

CMGI INC
Form PRE 14A
October 21, 2004

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement Confidential, for Use of the
Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

CMGI, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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PRELIMINARY COPY

CMGI, INC.

1100 WINTER STREET

WALTHAM, MASSACHUSETTS 02451

November [], 2004

Dear CMGI Stockholder:

You are cordially invited to attend the 2004 Annual Meeting of Stockholders (the 2004 Meeting) of CMGI, Inc., which will be held at the offices of Wilmer Cutler Pickering Hale and Dorr LLP, 60 State Street, Boston, Massachusetts 02109, on Wednesday, December 8, 2004, at 9:00 a.m. local time. I look forward to greeting as many of our stockholders as possible. Details of the business to be conducted at the 2004 Meeting are given in the attached Notice of Annual Meeting and Proxy Statement.

Whether or not you plan to attend the 2004 Meeting, it is important that your shares be represented and voted at the 2004 Meeting. Therefore, I urge you to sign and date the enclosed proxy card and promptly return it in the enclosed envelope so that your shares will be represented at the 2004 Meeting. If you so desire, you may withdraw your proxy and vote in person at the 2004 Meeting.

I look forward to greeting those of you who will be able to attend the 2004 Meeting.

Sincerely,
Joseph C. Lawler
President and Chief Executive Officer

YOUR VOTE IS IMPORTANT.

TO VOTE YOUR SHARES, PLEASE SIGN, DATE AND COMPLETE THE ENCLOSED PROXY

CARD AND MAIL IT PROMPTLY IN THE ENCLOSED RETURN ENVELOPE. NO POSTAGE

NEED BE AFFIXED IF THE PROXY CARD IS MAILED IN THE UNITED STATES.

CMGI, INC.

1100 WINTER STREET

WALTHAM, MASSACHUSETTS 02451

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD WEDNESDAY, DECEMBER 8, 2004

To the Stockholders of CMGI, Inc.:

NOTICE IS HEREBY GIVEN that the 2004 Annual Meeting of Stockholders (the 2004 Meeting) of CMGI, Inc. (the Company) will be held at the offices of Wilmer Cutler Pickering Hale and Dorr LLP, 60 State Street, Boston, Massachusetts 02109, on Wednesday, December 8, 2004, at 9:00 a.m. local time, for the following purposes:

1. To elect two Class II Directors;

2. To approve the Company s 2004 Stock Incentive Plan;

3. To authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company s Restated Certificate of Incorporation, as amended, to effect a reverse stock split of the Company s issued and outstanding shares of Common Stock by a ratio of 1-for-5, without further approval or authorization of the Company s stockholders;

4. To authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company s Restated Certificate of Incorporation, as amended, to effect a reverse stock split of the Company s issued and outstanding shares of Common Stock by a ratio of 1-for-10, without further approval or authorization of the Company s stockholders;

5. To authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company s Restated Certificate of Incorporation, as amended, to effect a reverse stock split of the Company s issued and outstanding shares of Common Stock by a ratio of 1-for-15, without further approval or authorization of the Company s stockholders;

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6. To authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company's Restated Certificate of Incorporation, as amended, to effect a reverse stock split of the Company's issued and outstanding shares of Common Stock by a ratio of 1-for-20, without further approval or authorization of the Company's stockholders;
7. To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the current fiscal year; and
8. To transact such other business as may properly come before the 2004 Meeting or any adjournments thereof.

The Board of Directors has no knowledge of any other business to be transacted at the 2004 Meeting. Only stockholders of record at the close of business on Friday, October 22, 2004 are entitled to notice of, and to vote at, the 2004 Meeting and any adjournments thereof. A copy of the Company's Annual Report to Stockholders for the fiscal year ended July 31, 2004, which contains consolidated financial statements and other information of interest to stockholders, accompanies this Notice and Proxy Statement. All stockholders are cordially invited to attend the 2004 Meeting.

By Order of the Board of Directors,
David S. Wetherell, *Secretary*

Waltham, Massachusetts

November [], 2004

An admission ticket and picture identification will be required to enter the 2004 Meeting. Each stockholder will be entitled to bring a guest to the 2004 Meeting. For stockholders of record, an admission ticket is attached to the proxy card sent with this Notice and Proxy Statement. Stockholders holding stock in bank or brokerage accounts can obtain an admission ticket in advance by sending a written request, along with proof of ownership of shares (such as a brokerage statement), to the Company's Office of Investor Relations at CMGI, Inc., 1100 Winter Street, Waltham, Massachusetts 02451. An individual arriving without an admission ticket will not be admitted unless it can be verified that the individual is a CMGI stockholder. Cameras, cell phones, recording equipment and other electronic devices will not be permitted at the 2004 Meeting. The Company reserves the right to inspect any persons or items prior to their admission to the 2004 Meeting.

CMGI, INC.

1100 WINTER STREET

WALTHAM, MASSACHUSETTS 02451

PROXY STATEMENT

For the Annual Meeting of Stockholders

To Be Held December 8, 2004

General

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of CMGI, Inc., a Delaware corporation (the Company), for use at the Company's 2004 Annual Meeting of Stockholders (the 2004 Meeting), which will be held at the offices of Wilmer Cutler Pickering Hale and Dorr LLP, 60 State Street, Boston, Massachusetts 02109, on Wednesday, December 8, 2004, at 9:00 a.m. local time, and at any adjournments thereof. The Notice of Annual Meeting, this Proxy Statement, the accompanying proxy card and the Company's Annual Report to Stockholders for the fiscal year ended July 31, 2004 are being mailed to stockholders on or about November [], 2004. The Company's principal executive offices are located at 1100 Winter Street, Waltham, Massachusetts 02451 and its telephone number is (781) 663-5001.

Solicitation

The cost of soliciting proxies, including expenses in connection with preparing, printing and mailing this Proxy Statement, will be borne by the Company. The Company has retained MacKenzie Partners, Inc. to act as a proxy solicitor to assist in the solicitation. The Company has agreed to pay such firm \$8,000, plus out-of-pocket expenses, for proxy solicitation services. Copies of solicitation materials will be furnished to brokerage houses, nominees, fiduciaries and custodians to forward to beneficial owners of the Company's Common Stock, \$.01 par value per share (the Common Stock), held in their names. In addition to the solicitation of proxies by mail, the Company's directors, officers and other employees may, without additional compensation, solicit proxies by telephone, facsimile, electronic communication and personal interviews.

Record Date, Outstanding Shares and Voting Rights

The Board of Directors has fixed Friday, October 22, 2004 as the record date for determining holders of Common Stock who are entitled to vote at the 2004 Meeting. As of October 22, 2004, the Company had approximately [] shares of Common Stock outstanding and entitled

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to be voted. Each share of Common Stock entitles the record holder to one vote on each matter to be voted upon at the 2004 Meeting. A majority of the shares of Common Stock issued and outstanding and entitled to vote at the 2004 Meeting will constitute a quorum at the 2004 Meeting. Votes withheld, abstentions and broker non-votes shall be counted for purposes of determining the presence or absence of a quorum for the transaction of business at the 2004 Meeting.

The affirmative vote of the holders of a plurality of the votes cast at the 2004 Meeting is required for the election of directors (Proposal No. 1). The affirmative vote of the holders of a majority of the shares of the Company's Common Stock present or represented by proxy and voting on the matter is required to approve the Company's 2004 Stock Incentive Plan (Proposal No. 2), and to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the current fiscal year (Proposal No. 7). The affirmative vote of the holders of a majority of the outstanding shares of the Company's Common Stock is required to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Company's Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), to effect a reverse stock split of the Company's issued and outstanding shares of Common Stock by a ratio of 1-for-5, without further approval or authorization of the

Company's stockholders (Proposal No. 3), to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Certificate of Incorporation to effect a reverse stock split of the Company's issued and outstanding shares of Common Stock by a ratio of 1-for-10, without further approval or authorization of the Company's stockholders (Proposal No. 4), to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Certificate of Incorporation to effect a reverse stock split of the Company's issued and outstanding shares of Common Stock by a ratio of 1-for-15, without further approval or authorization of the Company's stockholders (Proposal No. 5), and to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Certificate of Incorporation to effect a reverse stock split of the Company's issued and outstanding shares of Common Stock by a ratio of 1-for-20, without further approval or authorization of the Company's stockholders (Proposal No. 6).

Shares which abstain from voting on a particular matter and shares held in street name by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote such shares as to a particular matter (broker non-votes) will not be counted as votes in favor of such matter, and will also not be counted as votes cast or shares voting on such matter. Accordingly, abstentions and broker non-votes will have no effect on the voting for the election of directors, which requires the affirmative vote of a plurality of the votes cast or shares voting on the matter. Similarly, abstentions and broker non-votes will have no effect on the voting to approve the Company's 2004 Stock Incentive Plan or the voting to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the current fiscal year, each of which requires the affirmative vote of a majority of the votes cast or shares voting on the matter. Abstentions and broker non-votes, however, will have the same effect as a vote against each of the four reverse stock split proposals because approval of each of these proposals requires the affirmative vote of a majority of all outstanding shares of the Company's Common Stock.

To vote by mail, sign, date and complete the enclosed proxy card and return it in the enclosed envelope. No postage is necessary if the proxy card is mailed in the United States. If you hold your shares through a bank, broker or other nominee, they will give you separate instructions for voting your shares.

Revocability of Proxy and Voting of Shares

Any stockholder giving a proxy has the power to revoke it at any time before it is exercised. The proxy may be revoked by filing with the Secretary of the Company, at the principal executive offices of the Company, 1100 Winter Street, Waltham, Massachusetts 02451, an instrument of revocation or a duly executed proxy bearing a later date. The proxy may also be revoked by attending the 2004 Meeting and voting in person. If not revoked, the proxy will be voted at the 2004 Meeting in accordance with the stockholder's instructions indicated on the proxy card. If no instructions are indicated, the proxy will be voted:

FOR the election of the two Class II Director nominees named herein;

FOR the approval of the Company's 2004 Stock Incentive Plan;

FOR the approval of the proposal to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Certificate of Incorporation to effect a reverse stock split of the Company's Common Stock by a ratio of 1-for-5, without further approval or authorization of the Company's stockholders;

FOR the approval of the proposal to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Certificate of Incorporation to effect a reverse stock split of the Company's Common Stock by a ratio of 1-for-10, without further approval or authorization of the Company's stockholders;

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FOR the approval of the proposal to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Certificate

of Incorporation to effect a reverse stock split of the Company's Common Stock by a ratio of 1-for-15, without further approval or authorization of the Company's stockholders;

FOR the approval of the proposal to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to amend the Certificate of Incorporation to effect a reverse stock split of the Company's Common Stock by a ratio of 1-for-20, without further approval or authorization of the Company's stockholders;

FOR the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for the current fiscal year; and

