MEDIAPLEX

ADVERTISING TECHNOLOGY

1999 ANNUAL REPORT

F I N A N C I A L   H I G H L I G H T S

(Dollars in thousands except per share amounts and employees)

Years Ended December 31,	**1999**	1998	1997
Revenues	**$26,405**	$3,588	$426
Operating loss before special charges [1]	**$(9,701)**	$(1,442)	$(1,106)
Loss per share before special charges [1]	**$(0.63)**	$(0.18)	$(0.13)
Shares outstanding (millions)	**31.7**	7.0	11.3
Weighted average common shares (millions)	**15.4**	8.2	8.5
Total assets	**$103,442**	$1,444	$262
Number of employees	**140**	19	19

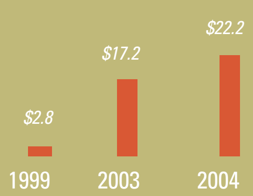
(1) Special charges include: (a) amortization of goodwill and intangibles, (b) stock-based compensation, and (c) beneficial conversation features of Series C convertible preferred stock.

Quarter Ended

Dec. 31, 1999	Sept. 30, 1999	June 30, 1999	Mar. 31, 1999	Total
$12,464	$6,618	$5,689	$1,634	$26,405

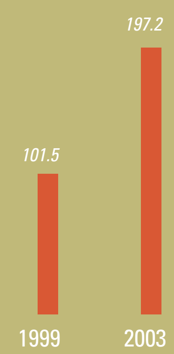
I N D U S T R Y   H I G H L I G H T S

The rapid growth in the online population and e-commerce spending has established the Internet as a major advertising medium.



U.S. Online Advertising Spending [2]
In Billions

U.S. Online Spending [3]
In Billions



U.S. Online Users [3]
In Millions

Estimated projections provided by
(2) Forrester Research, Inc., 1999
(3) IDC ICMM v6.1, 2000

OUR COMPANY

Technology that's Changing the Way Businesses Advertise

We believe that the 1999 roll-out of our proprietary MOJO™ (mobile Java objects) message management technology will position Mediaplex as one of the online advertising world's key technology providers. Through MOJO, Mediaplex offers advertisers the ability to deliver real-time online advertising that is integrated with a company's up-to-the-minute business data.

MOJO's ad-serving architecture can automatically configure ad messages in response to changes in an advertiser's key commercial business variables, such as inventory levels, product pricing and customer data, then can communicate the campaign results back for ongoing optimization.

Furthermore, because the technology is not Web-based, we believe Mediaplex's MOJO architecture is well-suited for advertising campaigns across a broad range of digital platforms beyond the Internet. We intend to expand our real-time messaging capabilities to interactive television, wireless applications such as cellular phones and personal digital assistants, and electronic outdoor billboards.

In addition, Mediaplex offers a wide array of campaign management services, including media planning, buying, ad serving, tracking, reporting, return-on-investment analysis, and campaign optimization. Mediaplex message management capabilities include its enterprise integration product, as well as messaging options that do not require full integration.

In November 1999, Mediaplex raised $84 million through an initial public offering, and has continued to build momentum by developing partnerships with strategic advertising agencies and holding companies, including The Interpublic Group of Companies, Young & Rubicam Inc., and Publicis & Hal Riney, as well as technology partners such as Ariba, SAP Labs, and Icon Medialab. In 1999 and in the first quarter of 2000, we provided services to market-leading companies such as DATEK Online, Sprint PCS, Silicon Graphics, ShopMattel.com, OfficeMax.com, macys.com, Sun Microsystems, eCOST.com, and many others.

1999 was also a year of significant internal growth for Mediaplex. The number of our employees increased to 140, and we opened our first international office in Hamburg, Germany. We have plans for future European and Pacific Rim expansion in 2000, including new offices in London, Paris, Tokyo and beyond. Today, in addition to its headquarters in San Francisco, Mediaplex maintains offices in the Silicon Valley, New York City and Hamburg.

