short-term investments in our condensed consolidated balance sheet. These short-term investments include corporate and state municipal obligations such as commercial paper and auction rate securities (ARS), but may also include certificates of deposit and institutional market funds. The auction rate securities are adjustable-rate securities with dividend rates that are reset periodically by bidders through “Dutch auctions” generally conducted every 7 to 90 days by a trust company or broker/dealer on behalf of the issuer. We believe these securities are highly liquid investments through the related auctions; however, the collateralizing securities have stated terms of up to thirty years. We mitigate default risk by investing in instruments that are rated AAA by Moody’s and Fitch Ratings, or equivalent. Our short-term investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations and delivers an appropriate yield in relationship to our investments guidelines and market conditions.

Foreign Currency Exchange Rate Risk

The Company has operations in various countries and currencies throughout the world and its operating results and financial position are subject to greater exposure from significant fluctuations in foreign currency exchange rates. The Company uses derivative financial instruments, principally foreign currency exchange contracts on a limited basis to assist in managing the exposure that results from such fluctuations.

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

We are also exposed to foreign currency exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars in consolidation. When there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income (loss). For the three and nine months ended April 30, 2007, we recorded foreign currency translation gains of \$0.3 million and \$1.6 million, respectively. In addition, certain of our foreign subsidiaries have assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. For the three months ended April 30, 2007, we recorded foreign currency transaction gains of approximately \$0.3 million. For the nine months ended April 30, 2007 we recorded foreign currency transaction losses of approximately \$0.9 million. Foreign currency transaction gains or losses are recorded in other gains (losses), net in our condensed consolidated statements of operations.

International revenues from our foreign operating segments accounted for approximately 69% and 65% of total net revenue for the three and nine months ended April 30, 2007, respectively. A portion of our international sales made by our foreign business units in their respective countries is denominated in the local currency of each country. These business units also incur a portion of their expenses in the local currency.

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

Item 4. *Controls and Procedures.*

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

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

Item 1. Legal Proceedings.

From time to time, we may become involved in litigation relating to claims arising out of operations in the normal course of business, which we consider routine and incidental to our business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, would have a material adverse effect on our business, results of operation or financial condition.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, including in the first paragraph under "Management's Discussion and Analysis of Financial Condition and Results of Operation," you should carefully consider the factors discussed below and in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended July 31, 2006, which could materially affect our business, financial condition or future results. The risks described below and in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. Other than with respect to the risk factors below, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K. Several of the risk factors below were disclosed in our Annual Report on Form 10-K and have been updated as of April 30, 2007.

We may have difficulty achieving and sustaining operating profitability, and if we deplete our working capital balances, our business will be materially and adversely affected.

During the fiscal quarter ended April 30, 2007, we reported operating income of approximately \$0.9 million. While we have reported operating profitability in recent past periods, as a result of a variety of factors discussed in this report, our revenue for a particular quarter is difficult to predict and may fluctuate significantly. We anticipate that we will continue to incur significant operating expenses in the future, including significant costs of revenue and general and administrative expenses. We also have significant commitments and contingencies, including borrowings under a revolving line of credit, real estate leases, continuing stadium sponsorship obligations, and inventory purchase obligations. Therefore, we cannot assure you that we will sustain operating profitability in the future. We may also use significant amounts of cash to grow and expand our operations, including through additional acquisitions. At April 30, 2007, we had consolidated cash, cash equivalents, available for sale securities and short-term investments balance of approximately \$250.3 million and fixed contractual obligations of \$179.3 million. If we are unable to sustain operating profitability, we risk depleting our working capital balances and our business will be materially adversely affected.

We derive a substantial portion of our revenue from a small number of clients and adverse industry trends or the loss of any of those clients could significantly damage our business.

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

In addition, the loss of any one or more of our key clients would cause our revenues to decline. For the three and nine months ended April 30, 2007, sales to Hewlett-Packard accounted for approximately 33% and 31%, respectively, of our consolidated net revenue and sales to Advanced Micro Devices accounted for approximately 14% and 12%, respectively, of our consolidated net revenue. In fiscal 2006, sales to Kodak accounted for 11% of our consolidated net revenue. In fiscal 2007, we have recognized lower annual revenues from Kodak as a result

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of changes to certain programs that we executed on their behalf in fiscal 2006. For the first nine months of fiscal 2007 sales to Kodak declined by \$55.3 million as compared to the same period in fiscal 2006. In addition, as previously announced, in February 2007, the Company was informed that a business unit of Hewlett-Packard intends to migrate away from ModusLink a program which accounts for approximately \$100.0 million of annual revenue. The operating income associated with this program is estimated at less than \$3.0 million per year. The Company expects volumes associated with this program to decline in the fourth quarter and does not expect the loss of this program to have a significant impact on results for fiscal 2007. We expect to continue to derive the vast majority of our operating revenue from sales to a small number of key clients. We do not have any agreements which obligate any client to buy a minimum amount of products or services. We do not have any agreements which designate us as the sole supplier of any particular products or services. The loss of a significant amount of business with Hewlett-Packard, or any other key clients, or a decision by any one of our key clients to significantly change or reduce the services we provide, could have a material adverse effect on our business. We cannot assure you that our revenue from key clients will not decline in future periods.

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

We may encounter problems in our efforts to increase operational efficiencies.

Following our acquisition of Modus in August 2004, we continue to identify ways to increase efficiencies and productivity and effect cost savings. We have undertaken and implemented projects designed to increase our operational efficiencies, including the standardization to a global business solutions platform through the investment of approximately \$31.5 million in an ERP system. Our cost estimate has increased from time to time, primarily as a result of changes to our implementation schedule and infrastructure requirements. We have also begun the implementation of a shared services model utilizing centralized "hub" locations to service multiple "spoke" locations across the Americas, Asia and Europe regions. We cannot assure you that the completion of these projects will result in the realization of the expected benefits that we anticipate in a timely manner or at all. We may encounter problems with these projects that will divert the attention of management and/or result in additional costs or unforeseen project delays. If we are unable to complete these projects in a timely manner and without significant problems, or do not achieve expected results, our business, financial position and operating results may be adversely affected.

We are subject to risks of operating internationally.

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

We currently conduct business in The Netherlands, Hungary, France, Ireland, Czech Republic, Singapore, Taiwan, China, Malaysia, Japan, Mexico and other foreign locations, in addition to our United States operations. International sales accounted for approximately 69% and 65% of our total net revenue for the three and nine months ended April 30, 2007. A portion of our international revenue; cost of revenue and operating expenses are denominated in foreign currencies. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating results. There is also additional risk if the currency is not freely traded. Some currencies, such as the Chinese Renminbi, are subject to limitations on conversion into other currencies, which can limit or delay our ability to repatriate funds or engage in hedging activities. While we often enter into forward currency exchange contracts to manage a portion of our exposure to foreign currencies, future exchange rate fluctuations may have a material adverse effect on our business and operating results.

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

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

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

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

Our international operations increase our exposure to international laws and regulations. Noncompliance with foreign laws and regulations, which are often complex and subject to variation and unexpected changes, could result in unexpected costs and potential litigation. For example, the governments of foreign countries might attempt to regulate our products and services or levy sales or other taxes relating to our activities; foreign countries may impose tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers; or a governmental authority could make an unfavorable determination regarding our operations, any of which could make it more difficult to conduct our business and have a material adverse effect on our business and operating results.

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

The Company may incur impairments to its goodwill.

The Company's carrying value of goodwill at April 30, 2007 is approximately \$181.4 million. The Company is required to test goodwill for impairment annually or if a triggering event occurs in accordance with the provisions of SFAS No. 142 "Goodwill and Other Intangible Assets." The Company's policy is to perform its annual impairment testing for all reporting units, determined to be the Americas, Europe and Asia operating segments, in the fourth quarter of each fiscal year. The Company's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. Management uses third party valuation experts to assist in its determination of the fair value of reporting units subject to impairment testing. The Company operates in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. If our assumptions used in preparing our valuations of the Company's reporting units for purposes of impairment testing differ materially from actual future results, the Company may record impairment charges in the future and our financial results may be materially adversely affected.

Item 5. *Other Information.*

During the quarter ended April 30, 2007, we made no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors, as described in our most recent proxy statement.

Item 6. *Exhibits.*

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

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SIGNATURE

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

CMGI, INC.

Date: June 11, 2007

By: /s/ STEVEN G. CRANE
Steven G. Crane
Chief Financial Officer and Treasurer

EXHIBIT INDEX

- 10.1 Second Amended and Restated Limited Liability Company Agreement of @Ventures V, LLC, dated April 16, 2007.
- 10.2 Employment Offer Letter from the Registrant to Steven G. Crane, dated March 15, 2007, is incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed April 5, 2007 (File No. 000-23262).
- 10.3 Letter Agreement between the Registrant and David J. Riley, dated April 3, 2007, is incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed April 5, 2007 (File No. 000-23262).
- 10.4 Employment Offer Letter from the Registrant to Scott D. Smith, dated April 12, 2007.
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT
OF
@VENTURES V, LLC

THIS SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT of @Ventures V, LLC (the "LLC") effective as of April 17, 2007, is by and among the persons named on Schedule A attached hereto, each of whom is designated as a Managing Member or an Associate Member.

WHEREAS, CMG @Ventures Capital Corp. formed the LLC as a limited liability company pursuant to the Delaware Limited Liability Company Act, by the filing, on May 14, 2004, in the Office of the Secretary of State of the State of Delaware, of a Certificate of Formation for the LLC (the "Certificate"); and

WHEREAS, on May 14, 2004, the Managing Member and certain Associate Members executed and delivered a Limited Liability Company Agreement dated as of May 14, 2004, which agreement, as amended, was amended and restated on January 24, 2006 and has been amended through the date hereof by one amendment thereto (as so amended, the "Existing Agreement");

WHEREAS, the Managing Member and the Associate Members desire to amend and restate in its entirety the Existing Agreement, in order to reflect the admission of Robert M. Day as an additional Member effective as of the date hereof, and to modify certain of the provisions of the Existing Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and in consideration of the agreements hereinafter set forth, the Existing Agreement is hereby amended and restated to read in its entirety as follows:

ARTICLE I
DEFINITIONS

The following capitalized terms used in this Agreement shall have the respective meanings ascribed to them below:

"Act" means the Delaware Limited Liability Company Act, in effect at the time of the initial filing of the Certificate in the Office of the Secretary of State of the State of Delaware, and as thereafter amended from time to time.

"Affiliate" shall mean, with respect to any specified person or entity, (i) any person or entity that directly or indirectly controls, is controlled by, or is under common control with such specified person or entity; (ii) any person or entity that directly or indirectly controls 10% or more of the outstanding equity securities of the specified entity or of which the specified person or entity is directly or indirectly the owner of 10% or more of any class of equity securities; (iii) any person or entity that is an officer of, director of, manager of, partner in, or trustee of, or serves in a similar capacity with respect to, the specified person or entity or of which the specified person or entity is an officer, director, partner, manager or trustee, or with respect to

which the specified person or entity serves in a similar capacity; or (iv) any person that is a spouse, mother, father, brother, sister or lineal descendant of the specified person.

“Agreement” means this Amended and Restated Limited Liability Company Agreement as it may be amended, supplemented, or restated from time to time.

“Appropriate Amount” has the meaning ascribed thereto in Section 3.01(b).

“Associate Member” shall refer severally to any person named as an Associate Member in this Agreement and any person who becomes an additional, substitute or replacement Associate Member as permitted by this Agreement, in such person’s capacity as an Associate Member of the LLC. “Associate Members” shall refer collectively to all such persons in their capacities as Associate Members.

“Budget” shall have the meaning ascribed thereto in Section 6.05(a).

“Capital Account” means a separate account maintained for each Member and adjusted in accordance with Treasury Regulations under Section 704 of the Code. To the extent consistent with such Treasury Regulations, the adjustments to such accounts shall include the following:

(i) There shall be credited to each Member’s Capital Account the amount of any cash actually contributed by such Member to the capital of the LLC, the fair market value of any property contributed by such Member to the capital of the LLC, the amount of liabilities of the LLC assumed by the Member or to which property distributed to the Member was subject, and such Member’s share of the Net Profits of the LLC and of any items in the nature of income or gain separately allocated to the Members; and there shall be charged against each Member’s Capital Account the amount of all cash distributions to such Member, the fair market value of any property distributed to such Member by the LLC, the amount of liabilities of the Member assumed by the LLC or to which property contributed by the Member to the LLC was subject, and such Member’s share of the Net Losses of the LLC and of any items in the nature of losses or deductions separately allocated to the Members.