In accordance with the judgment of the proxy holders as to any other matter that may be properly brought before the 2004 Meeting or any adjournments thereof.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information, as of September 30, 2004, with respect to the beneficial ownership of shares of Common Stock by (i) each stockholder known to the Company to beneficially own more than 5% of the outstanding shares of Common Stock, (ii) the directors of the Company, including the Company's current Chief Executive Officer, (iii) the Company's former Chief Executive Officer and the three other most highly compensated executive officers who were serving as executive officers on July 31, 2004 (the Named Executive Officers), and (iv) all current executive officers and directors of the Company, as a group.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	
	Number of Shares	Percent of Class(2)
5% Stockholders		
Hewlett-Packard Company(3)	24,249,767	5.1%
Directors		
David S. Wetherell(4)	32,381,970	6.7%
Anthony J. Bay(5)	155,110	*
Virginia G. Bonker(6)	215,998	*
Francis J. Jules(7)	122,665	*
Jonathan A. Kraft(8)	233,332	*
Joseph C. Lawler(9)	1,800,000	*
Michael J. Mardy(10)	103,998	*
Named Executive Officers		
Thomas Oberdorf(11)	446,414	*
Peter L. Gray(12)	539,280	*
Bryce C. Boothby, Jr.(13)	275,471	*
George A. McMillan(14)	3,349,683	*
All current executive officers and directors, as a group (13 persons)(15)	37,531,087	7.8%

* Less than 1%

- (1) The number of shares beneficially owned by each director, executive officer and stockholder is determined under rules promulgated by the Securities and Exchange Commission, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days after September 30, 2004 through the exercise of any stock option or other right (Presently Exercisable Options). The inclusion herein of such shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of such shares. Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares such power with his or her spouse) with respect to all shares of capital stock listed as owned by such person or entity.
- (2) Number of shares deemed outstanding includes 475,872,616 shares of Common Stock as of September 30, 2004, plus any shares subject to Presently Exercisable Options held by the person in question.
- (3) Based on the information provided by Hewlett-Packard Company (H-P) in its Form 13-F for the quarter ended September 30, 2004 filed with the SEC on October 18, 2004. The address of H-P is 3000 Hanover Street, Palo Alto, CA 94304.
- (4) Includes 5,218,732 shares which may be acquired by Mr. Wetherell pursuant to Presently Exercisable Options. Also includes 16,812,672 shares held by a limited liability company of which Mr. Wetherell owns a membership interest and which is managed by a limited liability company of which Mr. Wetherell is a manager. Mr. Wetherell disclaims beneficial ownership with respect to a total of 16,812,672 shares. Mr. Wetherell's address is c/o CMGI, Inc., 1100 Winter Street, Waltham, MA 02451.
- (5) Consists of shares which may be acquired by Mr. Bay pursuant to Presently Exercisable Options.

- (6) Consists of shares which may be acquired by Ms. Bonker pursuant to Presently Exercisable Options.
- (7) Consists of shares which may be acquired by Mr. Jules pursuant to Presently Exercisable Options.
- (8) Includes 213,332 shares which may be acquired by Mr. Kraft pursuant to Presently Exercisable Options.
- (9) Mr. Lawler became President and Chief Executive Officer of the Company, and was elected to its Board of Directors, on August 23, 2004.
- (10) Consists of shares which may be acquired by Mr. Mardy pursuant to Presently Exercisable Options.
- (11) Includes 282,914 shares which may be acquired by Mr. Oberdorf pursuant to Presently Exercisable Options.
- (12) Includes 410,830 shares which may be acquired by Mr. Gray pursuant to Presently Exercisable Options.
- (13) Includes 156,165 shares which may be acquired by Mr. Boothby pursuant to Presently Exercisable Options. Mr. Boothby is also deemed the beneficial owner of 167,833 shares of the common stock, \$.01 par value per share, of SalesLink Corporation, a subsidiary of the Company (SalesLink), which shares may be acquired by Mr. Boothby pursuant to Presently Exercisable Options. These shares represent approximately 1.8% of the voting power of the outstanding common stock of SalesLink.
- (14) Includes 3,307,271 shares which may be acquired by Mr. McMillan pursuant to Presently Exercisable Options. Also includes 15,000 shares held by Mr. McMillan s spouse and 1,550 shares held by Mr. McMillan s minor children. Mr. McMillan was President and Chief Executive Officer, and a member of the Board of Directors, of the Company until his resignation on August 23, 2004. See Employment Agreements and Severance and Change of Control Arrangements.
- (15) Includes 7,351,648 shares which may be acquired pursuant to Presently Exercisable Options. Also includes the shares as to which beneficial ownership is disclaimed by Mr. Wetherell as described in note 4 above. In addition, two current executive officers, W. Kendale Southerland and Daniel F. Beck, are members of a Section 13(d) group that, as a result of the acquisition of Modus Media, Inc. by the Company on August 2, 2004, currently owns more than 10% of the Company s Common Stock, all of which shares (other than those directly owned by Messrs. Southerland and Beck) are excluded.

PROPOSAL I

ELECTION OF DIRECTORS

The current Board of Directors has seven members and is divided into three classes. A class of directors is elected each year for a three-year term. The current term of the Company's Class II Directors will expire at the 2004 Meeting. The nominees for Class II Director are Anthony J. Bay and Virginia G. Bonker, each of whom currently serves as a Class II Director and is available for re-election. The Class II Directors elected at the 2004 Meeting will each serve for a term of three years that will expire at the Company's 2007 Annual Meeting of Stockholders and until his or her successor is elected and qualified. The persons named as proxies will vote for each of Mr. Bay and Ms. Bonker for election to the Board as Class II Director unless the proxy card is marked otherwise.

Mr. Bay and Ms. Bonker have each indicated his or her willingness to serve, if elected; however, if he or she should be unable to serve, the persons named as proxies may vote the proxy for a substitute nominee. The Board has no reason to believe that any nominee will be unable to serve if elected.

The Board of Directors recommends that the stockholders vote FOR each of the Nominees listed below.

Biographical and certain other information concerning the directors of the Company and the nominees for director is set forth below:

Class II Director Nominees for Election for a Three-Year Term Expiring at the 2007 Annual Meeting

Anthony J. Bay, age 49. Mr. Bay has served as a director of the Company since September 2002. Mr. Bay is a private venture capital investor and advisor to technology companies. From 1994 to 2000, Mr. Bay worked for Microsoft Corporation, last serving as Vice President and General Manager of Microsoft's Digital Media Division and a member of Microsoft's executive staff. Mr. Bay also serves on the Board of Directors of Loudeye Corp.

Virginia G. Bonker, age 40. Ms. Bonker has served as a director of the Company since April 2001. Ms. Bonker is the co-founder and General Partner of Blue Rock Capital, L.P., a venture capital firm that invests in information technology and service businesses. Ms. Bonker also serves as a Manager of Excelsior Absolute Return Fund of Funds, L.L.C., a registered investment company. Ms. Bonker also serves as Manager of Excelsior Absolute Return Fund of Funds Master Fund, L.L.C., a registered investment company.

Class III Directors Continuing in Office until the 2005 Annual Meeting

David S. Wetherell, age 50. Mr. Wetherell has served as Chairman of the Board and Secretary of the Company since 1986 and served as Chief Executive Officer of the Company from 1986 to March 2002. From 1986 to July 2001, Mr. Wetherell also served as President of the Company.

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Jonathan A. Kraft, age 40. Mr. Kraft has served as a director of the Company since July 2001. Mr. Kraft has served as President and Chief Operating Officer of The Kraft Group, a private holding company comprised of companies involved in the paper and packaging industries, sports and entertainment and private equity investing, since January 1997. Mr. Kraft also serves as Vice Chairman of the New England Patriots, a National Football League franchise. Mr. Kraft also serves on the Board of Directors of Carmel Container Systems, Ltd.

Class I Directors Continuing in Office until the 2006 Annual Meeting

Francis J. Jules, age 47. Mr. Jules has served as a director of the Company since February 2003. Mr. Jules is the President, SBC Global Markets, a local telephone and access provider. From December 2001 to October 2002, Mr. Jules served as Chief Executive Officer of US LEC Corp., a provider of voice, data and Internet services. From August 2000 to November 2001, Mr. Jules served as President and Chief Operating Officer, and then as acting Chief Executive Officer, of Winstar Communications, Inc., a provider of telephone and data

services (Winstar). In April 2001, Winstar, along with certain of its subsidiaries, voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Thereafter, in December 2001, substantially all of the assets of Winstar were acquired by IDT Corporation. From 1994 to 2000, Mr. Jules served in various executive positions at Ameritech Corporation and SBC Communications Inc., last serving as President of Business Communications Services.

Michael J. Mardy, age 55. Mr. Mardy has served as a director of the Company since May 2003. Mr. Mardy is Senior Vice President, Chief Financial Officer and Chief Technology Officer of Tumi, Inc., a retailer of prestige luggage and business accessories. From 1996 to 2002, Mr. Mardy served as Executive Vice President and Chief Financial Officer of Keystone Foods LLC, a global manufacturer of food products. From 1980 to 1996, Mr. Mardy served in various positions with Nabisco, Inc., last serving as Senior Vice President and Chief Financial Officer of Nabisco Biscuit Company.

Joseph C. Lawler, age 54. Mr. Lawler has served as a director of the Company since August 2004. Mr. Lawler became President and Chief Executive Officer of the Company in August 2004. Mr. Lawler is also President and Chief Executive Officer of ModusLink Corporation, a subsidiary of the Company (ModusLink). Mr. Lawler is also Chief Executive Officer of SalesLink. From 1995 to March 2004, Mr. Lawler served in various positions with R.R. Donnelley & Sons Company, a provider of full-service global print solutions, most recently as Executive Vice President. While at R.R. Donnelley, Mr. Lawler had management responsibilities for logistics, financial, direct mail and international operations.

Board and Committee Meetings

During the fiscal year ended July 31, 2004 (fiscal 2004), the Board of Directors held ten meetings (including by telephone conference). During fiscal 2004, each incumbent director attended at least 75% of the meetings of the Board and of the committees on which he or she served. During fiscal 2004, all of the independent directors of the Company met regularly, either in an executive session of a regularly scheduled Board meeting or as the Nominating and Corporate Governance Committee, outside of the presence of non-independent directors and executive officers of the Company. The Company's directors are strongly encouraged to attend the Company's Annual Meeting of Stockholders. Five out of seven of the Company's directors attended the 2003 Annual Meeting of Stockholders.

Audit Committee

The Board of Directors has an Audit Committee, which assists the Board of Directors in fulfilling its responsibilities to stockholders concerning the Company's financial reporting and internal controls, and facilitates open communication among the Audit Committee, Board of Directors, outside auditors and management. The Audit Committee discusses with management and the Company's outside auditors the financial information developed by the Company, the Company's systems of internal controls and the Company's audit process. The Audit Committee is solely and directly responsible for appointing, evaluating, retaining and, when necessary, terminating the engagement of the independent auditor. The independent auditors meet with the Audit Committee (both with and without the presence of the Company's management) to review and discuss various matters pertaining to the audit, including the Company's financial statements, the report of the independent auditors on the results, scope and terms of their work, and their recommendations concerning the financial practices, controls, procedures and policies employed by the Company. The Audit Committee preapproves all audit services to be provided to the Company, whether provided by the principal auditor or other firms, and all other services (review, attest and non-audit) to be provided to the Company by the independent auditor. The Audit Committee coordinates the Board of Directors' oversight of the Company's internal control over financial reporting, disclosure controls and procedures and code of conduct. The Audit Committee is charged with establishing procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing

matters. The Audit Committee reviews all related party transactions on an ongoing basis, and all such transactions must be approved by the Audit Committee. The Audit Committee is authorized, without further action by the Board of Directors, to engage such independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which can be found under the Investor Center section of the Company's website at www.cmgi.com and is also attached hereto as Appendix V. The Audit Committee consists of Anthony J. Bay, Michael J. Mardy (Chair), Francis J. Jules and Jonathan A. Kraft, each of whom is independent as defined in applicable Nasdaq listing standards. The Audit Committee met 11 times during fiscal 2004.