Mediaplex common stock is traded on The Nasdaq Stock Market's National Market under the symbol MPLX. You can find more information about us at www.mediaplex.com

TO OUR STOCKHOLDERS

1999 was a year of critical advancement for Mediaplex in its efforts to establish itself in the rapidly expanding marketplace for online advertising and messaging services. This marketplace is growing at a very rapid rate, and holds remarkable potential for companies with the vision, drive and technology to aggressively address it.

A Rapidly Emerging Market

In a 1999 report, Forrester Research predicted that U.S. online advertising expenditures would increase from $2.8 billion in 1999 to more than $22 billion domestically and $33 billion worldwide by 2004. A recent Internet Ad Revenue Report, conducted independently by PricewaterhouseCoopers for the Internet Advertising Bureau, stated that 1999 revenues totaled $4.62 billion. We believe this divergence between actual spending versus original expectations illustrates the rapid adoption of the Internet as a major advertising medium. In addition, research by International Data Corporation projects that growth will be spurred by a doubling of the U.S. online population to 197.2 million people, and a nine-fold increase in e-commerce spending to $726 billion by 2003.

Mediaplex addressed this market opportunity by significantly expanding and diversifying our customer base and product offerings during the last year. In 1999, we also continued to broaden the foundation of our industry alliances through advertising agency and technology partnerships. Mediaplex's initial public offering has given us the resources to extend our market reach, and pursue important infrastructure-building activities in order to support the rapid growth necessary to become a market leader.

Strong Growth in Key Indicators

For the year ended December 31, 1999, Mediaplex reported revenues of $26.4 million, an increase of 636% compared to revenues of $3.6 million in the previous year. Net loss for 1999, excluding special charges related to stock-based compensation and amortization of goodwill, was on target at $0.63 per share, compared to a net loss of $0.18 per share in 1998. The inclusion of these special charges resulted in a net loss of $2.34 per share for 1999.

Another key indicator of strong growth during the year was a 72% increase in the average annual revenue from our top 20 clients, which grew from $180,000 in 1998 to $310,000 in 1999. In addition, while we focused on building our customer base and revenue stream, we also increased overall gross margins to 23% in 1999, reflecting heightened interest in our higher-margin MOJO technology services.

Photo (left to right) Gregory R. Raifman, Jon Logan Edwards and Walter Haefeker

Mediaplex ended the year with a cash, cash equivalents and short-term investment balance of $88 million, up significantly from a balance of $375,000 at the close of the previous year. This increase is largely attributable to Mediaplex's initial public offering, completed in November 1999 and underwritten by Lehman Brothers Inc., SG Cowen Securities Corporation, U.S. Bancorp Piper Jaffray Inc., and Fidelity Capital Markets.

A Market for MOJO™

The Internet is profoundly affecting the way business is conducted all over the world. Industry and financial analysts forecast tremendous growth opportunities for both the business-to-consumer (B2C) and business-to-business (B2B) e-commerce markets. To capitalize on this growth, we believe that Internet advertising must be increasingly customized and targeted, without invading or compromising the privacy of Web customers.

To take advantage of these opportunities, in 1999 we introduced our proprietary MOJO (mobile Java objects) technology. MOJO is designed to provide clients with a powerful platform to increase sales and expand their markets, giving them the ability to automatically modify their online advertising messages and offers based on changes in their business variables. We believe that MOJO is the only technology available today that enables companies to integrate real-time advertising on the "front end"—the online interface with their customers—with real-time business data contained at the "back end" of a company's information infrastructure, such as pricing and inventory. We believe that this first-to-market advantage will give Mediaplex a tremendous lead in the rapidly emerging e-marketplace.

In addition, MOJO was engineered "from the ground up" to be compliant with stringent privacy policies. Because MOJO focuses on the advertiser's business data rather than relying exclusively on an Internet user's specific profile, Mediaplex does not maintain, share or sell any personally identifiable data or anonymous user profile information. We believe this is a key advantage during an era in which customer accessibility needs to be balanced with sensitivity toward privacy issues.

The Power of Partnerships

In 1999, Mediaplex signed a wide range of corporate clients in diverse vertical markets and added to our large number of partnerships with some of the world's largest advertising agencies and holding companies. We have also developed strategic relationships with complementary technology and service providers to extend development efforts in the United States, Europe and Asia.