(ii) In the event any interest in the LLC is transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest.

“Capital Contribution” means the aggregate amount of cash and the fair market value (as determined in accordance with Section 6.08 hereof) of any property contributed to the LLC by a Member.

“Carrying Value” means, with respect to any asset, the asset’s adjusted basis for federal income tax purposes; provided, however, that (i) the initial Carrying Value of any asset contributed to the LLC shall be adjusted to equal its gross fair market value at the time of its contribution and (ii) the Carrying Values of all assets held by the LLC shall be adjusted to equal their respective gross fair market values (taking Code Section 7701(g) into account) upon an election by the LLC to revalue its property in accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(f). The Carrying Value of any asset whose Carrying Value was adjusted

pursuant to the preceding sentence thereafter shall be adjusted in accordance with the provisions of Treasury Regulation Section 1.704-1(b)(2)(iv)(g).

“Cause” shall mean, in connection with the termination of the Associate Member’s relationship with the Employer:

(a) indictment of the Associate Member for commission, conviction of, or plea of nolo contendere to (A) a felony, whether or not business related, which may injure the business or reputation of the Employer or any of its Affiliates, or (B) a crime of moral turpitude;

(b) the Associate Member’s theft, embezzlement of assets of, or other financial fraud against, the Employer or any of its Affiliates;

(c) a material breach of any agreement between the Associate Member, on the one hand, and the Employer and/or any of its Affiliates (as that term is defined in clauses (i) and (ii) of the definition of “Affiliate” contained herein), on the other hand, including, without limitation, this Agreement, which breach is not cured within 30 days after written notice of such breach is given to the Associate Member by the Employer or any of Employer’s Affiliates;

(d) the willful and continued failure by the Associate Member to substantially perform his or her duties (other than as a result of incapacity due to physical or mental illness), which failure is not cured within 30 days after written notice of such breach is given to the Associate Member by Employer;

(e) misappropriation for personal use by the Associate Member of any material asset or business opportunity of the Employer or any of its Affiliates (as that term is defined in clauses (i) and (ii) of the definition of “Affiliate” contained herein); or

(f) willful misconduct of the Associate Member which adversely affects the business of the Employer or any of its Affiliates (as that term is defined in clauses (i) and (ii) of the definition of “Affiliate” contained herein).

The matters described in clauses (d) and (f) above shall be determined by CMGI, acting in good faith, prior to, or within 10 days following, the termination of the Associate Member’s employment.

“Certificate” means the Certificate of Formation creating the LLC, as it may, from time to time, be amended in accordance with the Act.

“CMGI” means CMGI, Inc., a Delaware corporation.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Employer” shall mean, for any Associate Member, CMGI or any of its Affiliates that employs the Associate Member on a full-time basis. For purposes of this Agreement, a Portfolio Company shall not constitute an Affiliate of any of the LLC or CMGI (and an Associate Member shall not be deemed to be employed by an Employer if such Associate Member is employed by a Portfolio Company).

“Event of Forfeiture” shall mean and shall be deemed to have occurred with respect to an Associate Member in the event that there occurs with respect to such Associate Member a Separation Event.

“Follow-on Investment” shall mean an Investment in securities of a Portfolio Company in which the LLC owns securities or debt instruments.

“Former Associate Member” shall mean any person holding an interest in the LLC as an Associate Member as to whom a Separation Event has occurred.

“Invested Capital” means, at any point in time, for the Managing Member, the excess of (i) the aggregate amount of the Capital Contributions of the Managing Member over (ii) the aggregate amount distributed to such Member pursuant to Section 4.01(b)(i).

“Investment” means an investment in a Portfolio Company made by the LLC, including without limitation a Follow-on Investment. The term “Investment” shall include any short-term investments, if any, made by the LLC.

“Investment Receipts” shall mean, the amount of any cash and the fair market value (as determined in accordance with Section 6.08 hereof) of any property received by the LLC with respect to Investments and any cash and the fair market value (as determined in accordance with Section 6.08 hereof) of any property received by the LLC in accordance to Section 6.06(a) hereof with respect to any Portfolio Company. For this purpose, any Investment held by the LLC shall be considered to give rise to an Investment Receipt at the time it is distributed to the Members.

“LLC” means the limited liability company formed pursuant to the Certificate and this Agreement, as it may from time to time be constituted and amended.

“Majority in Interest of the Associate Members” means, with respect to a particular action or matter, Associate Members whose Percentage Interests equal a majority of the Percentage Interests of all Associate Members then entitled to vote on the action.

“Managing Member” shall refer severally to any person named as a Managing Member in this Agreement and any person who becomes an additional, substitute or replacement Managing Member as permitted by this Agreement, in such person’s capacity as a Managing Member of the LLC. “Managing Members” shall refer collectively to all such persons in their capacities as Managing Members.

“Marketable Securities” means securities of the LLC (i) that are freely tradeable pursuant to a registration under the Securities Act, or an exemption therefrom, (ii) that immediately after giving effect to their distribution will not be subject to any contractual restriction on transfer or restrictions on transfer imposed by applicable laws, (iii) that will be traded on a national securities exchange or reported on the Nasdaq Stock Market of Securities Dealers Automated Quotation System, and (iv) that may be sold without regard to volume or other limitations.

“Member” shall refer severally to any person named as an Associate Member or Managing Member in this Agreement and any person who becomes an additional, substitute or

replacement Associate or Managing Member as permitted by this Agreement, in such person's capacity as a Member of the LLC. "Members" shall refer collectively to all such persons in their capacities as Members.

"Net Investment Receipts" shall mean, with respect to any particular Investment, the excess of all Investment Receipts of the LLC with respect to such Investment over the sum (i) the aggregate amount of the unreimbursed third party transaction costs, if any, associated with the realization of such Investment Receipts, including without limitation, brokerage commissions, finders fees, and attorneys fees, investment banking fees and accountants fees and (ii) such reserves as may be reasonably established by the Managing Member (and the LLC shall be permitted to dispose of Marketable Securities to the extent necessary to fund any such reserves), provided that no such reserves shall be established for payment of expenses of the types included in the Budget described in Section 6.05. Amounts released from the reserves described in clause (ii) of the preceding sentence shall be considered to be Investment Receipts attributable to the same Investments which produced the Investment Receipts originally used to fund such reserves in proportion of the respective gross amounts of Investment Receipts from Investments used to fund such reserves at any time since the inception of the LLC.

"Net Profits" and "Net Losses" mean the taxable income or loss, as the case may be, for a period as determined in accordance with Code Section 703(a) computed with the following adjustments:

- (i) Items of gain, loss, and deduction shall be computed based upon the Carrying Values of the LLC's assets (in accordance with Treasury Regulation Sections 1.704-1(b)(2)(iv)(g) and/or 1.704-3(d)) rather than upon the assets' adjusted bases for federal income tax purposes;
- (ii) Any tax-exempt income received by the LLC shall be included as an item of gross income;
- (iii) The amount of any adjustments to the Carrying Values of any assets of the LLC pursuant to Code Section 743 shall not be taken into account except to the extent provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(m);
- (iv) Any expenditure of the LLC described in Code Section 705(a)(2)(B) (including any expenditures treated as being described in Section 705(a)(2)(B) pursuant to Treasury Regulations under Code Section 704(b)) shall be treated as a deductible expense;
- (v) The amount of items of income, gain, loss or deduction specially allocated to any Members pursuant to Section 5.02 or Section 5.03 shall not be included in the computation;
- (vi) The amount of any unrealized gain or unrealized loss attributable to an asset at the time it is distributed in-kind to a Member shall be included in the computation as an item of income or loss, respectively; and

(vii) The amount of any unrealized gain or unrealized loss with respect to the assets of the LLC that is reflected in an adjustment to the Carrying Values of the LLC's assets pursuant to clause (ii) of the definition of "Carrying Value" shall be included in the computation as items of income or loss, respectively.

"Percentage Interest" means the Percentage Interest of each Member as specified on Schedule A hereto, as such Percentage Interest may be adjusted from time to time in accordance with this Agreement.

"Performance Cause" means, in the case of the termination of an Associate Member's employment by Employer without Cause, that such termination of employment has followed receipt by such Associate Member of notice (which notice need not be in writing) from the Technology Committee of CMGI that the Technology Committee has concerns about such Associate Member's performance, which performance concerns have not, in the good faith determination of a majority in number of the members of the Technology Committee, been remedied by such Associate Member within 30 days following receipt of such notice.

"Permitted Transferee" means (A) any Member; (B) any spouse, parent, lineal descendant (including a natural or adopted child, grandchild, etc.), brother, sister, or spouse of a brother or sister of a Member; (C) any trust, corporation or partnership or other entity in which any Member and/or one of the persons designated in clause (B) is a principal, beneficiary, majority stockholder, member or limited or general partner with an aggregate interest in profits and losses of greater than fifty percent; (D) grantors or beneficiaries of a trust which is (or of which the trustees thereof are, in their capacities as trustees) a Member; or (E) charitable foundations created or primarily endowed by a Member or a member of his or her family.

"Portfolio Company" means the issuer of any security in which the LLC has invested, other than issuers in which the LLC has made short-term investments pending the making of long-term investments.

"Pre-2007 Amount" means an amount agreed upon by the Members as set forth in the records of the LLC.

"Pre-2007 Percentage Interest" means the Pre-2007 Percentage Interest of each Member as specified on Schedule A hereto, as such Pre-2007 Percentage Interest may be adjusted from time to time in accordance with this Agreement.

"Securities Act" means the Securities Act of 1933, as amended.

"Separation Event" shall mean and shall be deemed to have occurred in the event that:

(w) an Associate Member dies or becomes mentally or physically disabled (as determined by a physician selected by the Managing Member) or a conservator or guardian is appointed for the benefit of any Associate Member or his property;

(x) the employment of such Associate Member with the Employer is terminated by such Member voluntarily (subject to clause (z) below), or for any reason other than the reasons specified in clauses (w), (y) or (z) of this definition; or

(y) the employment of such Associate Member with the Employer is terminated by the Employer without Cause and without Performance Cause; or

(z) the employment of such Associate Member with the Employer is (A) terminated by the Employer with Cause, or (B) terminated by the Associate Member voluntarily, following which termination it is determined, in good faith, by CMGI within 10 days following such termination, that there was Cause to terminate such Member (any of the foregoing, a "Clause Z Event").

"Target Balance" means, for each Member at any point in time, either (i) a positive amount equal to the net amount, if any, the Member would be entitled to receive or (ii) a negative amount equal to the net amount the Member would be required to pay or contribute to the LLC or to any third party, assuming, in each case, that (A) the LLC sold all of its assets for an aggregate purchase price equal to their aggregate Carrying Value; (B) all liabilities of the LLC were paid in accordance with their terms from the amounts specified in clause (A) of this sentence; (C) any Member that was obligated to contribute any amount to the LLC pursuant to this Agreement or otherwise (including the amount a Member would be obligated to pay to any third party pursuant to the terms of any liability or pursuant to any guaranty, indemnity or similar ancillary agreement or arrangement entered into in connection with any liability of the LLC) contributed such amount to the LLC; (D) all liabilities of the LLC that were not completely repaid pursuant to clause (B) of this sentence were paid in accordance with their terms from the amounts specified in clause (C) of this sentence; and (E) the balance, if any, of any amounts held by the LLC was distributed in accordance with Section 4.01(b) hereof.

"Vested Percentage" means for any Associate Member, a fraction (expressed as a percentage) the numerator of which is the number of consecutive whole calendar quarters (three consecutive whole calendar months) that have elapsed between such Associate Member's Vesting Commencement Date and the date of determination and the denominator of which is 20; provided that:

(i) in no event shall an Associate Member's Vested Percentage exceed 100%, and

(ii) upon the occurrence of a Vesting Event, each Associate Member's Vested Percentage shall equal 100%.

"Vesting Commencement Date" means, for each Associate Member, the Vesting Commencement Date specified on Schedule A attached hereto.

"Vesting Escrow" shall have the meaning ascribed thereto in Section 4.02.

“Vesting Event” shall mean the occurrence of any of the following:

- (i) The adoption of a resolution by the Board of Directors of CMGI to dissolve or liquidate the LLC or the Managing Member;
- (ii) The dissolution of the LLC; and
- (iii) The dissolution of CMGI.

ARTICLE II
GENERAL PROVISIONS

2.01 Formation of Limited Liability Company; Foreign Qualification. The Managing Member formed the LLC as a limited liability company under the Act on May 14, 2004, by the filing of the Certificate in the Office of the Secretary of State of the State of Delaware. The LLC shall comply, to the extent procedures are available, with all requirements necessary to qualify the LLC as a foreign limited liability company in each jurisdiction in which such qualification is either necessary or appropriate. Each Member shall execute, acknowledge, swear to and deliver all certificates and other instruments conforming to this Agreement that are necessary or appropriate to qualify, or, as appropriate, to continue or terminate the foreign qualification of, the LLC as a limited liability company in all such jurisdictions in which the LLC may conduct business.