Human Resources and Compensation Committee

The Board of Directors has a Human Resources and Compensation Committee, which administers the Company's 2004 Stock Incentive Plan, 2002 Non-Officer Employee Stock Incentive Plan, 2000 Stock Incentive Plan, 1986 Stock Option Plan and Amended and Restated 1995 Employee Stock Purchase Plan, as well as the Company's cash incentive plans, performance-based stock options and other equity-based awards. The Human Resources and Compensation Committee approves salaries, bonuses and other compensation arrangements and policies for the Company's officers, including the chief executive officer. The Human Resources and Compensation Committee is authorized, without further action by the Board of Directors, to engage such independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities. The Board of Directors has adopted a written charter for the Human Resources and Compensation Committee, a copy of which can be found under the Investor Center section of the Company's website at www.cmgi.com. The Human Resources and Compensation Committee consists of Anthony J. Bay, Virginia G. Bonker, Francis J. Jules (Chair) and Michael J. Mardy. The Human Resources and Compensation Committee met seven times during fiscal 2004.

Nominating and Corporate Governance Committee

The Board of Directors has a Nominating and Corporate Governance Committee, which makes recommendations to the Board of Directors concerning all facets of the director-nominee selection process, develops and recommends to the Board corporate governance principles applicable to the Company and oversees the evaluation of the Board and management. The Nominating and Corporate Governance Committee has the authority to engage such independent legal and other advisors as it deems necessary or appropriate to carry out its responsibilities. The Nominating and Corporate Governance Committee is responsible for overseeing an annual self-evaluation of the Board of Directors to determine whether it and its committees are functioning effectively and determines the nature of the evaluation, supervises the conduct of the evaluation and prepares an assessment of the performance of the Board of Directors, which is discussed with the Board of Directors. The Nominating and Corporate Governance Committee, at the request of the Board of Directors, periodically reviews and makes recommendations to the Board of Directors relating to management succession planning, including policies and principles for chief executive officer selection and performance review, as well as policies regarding succession in the event of an emergency or the retirement of the chief executive officer. The Nominating and Corporate Governance Committee presents an annual report to the Board of Directors on succession planning. The Board of Directors has adopted a written charter for the Nominating and Corporate Governance Committee, a copy of which can be found under the Investor Center section of the Company's website at www.cmgi.com

In recommending candidates for election to the Board of Directors, the Nominating and Governance Committee considers nominees recommended by directors, officers, employees, stockholders and others, using the same criteria to evaluate all candidates. The Nominating and Governance Committee reviews each candidate's qualifications, including whether a candidate possesses any of the specific qualities and skills desirable in certain members of the Board of Directors. Evaluations of candidates generally involve a review of background materials, internal discussions and interviews with selected candidates as appropriate. Upon selection of a qualified candidate, the Nominating and Governance Committee would recommend the candidate for consideration by the full Board of Directors. The Nominating and Governance Committee may engage

consultants or third-party search firms to assist in identifying and evaluating potential nominees. The Board of Directors requires that all nominees for the Board of Directors have a reputation for integrity, honesty and adherence to high ethical standards. In addition, nominees should also have demonstrated business acumen, experience and ability to exercise sound judgments in matters that relate to the current and long-term objectives of the Company and should be willing and able to contribute positively to the decision-making process of the Company. The Nominating and Corporate Governance Committee will consider nominees for the Board of Directors recommended by stockholders.

Stockholders wishing to propose director candidates for consideration by the Nominating and Corporate Governance Committee may do so by writing to the Secretary of the Company and providing information specified in the Company's By-Laws, including the candidate's name, biographical data and qualifications. The Company's By-Laws set forth further requirements for stockholders wishing to nominate director candidates for consideration by stockholders including, among other things, that a stockholder must give timely written notice of an intent to make such a nomination to the Secretary of the Company. See *Proposals of Stockholders for 2005 Annual Meeting*. The Nominating and Corporate Governance Committee consists of Anthony J. Bay, Virginia G. Bonker (Chair), Michael J. Mardy, Francis J. Jules and Jonathan A. Kraft, each of whom is independent as defined in applicable Nasdaq listing standards. The Nominating and Corporate Governance Committee met 15 times during fiscal 2004.

Technology Committee

The Board of Directors has a Technology Committee, which provides strategic guidance and oversight to the Company on use of technology in its core businesses and evaluates and approves investment proposals made by the Company's venture capital affiliates which invest funds on the Company's behalf. The Technology Committee consists of Anthony J. Bay (Chair), Virginia G. Bonker, Francis J. Jules, David S. Wetherell and Joseph C. Lawler. The Technology Committee met two times during fiscal 2004.

Stockholder Communications with the Board of Directors

Stockholders may send written communications to the Board of Directors or any individual member to the following address: Board of Directors, c/o Secretary, CMGI, Inc., 1100 Winter Street, Waltham, MA 02451. The Company will forward all such correspondence accordingly, except for mass mailings, job inquiries, surveys, business solicitations or advertisements, or patently offensive or otherwise inappropriate material.

PROPOSAL 2

APPROVAL OF THE 2004 STOCK INCENTIVE PLAN

On October 15, 2004, the Board of Directors of the Company adopted, subject to stockholder approval, the 2004 Stock Incentive Plan (the "2004 Plan"). Up to 15,000,000 shares of common stock (subject to adjustment in the event of stock splits and other similar events) may be issued pursuant to awards granted under the 2004 Plan.

The Board of Directors believes that the future success of the Company depends, in large part, upon the ability of the Company to maintain a competitive position in attracting, retaining and motivating key personnel. **Accordingly, the Board of Directors believes approval of the 2004 Plan is in the best interests of the Company and its stockholders and recommends a vote FOR the approval of the 2004 Plan.**

Summary of the 2004 Plan

The following is a brief summary of the 2004 Plan. The following summary is qualified in its entirety by reference to the 2004 Plan, a copy of which is attached as Appendix VI to the electronic copy of this Proxy

Statement filed with the SEC and may be accessed from the SEC's home page (www.sec.gov). In addition, a copy of the 2004 Plan may be obtained from the Secretary of the Company.

Types of Awards

The 2004 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the Code), non-statutory stock options, restricted stock awards, stock appreciation rights and other awards that are valued in whole or in part by reference to, or are otherwise based on, shares of common stock or other property (collectively, Awards).

Incentive Stock Options and Non-Statutory Stock Options. Optionees receive the right to purchase a specified number of shares of common stock at a specified stock option price and subject to such other terms and conditions as are specified in connection with the stock option grant. Stock options may not be granted at an exercise price less than 100% of the fair market value of the common stock on the date of grant or for a term in excess of ten years. Stock options shall be exercisable at such times and subject to such terms and conditions as the Board of Directors may specify in the applicable stock option agreement. The 2004 Plan permits the following forms of payment of the exercise price of stock options: (i) payment by cash, check or in connection with a cashless exercise through a broker, (ii) except as the Board may otherwise provide in an option agreement, by surrender to the Company of shares of common stock, (iii) to the extent permitted by applicable law and by the Board, delivery to the Company of a promissory note, (iv) by payment of other lawful consideration as the Board may determine, or (v) any combination of these forms of payment.

In connection with a merger or consolidation of an entity with the Company or the acquisition by the Company of property or stock of an entity, the Board may grant stock options in substitution for any options or other stock or stock-based awards granted by such entity or an affiliate thereof. Substitute stock options may be granted on such terms as the Board deems appropriate in the circumstances.

Unless such action is approved by the Company's stockholders: (i) no outstanding stock option granted under the 2004 Plan may be amended to provide an exercise price per share that is lower than the then-current exercise price per share of such outstanding stock option (other than adjustments in the event of stock splits and other similar events), and (ii) the Board may not cancel any outstanding stock option and grant in substitution therefor new Awards under the 2004 Plan covering the same or a different number of shares of common stock and having an exercise price per share lower than the then-current price per share of the cancelled stock option.

Restricted Stock Awards. Restricted Stock Awards entitle recipients to acquire shares of common stock, subject to the right of the Company to repurchase all or part of such shares from the recipient in the event that the conditions specified in the applicable Award are not satisfied prior to the end of the applicable restriction period established for such Award. In certain circumstances, such Awards may also be subject to performance conditions.

Stock Appreciation Rights. Under the 2004 Plan, the Board of Directors has the right to grant Stock Appreciation Rights entitling the holder, upon exercise, to receive an amount in cash or common stock or a combination thereof determined in whole or in part by reference to appreciation, from and after the date of grant, in the fair market value of a share of common stock. Stock Appreciation Rights may be based solely on appreciation in the fair market value of common stock or on a comparison of such appreciation with some other measure of market growth such as appreciation in a recognized market index. The date as of which such appreciation or other measure is determined shall be the exercise date unless another date is specified by the Board.

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Other Stock-Based Awards. Under the 2004 Plan, the Board of Directors has the right to grant other Awards of shares of common stock or Awards valued in whole or in part by reference to, or otherwise based on, shares of common stock or other property, including Awards entitling recipients to receive shares of common stock to be delivered in the future.

Eligibility to Receive Awards

Employees, officers, directors, consultants and advisors of the Company and its subsidiaries are eligible to be granted Awards under the 2004 Plan. Under present law, however, incentive stock options may only be granted to employees of the Company and its subsidiaries. The maximum number of shares with respect to which stock options may be granted to any participant under the 2004 Plan may not exceed 6,000,000 shares per calendar year. The maximum number of shares with respect to which Awards other than stock options and stock appreciation rights may be granted under the 2004 Plan shall be 5,000,000 shares.

Plan Benefits

As of October 1, 2004, the Company had approximately 4,133 employees, including the Company's eight executive officers, and five non-employee directors, all of whom are eligible to receive Awards under the 2004 Plan. The granting of Awards under the 2004 Plan is discretionary, and the Company cannot now determine the number or type of Awards to be granted in the future to any particular person or group.

On November [], 2004, the last reported sale price of the Company's common stock on the Nasdaq National Market was \$[].

Administration

The 2004 Plan is administered by the Board of Directors. The Board of Directors has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the 2004 Plan and to interpret the provisions of the 2004 Plan. Pursuant to the terms of the 2004 Plan, the Board of Directors may delegate authority under the 2004 Plan to one or more committees or subcommittees of the Board of Directors, and one or more officers of the Company. The Board of Directors has authorized the Human Resources and Compensation Committee to administer certain aspects of the 2004 Plan, including the granting of Awards to executive officers. The Board of Directors has also authorized the Company's Chief Executive Officer and Chief Financial Officer to administer certain aspects of the 2004 Plan, including the granting of stock options to employees of the Company other than executive officers.