In addition, Mediaplex spearheaded the adXML.org initiative, an industry effort designed to establish a global open-communications language for automating transactions between business sectors within the advertising industry. By the first quarter of 2000, more than 90 companies across all major online and offline media markets were actively participating members of the adXML.org initiative.

Looking Ahead

In the coming year, Mediaplex stands poised to become the industry platform in delivering real-time customized messaging for advertisers. We believe that we are now in the position to leverage our unique core competencies at a time when the need for real-time advertising solutions grows at an unprecedented pace. We would like to thank stockholders, clients, partners and employees alike for their enthusiastic support in 1999 and, in closing, we believe an exciting year of growth lies ahead.

Gregory R. Raifman
Chairman of the Board &
Chief Executive Officer

Jon Logan Edwards
President

Walter Haefeker
Chief Operating Officer

THE WEB

CHANGES EVERYTHING

The Internet has changed the way the world works and communicates, and even the way we live. Nowhere is this change more evident than in the business arena, where e-commerce, online business-to-business and personalized customer relationship management have become a critical part of everyday corporate life.

The Internet has transformed the challenge that businesses face to stay close to their customers—a challenge that has perhaps become the key to growing global enterprises. The Internet makes it possible to recognize individual needs and preferences, thereby creating highly personalized, interactive online relationships.

New horizons abound for advertisers and marketers who can target campaigns in ways that go well beyond the limitations imposed by traditional media such as TV, print and radio. Companies are recognizing that the Internet must now be leveraged to build long-term brand awareness, track and measure the effectiveness of their online campaigns, and develop long-term relationships with customers.

What has been perhaps missing in the evolution from "broadcasting" to the creation of true "one-to-one" marketing is a technology specifically designed to extend the potential of the Internet as an advertising medium to brand, test and sell products—in real time and with maximum accountability. And this is where Mediaplex delivers.

Global Internet Ad Spending Projected to Increase to $33 Billion by 2004

($millions)	1999	2004
North America	$2,800	$22,600
Europe	286	5,500
Asia/Pacific	166	3,300
Latin America	51	1,600
TOTAL	$3,000	$33,000

Source: Forrester Research, Inc., 1999

Global Internet Commerce Spending Expected to Reach $1.6 Trillion by 2003

1999	2003
$130.5 billion	$1.6 trillion

Source: IDC ICMM v6.1, 2000

Technology that's Changing

"Mediaplex's MOJO platform, which automatically links client data to marketing campaigns, is one of the first technologies to enable true real-time marketing via the Web. We look forward to collaborating with Mediaplex to help more marketers connect with customers, deliver relevant promotions, and generate higher returns on their advertising investments."

Gil Fuchsberg
Vice President,
New Media and Technology
The Interpublic Group
of Companies

"We've said many times that the banner ad needs to do more for the advertiser. By taking an already great piece of real estate and then integrating information from an advertiser's other information systems and marketing efforts, it is even more effective as a sales tool."

Matt Carmichael
Advertising Age
Cybercritique review of
Mediaplex campaign for
eCOST.com, April 10, 2000

"MOJO will give our clients more highly relevant messaging capabilities based on Internet users' general interests and the advertiser's real-time business variables. The result should be significantly higher returns on our clients' online advertising investments."

Michael Dolan
Vice Chairman,
Chief Financial Officer
Young & Rubicam Inc.

Mediaplex plans to extend its MOJO technology to other digital platforms, including cellular phones.

REAL-TIME

R E L E V A N C Y

Utilizing our MOJO technology, Mediaplex enables clients to automatically revise the content of their advertising and sales promotions in real-time response to changes in their internal business data. This allows advertisers to deliver messages that are as pertinent to the potential customer as they are to the advertiser's business at any given point in time.

Today, there are other companies providing services that manage the "front end" of a client's online advertising—the point at which the message and its targeted consumers meet. Mediaplex moves the technology ball forward by integrating the front end of online advertising with the "back end," represented by internal business data, such as inventory levels, product pricing and customer information. By utilizing this back-end information, MOJO can create highly relevant advertising while maintaining consumer privacy, an increasingly important requirement for companies conducting business online.