2.02 Name of the LLC. The name of the LLC is @Ventures V, LLC. The Managing Member may change the name of the LLC at any time and from time to time. No Member other than the Managing Member shall have any right or interest in or to the name “@Ventures” and all rights and interest in such name shall belong exclusively to the LLC during the term of the LLC, and, upon termination of the LLC, shall be assigned and transferred to the Managing Member. Each Associate Member hereby agrees and acknowledges that it shall have no right in or to the name “@Ventures”, as a result of its interest in the LLC or otherwise.

2.03 Business of the LLC. The general character of the business of the LLC is to (a) make equity and equity-related investments (including debt and warrants to purchase equity securities) in business enterprises of all types; (b) manage, supervise, vote, hold and dispose of such investments, and receive the profits and losses therefrom; and (c) engage in any activities directly or indirectly related or incidental thereto which may be lawfully conducted by a limited liability company formed under the laws of the State of Delaware.

2.04 Place of Business of the LLC; Resident Agent. The address of the principal place of business of the LLC, and the office at which the LLC will maintain its records is c/o CMGI, Inc., 1100 Winter Street, Suite 4600, Waltham, Massachusetts 02451. The LLC’s registered office in Delaware is c/o Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware, 19810, and the LLC’s registered agent for service of process in Delaware is Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware, 19810. The Managing Member, may at any time and from time to time change the LLC’s principal place of business, establish additional places of business, and/or change the LLC’s registered agent or registered office in Delaware, and in each case shall promptly provide notice of any such actions (identifying all such offices and agents) to all Members.

2.05 Duration of the LLC. The term of the LLC commenced on the date hereof, and the LLC shall have perpetual existence, unless earlier terminated in accordance with Article IX hereof.

2.06 Members' Names and Addresses. The name and address of each Member are set forth on Schedule A. Additional Members may be admitted in accordance with the procedures specified in Article VIII. A Member may not resign from the LLC at any time.

2.07 No Partnership. The LLC is not intended to be a general partnership, limited partnership or joint venture, and no Member shall be considered to be a partner or joint venturer of any other Member, for any purposes other than foreign and domestic federal, state, and local income tax purposes, and this Agreement shall not be construed to suggest otherwise.

2.08 Title to LLC Property. All property owned by the LLC, whether real or personal, tangible or intangible, shall be deemed to be owned by the LLC as an entity, and no Member, individually, shall have any ownership of such property. The LLC may hold any of its assets in its own name or in the name of its nominee, which nominee may be one or more trusts. Any property held by a nominee trust for the benefit of the LLC shall, for purposes of this Agreement, be treated as if such property were directly owned by the LLC.

2.09 Nature of Member's Interest. The interests of all of the Members in the LLC are personal property and shall not, under any circumstances, be considered real property.

2.10 Investment Representations. Each Member, by execution of this Agreement or an amendment hereto reflecting such Member's admission to the LLC, hereby represents and warrants to the LLC that:

(a) It is acquiring an interest in the LLC for its own account for investment only, and not with a view to, or for sale in connection with, any distribution thereof in violation of the Securities Act or any rule or regulation thereunder.

(b) It understands that (i) the interest in the LLC it is acquiring has not been registered under the Securities Act or applicable state securities laws and cannot be resold unless subsequently registered under the Securities Act and such laws or unless an exemption from such registration is available, (ii) such registration under the Securities Act and such laws is unlikely at any time in the future and neither the LLC nor the Members are obligated to file a registration statement under the Securities Act or such laws, and (iii) the assignment, sale, transfer, exchange, or other disposition of the interests in the LLC is restricted in accordance with the terms of this Agreement.

(c) It has had such opportunity as it has deemed adequate to ask questions of and receive answers from representatives of the LLC concerning the LLC, and to obtain from representatives of the LLC such information which the LLC possesses or can acquire without unreasonable effort or expense, as is necessary to evaluate the merits and risks of an investment in the LLC.

(d) It has, either alone or with its professional advisers, sufficient experience in business, financial and investment matters to be able to evaluate the merits and risks involved in investing in the LLC and to make an informed investment decision with respect to such investment.

(e) It can afford a complete loss of the value of its investment in the LLC and is able to bear the economic risk of holding such investment for an indefinite period.

(f) If it is an entity, (i) it is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (ii) it has full organizational power to execute and deliver this Agreement and to perform its obligations hereunder, (iii) its execution, delivery and performance of this Agreement has been authorized by all requisite action on behalf of the entity, and (iv) it has duly executed and delivered this Agreement.

(g) In the case of each Associate Member, its interest in the LLC is subject to vesting and forfeiture, as provided in this Agreement.

ARTICLE III CAPITAL CONTRIBUTIONS

3.01 Capital Contributions.

(a) The Managing Member shall contribute capital to the LLC, subject to and in accordance with the provisions of this Section 3.01(a).

(i) As and when the LLC requires capital to make a proposed Investment, the Associate Members shall provide a notice (which notice may be given in writing or by electronic mail) to the Managing Member which describes in reasonable detail (A) the proposed Investment, (B) the aggregate purchase price of such proposed Investment, (C) the material terms of the proposed Investment, (D) the unreimbursed expenses, if any, expected to be incurred in connection with such proposed Investment, and (E) the expected date on which such Investment is proposed to be made. If any Associate Member or any Affiliate of an Associate Member owns any direct or indirect interest in any proposed Investment, such interest shall be described in detail in any such notice. If, and only if, the Managing Member (acting at the direction of the Technology Committee of the Board of Directors of CMGI, or such other governing body of CMGI as regularly makes investment decisions for CMGI (the "Technology Committee")) approves the making of such Investment in writing, it shall contribute to the capital of the LLC the aggregate purchase price specified in the notice, on or before the date of the anticipated purchase of the Investment. The Managing Member may approve or disapprove the making of any proposed Investment (including a Follow-on Investment) in its sole and absolute discretion. If the Managing Member fails to notify the Associate Members of its decision with respect to the proposed Investment, it shall be deemed to have disapproved the proposed Investment.

(ii) The Managing Member shall contribute capital to the LLC to the extent required under Section 6.04(h) below, subject to the limitation stated therein.

(iii) The Managing Member may contribute capital of up to \$50,000,000 to the LLC (and such \$50,000,000 shall include amounts contributed pursuant to Section 6.04(h), if any). For the avoidance of doubt, but subject to Section 6.04(h), the Members acknowledge that the Managing Member's decision to make capital contributions to the LLC will be in the Managing Member's sole and absolute discretion.

(b) Notwithstanding any other provision of this Agreement, in the event that following dissolution of the LLC and (i) liquidation of all LLC assets and distributions of the proceeds thereof, and/or (ii) distributions of Investments in kind, any Associate Member shall have received aggregate distributions (valuing all distributions in kind for this purpose as of their respective dates of distribution in accordance with Section 6.08) from the LLC in an amount which exceeds the Appropriate Amount (as hereinafter defined) for such Associate Member, such Associate Member shall contribute to the LLC in cash or securities previously received from the LLC (valued in accordance with Section 6.08 as of the business day next preceding the date of delivery to the LLC) an amount equal to such excess. If the LLC is at the time holding any amount in a Vesting Escrow for such Associate Member, the Managing Member may cause the amount in such Vesting Escrow to be applied towards the Associate Member's obligation to pay the excess over the Appropriate Amount (and shall be permitted to select from among the assets held in such Vesting Escrow which assets shall be so applied). Amounts contributed to the LLC by any Associate Member pursuant to this Section 3.01(b) shall be promptly distributed to the Managing Member. Thereafter, the LLC will be terminated.

As used herein, the "Appropriate Amount" means with respect to an Associate Member an amount equal to the amount which such Associate Member would have received had all distributions from the LLC to the Members been made on the same date (valuing all distributions of securities for this purpose as of the actual date of distribution and assuming for this purpose that the distributions to the Members are made in the same order as the actual distributions to the Members during the term of the LLC), as follows:

- (i) first, to the Managing Member, in an amount equal to the aggregate amount of the Capital Contributions actually made by it to the LLC;
 - (ii) second, to the Members in proportion to their respective Pre-2007 Percentage Interests, until an aggregate amount equal to the Pre-2007 Amount shall have been distributed pursuant to this clause (ii); and
 - (iii) the balance, to the Members in proportion to their respective Percentage Interests as of the date of dissolution, but subject to the proviso at the end of Section 4.01(b) (i.e., no Former Associate Member shall be entitled to participate in any distributions of Net Investment Receipts with respect to any Investment (including a Follow-on Investment) made by the LLC after the date of a Separation Event with respect to such Former Associate Member, with such amounts being instead distributed to the Managing Member).
- (c) The LLC shall maintain written records indicating the amount of capital contributed by the Managing Member to the LLC.

3.02 No Additional Capital. Except as provided in this Article III and Section 6.04(h) herein, no Member shall be obligated or permitted to contribute any additional capital to the LLC. No interest shall accrue on any Capital Contributions of the LLC, and no Member shall have the right to withdraw or to be repaid any Capital Contribution made by it or to receive any

other payment in respect of its interest in the LLC, including without limitation as a result of the withdrawal or resignation of such Member from the LLC, except as specifically provided in this Agreement.

3.03 Event of Forfeiture.

(a) Each Associate Member's Percentage Interest and Pre-2007 Percentage Interest in the LLC shall be adjusted upon the occurrence of an Event of Forfeiture with respect to such Associate Member, as provided in this Section 3.03. In no event shall the provisions of this Section 3.03 be applicable to the interest of the Managing Member.

(b) Upon the occurrence of an Event of Forfeiture with respect to an Associate Member:

(i) If the Event of Forfeiture is not a Clause Z Event, such Associate Member's Percentage Interest and Pre-2007 Percentage Interest in the LLC shall, from and after the date of the Event of Forfeiture, be reduced to the percentages determined by multiplying such Member's Percentage Interest and Pre-2007 Percentage Interest immediately prior to the Event of Forfeiture by such Associate Member's Vested Percentage determined as of the date of the Event of Forfeiture, and the Percentage Interest and Pre-2007 Percentage Interest in the LLC of the Managing Member shall be increased by an aggregate amount equal to the amount by which the Associate Member's Percentage Interest and Pre-2007 Percentage Interest are so reduced.

(ii) If the Event of Forfeiture is a Clause Z Event, such Associate Member's Percentage Interest and Pre-2007 Percentage Interest shall be reduced to zero, and the Percentage Interest and Pre-2007 Percentage Interest in the LLC of the Managing Member shall, from and after the date of the Clause Z Event, be increased by an aggregate amount equal to the amount by which the Associate Member's Percentage Interest and Pre-2007 Percentage Interest are so reduced.

(iii) Any amount held in any Vesting Escrow for the benefit of such Associate Member shall be forfeited. Amounts so forfeited shall be distributed to the Managing Member.

(iv) The Associate Member shall not be entitled to any distributions of Net Investment Receipts with respect to any Investment (including a Follow-on Investment) made by the LLC after the date of the Event of Forfeiture, and any distributions of Net Investment Receipts in respect of such Investments which would otherwise be payable to such Associate Member shall instead be paid to the Managing Member.

(c) Upon the occurrence of an Event of Forfeiture, the Managing Member shall amend Schedule A hereto and the records of the LLC to reflect (i) the modification of the Members' Percentage Interests and Pre-2007 Percentage Interests in accordance with this Section 3.03 and (ii) the date of any Separation Event of an Associate Member. No such amendment shall require the consent of any other Member.

3.04 Separation Event. Upon the occurrence of any Separation Event with respect to an Associate Member, such Associate Member (and/or his legal representative, if applicable)

shall have no right to vote on or participate in any decision or matter on or in which Associate Members are entitled to vote or participate and such Associate Member (and his or her Percentage Interest) shall be disregarded for all purposes in determining the number or percentage of Associate Members which constitute a Majority in Interest of the Associate Members, as applicable, or the number or percentage of Associate Members entitled to vote on any matter, as the case may be. Without limiting the foregoing, no Former Associate Member shall be entitled to vote on any proposed amendment to this Agreement, unless such proposed amendment specifically and disproportionately adversely affects such Former Associate Member, provided that any amendment made in order to effectuate the provisions of Sections 3.03 and 3.04 shall not require the consent of any Former Member. Following the occurrence of a Separation Event with respect to an Associate Member, such Associate Member shall not be entitled to any distributions of Net Investment Receipts with respect to any Investment (including a Follow-on Investment) made by the LLC after the date of the Separation Event, and any distributions of Net Investment Receipts in respect of such Investments which would otherwise be payable to such Associate Member shall instead be paid to the Managing Member.