Subject to any applicable limitations contained in the 2004 Plan, the Board of Directors, the Human Resources and Compensation Committee, or any other committee to whom the Board of Directors delegates authority, as the case may be, selects the recipients of Awards and determines (i) the number of shares of common stock covered by stock options and the dates upon which such stock options become exercisable, (ii) the exercise price of stock options, (iii) the duration of stock options, (iv) the number of shares of common stock subject to any restricted stock Awards and the terms and conditions of such Awards, including conditions for repurchase, issue price and repurchase price, (v) the terms and conditions of any Stock Appreciation Rights, and (vi) the terms and conditions of any other stock-based Award. The Board of Directors may also defer delivery of shares of common stock subject to any Awards to such time or times, and on such conditions, as the Board of Directors may specify.

The Board of Directors is required to make appropriate adjustments in connection with the 2004 Plan and any outstanding Awards to reflect stock splits, stock dividends, recapitalizations, spin-offs and other similar changes in capitalization. The 2004 Plan also contains provisions addressing the consequences of any Reorganization Event, which is defined as (i) any merger or consolidation of the Company with or into another entity as a result of which all of the common stock of the Company is converted into or exchanged for the right to receive cash, securities or other property, (ii) any exchange of all of the common stock of the Company for cash, securities or other property pursuant to a share exchange transaction, or (iii) any liquidation or dissolution of the Company. Upon the occurrence of a Reorganization Event, the Board

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shall take any one or more of the following actions as to all or any outstanding Awards other than restricted stock Awards on such terms as the Board determines: (i) provide that Awards shall be assumed, or substantially equivalent Awards shall be substituted, by the acquiring or succeeding corporation, (ii) provide that unexercised stock options or other unexercised Awards

shall become exercisable in full and will terminate immediately prior to the consummation of such Reorganization Event unless exercised within a specified period following the date of such notice, (iii) provide that outstanding Awards shall become realizable or deliverable, or restrictions applicable to an Award shall lapse, in whole or in part prior to or upon such Reorganization Event, (iv) in the event of a Reorganization Event under the terms of which holders of common stock will receive upon consummation thereof a cash payment for each share surrendered in the Reorganization Event, make or provide for a cash payment in exchange for the termination of such stock options or other Awards, (v) provide that, in connection with a liquidation or dissolution of the Company, Awards shall convert into the right to receive liquidation proceeds, and (vi) any combination of the foregoing.

Upon the occurrence of a Reorganization Event other than a liquidation or dissolution of the Company, the repurchase and other rights of the Company under each outstanding restricted stock Award will inure to the benefit of the acquiring or succeeding corporation. The Board of Directors will specify the effect of a liquidation or dissolution of the Company on any restricted stock Award at the time the Award is granted.

If any Award expires or is terminated, surrendered, canceled or forfeited, the unused shares of common stock covered by such Award will again be available for grant under the 2004 Plan, subject, however, in the case of incentive stock options, to any limitations under the Code.

Amendment or Termination

No Award may be made under the 2004 Plan after October 15, 2014, but Awards previously granted may extend beyond that date. The Board of Directors may at any time amend, suspend or terminate the 2004 Plan, except that no Award designated as subject to Section 162(m) of the Code by the Board of Directors after the date of such amendment shall become exercisable, realizable or vested (to the extent such amendment was required to grant such Award) unless and until such amendment shall have been approved by the Company's stockholders.

If stockholders do not approve the adoption of the 2004 Plan, the 2004 Plan will not go into effect, and the Company will not grant any Awards under the 2004 Plan. In such event, the Board of Directors will consider whether to adopt alternative arrangements based on its assessment of the needs of the Company.

Federal Income Tax Consequences

The following generally summarizes the United States federal income tax consequences that generally will arise with respect to Awards granted under the 2004 Plan. This summary is based on the tax laws in effect as of the date of this proxy statement. Changes to these laws could alter the tax consequences described below.

Incentive Stock Options

A participant will not have income upon the grant of an incentive stock option. Also, except as described below, a participant will not have income upon exercise of an incentive stock option if the participant has been employed by the Company or its corporate parent or 50% or more-owned corporate subsidiary at all times beginning with the stock option grant date and ending three months before the date the participant exercises the stock option. If the participant has not been so employed during that time, then the participant will be taxed as described below under Nonstatutory Stock Options. The exercise of an incentive stock option may subject the participant to the alternative minimum tax.

A participant will have income upon the sale of the stock acquired under an incentive stock option at a profit (if sales proceeds exceed the exercise price). The type of income will depend on when the participant sells the stock. If a participant sells the stock more than two years after the stock option was granted and more than one year after the stock option was exercised, then all of the profit will be long-term capital gain. If a participant sells

the stock prior to satisfying these waiting periods, then the participant will have engaged in a disqualifying disposition and a portion of the profit will be ordinary income and a portion may be capital gain. This capital gain will be long-term if the participant has held the stock for more than one year and otherwise will be short-term. If a participant sells the stock at a loss (sales proceeds are less than the exercise price), then the loss will be a capital loss. This capital loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Nonstatutory Stock Options

A participant will not have income upon the grant of a nonstatutory stock option. A participant will have compensation income upon the exercise of a nonstatutory stock option equal to the value of the stock on the day the participant exercised the stock option less the exercise price. Upon sale of the stock, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the day the stock option was exercised. This capital gain or loss will be long-term if the participant has held the stock for more than one year and otherwise will be short-term.

Restricted Stock

A participant will not have income upon the grant of restricted stock unless an election under Section 83(b) of the Code is made within 30 days of the date of grant. If a timely 83(b) election is made, then a participant will have compensation income equal to the value of the stock less the purchase price. When the stock is sold, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the date of grant. If the participant does not make an 83(b) election, then when the stock vests the participant will have compensation income equal to the value of the stock on the vesting date less the purchase price. When the stock is sold, the participant will have capital gain or loss equal to the sales proceeds less the value of the stock on the vesting date. Any capital gain or loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Stock Appreciation Rights and Other Stock-Based Awards

The tax consequences associated with stock appreciation rights or any other stock-based Award granted under the 2004 Plan will vary depending on the specific terms of such Award. Among the relevant factors are whether or not the Award has a readily ascertainable fair market value, whether or not the Award is subject to forfeiture provisions or restrictions on transfer, the nature of the property to be received by the participant under the Award and the participant's holding period and tax basis for the Award or underlying common stock.

Tax Consequences to Us

There will be no tax consequences to the Company except that the Company will be entitled to a deduction when a participant has compensation income. Any such deduction may be subject to the limitations of Section 162(m) of the Code.

Equity Compensation Plan Information as of July 31, 2004

The following table sets forth certain information regarding the Company's equity compensation plans, other than the 2004 Plan, as of July 31, 2004:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	15,013,690	\$ 14.75	6,855,665(1)
Equity compensation plans not approved by security holders	2,044,381	\$ 1.26	15,728,650
Total	17,058,071	\$ 13.13	22,584,315(1)

(1) Includes 1,192,495 shares available for issuance under the Company's Amended and Restated 1995 Employee Stock Purchase Plan, as amended.

PROPOSAL 3

TO AUTHORIZE THE BOARD OF DIRECTORS, IN ITS DISCRETION, SHOULD IT DEEM IT TO BE APPROPRIATE AND IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS, TO AMEND THE COMPANY'S CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF THE COMPANY'S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK BY A RATIO OF 1-FOR-5, WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY'S STOCKHOLDERS

Overview

The Company may consider effecting a reverse split of its issued and outstanding shares of Common Stock ("reverse stock split" or "reverse split") on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting if such action is deemed appropriate and in the best interests of the Company and its stockholders. Such action may be taken, among other reasons, in order to preserve the listing of the Company's Common Stock on the Nasdaq National Market, to meet listing requirements for other trading markets or exchanges, or for reasons related to capital markets generally, including attracting institutional investors. Given the time and expense associated with convening a special meeting of stockholders, which would be required to consider this issue at a later time, the Board of Directors has determined that it is most efficient and in the best interests of the Company's stockholders to seek approval and authorization of a reverse stock split at the 2004 Meeting.

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At the Company's 2003 Annual Meeting of Stockholders (the 2003 Meeting), the stockholders approved a proposal authorizing the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to effect a reverse stock split of the Company's issued and outstanding shares of Common Stock by a ratio of between 1-for-2 and 1-for-25, inclusive, without further approval or authorization of the Company's stockholders. The Board has not determined to effect a reverse stock split pursuant to the authority conferred on it by the stockholders at the 2003 Meeting. Accordingly, as of December 8, 2004, the date of the 2004 Meeting, that authority will expire and be without any further effect.

The Company has determined to submit a series of proposals, none of which are conditioned on any other submitted proposal, that would grant authority to the Board of Directors to effect a reverse split, with such authority to be exercised, if at all, in accordance with the parameters of such proposals, at any time prior to the Company's next annual meeting of stockholders following the 2004 Meeting. If some or all of such proposals are

approved by the Company's stockholders at the 2004 Meeting or at an adjournment thereof, the Board of Directors would then have the discretion to implement a reverse stock split, within the parameters of the authority granted at the 2004 Meeting, at any time on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting, without seeking further approval or authorization of the Company's stockholders.

General

The Company's stockholders are being asked to approve four different reverse stock split proposals at the ratios of 1-for-5, 1-for-10, 1-for-15 and 1-for-20. If any or all of such proposals are approved, the Board of Directors may subsequently effect, in its discretion, one of the reverse stock splits in the event that it determines that such reverse stock split is appropriate and in the best interests of the Company and its stockholders. The Board of Directors has adopted resolutions, (i) declaring the advisability of each reverse stock split, subject to stockholder approval, (ii) in connection therewith, amending the Company's Certificate of Incorporation (the Amendment), to effect each reverse stock split, subject to stockholder approval, and (iii) authorizing any other action it deems necessary or appropriate to effect each reverse stock split, without further approval or authorization of the Company's stockholders, at any time on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting.

In Proposal No. 3, the Company's stockholders are being asked to authorize the Board of Directors, in its discretion, to amend the Company's Certificate of Incorporation to effect a 1-for-5 reverse stock split, without further approval or authorization of the Company's stockholders, at any time prior to the next annual meeting of stockholders.

If approved by the Company's stockholders, and the Board of Directors determines that a reverse stock split is appropriate and in the best interests of the Company and its stockholders, one of the four proposed reverse stock splits could become effective on any date selected by the Board of Directors on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting. The Board of Directors may only effect one of the proposed reverse stock splits. At the effective time of the Amendment, the other Amendment or Amendments approved by the stockholders would be deemed abandoned, without any further effect. Moreover, the Board of Directors reserves the right, even after stockholder approval, to forego effecting a reverse stock split if such action is determined not to be appropriate and in the best interests of the Company and its stockholders. If none of the reverse stock splits approved by the stockholders is subsequently implemented by the Board of Directors and effected by the date of the next annual meeting of stockholders following the 2004 Meeting, all such proposals will be deemed abandoned, without any further effect. In such case, the Board of Directors may again seek stockholder approval at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

Contingent on approval of this proposal by the requisite vote of the Company's stockholders and thereafter implementation by the Board of Directors and filing of the Amendment with the Secretary of State of the State of Delaware, the 1-for-5 reverse stock split would be effective in accordance with the Amendment.