MOJO draws on a client's up-to-the-minute business data to tailor messages in terms of an adjusted price, a different product or mix of products, or other variables the advertiser chooses to incorporate. Response results are tracked and reported in real time, providing continuous feedback for campaign optimization. Clients can thus avoid advertising products that are out of stock, and can discount goods that are overstocked or perishable, such as seasonal clothing, airline seats or hotel rooms. In addition, clients can utilize MOJO to target a specific audience, leveraging both advertiser and publisher data as well as permission-based marketing parameters set by consumers.

Mediaplex's services encompass the entire management cycle of online advertising—from planning and executing campaigns, to monitoring and analyzing their effectiveness and return on investment.

MESSAGES

ARE THE MEDIUM

Mediaplex's MOJO technology is a powerful and proprietary platform that utilizes a mobile Java objects architecture. This architecture has three primary technical components: ad-serving objects, network services and enterprise integration.

MOJO's ad-serving objects—which are discrete pieces of software written in Java code—store all information relevant to a campaign, exchange data with each other, and manage the serving and tracking of each advertisement. Because they are mobile and platform-independent, objects are designed to reside and be controlled on servers operated by Mediaplex, the advertiser or other systems like third-party Web servers, set-top boxes, e-mail generation engines, outdoor display controllers, micro-edition typesetting systems, as well as the wireless and cable infrastructures.

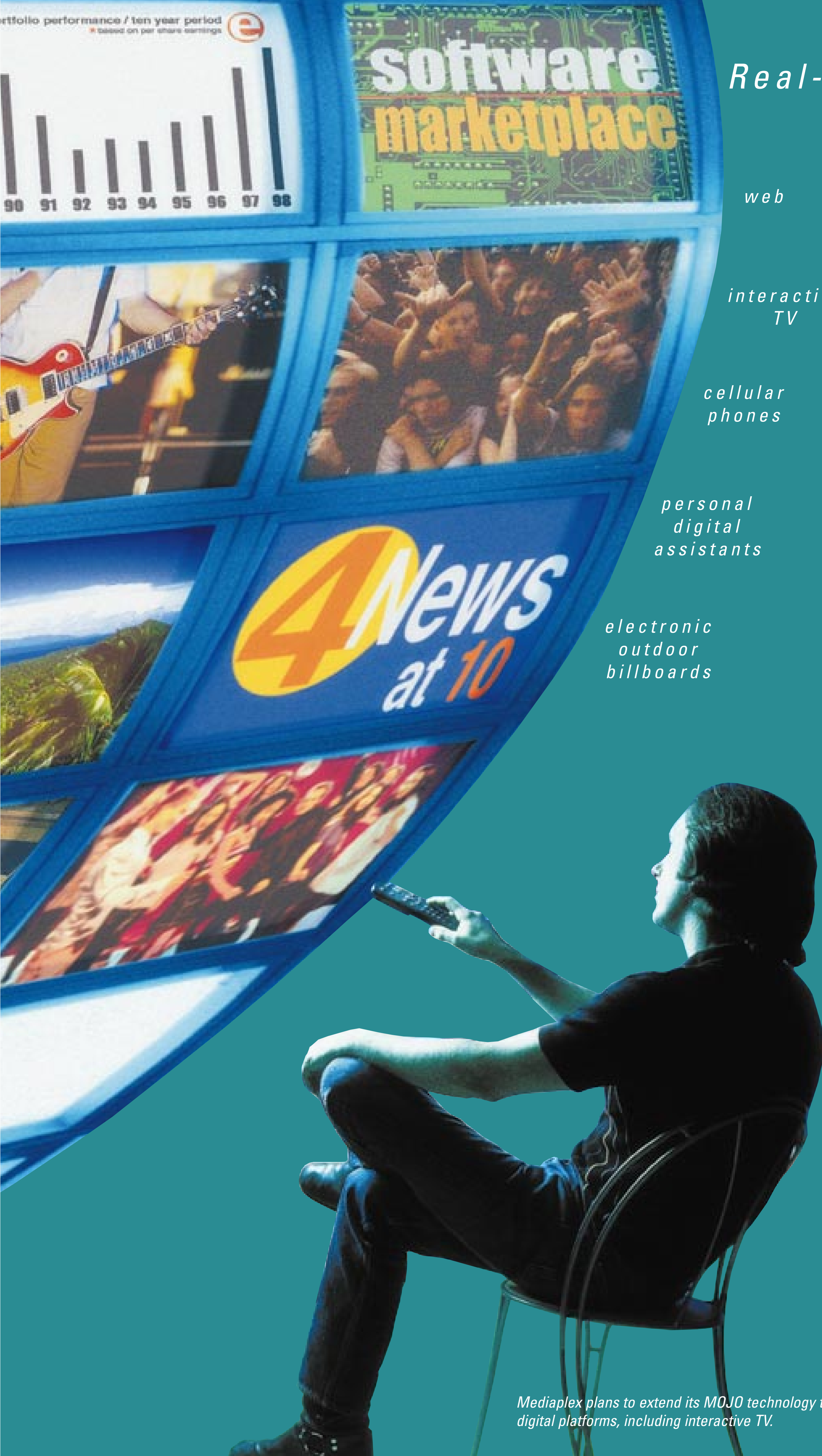
MOJO's network services component manages the entire campaign and coordinates communications between other objects and clients. This component contains the business rules for a campaign that determine, for example, which product will be advertised at what price in response to changes in inventory levels or actual sales performance. Advertisers can preset sales goals, such as number of units over a particular time period for a specific item. If targets are not achieved, prices in online ads can be automatically lowered or the product switched with another product.