ARTICLE IV DISTRIBUTIONS

4.01 Distribution of Net Investment Receipts and Other Cash Receipts.

(a) Net Investment Receipts of the LLC shall be distributed as realized, including upon a partial liquidation or partial disposition of an Investment. To the extent that such Net Investment Receipts consist of (x) Marketable Securities, or (y) cash realized from the sale or disposition of an Investment, such Net Investment Receipts shall be distributed to the Members (i) in the case of Marketable Securities, as soon as reasonably practicable after they become Marketable Securities, and (ii) in the case of such cash, as soon as reasonably practicable following receipt by the LLC thereof. Any other receipts of cash or securities received by the LLC shall be distributed at such times and in such amounts as the Managing Member may determine in its sole and absolute discretion. Any non-cash distributions made to the Members shall be valued, as of the date of distribution, at their respective fair market values, as determined by the Managing Member in good faith and in a manner consistent with the valuation procedures contained in Section 6.08.

(b) Subject to the provisions of Sections 4.02 and 9.02(b), Net Investment Receipts and all other distributions of cash or securities of the LLC shall be distributed as follows:

- (i) First, to the Managing Member, until the Invested Capital has been reduced to zero; and
- (ii) Second, to the Members in proportion to their respective Pre-2007 Percentage Interests, until an aggregate amount equal to the Pre-2007 Amount shall have been distributed pursuant to this Section 4.01(b)(ii); and
- (iii) The balance, if any, to the Members in proportion to their respective Percentage Interests as of the date of the distribution;

provided, however, that an Associate Member with respect to whom a Separation Event has occurred shall not be entitled to any distributions of Net Investment Receipts with respect to any Investment (including a Follow-on Investment) made by the LLC after the date of the Separation Event, and any distributions of Net Investment Receipts in respect of such Investments which would otherwise be payable to such Associate Member shall instead be paid to the Managing Member.

4.02 Vesting Escrow.

(a) Notwithstanding the provisions of Section 4.01 above, the LLC shall distribute to each Associate Member on the date of any distribution (a "Distribution") only that portion of any Net Investment Receipts to which he is entitled which is equal to his Vested Percentage of such amount. Any portion of any Distribution which is not distributed as a result of the operation of this Section 4.02(a) shall be held in escrow by the LLC, in accordance with this Section 4.02. Any escrow established pursuant to this Section 4.02 is herein referred to as a "Vesting Escrow." Subject to Section 3.03, (i) on the last day of each calendar quarter, one-twentieth of the amount of the original Distribution shall be disbursed from such Vesting Escrow to such Associate Member, (ii) upon the occurrence of an Event of Forfeiture with respect to such Associate Member, all amounts then held in such Vesting Escrow shall be distributed to the Managing Member; and (iii) subject to Section 3.01(b) with respect to amounts held in a Vesting Escrow which may be applied towards the Associate Member's capital contribution obligation in connection with a dissolution or impending dissolution of the LLC, upon the occurrence of a Vesting Event with respect to such Associate Member, all amounts then held in such Vesting Escrow shall be distributed to such Associate Member.

(b) The interest of the Managing Member shall not be subject to the provisions of this Section 4.02, and it shall at all times be entitled to receive 100% of any distributions of Net Investment Receipts allocable to it pursuant to and in accordance with Section 4.01.

(c) Each of the Associate Members hereby agrees and acknowledges that (i) for all purposes, but subject to the terms of this Agreement, he shall be deemed to be the legal owner of the assets held in a Vesting Escrow established for him and (ii) as a result of the operation of this Section 4.02, an Associate Member may be allocated Net Profits or Net Losses of the LLC without corresponding distributions of Net Investment Receipts.

(d) Each Associate Member is authorized to and may (but shall not be required to) invest cash amounts that are held in a Vesting Escrow for such Associate Member in short-term investments pending distribution of such amounts to such Associate Member. Any income earned with respect to such investments shall be deposited into the Vesting Escrow and shall be released at the same time and in the same proportions as the underlying cash amount is released.

(e) As a result of this Section 4.02, there may be held in a Vesting Escrow securities which would otherwise have been distributed to such Associate Member. The Associate Member shall be entitled to vote all such securities. The Associate Member shall be entitled to transfer or sell any such securities for a cash purchase price no less than the fair value of such securities (as determined as of the date of the proposed sale by the Managing Member in

accordance with Section 6.08) prior to their distribution to the Associate Member from the Vesting Escrow in accordance with this Section 4.02, provided that the proceeds of any such sale or transfer shall be deposited into the Vesting Escrow and shall be subject to this Agreement as if originally held pursuant to this Agreement, and released in accordance with Section 4.02(a) above at the same time such property would have been released from such Vesting Escrow. Dividends earned on and other distributions with respect to securities held in a Vesting Escrow shall be deposited into the Vesting Escrow and released at the same time and in the same proportions as the underlying securities are released.

In addition, the LLC may, at the request and on behalf of any Associate Member, engage in hedging activities with respect to securities held in the Vesting Escrow of such Associate Member, provided that (i) a Majority in Interest of the Associate Members approves in advance any such hedging activities; (ii) the Associate Member for whose benefit the hedging activities were undertaken bears all of the costs incurred in connection with such activities and indemnifies the LLC in writing with respect to any costs or losses incurred by the LLC in connection with any such activities; and (iii) the securities held in such Associate Member's Vesting Escrow may not be used to settle any "hedged" position until such time as such securities are released to such Associate Member from such Vesting Escrow. In no event shall the Managing Member or the LLC bear any of the costs associated with any hedging activities permitted by this paragraph.

(f) Amounts held in escrow pursuant to this Section 4.02 shall be irrevocably forfeited by an Associate Member from and after the date of any Event of Forfeiture with respect to such Associate Member.

(g) For purposes of maintaining the Capital Accounts of the Members and computing and allocating Net Profits, Net Losses and all items thereof pursuant to this Agreement, the amount of any Distribution retained and credited to the Vesting Escrow of an Associate Member shall be considered to have been actually distributed to such Associate Member at the time so credited. As a result, all items of Net Profits and Net Losses attributable to such Member's Vesting Escrow shall be considered to be realized directly by such Associate Member, all amounts disbursed to such Associate Member shall not be treated as Distributions, and all amounts disbursed to the Managing Member or used to satisfy the capital contribution obligation of the Associate Member shall be treated as having been contributed to the LLC by the Associate Member on the date so disbursed or used.

4.03 Certain Payments to the Internal Revenue Service Treated as Distributions. Notwithstanding anything to the contrary herein, to the extent that the LLC is required (as determined in the discretion of the Managing Member), or elects, pursuant to applicable law, either (i) to pay tax (including estimated tax) on a Member's allocable share of LLC items of income or gain, whether or not distributed, or (ii) to withhold and pay over to the tax authorities any portion of a distribution otherwise distributable to a Member, the LLC may pay over such tax or such withheld amount to the tax authorities, and such amount shall be treated as a distribution to such Member at the time it is paid to the tax authorities. In the event that the amount paid (or paid over) to the tax authorities on behalf of a Member exceeds the amount that would have been distributed to such Member absent such tax obligation, such excess shall be treated as a demand loan from the LLC to such Member, which loan shall bear interest at the prime rate announced from time to time by *The Wall Street Journal*, until paid in full.

4.04 Distributions in Kind. A Member, regardless of the nature of his contribution to the LLC, shall have no right to demand or receive any distribution from the LLC in any form other than cash, provided that, with respect to Net Investment Receipts in the form of Marketable Securities, the LLC shall make distributions to the Members in the form of such Marketable Securities. Any Member entitled to any interest in such assets shall, unless otherwise determined by the Members, receive separate assets of the LLC and not an interest as a tenant-in-common with other Members so entitled in any asset being distributed.

ARTICLE V
ALLOCATION OF PROFITS AND LOSSES

5.01 Basic Allocations.

(a) Net Profits and Net Losses of the LLC for any fiscal period shall be allocated among the Members in such proportions and in such amounts as may be necessary so that following such allocations, the Capital Account balance of each Member equals such Member's then Target Balance.

(b) If the amount of Net Profits or Net Losses allocable to the Members pursuant to Section 5.01(a) for a period is insufficient to allow the Capital Account balance of each Member to equal such Member's Target Balance, such Net Profits or Net Losses shall be allocated among the Members in such a manner as to decrease the differences between the Members' respective Capital Account balances and their respective Target Balances in proportion to such differences.

5.02 Allocations of Nonrecourse Deductions and Minimum Gain. Notwithstanding the provisions of Section 5.01, if at any time the LLC incurs any "nonrecourse debt" (i.e., debt that is treated as nonrecourse for purposes of Treasury Regulation Section 1.1001-2), the following provisions will apply notwithstanding anything to the contrary expressed elsewhere in this Agreement:

(a) "Nonrecourse deductions" (as defined in Treasury Regulation Sections 1.704-2(b) and (c)) other than deductions attributable to "partner nonrecourse debt" (as defined in Treasury Regulation Section 1.704-2(b)(4)) shall be allocated to the Members in proportion to their respective Percentage Interests;

(b) Nonrecourse deductions attributable to partner nonrecourse debt shall be specially allocated to the Member or Members that bear the economic risk of loss associated with the debt;

(c) If in any year there is a net decrease in "partnership minimum gain" (as defined in Treasury Regulation Section 1.704-2(d)) or "partner nonrecourse debt minimum gain" (as defined in Treasury Regulation Section 1.704-2(i)(3)), Members will be specially allocated items of income or gain for such year (and/or subsequent years to the extent necessary) in accordance with the "minimum gain chargeback" provisions of Treasury Regulation Section 1.704-2(f) and/or Treasury Regulation Section 1.704-2(i)(5).

(d) The aggregate selling price of the assets of the LLC referenced in clause (A) of the definition of “Target Balance” shall be increased by the amount of any “partnership minimum gain” or “partner nonrecourse debt minimum gain.”

(e) For purposes of Sections 5.01 and 5.03, each Member’s Capital Account balance shall be increased by the Member’s share of minimum gain and of partner nonrecourse debt minimum gain.

5.03 Overriding Allocations of Net Profits and Net Losses. Notwithstanding the provisions of Section 5.01 above, but subject to the provisions of Section 5.02 above, the following allocations shall be made:

(a) Items of income or gain (computed with the adjustments contained in the definition of “Net Profits and Net Losses”) for any taxable period shall be allocated to the Members in the manner and to the extent required by the “qualified income offset” provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d).

(b) In no event shall Net Losses of the LLC be allocated to a Member if such allocation would cause or increase a negative balance in such Member’s Capital Account (determined for purposes of this Section 5.03(b) only, by increasing the Member’s Capital Account balance by (i) the amount the Member is obligated to restore to the LLC pursuant to Treasury Regulation Section 1.704-1(b)(2)(ii)(c) and (ii) such Member’s share of “minimum gain” and of “partner nonrecourse debt minimum gain” as determined pursuant to Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5), respectively).

(c) Except as otherwise provided herein or as required by Code Section 704, for tax purposes, all items of income, gain, loss, deduction or credit shall be allocated to the Members in the same manner as are Net Profits and Net Losses; provided, however, that if the Carrying Value of any property of the LLC differs from its adjusted basis for tax purposes, then items of income, gain, loss, deduction or credit related to such property for tax purposes shall be allocated among the Members so as to take account of the variation between the adjusted basis of the property for tax purposes and its Carrying Value in the manner provided for under Code Section 704(c).

5.04 Timing of Allocations. Allocations of Net Profits, Net Losses and other items of income, gain, loss and deduction pursuant to this Article V shall be made for each fiscal year of the LLC as of the end of such fiscal year; provided, however, that if the Carrying Value of the assets of the LLC are adjusted in accordance with clause (ii) of the definition of “Carrying Value,” the date of such adjustment shall be considered to be the end of a fiscal year for purposes of computing and allocating such Net Profits, Net Losses and other items of income, gain, loss and deduction.

5.05 Allocations Upon Transfer or Admission. In the event that a Member acquires an interest in the LLC either by transfer from another Member or by acquisition from the LLC, the LLC shall close its books as of the date of the acquisition and Net Profits, Net Losses and similar items computed for the portion of the year ending on the date of the acquisition shall be allocated among the Members without regard to such acquisition, and Net Profits, Net Losses and similar items computed for the portion of the year commencing on the day following the date of the

acquisition shall be allocated among the Members taking into account such acquisition. For purposes of this Section 5.04, any modifications to an Associate Member's or Managing Member's Percentage Interest and/or Pre-2007 Percentage Interest shall be treated as if a Member acquired or disposed of (as applicable) an interest in the LLC.