Reasons for the Proposed Reverse Split

The primary reason for implementing a reverse split would be to attempt to increase the per share market price of the Common Stock. In recent years, the closing bid price for the Company's Common Stock has remained below \$1.00 per share for extended periods. As a result, on November 1, 2002, the listing of the Company's Common Stock transferred from the Nasdaq National Market to the Nasdaq SmallCap Market. On June 26, 2003, following maintenance of the minimum closing bid price requirement for 30 consecutive days and compliance with all other continued listing requirements of the Nasdaq National Market, the listing of the Company's Common Stock transferred back to the Nasdaq National Market. The Nasdaq National Market requires a minimum bid price per share of \$1.00 for continued listing. The Board of Directors anticipates that a reverse split, if implemented, would have the effect of increasing, proportionately, the per share trading price of the Company's

Common Stock, which could result in a share price high enough to maintain compliance with the

Nasdaq National Market minimum price requirement should the closing bid price for the Company's Common Stock drop below \$1.00 per share for extended periods. There can be no assurance, however, that the Company would be able to maintain the listing of the Company's Common Stock on the Nasdaq National Market or the Nasdaq SmallCap Market even if a reverse split results in a bid price for the Company's Common Stock that exceeds \$1.00 per share.

The Board of Directors believes that the current low price of the Company's Common Stock has had a negative effect on the marketability of the issued and outstanding shares, the amount and percentage of transaction costs paid by individual stockholders and the potential ability of the Company to raise capital by issuing additional shares of its Common Stock. The Board of Directors believes there are several reasons for these effects. First, certain institutional investors have internal policies preventing the purchase of low-priced stocks. Moreover, a variety of policies and practices of broker-dealers discourage individual brokers within those firms from dealing in low-priced stocks. Second, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current share price of the Company's Common Stock can result in individual stockholders paying transaction costs (commissions, markups or markdowns) which are a higher percentage of their total share value than would be the case if the Company's share price were substantially higher. This factor is also believed to limit the willingness of institutions to purchase the Company's Common Stock.

The Board of Directors anticipates that a reverse split would result in an increased per share bid price for the Company's Common Stock. The Board of Directors also believes that the decrease in the number of shares of the Company's Common Stock outstanding as a consequence of a reverse split, and the anticipated related increase in the price of the Company's Common Stock, could encourage interest in the Company's Common Stock and possibly promote greater liquidity for the Company's stockholders, although such liquidity could be adversely affected by the reduced number of shares outstanding after a reverse split. In addition, although any increase in the market price of the Company's Common Stock resulting from a reverse split may be proportionately less than the decrease in the number of outstanding shares, a reverse split could result in a market price for the shares that would be high enough to overcome the reluctance, policies and practices of brokers and investors referred to above and to diminish the adverse impact of trading commissions on the market for the shares.

There can be no assurances, however, that if a reverse split were implemented, the foregoing events would occur, or that the market price of the Company's Common Stock immediately after such a reverse split would be maintained for any period of time. Moreover, there can be no assurance that the market price of the Company's Common Stock after a reverse split would adjust to reflect the conversion ratio (e.g., if the market price is \$1.50 before a reverse split and the ratio is one (1) share for every five (5) shares outstanding there can be no assurance that the market price for such share immediately after the reverse split would be \$7.50 (5 x \$1.50)); or that the market price following a reverse split would either exceed or remain in excess of the then current market price.

Principal Effects of the Proposed 1-for-5 Reverse Split

If the proposed 1-for-5 reverse stock split is approved at the 2004 Meeting and the Board of Directors subsequently determines that a reverse stock split is appropriate and in the best interests of the Company and its stockholders, and elects to effect the 1-for-5 reverse stock split, each outstanding share of the Company's Common Stock would immediately and automatically be changed, as of the effective date of the Amendment, into one fifth of a share of the Company's Common Stock and the number of shares of the Company's Common Stock subject to outstanding options issued by the Company would be reduced by a factor of five and the respective exercise prices would be increased by a factor of five.

No fractional shares of the Company's Common Stock would be issued by the Company in connection with a reverse split. Holders of the Company's Common Stock who would otherwise receive a fractional share of the Company's Common Stock pursuant to the reverse split would receive cash in lieu of the fractional share as explained more fully below.

The par value of the Company's Common Stock would remain unchanged at \$.01 per share, and the number of authorized shares of the Company's Common Stock would remain unchanged.

If the reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, the Board of Directors would fix a record date for the determination of shares subject to the reverse split. As of October 22, 2004, the record date for the 2004 Meeting, there were [] shares of the Company's Common Stock issued and outstanding. If additional shares of the Company's Common Stock are issued or redeemed prior to the effective date of the reverse split, the actual number of shares issued and outstanding before and after the reverse split would increase or decrease accordingly.

Because the reverse split would apply to all issued and outstanding shares of the Company's Common Stock and outstanding rights to purchase the Company's Common Stock or to convert other securities into the Company's Common Stock, the proposed reverse split would not alter the relative rights and preferences of existing stockholders. The reverse split would, however, effectively increase the number of shares of the Company's Common Stock available for future issuances by the Board of Directors.

If the proposed reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, some stockholders may consequently own less than one hundred shares of the Company's Common Stock. A purchase or sale of less than one hundred shares (an odd lot transaction) may result in incrementally higher trading costs through certain brokers, particularly full service brokers. Therefore, those stockholders who own less than one hundred shares following implementation of a reverse split may be required to pay higher transaction costs should they subsequently determine to sell their shares of Common Stock.

If a reverse split is approved by the requisite vote of the stockholders, stockholders have no right under Delaware law or the Company's Certificate of Incorporation or By-Laws to dissent from a reverse split or to dissent from the payment of cash in lieu of issuing fractional shares.

Cash Payment in Lieu of Fractional Shares

If the proposed reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, in lieu of any fractional shares to which a holder of the Company's Common Stock would otherwise be entitled as a result of such reverse split, the Company would pay cash equal to the fair value of the Company's Common Stock as determined by the Board of Directors at the effective time of the reverse split.

Federal Income Tax Consequences

The following description of the material federal income tax consequences of a reverse split is based on the Internal Revenue Code of 1986, as amended (the Code), applicable Treasury Regulations promulgated thereunder, judicial authority and current administrative rulings and practices as in effect on the date of this Proxy Statement. Changes to the laws could alter the tax consequences described below, possibly with retroactive effect. The Company has not sought and will not seek an opinion of counsel or a ruling from the Internal Revenue Service regarding the federal income tax consequences of a reverse split. This discussion is for general information only and does not discuss the tax consequences which may apply to special classes of taxpayers (e.g., non-resident aliens, broker/dealers or insurance companies). The state and local tax consequences of a reverse split may vary significantly as to each stockholder, depending upon the jurisdiction in which such stockholder resides. Stockholders are urged to consult their own tax advisors to determine the particular consequences to them.

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In general, the federal income tax consequences of a reverse split will vary among stockholders depending upon whether they receive cash for fractional shares or solely a reduced number of shares of the Company's Common Stock in exchange for their old shares of the Company's Common Stock. The Company believes that because a reverse split would not be part of a plan to increase periodically a stockholder's proportionate interest in the Company's assets or earnings and profits, the reverse split would likely have the following federal income tax effects:

A stockholder who receives solely a reduced number of shares of the Company's Common Stock would not recognize gain or loss. In the aggregate, such a stockholder's basis in the reduced number of shares of the Company's Common Stock would equal the stockholder's basis in its old shares of the Company's Common Stock.

A stockholder who receives cash in lieu of a fractional share as a result of the reverse split would generally be treated as having received the payment as a distribution in redemption of the fractional share, as provided in Section 302(a) of the Code, which distribution would be taxed as either a distribution under Section 301 of the Code or an exchange to such stockholder, depending on that stockholder's particular facts and circumstances. Generally, a stockholder receiving such a payment should recognize gain or loss equal to the difference, if any, between the amount of cash received and the stockholder's basis in the fractional share. In the aggregate, such a stockholder's basis in the reduced number of shares of the Company's Common Stock will equal the stockholder's basis in its old shares of the Company's Common Stock decreased by the basis allocated to the fractional share for which such stockholder is entitled to receive cash.

The Company would not recognize any gain or loss as a result of a reverse split.

Board Discretion to Implement the 1-for-5 Reverse Split

If the proposed 1-for-5 reverse split is approved at the 2004 Meeting, the Board of Directors may, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, at any time prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting, authorize the reverse split and file the Amendment with the Secretary of State of the State of Delaware. The form of Amendment is attached as Appendix I to this Proxy Statement. The determination by the Board of Directors to implement a reverse split of the Company's Common Stock would be based on a number of factors, including continuing to preserve the listing of the Company's Common Stock on the Nasdaq National Market, meeting listing requirements for other trading markets or exchanges, or for other reasons related to the Company's capital markets needs generally, including attracting institutional investors. If the Board of Directors determines to implement a reverse split of the Company's Common Stock, the ratio chosen by the Board of Directors from among those approved by the stockholders at the 2004 Meeting will depend on a number of factors, including market conditions, existing and expected trading prices for the Company's Common Stock and the likely effect of business developments on the market price for the Company's Common Stock. Notwithstanding approval of the reverse split at the 2004 Meeting, the Board of Directors may, in its discretion, determine not to implement the reverse split.

The Board of Directors recommends a vote FOR the proposal to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to effect a reverse stock split of the Company's Common Stock by a ratio of 1-for-5 at any time on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting, without further approval or authorization of the Company's stockholders.

PROPOSAL 4

TO AUTHORIZE THE BOARD OF DIRECTORS, IN ITS DISCRETION, SHOULD IT DEEM IT TO BE APPROPRIATE AND IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS, TO AMEND THE COMPANY'S CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF THE COMPANY'S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK BY A RATIO OF 1-FOR-10, WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY'S STOCKHOLDERS

Overview

For an overview of the reverse stock split proposals, see the caption entitled **Overview** in Proposal No. 3 above.

General

The Company's stockholders are being asked to approve four different reverse stock split proposals at the ratios of 1-for-5, 1-for-10, 1-for-15 and 1-for-20. If any or all of such proposals are approved, the Board of Directors may subsequently effect, in its discretion, one of the reverse stock splits in the event that it determines that such reverse stock split is appropriate and in the best interests of the Company and its stockholders. The Board of Directors has adopted resolutions, (i) declaring the advisability of each reverse stock split, subject to stockholder approval, (ii) in connection therewith, amending the Company's Certificate of Incorporation (the Amendment), to effect each reverse stock split, subject to stockholder approval, and (iii) authorizing any other action it deems necessary or appropriate to effect each reverse stock split, without further approval or authorization of the Company's stockholders, at any time on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting.

In Proposal No. 4, the Company's stockholders are being asked to authorize the Board of Directors, in its discretion, to amend the Company's Certificate of Incorporation to effect a 1-for-10 reverse stock split, without further approval or authorization of the Company's stockholders, at any time prior to the next annual meeting of stockholders.