MOJO's business integration component consists of objects that store a client's internal business data relevant to a campaign, and generate events that are communicated to the network services layer and advertising objects. The underlying business information is not transferred, and is therefore protected and preserved under the MOJO architecture. In addition to communicating client events to the campaign, the actual campaign events are communicated back for analysis, as well as for updating a client's internal business data.

MOJO is a highly flexible, reliable and scalable platform. With its ability to integrate front-end advertising and back-end business systems, MOJO enables companies to automatically customize and continually optimize their marketing efforts with accuracy and accountability. MOJO's real-time messaging capability opens up a new world of possibilities for marketing through the Web and other forms of digital communications, where the message is indeed the medium.

& Back Again

Mediaplex plans to extend its MOJO technology to other digital platforms, including personal digital assistants.



Real-Time

web

interactive TV

cellular phones

personal digital assistants

electronic outdoor billboards

Mediaplex plans to extend its MOJO technology to other digital platforms, including interactive TV.

THE NEXT
GENERATION OF MESSAGING

MOJO's key benefit is its ability to deliver a message that is relevant to both the customer and the advertiser. As a result, MOJO can not only increase the likelihood of higher click-through and conversion rates, but also optimize the advertising towards the highest-margin products and products that are actually in stock — all of which can ultimately translate into increased sales, higher margins and a higher return on advertising investment.

In addition to branding and testing a wide range of variables such as products, pricing, messages and creative units, MOJO can enable businesses to sell products and services more quickly and cost-efficiently. The technology can also ensure accuracy by instantly updating messages and graphics without the need for manual intervention.

MOJO technology opens up a new way of looking at advertising and messaging. Because it is a highly scalable, highly flexible architecture that is not Web-based, we expect that it may be used in the future as a digital message platform for a wide range of wired and wireless applications. These include interactive television, cellular phones, personal digital assistants, and electronic outdoor billboards. We envision such one-to-one marketing breakthroughs as sending a message tailored to a viewer's specific program interests via digital television.

Beyond Mediaplex's campaign management and advertising technology products and services, we are spearheading adXML.org, a drive to establish an open-standards initiative for advertising across all media sectors. This initiative was developed to advance a common XML-based vocabulary to automate and streamline the buy and sell transactions of the advertising industry, including insertion and change orders, requests for proposals and bids, inventory and rate cards, and even creative content.