ARTICLE VI MANAGEMENT

6.01 Management of the LLC.

(a) Subject to the provisions of this Agreement and the Act, all powers shall be exercised by or under the authority of, and the business and affairs of the LLC shall be controlled by the Members.

(b) Except to the extent that this Agreement specifically provides otherwise, all decisions respecting any matter set forth herein or otherwise affecting or arising out of the conduct of the business of the LLC, shall be made exclusively by the Managing Member, and any decision which, pursuant to the terms of this Agreement is to be taken or approved by the Members, shall be taken by the Managing Member, acting alone. The Associate Members shall have no right to vote on or participate in any matter or decision or to otherwise manage the business of the LLC, except to the extent expressly provided in this Agreement.

(c) Subject to the foregoing, the Managing Member shall have the exclusive right and full authority to manage, conduct and operate the LLC business. Specifically, but not by way of limitation, the Managing Member shall be authorized, for and on behalf of the LLC:

(i) to borrow money, to issue evidences of indebtedness and to guarantee the debts of others for whatever purposes they may specify, and, as security therefor, to pledge or otherwise encumber the assets of the LLC, provided that any such borrowings, indebtedness and guarantees are reasonably related to the conduct of the business of the LLC;

(ii) to cause to be paid on or before the due date thereof all amounts due and payable by the LLC to any person or entity;

(iii) to employ such agents, employees, managers, accountants, attorneys, consultants and other persons necessary or appropriate to carry out the business and affairs of the LLC, whether or not any such persons so employed are Members or are affiliated or related to any Member, and to pay such fees, expenses, salaries, wages and other compensation to such persons as the Members shall in their sole discretion determine;

(iv) to pay, extend, renew, modify, adjust, submit to arbitration, prosecute, defend or compromise, upon such terms as it may determine and upon such evidence as it may deem sufficient, any obligation, suit, liability, cause of action or claim, including taxes, either in favor of or against the LLC;

(v) to pay any and all fees and to make any and all expenditures which the Managing Member, in its discretion, deems necessary or appropriate in connection with the organization of the LLC, and the carrying out of its obligations and responsibilities under this or any other Agreement;

(vi) to invest the assets of the LLC, and to lease, sell, finance, refinance or dispose of all or any portion of the LLC's property, provided that the LLC shall not make any Investment or Follow-on Investment which has not been recommended by a Majority in Interest of the Associate Members;

(vii) to cause the LLC to make or revoke any of the elections referred to in Sections 108, 704, 709, 754 or 1017 of the Code or any similar provisions enacted in lieu thereof, or in any other Section of the Code;

(viii) to establish and maintain reserves for such purposes and in such amounts as it deems appropriate from time to time;

(ix) to pay all organizational expenses and general and administrative expenses of the LLC;

(x) to deal with, or otherwise engage in business with, or provide services to and receive compensation therefor from, any person who has provided or may in the future provide any services to, lend money to, sell property to, or purchase property from the LLC, including without limitation, a Member;

(xi) to engage in any kind of activity and to perform and carry out contracts of any kind necessary to, or in connection with, or incidental to the accomplishment of the purposes of the LLC;

(xii) to cause to be paid any and all taxes, charges and assessments that may be levied, assessed or imposed upon any of the assets of the LLC, unless the same are contested by the Managing Member;

(xiii) to exercise all powers and authority granted by the Act to members, except as otherwise specifically provided in this Agreement; and

(xiv) to exercise all other rights, powers, privileges and other incidents of ownership with respect to the interest of the LLC in each Portfolio Company.

(d) The Managing Member is authorized to execute, deliver and file on behalf of the LLC any documents to be filed with the Secretary of State of the State of Delaware. The signature of one Managing Member (if at any time there is more than one Managing Member) on any agreement, contract, instrument or other document shall be sufficient to bind the LLC in respect thereof and conclusively evidence the authority of such Managing Member and the LLC with respect thereto, and no third party need look to any other evidence or require the joinder or consent of any other party.

(e) The Associate Members who have been designated in writing by the Managing Member as "Managing Directors" (as of the date hereof Peter H. Mills and Marc D. Poirier) (other than any Former Associate Members) shall be granted the authority to act on

behalf of the LLC with respect to making and managing each Investment of the LLC (including but not limited to voting securities held in such Investment) at the time the Managing Member approves such Investment pursuant to Section 3.01(a), and such authority shall be specified in the resolution of the Managing Member approving such Investment.

6.02 Tax Matters Partner. The Managing Member, or such other Member as the Managing Member may designate, shall be the tax matters partner for the LLC pursuant to Code Sections 6221 through 6231.

6.03 Liability of the Members; Exculpation.

(a) No Member shall be liable to the LLC or any other Member for any act or omission taken by the Member in good faith and in a manner reasonably believed to be within the scope of the authority conferred on the Member by this Agreement; provided that such act or omission is not in violation of this Agreement and does not constitute gross negligence, willful misconduct, fraud or a willful violation of law by the Member. No Member shall be liable to the LLC or any other Member for any action taken by any other Member, nor shall any Member (in the absence of gross negligence, willful misconduct, fraud or a willful violation of law by the Member) be liable to the LLC or any other Member for any action of any employee or agent of the LLC provided that the Member shall have exercised appropriate care in the selection and supervision of such employee or agent.

(b) Except as otherwise provided by the Act, the debts, obligations and liabilities of the LLC, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the LLC, and no Member shall be obligated personally for any such debt, obligation or liability of the LLC solely by reason of being a Member.

(c) The liability of the Members for the losses, debts and obligations of the LLC shall be further limited to their capital contributions; provided, however, that under applicable law, the Members may under certain circumstances be liable to the LLC to the extent of previous distributions made to them in the event that the LLC does not have sufficient assets to discharge its liabilities.

(d) A Member shall be fully protected in relying in good faith upon the records of the LLC and upon such information, opinions, reports or statements presented to the Member by any third party professional as to matters the Member reasonably believes are within such third party's professional or expert competence.

(e) The Members' respective obligations to each other are limited to the express obligations described in this Agreement, which obligations the Members shall carry out with ordinary prudence and in a manner characteristic of business persons in similar circumstances. To the fullest extent permitted by the Act and other applicable law, no Member shall be a fiduciary of, or have any fiduciary duties or obligations to, the other Members in connection with the LLC or this Agreement or such Member's performance of its obligations under this Agreement, and each Member hereby waives to the fullest extent permitted by the Act and other applicable law any rights it may have to claim any breach of any standard of care or duty (fiduciary or other) under this Agreement or in connection with the LLC.

6.04 Indemnification.

(a) Each Member and its respective partners, agents, employees and Affiliates (the “Indemnitees”) shall be and hereby are (i) indemnified and held harmless by the LLC and (ii) released by the other Members from and against any and all claims, demands, liabilities, costs, expenses, damages, losses, suits, proceedings and actions for which such Indemnitee has not otherwise been reimbursed (collectively, “Liabilities”), whether judicial, administrative, investigative or otherwise, of any nature whatsoever, known or unknown, liquidated or unliquidated, that may accrue to the LLC or any other Member or in which any of the Indemnitees may become involved, as a party or otherwise, arising out of the conduct of the business or affairs of the LLC by the respective Indemnitee or otherwise relating to this Agreement, including without limitation, in connection with the Indemnitee’s service at the request or with the authorization of the Managing Member as a board member, officer or employee of any Portfolio Company, provided that an Indemnitee shall not be entitled to indemnification or release hereunder if it shall have been determined by (i) in the case of the Managing Member or an Indemnitee claiming by or through the Managing Member, final adjudication by a court of competent jurisdiction, or (ii) in the case of any Associate Member or an Indemnitee claiming by or through the Associate Member, the Managing Member acting in good faith, that (x) such person did not act in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the LLC and, in the case of a criminal proceeding, had reasonable cause to believe that its conduct was unlawful, or (y) such Liabilities shall have arisen from a violation of this Agreement or the gross negligence, willful misconduct, fraud or willful violation of law by such Indemnitee, or actions of such Indemnitee outside the scope of and unauthorized by this Agreement.

(b) Promptly after receipt by any Member from any third party of notice of any demand, claim or circumstance that would reasonably be expected to give rise to a claim or the commencement (or threatened commencement) of any action, proceeding or investigation (an “Asserted Liability”) that could reasonably be expected to result in any loss, damage or claim with respect to which the Member might be entitled to indemnification from the LLC under Section 6.04(a), the Member shall give notice thereof (the “Claims Notice”) to the Managing Member; provided, however, that a failure to give such notice shall not prejudice the Member’s right to indemnification hereunder except to the extent that the LLC is actually prejudiced thereby. The Claims Notice shall describe the Asserted Liability in such reasonable detail as is practicable under the circumstances, and shall, to the extent practicable under the circumstances, indicate the amount (estimated, if necessary) of the loss or damage that has been or may be suffered by the Member.

(c) The LLC may elect to compromise or defend, at its own expense and by its own counsel, any Asserted Liability; provided, however, that if the named parties to any action or proceeding include (or could reasonably be expected to include) both the LLC and a Member, or more than one Member, and the LLC is advised by counsel that representation of both parties by the same counsel would be inappropriate under applicable standards of professional conduct, the Member may engage separate counsel at the expense of the LLC (subject to the Member’s obligation to reimburse the LLC if it is ultimately determined that the Member is not entitled to indemnification in accordance with this Section 6.04). If the LLC elects to compromise or defend such Asserted Liability, it shall within twenty (20) business days

(or sooner, if the nature of the Asserted Liability so requires) notify the Member of its intent to do so, and the Member shall cooperate, at the expense of the LLC, in the compromise of, or defense against, such Asserted Liability. If the LLC elects not to compromise or defend such Asserted Liability, fails to notify the Member of its election as herein provided, contests its obligation to provide indemnification under this Agreement, or fails to make or ceases making a good faith and diligent defense, the Member may defend, compromise or pay such Asserted Liability in accordance with the provisions of Section 6.04(d) below. Except as set forth in the preceding sentence, neither the LLC nor the Managing Member may settle or compromise any claim against a Member over the objection of such Member; provided, however, that consent to settlement or compromise shall not be unreasonably withheld. In any event, the LLC and/or the Member may participate at their own expense, in the defense of such Asserted Liability. If the Member chooses to defend any claim, the LLC shall make available to the Member any books, records or other documents within its control that are necessary or appropriate for such defense, all at the expense of the LLC.

(d) If the LLC elects not to compromise or defend an Asserted Liability, or fails to notify the Member of its election as herein provided, contests its obligation to provide indemnification, or fails to make or ceases making a good faith and diligent defense, then the Member shall be entitled to assume the defense and all expenses (including legal fees) incurred by a Member in defending any Asserted Liability shall promptly be advanced by the LLC prior to the final disposition of such claim, demand, action, suit or proceeding following receipt by the LLC of an undertaking by or on behalf of the Member to repay such amount if it shall be determined that the Member is not entitled to be indemnified as authorized in Section 6.04(a) hereof.

(e) The termination of any proceeding by settlement shall not, of itself, create a presumption that the Indemnitee did not act in good faith and in a manner that such person reasonably believed to be in the best interests of the LLC or that the Indemnitee did not have reasonable cause to believe that its conduct was lawful.

(f) The right of indemnification hereby provided shall not be exclusive of, and shall not affect, any other rights to which a Member may be entitled. Nothing contained in this Section 6.04 shall limit any lawful rights to indemnification existing independently of this Section. The obligations of the LLC under this Section 6.04 shall be satisfied only after any applicable insurance proceeds have been exhausted and then only out of LLC assets and, to the extent required by law, distributions made by the LLC to the Members, the Members shall otherwise have no personal liability to fund any indemnification payment hereunder.

(g) The indemnification rights provided by this Section 6.04 shall also inure to the benefit of the heirs, executors, administrators, successors and assigns of a Member and any officers, directors, partners, members, shareholders, employees and Affiliates of such Member (and any former officer, director, partner, member, shareholder or employee of such Member, if the loss, damage or claim was incurred while such person was an officer, director, partner, member, shareholder or employee of such Member). The Managing Member or the LLC may extend the indemnification called for by this Section 6.04 to non-employee agents of the LLC.