If approved by the Company's stockholders, and the Board of Directors determines that a reverse stock split is appropriate and in the best interests of the Company and its stockholders, one of the four proposed reverse stock splits could become effective on any date selected by the Board of Directors on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting. The Board of Directors may only effect one of the proposed reverse stock splits. At the effective time of the Amendment, the other Amendment or Amendments approved by the stockholders would be deemed abandoned, without any further effect. Moreover, the Board of Directors reserves the right, even after stockholder approval, to forego effecting a reverse stock split if such action is determined not to be appropriate and in the best interests of the Company and its stockholders. If none of the reverse stock splits approved by the stockholders is subsequently implemented by the Board of Directors and effected by the date of the next annual meeting of stockholders following the 2004 Meeting, all such proposals will be deemed abandoned, without any further effect. In such case, the Board of Directors may again seek stockholder approval at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

Contingent on approval of this proposal by the requisite vote of the Company's stockholders and thereafter implementation by the Board of Directors and filing of the Amendment with the Secretary of State of the State of Delaware, the 1-for-10 reverse stock split would be effective in accordance with the Amendment.

Reasons for the Proposed Reverse Split

For a discussion of the reasons underlying the Company's decision to seek approval for the reverse split, see the caption entitled "Reasons for the Reverse Split" in Proposal No. 3 above.

Principal Effects of the Proposed 1-for-10 Reverse Split

If the proposed 1-for-10 reverse stock split is approved at the 2004 Meeting and the Board of Directors subsequently determines that a reverse stock split is appropriate and in the best interests of the Company and its stockholders, and elects to effect the 1-for-10 reverse stock split, each outstanding share of the Company's Common Stock would immediately and automatically be changed, as of the effective date of the Amendment, into one tenth of a share of the Company's Common Stock and the number of shares of the Company's Common Stock subject to outstanding options issued by the Company would be reduced by a factor of ten and the respective exercise prices would be increased by a factor

of ten.

No fractional shares of the Company's Common Stock would be issued by the Company in connection with a reverse split. Holders of the Company's Common Stock who would otherwise receive a fractional share of the

Company's Common Stock pursuant to the reverse split would receive cash in lieu of the fractional share as explained more fully below.

The par value of the Company's Common Stock would remain unchanged at \$.01 per share, and the number of authorized shares of the Company's Common Stock would remain unchanged.

If the reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, the Board of Directors would fix a record date for the determination of shares subject to the reverse split. As of October 22, 2004, the record date for the 2004 Meeting, there were [] shares of the Company's Common Stock issued and outstanding. If additional shares of the Company's Common Stock are issued or redeemed prior to the effective date of the reverse split, the actual number of shares issued and outstanding before and after the reverse split would increase or decrease accordingly.

Because the reverse split would apply to all issued and outstanding shares of the Company's Common Stock and outstanding rights to purchase the Company's Common Stock or to convert other securities into the Company's Common Stock, the proposed reverse split would not alter the relative rights and preferences of existing stockholders. The reverse split would, however, effectively increase the number of shares of the Company's Common Stock available for future issuances by the Board of Directors.

If the proposed reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, some stockholders may consequently own less than one hundred shares of the Company's Common Stock. A purchase or sale of less than one hundred shares (an odd lot transaction) may result in incrementally higher trading costs through certain brokers, particularly full service brokers. Therefore, those stockholders who own less than one hundred shares following implementation of a reverse split may be required to pay higher transaction costs should they subsequently determine to sell their shares of Common Stock.

If a reverse split is approved by the requisite vote of the stockholders, stockholders have no right under Delaware law or the Company's Certificate of Incorporation or By-Laws to dissent from a reverse split or to dissent from the payment of cash in lieu of issuing fractional shares.

Cash Payment in Lieu of Fractional Shares

If the proposed reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, in lieu of any fractional shares to which a holder of the Company's Common Stock would otherwise be entitled as a result of such reverse split, the Company would pay cash equal to the fair value of the Company's Common Stock as determined by the Board of Directors at the effective time of the reverse split.

Federal Income Tax Consequences

For a discussion of the federal income tax consequences of the reverse split, see the caption entitled "Federal Income Tax Consequences" in Proposal No. 3 above.

Board Discretion to Implement the 1-for-10 Reverse Split

If the proposed 1-for-10 reverse split is approved at the 2004 Meeting, the Board of Directors may, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, at any time prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting, authorize the reverse split and file the Amendment with the Secretary of State of the State of Delaware. The form of Amendment is attached as Appendix II to this Proxy Statement. The determination by the Board of Directors to implement a reverse split of the Company's Common Stock would be based on a number of factors, including continuing to preserve the listing of the Company's Common Stock on the Nasdaq National Market, meeting listing requirements for other trading markets or exchanges, or for other reasons related to the Company's capital markets needs generally, including attracting institutional investors. If the Board of Directors determines to implement the reverse split of the Company's Common Stock, the ratio chosen by the Board of Directors from

among those approved by the stockholders at the 2004 Meeting will depend on a number of factors, including market conditions, existing and expected trading prices for the Company's Common Stock and the likely effect of business developments on the market price for the Company's Common Stock. Notwithstanding approval of the reverse split at the 2004 Meeting, the Board of Directors may, in its discretion, determine not to implement the reverse split.

The Board of Directors recommends a vote FOR the proposal to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to effect a reverse stock split of the Company's Common Stock by a ratio of 1-for-10 at any time on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting, without further approval or authorization of the Company's stockholders.

PROPOSAL 5

TO AUTHORIZE THE BOARD OF DIRECTORS, IN ITS DISCRETION, SHOULD IT DEEM IT TO BE APPROPRIATE AND IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS, TO AMEND THE COMPANY'S CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF THE COMPANY'S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK BY A RATIO OF 1-FOR-15, WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY'S STOCKHOLDERS

Overview

For an overview of the reverse stock split proposals, see the caption entitled "Overview" in Proposal No. 3 above.

General

The Company's stockholders are being asked to approve four different reverse stock split proposals at the ratios of 1-for-5, 1-for-10, 1-for-15 and 1-for-20. If any or all of such proposals are approved, the Board of Directors may subsequently effect, in its discretion, one of the reverse stock splits in the event that it determines that such reverse stock split is appropriate and in the best interests of the Company and its stockholders. The Board of Directors has adopted resolutions, (i) declaring the advisability of each reverse stock split, subject to stockholder approval, (ii) in connection therewith, amending the Company's Certificate of Incorporation (the "Amendment"), to effect each reverse stock split, subject to stockholder approval, and (iii) authorizing any other action it deems necessary or appropriate to effect each reverse stock split, without further approval or authorization of the Company's stockholders, at any time on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting.

In Proposal No. 5, the Company's stockholders are being asked to authorize the Board of Directors, in its discretion, to amend the Company's Certificate of Incorporation to effect a 1-for-15 reverse stock split, without further approval or authorization of the Company's stockholders, at any time prior to the next annual meeting of stockholders.

If approved by the Company's stockholders, and the Board of Directors determines that a reverse stock split is appropriate and in the best interests of the Company and its stockholders, one of the four proposed reverse stock splits could become effective on any date selected by the Board of Directors on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting. The Board of

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Directors may only effect one of the proposed reverse stock splits. At the effective time of the Amendment, the other Amendment or Amendments approved by the stockholders would be deemed abandoned, without any further effect. Moreover, the Board of Directors reserves the right, even after stockholder approval, to forego effecting a reverse stock split if such action is determined not to be appropriate and in the best interests of the Company and its stockholders. If none of the reverse stock splits approved by the stockholders is subsequently implemented by the Board of

Directors and effected by the date of the next annual meeting of stockholders following the 2004 Meeting, all such proposals will be deemed abandoned, without any further effect. In such case, the Board of Directors may again seek stockholder approval at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

Contingent on approval of this proposal by the requisite vote of the Company's stockholders and thereafter implementation by the Board of Directors and filing of the Amendment with the Secretary of State of the State of Delaware, the 1-for-15 reverse stock split would be effective in accordance with the Amendment.

Reasons for the Proposed Reverse Split

For a discussion of the reasons underlying the Company's decision to seek approval for the reverse split, see the caption entitled "Reasons for the Reverse Split" in Proposal No. 3 above.

Principal Effects of the Proposed 1-for-15 Reverse Split

If the proposed 1-for-15 reverse stock split is approved at the 2004 Meeting and the Board of Directors subsequently determines that a reverse stock split is appropriate and in the best interests of the Company and its stockholders, and elects to effect the 1-for-15 reverse stock split, each outstanding share of the Company's Common Stock would immediately and automatically be changed, as of the effective date of the Amendment, into one fifteenth of a share of the Company's Common Stock and the number of shares of the Company's Common Stock subject to outstanding options issued by the Company would be reduced by a factor of 15 and the respective exercise prices would be increased by a factor of 15.

No fractional shares of the Company's Common Stock would be issued by the Company in connection with a reverse split. Holders of the Company's Common Stock who would otherwise receive a fractional share of the Company's Common Stock pursuant to the reverse split would receive cash in lieu of the fractional share as explained more fully below.

The par value of the Company's Common Stock would remain unchanged at \$.01 per share, and the number of authorized shares of the Company's Common Stock would remain unchanged.

If the reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, the Board of Directors would fix a record date for the determination of shares subject to the reverse split. As of October 22, 2004, the record date for the 2004 Meeting, there were [] shares of the Company's Common Stock issued and outstanding. If additional shares of the Company's Common Stock are issued or redeemed prior to the effective date of the reverse split, the actual number of shares issued and outstanding before and after the reverse split would increase or decrease accordingly.

Because the reverse split would apply to all issued and outstanding shares of the Company's Common Stock and outstanding rights to purchase the Company's Common Stock or to convert other securities into the Company's Common Stock, the proposed reverse split would not alter the relative rights and preferences of existing stockholders. The reverse split would, however, effectively increase the number of shares of the Company's Common Stock available for future issuances by the Board of Directors.

If the proposed reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, some stockholders may consequently own less than one hundred shares of the Company's Common Stock. A purchase or sale of less than one hundred shares (an odd lot transaction) may result in incrementally higher trading costs through certain brokers, particularly full service brokers. Therefore, those stockholders who own less than one hundred shares following implementation of a reverse split may be required to pay higher transaction costs should they subsequently determine to sell their shares of Common Stock.

If a reverse split is approved by the requisite vote of the stockholders, stockholders have no right under Delaware law or the Company's Certificate of Incorporation or By-Laws to dissent from a reverse split or to dissent from the payment of cash in lieu of issuing fractional shares.

Cash Payment in Lieu of Fractional Shares

If the proposed reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, in lieu of any fractional shares to which a holder of the Company's Common Stock would otherwise be entitled as a result of such reverse split, the Company would pay cash equal to the fair value of the Company's Common Stock as determined by the Board of Directors at the effective time of the reverse split.

Federal Income Tax Consequences

For a discussion of the federal income tax consequences of the reverse split, see the caption entitled "Federal Income Tax Consequences" in Proposal No. 3 above.

Board Discretion to Implement the 1-for-15 Reverse Split

If the proposed 1-for-15 reverse split is approved at the 2004 Meeting, the Board of Directors may, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, at any time prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting, authorize the reverse split and file the Amendment with the Secretary of State of the State of Delaware. The form of Amendment is attached as Appendix III to this Proxy Statement. The determination by the Board of Directors to implement a reverse split of the Company's Common Stock would be based on a number of factors, including continuing to preserve the listing of the Company's Common Stock on the Nasdaq National Market, meeting listing requirements for other trading markets or exchanges, or for other reasons related to the Company's capital markets needs generally, including attracting institutional investors. If the Board of Directors determines to implement the reverse split of the Company's Common Stock, the ratio chosen by the Board of Directors from among those approved by the stockholders at the 2004 Meeting will depend on a number of factors, including market conditions, existing and expected trading prices for the Company's Common Stock and the likely effect of business developments on the market price for the Company's Common Stock. Notwithstanding approval of the reverse split at the 2004 Meeting, the Board of Directors may, in its discretion, determine not to implement the reverse split.

The Board of Directors recommends a vote FOR the proposal to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to effect a reverse stock split of the Company's Common Stock by a ratio of 1-for-15 at any time on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting, without further approval or authorization of the Company's stockholders.

PROPOSAL 6

TO AUTHORIZE THE BOARD OF DIRECTORS, IN ITS DISCRETION, SHOULD IT DEEM IT TO BE APPROPRIATE AND IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS, TO AMEND THE COMPANY'S CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF THE COMPANY'S ISSUED AND OUTSTANDING SHARES OF COMMON STOCK BY A RATIO OF 1-FOR-20, WITHOUT FURTHER APPROVAL OR AUTHORIZATION OF THE COMPANY'S STOCKHOLDERS

Overview

For an overview of the reverse stock split proposals, see the caption entitled "Overview" in Proposal No. 3 above.

General

The Company's stockholders are being asked to approve four different reverse stock split proposals at the ratios of 1-for-5, 1-for-10, 1-for-15 and 1-for-20. If any or all of such proposals are approved, the Board of

Directors may subsequently effect, in its discretion, one of the reverse stock splits in the event that it determines that such reverse stock split is appropriate and in the best interests of the Company and its stockholders. The Board of Directors has adopted resolutions, (i) declaring the advisability of each reverse stock split, subject to stockholder approval, (ii) in connection therewith, amending the Company's Certificate of Incorporation (the Amendment), to effect each reverse stock split, subject to stockholder approval, and (iii) authorizing any other action it deems necessary or appropriate to effect each reverse stock split, without further approval or authorization of the Company's stockholders, at any time on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting.

In Proposal No. 6, the Company's stockholders are being asked to authorize the Board of Directors, in its discretion, to amend the Company's Certificate of Incorporation to effect a 1-for-20 reverse stock split, without further approval or authorization of the Company's stockholders, at any time prior to the next annual meeting of stockholders.

If approved by the Company's stockholders, and the Board of Directors determines that a reverse stock split is appropriate and in the best interests of the Company and its stockholders, one of the four proposed reverse stock splits could become effective on any date selected by the Board of Directors on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting. The Board of Directors may only effect one of the proposed reverse stock splits. At the effective time of the Amendment, the other Amendment or Amendments approved by the stockholders would be deemed abandoned, without any further effect. Moreover, the Board of Directors reserves the right, even after stockholder approval, to forego effecting a reverse stock split if such action is determined not to be appropriate and in the best interests of the Company and its stockholders. If none of the reverse stock splits approved by the stockholders is subsequently implemented by the Board of Directors and effected by the date of the next annual meeting of stockholders following the 2004 Meeting, all such proposals will be deemed abandoned, without any further effect. In such case, the Board of Directors may again seek stockholder approval at a future date for a reverse stock split if it deems a reverse stock split to be advisable at that time.

Contingent on approval of this proposal by the requisite vote of the Company's stockholders and thereafter implementation by the Board of Directors and filing of the Amendment with the Secretary of State of the State of Delaware, the 1-for-20 reverse stock split would be effective in accordance with the Amendment.

Reasons for the Proposed Reverse Split

For a discussion of the reasons underlying the Company's decision to seek approval for the reverse split, see the caption entitled "Reasons for the Reverse Split" in Proposal No. 3 above.

Principal Effects of the Proposed 1-for-20 Reverse Split

If the proposed 1-for-20 reverse stock split is approved at the 2004 Meeting and the Board of Directors subsequently determines that a reverse stock split is appropriate and in the best interests of the Company and its stockholders, and elects to effect the 1-for-20 reverse stock split, each outstanding share of the Company's Common Stock would immediately and automatically be changed, as of the effective date of the Amendment, into one twentieth of a share of the Company's Common Stock and the number of shares of the Company's Common Stock subject to outstanding options issued by the Company would be reduced by a factor of 20 and the respective exercise prices would be increased by a factor of 20.

No fractional shares of the Company's Common Stock would be issued by the Company in connection with a reverse split. Holders of the Company's Common Stock who would otherwise receive a fractional share of the Company's Common Stock pursuant to the reverse split would

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receive cash in lieu of the fractional share as explained more fully below.

The par value of the Company's Common Stock would remain unchanged at \$.01 per share, and the number of authorized shares of the Company's Common Stock would remain unchanged.

If the reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, the Board of Directors would fix a record date for the determination of shares subject to the reverse split. As of October 22, 2004, the record date for the 2004 Meeting, there were [] shares of the Company's Common Stock issued and outstanding. If additional shares of the Company's Common Stock are issued or redeemed prior to the effective date of the reverse split, the actual number of shares issued and outstanding before and after the reverse split would increase or decrease accordingly.

Because the reverse split would apply to all issued and outstanding shares of the Company's Common Stock and outstanding rights to purchase the Company's Common Stock or to convert other securities into the Company's Common Stock, the proposed reverse split would not alter the relative rights and preferences of existing stockholders. The reverse split would, however, effectively increase the number of shares of the Company's Common Stock available for future issuances by the Board of Directors.

If the proposed reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, some stockholders may consequently own less than one hundred shares of the Company's Common Stock. A purchase or sale of less than one hundred shares (an odd lot transaction) may result in incrementally higher trading costs through certain brokers, particularly full service brokers. Therefore, those stockholders who own less than one hundred shares following implementation of a reverse split may be required to pay higher transaction costs should they subsequently determine to sell their shares of Common Stock.

If a reverse split is approved by the requisite vote of the stockholders, stockholders have no right under Delaware law or the Company's Certificate of Incorporation or By-Laws to dissent from a reverse split or to dissent from the payment of cash in lieu of issuing fractional shares.

Cash Payment in Lieu of Fractional Shares

If the proposed reverse split is approved at the 2004 Meeting and subsequently effected by the Board of Directors, in lieu of any fractional shares to which a holder of the Company's Common Stock would otherwise be entitled as a result of such reverse split, the Company would pay cash equal to the fair value of the Company's Common Stock as determined by the Board of Directors at the effective time of the reverse split.

Federal Income Tax Consequences

For a discussion of the federal income tax consequences of the reverse split, see the caption entitled "Federal Income Tax Consequences" in Proposal No. 3 above.

Board Discretion to Implement the 1-for-20 Reverse Split

If the proposed 1-for-20 reverse split is approved at the 2004 Meeting, the Board of Directors may, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, at any time prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting, authorize the reverse split and file the Amendment with the Secretary of State of the State of Delaware. The form of Amendment is attached as Appendix IV to this Proxy Statement. The determination by the Board of Directors to implement a reverse split of the Company's Common Stock would be based on a number of factors, including continuing to preserve the listing of the Company's Common Stock on the Nasdaq National Market, meeting listing requirements for other trading markets or exchanges, or for other reasons related to the Company's capital markets needs generally, including attracting institutional investors. If the Board of Directors

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determines to implement the reverse split of the Company's Common Stock, the ratio chosen by the Board of Directors from among those approved by the stockholders at the 2004 Meeting will depend on a number of factors, including market conditions, existing and expected trading prices for the Company's Common Stock and the likely effect of business developments on the market price for the Company's Common Stock. Notwithstanding approval of the reverse split at the 2004 Meeting, the Board of Directors may, in its discretion, determine not to implement the reverse split.

The Board of Directors recommends a vote FOR the proposal to authorize the Board of Directors, in its discretion, should it deem it to be appropriate and in the best interests of the Company and its stockholders, to effect a reverse stock split of the Company's Common Stock by a ratio of 1-for-20 at any time on or prior to the date of the Company's next annual meeting of stockholders following the 2004 Meeting, without further approval or authorization of the Company's stockholders.

PROPOSAL 7

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed KPMG LLP, independent registered public accounting firm, to audit the Company's consolidated financial statements for the fiscal year ending July 31, 2005, and recommends that the stockholders vote for ratification of such appointment. If the stockholders do not ratify the selection of KPMG as the Company's independent registered public accounting firm, the appointment will be reconsidered by the Audit Committee. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the Company's and its stockholders' best interests. A representative of KPMG, which served as the Company's independent registered public accounting firm in fiscal 2004, is expected to be present at the Annual Meeting to be available to respond to appropriate questions from stockholders and to make a statement if he or she desires to do so.

The Board of Directors recommends that the stockholders vote FOR the ratification of KPMG LLP to serve as the Company's independent registered public accounting firm for the current fiscal year.

ADDITIONAL INFORMATION
Management

Officers are elected annually by the Board and serve at the discretion of the Board. Set forth below is information regarding the current executive officers of the Company.

<u>Name</u>	<u>Age</u>	<u>Position</u>
David S. Wetherell	50	Chairman of the Board of Directors and Secretary
Joseph C. Lawler	54	President and Chief Executive Officer
Thomas Oberdorf	47	Chief Financial Officer and Treasurer
Peter L. Gray	36	Executive Vice President and General Counsel
Daniel F. Beck	47	President of the Americas Operations, ModusLink Corporation
Patrick Ring	38	Senior Vice President of Sales and Marketing, ModusLink Corporation
W. Kendale Southerland	42	President of Asia-Pacific Operations, ModusLink Corporation
Rudolph J. Westerbos	40	President of Europe Operations, ModusLink Corporation

David S. Wetherell has served as Chairman of the Board and Secretary of the Company since 1986. From 1986 to March 2002, Mr. Wetherell served as Chief Executive Officer of the Company. From 1986 to July 2001, Mr. Wetherell also served as President of the Company.

Joseph C. Lawler became President and Chief Executive Officer of the Company in August 2004. Mr. Lawler is also President and Chief Executive Officer of ModusLink and Chief Executive Officer of SalesLink. From 1995 to March 2004, Mr. Lawler served in various positions with R.R. Donnelley & Sons Company, a provider of full-service global print solutions, most recently as Executive Vice President. While at R.R. Donnelley, Mr. Lawler had management responsibilities for logistics, financial, direct mail and international operations.

Thomas Oberdorf has served as Chief Financial Officer and Treasurer of the Company since March 2002. Mr. Oberdorf has also served as Chief Financial Officer and Treasurer of ModusLink since August 2004. Mr. Oberdorf has also served as Chief Financial Officer and Treasurer of SalesLink since July 2003. From November 2001 to March 2002, Mr. Oberdorf served as a consultant to the Company. From February 1999 to October 2001, Mr. Oberdorf served as the Chief Financial Officer of BMG Direct, a unit of Bertelsmann AG consisting of BMG Music Service and CDNOW. From January 1981 to January 1999, Mr. Oberdorf served in various roles at Reader's Digest Association, Inc., concluding with Vice President, Finance for the Global Books & Home Entertainment Group.