(h) As and when the LLC requires funds to discharge any indemnification obligation under this Section 6.04, if funds of the LLC are not otherwise available therefor, the

Managing Member shall promptly contribute to the LLC the amount required to discharge such indemnification obligation, provided, however, the Managing Member shall have no obligation to contribute capital to the LLC pursuant to this Section 6.04(h) and/or Section 3.01 in an aggregate amount in excess of \$50,000,000.

6.05 Budget; Certain Fees and Expenses; Office Facilities and Services.

(a) On or before August 1 of each year, the Managing Member shall adopt a budget (herein referred to as the "Budget"), setting forth the estimated expenditures (capital, operating, and other) of (x) the LLC and (y) of CMGI (as described in Section 6.05(d) below), in each case for the 12-month period covered by the Budget (which shall be the 12 months commencing on the next succeeding August 1). Any Budget may be amended at any time by the Managing Member. The Managing Member shall have complete discretion in preparing the Budget, taking into account, among other things and without limitation, the strategic importance of the LLC's activities to CMGI, the financial needs of CMGI and its affiliates, and market conditions (in general and for venture capital investing). Subject to its right to approve all Investments, as specified in Section 3.01, and compliance by the Associate Members with Section 6.05(c) below, the Managing Member shall make available to the LLC all amounts specified in the Budget for the purposes specified therein.

(b) If the Managing Member does not adopt a Budget with respect to any period, during such period the operating Budget adopted for the comparable portion of the preceding fiscal year shall be applicable until such time as the Managing Member adopts a Budget with respect to such period.

(c) All out-of-pocket expenses reasonably incurred by any Member in connection with the LLC's business shall be paid by the Managing Member or reimbursed by the Managing Member, provided that the Associate Members shall be entitled to reimbursement only in accordance with CMGI's standard policies and only to the extent that the expenses for which reimbursement is sought are of the types and consistent with the amounts specified in the then applicable Budget. The payment or reimbursement of such expenses shall not be treated as Capital Contributions of the Managing Member to the LLC.

(d) The Associate Members, for so long as they are employees of CMGI or a CMGI Affiliate, shall be provided with offices, facilities, computer and telephone equipment, administrative support and similar services that are reasonably necessary to the business of the LLC, as described in Section 2.03 herein (consistent with the then applicable Budget), at CMGI's principal place of business or at such other places as the Managing Member may determine. The cost of such facilities and services shall not be treated as a Capital Contribution of the Managing Member to the LLC.

(e) All amounts expended or made available by the Managing Member pursuant to this Section 6.05 shall be treated as incurred directly by the Managing Member outside of the LLC and shall not be treated as Capital Contributions to the LLC or expenditures by the LLC.

6.06 Other Activities.

(a) Subject to Sections 6.06(b) and (c) and Section 6.07 below, certain Nondisclosure and Developments Agreements (one between each Associate Member and CMGI), and any other written agreement between an Associate Member, on the one hand, and CMGI or an Affiliate of CMGI on the other hand, the Members and their respective Affiliates may engage in and possess interests in other business ventures and investment opportunities of every kind and description, independently or with others, including serving as directors, officers, stockholders, managers, members and general or limited partners of corporations, partnerships or other limited liability companies with purposes similar to or the same as those of the LLC. Each Associate Member shall be required to pay over to the LLC any cash or non-cash compensation or remuneration to which such Associate Member becomes entitled from any Portfolio Company for services rendered to such Portfolio Company (or, in the case of options or similar compensation, to hold the same as nominee for the LLC).

(b) Each Associate Member agrees that (I) during his or her employment by the Employer, and (II) for a period of 18 months following termination of his or her employment relationship with the Employer if such employment is terminated: (A) by the Associate Member voluntarily, or (B) by the Employer for Cause, such Associate Member will not, directly or indirectly:

(x) recruit, solicit or induce, or attempt to induce, any employee of CMGI or of any Portfolio Company or of any Affiliate of any of them to terminate his or her employment with, or otherwise cease any relationship with, CMGI or any Portfolio Company or any Affiliate of any of them; or

(y) solicit, divert, take away, or attempt to divert or take away, any investment opportunity with respect to any Portfolio Company or any investment opportunity with respect to any prospective investment or prospective portfolio company which the LLC contacted or solicited (or by whom the LLC was contacted or solicited) during such Member's employment relationship with the Employer.

If any restriction set forth herein is found by any court to be unenforceable because it extends for too long a period of time, or over too great a range of activities, or over too broad a geographic area, the restriction shall be interpreted to extend only over the maximum period of time, range of activities, or geographic area which the court finds to be enforceable. Each Associate Member acknowledges and agrees that the restrictions contained in this Section 6.06(b) are necessary for the protection of the business and goodwill of the Employer, the Portfolio Companies and the Affiliates of any of them and are considered by such Associate Member to be reasonable for such purpose and that his or her interest in the LLC is being received partly in consideration for the foregoing covenant. The provisions of this Section 6.06(b) shall terminate upon the occurrence of any Vesting Event.

(c) Each Associate Member agrees that, without the prior written consent of the Managing Member, during his or her employment by the Employer, he shall not invest in any Qualified Investment Opportunity (as hereinafter defined) which is made available to him unless such Associate Member has notified the Managing Member of such opportunity and the LLC has elected not to undertake such Qualified Investment Opportunity. The Associate Member shall

provide to the Managing Member, together with such notice, all information as may be reasonably necessary to enable the Managing Member to evaluate such Qualified Investment Opportunity. If, within 30 days following the notice from the Associate Member to the Managing Member of such opportunity, the Managing Member fails to notify the Associate Member that it has determined to cause the LLC to undertake such opportunity, the Managing Member and the LLC shall be deemed to have elected not to undertake such opportunity. In addition, each Associate Member agrees that, without the prior written consent of the Managing Member, he shall not invest in any Portfolio Company in which the LLC has invested or in which the LLC is contemplating making an investment. As used herein, a "Qualified Investment Opportunity" shall mean any venture capital investment in which (x) any one Associate Member intends to invest more than \$100,000 or (y) two or more Associate Members intend to invest more than \$200,000 in the aggregate, exclusive of any investment in a pooled investment vehicle sponsored or controlled by unaffiliated persons. Each Associate Member shall notify the Managing Member each time he invests in a Qualified Investment Opportunity, which notice shall include a brief description of the Qualified Investment Opportunity and the amount invested therein by such Associate Member.

(d) Without limiting Section 6.06(a) above, the Managing Member, CMGI and any of their respective Affiliates shall be permitted to make investments in business enterprises either directly or indirectly through vehicles other than the LLC, including without limitation, investments which are similar to those made by the LLC or suitable for the LLC, and shall have no obligation to offer to the LLC the opportunity to make any such investments, provided, however, that neither CMGI, the Managing Member nor any of their Affiliates shall be permitted to make any investment which the Associate Members have proposed, pursuant to Section 3.01(a)(i), that the LLC make, if the Managing Member has rejected any such proposal.

6.07 Commitment of Members. Each of the Associate Members hereby agrees, during his employment by the Employer, to use his best efforts in connection with the purposes and objectives of the LLC and to devote to such purposes and objectives, and to the purposes and objectives of any other venture capital investment vehicles affiliated with CMGI, his full business time and resources. Without limiting the foregoing, each Associate Member may serve on the board of directors of any portfolio company of any other venture capital investment vehicles which are affiliated with CMGI, provided however, each Associate Member hereby agrees and acknowledges that, with respect to service on the board of directors (or similar governing bodies) of any other entity or company, he is subject to CMGI's policy with respect to service on boards of directors or similar governing bodies of any entity.

6.08 Valuation of Investments.

(a) Whenever valuation of the LLC's net worth or any particular asset, including an Investment, of the LLC is required by this Agreement, the Managing Member shall, as of a reasonable valuation date established by it, make a good faith determination of the "fair value" of all noncash assets of the LLC (if net worth is to be evaluated) or of such particular asset. Such determination of "fair value" with respect to any noncash asset shall be based upon all relevant factors, including, without limitation, type of security, marketability, liquidity, restrictions on disposition, recent purchases of the same or similar securities by other investors, pending mergers or acquisitions, current financial position and operating results, and risks and potential of the security.

(b) The fair value of any Marketable Securities owned by the LLC shall be equal to the average of: (i) if applicable, the median of the “bid” and “asked” prices for such securities in the market on which such securities are regularly traded; or (ii) if applicable, the closing price on the market on which such securities are regularly traded; in each case, on the ten trading days immediately preceding the date of valuation of such securities.

(c) Subject to the foregoing, any determination of LLC net worth or of the value of a particular asset required by this Agreement to be made pursuant to this Section 6.08 shall be made in accordance with generally accepted accounting principles, as from time to time applicable to the LLC or similar entities; provided, however, that no value whatsoever shall be assigned to the LLC name and goodwill or to the office records, files, statistical data or any similar intangible assets of the LLC not normally reflected in the LLC’s accounting records; and provided further, that liabilities of the LLC shall be taken in the amounts at which they are carried on the books of the LLC and reasonable provision shall be made for contingent or other liabilities not reflected on such books and, in the case of valuation in connection with the liquidation of the LLC, for the expenses (to be borne by the LLC) of the liquidation and winding up of the LLC’s affairs.

(d) In the event that a valuation of one or more assets (excluding Marketable Securities, to which this Section 6.08(d) shall not apply) in accordance with this Section 6.08 is made by the Managing Member for purposes of Section 9.02, the Managing Member will review such valuation with the Associate Members. If less than a Majority in Interest of the Associate Members approve the aggregate fair market value determination of the LLC’s noncash assets for such purpose, then the LLC will engage an independent appraiser to value such assets. The appraiser will be selected by the Managing Member and a Majority in Interest of the Associate Members. If the Managing Member and a Majority in Interest of the Associate Members are not able to agree on an appraiser, then they shall each select an appraiser, and those appraisers will select a third appraiser, who will perform the valuation of the such noncash assets.

6.09 Public Announcements. The Associate Members shall have no authority to make any press release or similar public announcement concerning the affairs and activities of the LLC without the prior written approval of the Managing Member.

ARTICLE VII BOOKS, RECORDS AND BANK ACCOUNTS

7.01 Books and Records. The Managing Member shall keep or cause to be kept just and true books of account with respect to the operations of the LLC. Such books shall be maintained at the LLC’s principal place of business, or at such other place as the Managing Member shall determine, and all Members, and their duly authorized representatives, shall at all reasonable times have access to such books as well as any information required to be made available to the Members under the Act, in each case for any purpose reasonably related to the LLC. The Managing Member shall not be required to deliver or mail copies of the LLC’s Certificate of Formation or copies of certificates of amendment thereto or cancellation thereof to

the Members, although such documents shall be available for review and/or copying by the Members at the LLC's principal place of business.

7.02 Accounting Basis and Fiscal Year. The LLC's books shall be kept on the accrual method of accounting, or on such other method of accounting as the Managing Member may from time to time determine, and shall be closed and balanced at the end of each fiscal year of the LLC. The fiscal year of the LLC shall be the 12-month period ending on July 31 of each year.

7.03 Bank Accounts. The Managing Member shall be responsible for causing one or more accounts to be maintained in a bank (or banks), which accounts shall be used for the payment of the expenditures incurred by the Managing Member in connection with the business of the LLC, and in which shall be deposited any and all cash receipts (including cash, and, to the extent practicable, property and securities received by the LLC with respect to Investments) of the LLC. All such amounts shall be and remain the property of the LLC, and shall be received, held and disbursed by the Managing Member for the purposes specified in this Agreement. There shall not be deposited in any of said accounts any funds other than funds belonging to the LLC, and no other funds shall in any way be commingled with such funds.

7.04 Reports to Members. Within 90 days after the end of each LLC fiscal year, the Managing Member shall cause the LLC to furnish to each Member (i) such information as may be needed to enable the Members to file their federal income tax returns and any required state income tax returns, and (ii) a balance sheet of the LLC as of the last day of such fiscal year, and financial statements of the LLC for such fiscal year (which balance sheet and financial statements may, in the discretion of the Managing Member, be audited). The cost of such reporting shall be paid by the LLC as a LLC expense. Any Member may, at any time, at its own expense, cause an audit of the LLC books to be made by a certified public accountant of its own selection. All expenses incurred by such accountant shall be borne by such Member. The Associate Members shall provide such assistance to the Managing Member as may be reasonably requested in connection with the management and maintenance of the books and records of the LLC, and the preparation of any and all reports to be provided hereunder.