Peter L. Gray has served as Executive Vice President and General Counsel of the Company since March 2002. Mr. Gray has also served as Executive Vice President, General Counsel and Secretary of ModusLink since August 2004. Mr. Gray has also served as Secretary of SalesLink since July 2003. Mr. Gray served as Vice President and Assistant General Counsel of the Company from December 2000 to March 2002 and Associate General Counsel of the Company from June 1999 to December 2000. Mr. Gray served as Assistant General Counsel of Cambridge Technology Partners (Massachusetts), Inc. from February 1999 to June 1999. From September 1993 to January 1999, Mr. Gray was an attorney at Hale and Dorr LLP, where he was elected a junior partner in May 1998.

Daniel F. Beck has served as President of the Americas Operations of ModusLink since August 2004. From November 2001 to August 2004, Mr. Beck served as President, Americas of Modus Media International, Inc., a global provider of supply chain management solutions which was acquired by the Company in August 2004 and renamed ModusLink. From March 2001 to November 2001, Mr. Beck served as Senior Vice

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President, Organizational Effectiveness of Modus Media International, Inc. From 2000 to 2001, Mr. Beck served as Senior Vice President, Global Accounts of Modus Media International, Inc. From 1998 to 2000, Mr. Beck served as Senior Vice President, Operations of Modus Media International, Inc.

Patrick Ring has served as Senior Vice President of Sales and Marketing of ModusLink since August 2004. From November 2003 to August 2004, Mr. Ring served as Senior Vice President of Sales for SalesLink. From 1999 through November 2003, Mr. Ring served as Vice President of Worldwide Sales and Marketing of the Global Turnkey Group of Banta Corporation, a provider of printing and supply chain management solutions. From 1997 to 1999, Mr. Ring served as Vice President of US Sales and Marketing of the Global Turnkey Group of Banta.

W. Kendale Southerland has served as President of Asia-Pacific Operations of ModusLink since August 2004. From September 2001 to August 2004, Mr. Southerland served as President, Asia Pacific of Modus Media International, Inc. From September 2000 to September 2001, Mr. Southerland served as a member of the Board of Directors of Mattress Firm, Inc., a specialty bedding retailer. From June 1999 to September 2000, Mr. Southerland served as Senior Vice President, Global Sales and Marketing of Modus Media International, Inc.

Rudolph J. Westerbos has served as President of Europe Operations of ModusLink since August 2004. From July 2002 to August 2004, Mr. Westerbos served as Senior Vice President and Managing Director of Europe and Asia of SalesLink. From March 2001 to July 2002, Mr. Westerbos served as Vice President, Sales and Marketing and Chief Information Officer of Software Logistics Corporation d/b/a iLogistix, a global provider of supply chain management solutions which was acquired by the Company in July 2002. From December 1999 to December 2001, Mr. Westerbos served as Vice President, eBusiness Solutions for iLogistix.

There are no family relationships between any director, executive officer or person nominated or chosen by the Company to become a director or executive officer of the Company.

Director Compensation

All of the directors of the Company receive reimbursement of expenses incurred with respect to attendance at meetings of the Board of Directors and meetings of committees thereof.

The Board of Directors has adopted a Director Compensation Plan pursuant to which all directors are eligible to participate, other than any director who (i) is an employee of the Company or any of its subsidiaries or affiliates or (ii) unless otherwise determined by the Board, is an affiliate, employee or designee of an institutional or corporate investor in the Company (an *Affiliated Director*). Pursuant to the Director Compensation Plan, each participating director who is serving as a director on the last day of any fiscal quarter shall receive a payment for such quarter of \$12,500. Each participating director who is serving as the chairperson of a committee of the Board of Directors on the last day of any fiscal quarter shall receive a payment of \$1,250, provided, however, that the chairperson of the Audit Committee on the last day of any fiscal quarter shall receive a payment of \$2,500. Each participating director who attends a telephonic meeting of the Board of Directors or a committee thereof shall receive a meeting fee of \$500. Each participating director who attends a meeting of the Board of Directors or a committee thereof, where a majority of the directors attend such meeting in person, shall receive a meeting fee of \$1,000.

Each of the directors has entered into an Indemnification Agreement with the Company providing that the Company shall indemnify the director to the fullest extent authorized or permitted by applicable law in the event that the director is involved in any threatened, pending or completed action, suit or proceeding, or any inquiry or investigation, whether brought by or in the right of the Company or by any other party and whether of a civil, criminal, administrative or investigative nature, by reason of the fact that the director is or was a director of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all expenses, judgments, fines and penalties, provided that the director shall not have been finally adjudged to have engaged in willful misconduct or to have acted in a manner which was knowingly fraudulent or deliberately dishonest, or had reasonable cause to believe that his or her conduct was unlawful.

1999 Stock Option Plan for Non-Employee Directors

All directors of the Company are eligible to receive non-statutory stock options to purchase shares of Common Stock under the Company's 1999 Stock Option Plan for Non-Employee Directors, as amended (the "Director Plan"), except for any Affiliated Director.

Each eligible director who is elected to the Board for the first time will be granted an option to acquire 200,000 shares of Common Stock (the "Initial Option"). Each Affiliated Director who ceases to be an Affiliated Director will be granted, on the date such director ceases to be an Affiliated Director but remains as a member of the Board of Directors, an Initial Option to acquire 200,000 shares of Common Stock under the Director Plan. Each Initial Option will vest and become exercisable as to $\frac{1}{36}$ th of the number of shares of Common Stock originally subject to the option on each monthly anniversary of the date of grant, provided that the optionee serves as a director on such monthly anniversary date.

On each anniversary of the grant of the Initial Option, each eligible director will automatically be granted an option to purchase 24,000 shares of Common Stock (an "Annual Option"), provided that such eligible director serves as a director on the applicable anniversary date. Each Annual Option granted prior to March 12, 2003 shall vest and become exercisable as to $\frac{1}{12}$ th of the number of shares originally subject to the option on each monthly anniversary date of the date of grant commencing on the 37th monthly anniversary date of the date of grant of such Annual Option, provided that the optionee serves as a director on such monthly anniversary date. Each Annual Option granted on or after March 12, 2003 shall vest and become exercisable as to $\frac{1}{36}$ th of the number of shares originally subject to the option on each monthly anniversary date of the date of grant of such Annual Option, provided that the optionee serves as a director on such monthly anniversary date.

The option exercise price per share for each option granted under the Director Plan shall equal the closing price of the Common Stock on the date of grant. Except as otherwise provided in the applicable option agreement, each option granted under the Director Plan shall terminate, and may no longer be exercised, on the date ten years after the date of grant of such option.

During fiscal 2004, the following stock options were granted under the Director Plan:

<u>Director Name</u>	<u>Date of Grant</u>	<u>Type of Option</u>	<u>Number of Shares</u>	<u>Exercise Price</u>
Anthony J. Bay	September 9, 2003	Annual	24,000	\$ 1.76
Francis J. Jules	February 3, 2004	Annual	24,000	\$ 2.68
Virginia G. Bonker	April 30, 2004	Annual	24,000	\$ 1.73
Michael J. Mardy	May 15, 2004	Annual	24,000	\$ 1.80
Jonathan A. Kraft	July 26, 2004	Annual	24,000	\$ 1.35

Executive Compensation*Summary Compensation*

The following table provides certain summary information with respect to the compensation earned by each of the Named Executive Officers for the fiscal years ended July 31, 2004, 2003 and 2002:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary(\$)	Bonus(\$)	Other Annual Compensation (\$)(1)	Awards		
					Restricted Stock Awards\$(2)	Securities Underlying CMGI Options	All Other Compensation \$(3)
George A. McMillan(4)	2004	501,923			222,600	270,000	6,176
Former President and Chief Executive Officer	2003	501,923	285,000				1,923
	2002	442,436	495,000			2,750,000	
Thomas Oberdorf	2004	326,250	100,000		159,000	170,000	1,750
Chief Financial Officer and Treasurer	2003	326,250	140,000				1,750
	2002	135,000	45,000	149,912(5)		750,000	114,500(6)
Peter L. Gray	2004	225,875	70,000		127,200	140,000	2,702
Executive Vice President and General Counsel	2003	225,673	100,000				2,596
	2002	190,257	132,500(7)			450,000	3,262
Bryce C. Boothby, Jr.(8)	2004	301,154	37,500		159,000	170,000	4,000
President of Global Supply Base Management, ModusLink Corporation	2003	300,616	84,750				5,859

- (1) In accordance with the rules of the Securities and Exchange Commission, certain other annual compensation in the form of perquisites and other personal benefits has been omitted in those instances where the aggregate amount of such perquisites and other personal benefits constituted less than the lesser of \$50,000 or 10% of the total of annual salary and bonus for the Named Executive Officer for such year.
- (2) Restricted Stock Awards represent grants of Common Stock issued under the Company's 2000 Stock Incentive Plan. The dollar value of each award is based on the closing market price of the Company's Common Stock on the date of grant. Each award vests in three equal installments on the first three anniversaries of the date of grant. Holders of shares of restricted stock are entitled to the same dividends as those paid to holders of unrestricted shares, if any. The following table presents the number of shares of restricted stock issued to each Named Executive Officer in fiscal 2004, the aggregate restricted stock holdings of each Named Executive Officer as of July 31, 2004 and the value of such holdings based on the closing market price of the Company's Common Stock on such date.

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<u>Name</u>	<u>Number of Shares of Restricted Stock Granted in Fiscal 2004</u>	<u>Restricted Stock Holdings at July 31, 2004</u>	
		<u>Number of Shares</u>	<u>Value(\$)</u>
George A. McMillan	140,000	140,000	193,200
Thomas Oberdorf	100,000	100,000	138,000
Peter L. Gray	80,000	80,000	110,400
Bryce C. Boothby, Jr.	100,000	100,000	138,000

(3) Except as otherwise noted, amounts set forth in this column represent employer 401(k) plan matching cash contributions.

- (4) Mr. McMillan ceased being an executive officer of the Company in August 2004. In connection with Mr. McMillan's resignation as President and Chief Executive Officer and as a member of the Board of Directors of the Company in August 2004, among other things, the Company made a severance payment to Mr. McMillan of \$962,000, representing 12 months of base salary, current target bonus and automobile allowance. See Employment Agreements and Severance and Change of Control Arrangements.
- (5) Amount represents certain relocation expenses paid by the Company.
- (6) Of this amount, \$113,000 represents compensation paid by the Company to Mr. Oberdorf for consulting services prior to his employment with the Company and \$1,500 represents employer 401(k) plan matching cash contributions.
- (7) Of this amount, \$100,000 represents a bonus paid pursuant to a retention agreement between the Company and Mr. Gray and \$32,500 represents a discretionary bonus awarded to Mr. Gray by the Human Resources and Compensation Committee.
- (8) During fiscal 2002, Mr. Boothby was not an executive officer of the Company.

Option/SAR Grants In Fiscal Year 2004

The following table sets forth information concerning grants of options to purchase shares of Common Stock made to each Named Executive Officer during fiscal 2004. No stock appreciation rights were granted during fiscal 2004.

OPTION GRANTS IN LAST FISCAL YEAR

Individual Grants				
Number Of Securities Underlying Options Granted	Percentage Of Total Options Granted To Employees In Fiscal 2004(%)	Exercise Price Per Share\$(1)	Expiration Date	Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term\$(2)