ARTICLE VIII TRANSFERS OF INTERESTS OF MEMBERS

8.01 Substitution and Assignment of Member's Interest.

(a) Subject to Section 8.01(b) below, no Associate Member may sell, transfer, assign, pledge, hypothecate or otherwise dispose of all or any part of its interest in the LLC (whether voluntarily, involuntarily or by operation of law), unless (i) the Managing Member and (ii) a Majority in Interest of the Associate Members (exclusive of the transferor) shall have previously consented to such transfer, assignment, pledge, hypothecation or disposition in writing, the granting or denying of which consent shall be in such Members' absolute discretion. Subject to Section 8.01(b) below, the provisions of this Section 8.01(a) shall not be applicable to any assignment of the interest of an Associate Member to a Permitted Transferee (provided that no such Permitted Transferee may be admitted to the LLC as a substitute Member except as provided in Section 8.01(c) below) and any interest so assigned to a Permitted Transferee shall continue to be subject to the forfeiture provisions of Section 3.03 as if it had not been assigned.

Subject to Section 8.01(b) below, the Managing Member may sell, transfer, assign, pledge, hypothecate or otherwise dispose of all or any part of its interest in the LLC without the consent or approval of any other Member, provided that the transferee of any such interest may not be admitted to the LLC as a substitute Member except as provided in Section 8.01(c) below.

(b) No assignment of the interest of a Member shall be made if, in the opinion of counsel to the LLC, such assignment (i) may not be effected without registration under the Securities Act of 1933, as amended, (ii) would result in the violation of any applicable state securities laws, (iii) would result in a termination of the LLC under Section 708 of the Code, unless such a transfer is consented to by the Managing Member, (iv) would result in the treatment of the LLC as an association taxable as a corporation or as a “publicly-traded limited partnership” for tax purposes, unless such a transfer is consented to by all Members or (v) would require the LLC to register as an investment company under the Investment Company Act of 1940, as amended, or as an investment advisor under the Investment Advisors Act of 1940, as amended. The LLC shall not be required to recognize any assignment until the instrument conveying such interest has been delivered to the LLC for recordation on the books of the LLC. Unless an assignee becomes a substituted Member in accordance with the provisions of Section 8.01(c), it shall not be entitled to any of the rights granted to a Member hereunder, other than the right to receive all or part of the share of the Net Profits, Net Losses, distributions of cash or property or returns of capital to which his assignor would otherwise be entitled.

(c) An assignee of the interest of a Member, or any portion thereof, shall become a substituted Member entitled to all the rights of a Member if, and only if:

(i) the assignor gives the assignee such right;

(ii) in the case of an assignee of an Associate Member, the Managing Member consents to such substitution, the granting or denying of which consent shall be in the Managing Member’s absolute discretion;

(iii) in the case of an assignee of the Managing Member, the Managing Member consents to such substitution;

(iv) the assignee or the assignor pays to the LLC all costs and expenses incurred in connection with such substitution, including specifically, without limitation, costs incurred in the review and processing of the assignment and in amending this Agreement; and

(v) the assignee executes and delivers such instruments, in form and substance satisfactory to the LLC, as may be necessary or desirable to effect such substitution and to confirm the agreement of the assignee to be bound by all of the terms and provisions of this Agreement.

(d) The LLC and the Members shall be entitled to treat the record owner of any interest in the LLC as the absolute owner thereof in all respects, and shall incur no liability for distributions of cash or other property made in good faith to such owner until such time as a written assignment of such interest has been received and accepted by the Managing Member and recorded on the books of the LLC. The Managing Member may refuse to accept an assignment until the end of the next successive quarterly accounting period. In no event shall

any interest in the LLC, or any portion thereof, be sold, transferred or assigned to a minor or incompetent, and any such attempted sale, transfer or assignment shall be void and ineffectual and shall not bind the LLC.

(e) If a Member who is an individual dies or a court of competent jurisdiction adjudges him to be incompetent to manage his person or his property, the Member's executor, administrator, guardian, conservator or other legal representative may exercise all of the Member's rights hereunder, but solely for the purpose of settling his estate or administering his property, and in no event shall such executor, administrator, guardian, conservator or legal representative participate in any way in the conduct of the business of the LLC, or in the making of any decision or the taking of any action provided for hereunder for any other purpose. If a Member is a corporation, trust or other entity, and is dissolved or terminated, the powers of that Member may be exercised by its legal representative or successor.

8.02 Additional Members.

(a) Except as provided in Section 8.01, additional Members may be admitted to the LLC only in accordance with this Section 8.02.

(b) The Managing Member shall not cause any person to be admitted as an additional Associate Member without the consent of a Majority in Interest of the Associate Members, and, if any such admission dilutes, modifies or adversely alters the economic interest of any Associate Member or Former Associate Member, the consent of such Associate Member or Former Associate Member shall be required in connection with such admission.

(c) In connection with any admission of an additional Member in accordance with this Section 8.02, this Agreement (including Schedule A) shall be amended by the Managing Member to reflect the additional Member, its capital contribution, if any, its Percentage Interest and Pre-2007 Percentage Interest, its Vesting Commencement Date (if applicable), the portion of its interest, if any, which is vested, and any other rights and obligations of the additional Member.

(d) Each Member, and each person who is hereinafter admitted to the LLC as a Member in accordance with this Section 8.02, hereby consents to the admission to the LLC of any such third party on such terms as may be approved by the Members in accordance with this Section 8.02, and to any amendment to this Agreement which may be necessary or appropriate to reflect the admission of any such third party and the terms of its interest in the LLC.

(e) Any amendment to this Agreement which shall be made in order to effectuate the provisions of this Section 8.02 shall be executed by the additional Member and the Managing Member, and any such amendment shall be binding upon all of the Members.

ARTICLE IX DISSOLUTION AND TERMINATION

9.01 Events of Dissolution.

(a) The LLC shall be dissolved:

(i) at any time, on a date designated in writing by the Managing Member;

-
- (ii) upon the sale or other disposition of all of the LLC's assets; or
 - (iii) upon the entry of a decree of judicial dissolution under Section 18-802 of the Act.

(b) Dissolution of the LLC shall be effective on the day on which the event occurs giving rise to the dissolution, but the LLC shall not terminate until the LLC's Certificate of Formation shall have been cancelled and the assets of the LLC shall have been distributed as provided herein. Notwithstanding the dissolution of the LLC, prior to the termination of the LLC, as aforesaid, the business of the LLC and the affairs of the Members, as such, shall continue to be governed by this Agreement. A liquidator appointed by the Managing Member (who may be a Member), shall liquidate the assets of the LLC, and distribute the proceeds thereof as contemplated by this Agreement and cause the cancellation of the LLC's Certificate of Formation.

9.02 Distributions Upon Liquidation.

(a) After payment of liabilities owing to creditors, the liquidator shall set up such reserves as it deems reasonably necessary for any contingent or unforeseen liabilities or obligations of the LLC. Said reserves may be paid over by such liquidator to a bank, to be held in escrow for the purpose of paying any such contingent or unforeseen liabilities or obligations and, at the expiration of such period as such liquidator may deem advisable, such reserves shall be distributed to the Members or their assigns in the manner set forth in paragraph (b) below.

(b) After paying such liabilities and providing for such reserves, the liquidator shall cause the remaining net assets of the LLC to be distributed to all Members in accordance with Section 3.01(b) and Section 4.01 hereof. In the event that any part of such net assets consists of notes or accounts receivable or other non-cash assets, the liquidator may take whatever steps it deems appropriate to convert such assets into cash or into any other form which would facilitate the distribution thereof. If any assets of the LLC are to be distributed in kind, such assets shall be distributed on the basis of their fair market value, determined in accordance with Section 6.08 herein.

ARTICLE X MISCELLANEOUS

10.01 Notices. Except as otherwise specifically provided in this Agreement, any and all notices, requests, elections, consents or demands permitted or required to be made under this Agreement shall be in writing, signed by the Member giving such notice, request, election, consent or demand, and shall be delivered personally, or sent by registered or certified mail, or by overnight mail, Federal Express or other similar commercial overnight courier, to the other Member or Members at their addresses set forth in Schedule A, and, in the case of a notice to the LLC, at the address of its principal office as set forth in Article I hereof, or at such other address as may be supplied by written notice given in conformity with the terms of this Section 10.01. The date of personal delivery, three days after the date of mailing, the business day after delivery to an overnight courier, as the case may be, or the date of actual delivery if sent by any other method, shall be the date of such notice.

10.02 Successors and Assigns. Subject to the restrictions on transfer set forth herein, this Agreement, and each and every provision hereof, shall be binding upon and shall inure to the benefit of the Members, their respective successors, successors-in-title, heirs and assigns, and each and every successor-in-interest to any Member, whether such successor acquires such interest by way of gift, purchase, foreclosure, or by any other method, shall hold such interest subject to all of the terms and provisions of this Agreement.

10.03 Amendments. Except as otherwise specifically provided in this Agreement (including without limitation, Section 3.03 and Article VIII), this Agreement may be amended or modified only by (i) the Managing Member and (ii) a Majority in Interest of the Associate Members; provided that (x) no such amendment shall increase the liability of, increase the obligations of or disproportionately adversely affect the interest of, any Associate Member without the specific approval of such Member (other than upon the occurrence of an Event of Forfeiture), and no amendment shall reduce the Percentage Interest, Pre-2007 Percentage Interest or Vested Percentage of any Former Associate Member without the specific approval of such Former Associate Member (except for such a reduction upon the occurrence of a Clause Z Event); (y) if any provision of this Agreement provides for the approval or consent of a greater number of Members or of Members holding a higher percentage of the total Percentage Interests of the Members, any amendment effectuated pursuant to such provision, and any amendment to such provision, shall require the approval or consent of such greater number of Members or of Members holding such higher percentage of Percentage Interests; and (z) subject to clauses (x) and (y) above, any amendment to this Section 10.03 shall require the approval of (i) the Managing Member and (ii) Associate Members holding not less than two-thirds of all Percentage Interests held by all Associate Members.

10.04 Partition. The Members hereby agree that no Member nor any successor-in-interest to any Member, shall have the right while this Agreement remains in effect to have the property of the LLC partitioned, or to file a complaint or institute any proceeding at law or in equity to have the property of the LLC partitioned, and each Member, on behalf of himself, his successors, representatives, heirs and assigns, hereby waives any such right. It is the intention of the Members that during the term of this Agreement, the rights of the Members and their successors-in-interest, as among themselves, shall be governed by the terms of this Agreement, and that the right of any Member or successor-in-interest to assign, transfer, sell or otherwise dispose of his interest in the LLC shall be subject to the limitations and restrictions of this Agreement.

10.05 No Waiver. The failure of any Member to insist upon strict performance of a covenant hereunder or of any obligation hereunder, irrespective of the length of time for which such failure continues, shall not be a waiver of such Member's right to demand strict compliance in the future. No consent or waiver, express or implied, to or of any breach or default in the performance of any obligation hereunder, shall constitute a consent or waiver to or of any other breach or default in the performance of the same or any other obligation hereunder.

10.06 Entire Agreement. This Agreement (together, in the cases of Peter H. Mills and Marc D. Poirier, with the Amended and Restated Retention Agreement and General Release,

among CMGI, CMG @Ventures, Inc. and CMG @Ventures Capital Corp. and each such individual, dated May 14, 2004, as amended from time to time) constitutes the full and complete agreement of the parties hereto with respect to the subject matter hereof.

10.07 Captions. Titles or captions of Articles or sections contained in this Agreement are inserted only as a matter of convenience and for reference, and in no way define, limit, extend or describe the scope of this Agreement or the intent of any provision hereof.

10.08 Counterparts. This Agreement may be executed in a number of counterparts, all of which together shall for all purposes constitute one Agreement, binding on all the Members notwithstanding that all Members have not signed the same counterpart.

10.09 Applicable Law. This Agreement and the rights and obligations of the parties hereunder shall be governed by and interpreted, construed and enforced in accordance with the laws of the State of Delaware, without regard to principles of conflicts of laws.

10.10 Gender, Etc. In the case of all terms used in this Agreement, the singular shall include the plural and the masculine gender shall include the feminine and neuter, and vice versa, as the context requires.

10.11 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of any Member or of the LLC other than a Member who is such a creditor of the LLC. Notwithstanding the foregoing, any Indemnitee not a party hereto shall be entitled to rely on the provisions of Section 6.04 as if a party to this Agreement.

10.12 Power of Attorney. By signing this Agreement, each Associate Member hereby designates and appoints the Managing Member his true and lawful attorney, in his name, place, and stead to make, execute, sign, and file the Certificate and any amendment thereto and such other instruments, documents, or certificates that may from time to time be required of the LLC by the laws of the United States of America, the laws of the state of the LLC's formation, or any other state in which the LLC shall do business in order to qualify or otherwise enable the LLC to do business in such jurisdictions. Such attorney is hereby granted any authority on behalf of the Associate Members to execute (i) any amendment to this Agreement on behalf of the Associate Members if such amendment has been adopted pursuant to Section 10.03 or otherwise effectuated in accordance with this Agreement, (ii) any amendment to this Agreement reflecting a transfer of an interest or admission of a new Member in accordance with this Agreement and (iii) any amendment to this Agreement or instruments to effectuate the modification of the interests of the Members pursuant to Section 3.03. This power of attorney granted by each Associate Member shall expire as to such Associate Member immediately after the amendment of the LLC's records to reflect the complete withdrawal of such Associate Member as a Member of the LLC. It is expressly intended by each Associate Member that the power of attorney granted hereby is coupled with an interest, shall be irrevocable, and shall survive and not be affected by the subsequent disability or incapacity of such Associate Member.

[Signature pages follow.]

IN WITNESS WHEREOF, the Members have signed and sworn to this Agreement under penalties of perjury as of the date first above written.

MANAGING MEMBER:

CMG @VENTURES CAPITAL CORP.

By: /s/ Peter L. Gray

Name: Peter L. Gray

Title: Executive Vice President and General Counsel

ASSOCIATE MEMBERS:

/s/ Peter H. Mills

Peter H. Mills

/s/ Marc D. Poirier

Marc D. Poirier

/s/ Matthew R. Horton

Matthew R. Horton

/s/ Robert M. Day

Robert M. Day

CMGI, Inc. (for the limited purpose of confirming
CMGI's obligations under Section 6.05(d))

By: /s/ Peter L. Gray

Name: Peter L. Gray

Title: Executive Vice President and General Counsel

@VENTURES V, LLC

SCHEDULE A

NAMES AND ADDRESSES OF THE MEMBERS, PERCENTAGE INTERESTS,
PRE-2007 PERCENTAGE INTERESTS
AND VESTING COMMENCEMENT DATES

<u>Managing Members</u>	<u>Pre-2007 Percentage Interest</u>	<u>Percentage Interest</u>	<u>Vesting Commencement Date</u>
CMG @Ventures Capital Corp. 1100 Winter Street, Suite 4600 Waltham, MA 02451	92.334%*	91.334%*	NA
<u>Associate Members</u>	<u>Pre-2007 Percentage Interest</u>	<u>Percentage Interest</u>	<u>Vesting Commencement Date</u>
Peter H. Mills	3.333%*	3.333%*	01/01/04
Marc D. Poirier	3.333%*	3.333%*	01/01/04
Matthew R. Horton	1.0%*	1.0%*	12/1/05
Robert M. Day	-0-	1.0%*	2/1/07

* Provided, however, that until an aggregate amount equal to the Pre-2007 Amount shall have been distributed pursuant to Section 4.01(b)(ii) of this Agreement, the Pre-2007 Percentage Interests of the Members with respect to the LLC's investment in Open Channel Solutions, Inc. ("OCS") shall be: CMGI 94.890%, Peter H. Mills 2.222%, Marc D. Poirier 2.222%, Matthew R.

Horton 0.666% and Robert M. Day 0.0% for all purposes, including computing the Appropriate Amount and determining the distributions under Article IV, and following such time as an aggregate amount equal to the Pre-2007 Amount shall have been distributed pursuant to Section 4.01(b)(ii) of this Agreement, the Percentage Interest of the Members with respect to the LLC's investment in OCS shall be: CMGI 94.224%, Peter H. Mills 2.222%, Marc D. Poirier 2.222%, Matthew R. Horton 0.666% and Robert M. Day 0.666% for all purposes, including computing the Appropriate Amount and determining the distributions under Article IV



Corporate Offices
1100 Winter Street
Suite 4600
Waltham, MA 02451
United States

Tel: 781.663.5000
Fax: 781.663.5100

Via Hand Delivery

April 12, 2007

Mr. Scott D. Smith

Dear Scott:

It is a distinct pleasure to offer you the position of President, Sales and Marketing of ModusLink Corporation ("ModusLink" or the "Company"), effective on your first date of employment with the Company. In this capacity you will report to Joseph C. Lawler, President and Chief Executive Officer of ModusLink.

Your starting salary will be \$14,423.08 bi-weekly, which is equivalent to an annualized base salary of \$375,000. This amount will be increased to \$400,000 for the pay cycle beginning closest to November 1, 2007 (assuming you remain employed by the Company at that time). You will participate in the Company's FY2007 Executive Management Incentive Plan with a target bonus of 60% of your base salary. The actual bonus payment you receive for fiscal 2007 will be subject to the terms and conditions of the Plan, which provides for payouts that range from 0% to 200% of target, and will be prorated for the amount of time you are employed by the Company during fiscal 2007. Your participation in the fiscal 2008 bonus plan will provide payments that range from 0% to 200% of target; however, you will be guaranteed a minimum payout of \$120,000 to be paid in approximately October 2008. All salary and bonus payments are subject to normal deductions and withholdings.

In addition, on your start date, you will be granted an option to purchase 600,000 shares of CMGI common stock under CMGI's 2004 Stock Incentive Plan (the "Plan"). This option will be priced at the closing price of CMGI's common stock (during normal trading hours) on the date of grant. Provided you remain employed by the Company on each vesting date, the vesting schedule of the option shall be as follows: 25% of the shares underlying the option shall vest and become exercisable on the first anniversary of the date of grant and 1/48th of the shares underlying the option shall vest and become exercisable on each monthly anniversary date of the date of grant starting on the 13th monthly anniversary date of the date of grant, so that the option becomes fully vested and exercisable on the fourth anniversary of the date of grant. The option shall have a seven (7) year term.

On your start date, you will also be awarded 275,000 shares of restricted common stock of CMGI. This award will be made pursuant to the 2000 Stock Incentive Plan. The restrictions with respect to the restricted stock award will lapse in three equal annual installments, on each of the first, second and third anniversaries of the date of grant.

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The option and the restricted stock award described above shall each be subject to all terms, limitations, restrictions and termination provisions set forth in the plans and in the separate option and restricted stock agreements (which shall be based upon the Company's standard forms of option and restricted stock agreement) that shall be executed to evidence the grant of such option and award of restricted stock.

You will also be eligible to receive annual equity grants in 2007. In particular, the Company typically makes an annual equity grant in October or November of each year and you will be eligible to participate with a targeted grant of an option to purchase 200,000 shares of common stock. In addition, as a senior executive of the Company you will be a participant in the Company's FY2007 Performance-Based Restricted Stock Bonus Plan. Under this plan, if the Company meets certain financial goals in fiscal 2007, participants will receive a pre-determined number of shares of restricted stock, and you will receive 90,000 shares of restricted stock. If the financial goals are not met, no awards will be made under this plan.

Enclosed you will find a copy of a Non-Competition Agreement, the execution of which is required as a condition of granting you an option to purchase CMGI common stock, awarding you shares of CMGI restricted stock and your employment with the Company. Additionally, as a condition of employment with the Company, you are required to execute the enclosed Non-Disclosure and Developments Agreement.

In the event that your employment with the Company (or, for this purpose, employment with a subsidiary of the Company) is terminated by the Company (or such subsidiary), other than for cause, you shall be entitled to continue to receive your base salary, in accordance with the Company's regular pay periods, for the 12 month period following your date of termination. Any payment of these severance benefits will be conditioned upon your execution of the Company's standard form of general release.

In addition, in the event that during your employment with the Company, the Company undergoes a Change in Control (as defined below), and within one year after the Change in Control your employment is terminated by the Company, other than for Cause, you will be entitled to receive 12 months base salary plus your target bonus. Payment of these amounts would be made in accordance with the Company's regular pay periods, for the 12 month period following your date of termination, including prorated installments of your bonus.

Any payment of severance benefits will be conditioned upon your execution of the Company's standard form of general release. For the purposes of these arrangements, which will be included in an Executive Severance Agreement, "Cause" shall mean a good faith finding by the Company of: (i) gross negligence or willful misconduct by you in connection with your employment duties, (ii) failure by you to perform your duties or responsibilities required pursuant to your employment, after written notice and an opportunity to cure, (iii) misappropriation by you of the assets or business opportunities of the Company or its affiliates, (iv) embezzlement or other financial fraud committed by you, (v) a breach by you of any representations or warranties made to the Company, (vi) you knowingly allowing any third party to commit any of the acts described in any of the preceding clauses (iii), (iv) or (v), or (vii) your indictment for, conviction of, or entry of a plea of no contest with respect to, any felony; and "Change in Control" shall mean the first to occur of any of the following: (a) any "person" or "group" (as defined in the Securities Exchange Act of 1934) becomes the beneficial owner of a majority of the combined voting power of the then outstanding voting securities with respect to the election of the Board of Directors of

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the Company; (b) any merger, consolidation or similar transaction involving the Company, other than a transaction in which the stockholders of the Company immediately prior to the transaction hold immediately thereafter in the same proportion as immediately prior to the transaction not less than 50% of the combined voting power of the then voting securities with respect to the election of the Board of Directors of the resulting entity; or (c) any sale of all or substantially all of the assets of the Company.

You represent and warrant that (i) you have advised the Company in writing of any agreement relating to non-competition, non-solicitation or confidentiality between you and any previous employer, (ii) you are not a party to or bound by any other employment agreement, non-compete agreement or confidentiality agreement with any other person or entity which would be violated by your acceptance of this position or which would interfere in any material respect with the performance of your duties with the Company and (iii) you will not use any confidential information or trade secrets of any person or party other than the Company in connection with the performance of your duties with the Company.

As an employee of the Company, you shall be entitled to vacation in accordance with the Company's vacation policies and will participate in any and all benefit programs, other than any severance arrangement, that the Company establishes and makes generally available to its employees from time to time, provided you are eligible under (and subject to all provisions of) the plan documents governing those programs. Details of the benefits offered will be reviewed with you in orientation on your first day of employment.

In accordance with current federal law, you will be asked to provide documentation proving your eligibility to work in the United States. Please review the enclosed Employment Eligibility Verification Form (Form I-9) and the list of acceptable documents that are required. You must bring this on your first day of employment. **If you fail to bring proper documentation with you on your first day of work, you will be asked to go home to collect your paperwork. Unfortunately, there can be no exceptions. If you do not bring proper documentation, you will be considered ineligible for employment and the Company will not add you to its payroll until the required I-9 documentation is received.**

This offer is contingent upon you successfully completing the Company's drug screen. We are enclosing a Forensic Drug Testing Custody and Control form that must be taken with you to an authorized patient service center for the drug screen process. We have included the locations of three centers that are close to your home address. Please note that you should call the center you wish to use to confirm their hours of operation. You are also required to undergo a background check, including a criminal background check, and your employment is contingent upon results satisfactory to the Company. Enclosed you will find an Acknowledgment and Authorization form as well as a Notification and Release form that must be filled out, signed and returned to us as soon as possible so that we can authorize the background investigation to proceed.

Please confirm your acceptance of this position by signing one copy of this letter and returning it to me. Additionally, please complete, sign and return the enclosed Massachusetts Tax Form, W-4, Direct Deposit Form (if you would like to have your pay check directly deposited to a bank account), the Company's Code of Conduct, CMGI's Policy on Trading of Securities and Public Disclosures, along with the Non-Competition Agreement and the Non-Disclosure and Developments Agreement.

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If you choose to fax the documents, please fax a copy of your signed offer letter and all the enclosed documents to 781-663-5095 and bring the originals with you on your first day. If you wish to overnight the original documents, please mail one copy of your signed offer letter and the entire enclosed package to CMGI, Inc., 1100 Winter Street, Suite 4600, Waltham, MA 02451, Attention: James J. Herb.

Your employment with the Company will be “at-will”. This means that your employment with the Company may be terminated by either you or the Company at any time and for any reason or for no reason, with or without notice. This offer letter constitutes the entire agreement between you and the Company and supersedes all prior offers, both oral and written. This offer automatically expires as of the close of business (5:00 p.m., Boston time) on Tuesday, April 17, 2007. This letter does not constitute a guarantee of employment or a contract. The Company considers the terms of this offer letter to be confidential and requests that you treat it as such.

Scott, we are very pleased by the prospect of your addition to our team, and we are confident that you will make a significant contribution to our future success!

Sincerely,

/s/ James J. Herb
James J. Herb
Senior Vice President
Human Resources

Enclosures

Agreed and accepted:

/s/ Scott D. Smith
Scott D. Smith

4/12/07
Date

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

In connection with the Quarterly Report on Form 10-Q of CMGI, Inc. (the "Company") for the fiscal quarter ended April 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Joseph C. Lawler, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 11, 2007

By: _____ /s/ JOSEPH C. LAWLER
Joseph C. Lawler
Chairman, President and Chief Executive Officer