Mediaplex is committed to the goal of changing the way the business of advertising is transacted — and to fundamentally changing the way businesses advertise.

Table Of Contents

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this annual report. The balance sheet data as of December 31, 1999 and 1998 and the statement of operations data for the years ended December 31, 1999, 1998 and 1997 have been derived from our audited financial statements and related notes included elsewhere in this annual report. The balance sheet data as of December 31, 1997 and 1996 and the statement of operations data for the period from September 10, 1996 (inception) to December 31, 1996 are derived from audited financial statements which have not been included in this annual report. Historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended December 31,			September 10, 1996 (inception) to December 31, 1996
	1999	1998	1997	
	(In thousands, except share and per share data)			
Statement of Operations Data				
Revenues	$ 26,405	$ 3,588	$ 426	$ —
Cost of revenues	20,418	2,770	445	—
Gross profit (loss)	5,987	818	(19)	—
Operating expenses:				
Sales and marketing	7,399	820	481	23
Research and development	4,135	556	347	49
General and administrative	5,067	636	256	31
Stock-based compensation	11,360	578	11	152
Amortization of goodwill and intangibles	753	—	—	—
Total operating expenses	28,714	2,590	1,095	255
Loss from operations	(22,727)	(1,772)	(1,115)	(255)
Interest income (expense), net	912	(247)	(2)	—
Net loss	(21,815)	(2,019)	(1,117)	(255)
Beneficial conversion feature of Series C convertible preferred stock	(14,360)	—	—	—
Net loss attributable to common stockholders	$ (36,175)	$ (2,019)	$ (1,117)	$ (255)
Net loss per share attributable to common stockholders – basic and diluted	$ (2.34)	$ (0.25)	$ (0.13)	$ (0.07)
Weighted average shares outstanding	15,426,913	8,186,127	8,457,464	3,795,714

	December 31,			
	1999	1998	1997	1996
	(In thousands)			
Balance Sheet Data				
Cash and cash equivalents	$ 78,052	$ 375	$ 142	$ 27
Working capital	84,085	(1,863)	(586)	(46)
Total assets	103,442	1,444	262	52
Long-term debt less current portion	280	232	65	—
Accumulated deficit	(39,566)	(3,392)	(1,373)	(255)
Stockholder's equity (deficit)	90,713	(1,962)	(558)	(22)

We provide technology-based advertising and marketing services for companies and advertising agencies that seek to optimize their Internet marketing campaigns. Although we were incorporated in September 1996, we did not begin offering our advertising campaign management services until April 1998. Before April 1998, we operated under a different business model that generated revenues primarily from the sale of advertising space on two Web sites formerly operated by us that delivered sports and business news and information. We decided to cease the operation of these sites because we determined that the sites were not generating satisfactory operating results and because we believed that our present business model represented a superior opportunity. During the first half of 1998, we devoted most of our resources to developing our new business plan and technology and establishing our technical and sales organizations.

In the second quarter of 1998, we began generating revenues from our advertising campaign management services, and since the fourth quarter of 1998 we have derived substantially all of our revenues from this source. Our campaign management services include planning the online campaign, coordinating the online and offline portions of the campaign, purchasing and placing online media, and tracking, analyzing and reporting the results of the media campaign. In the second quarter of 1999, we began utilizing our mobile Java objects, or MOJO, architecture to enhance our service offerings and expand our business. We plan to broaden our revenue sources by leveraging the capabilities of our MOJO architecture to offer message management services, which will allow advertisers to integrate their internal business information into an online advertising campaign and to tailor their advertising messages or offers in real time. To date, we have not generated significant revenues from message management services.

We currently provide advertising campaign management services for a fixed fee, which varies from client to client. This fee is principally based on the extent of services provided and the direct cost of media placement. This cost of purchasing advertising space on an Internet site is typically determined by the cost per thousand impressions. Revenues from advertising campaign management services are recognized in the period that advertising impressions are delivered, or placed on an Internet site, provided that no significant obligations on our part remain at the end of the period and the collection of the resulting receivable is probable. Our obligations often include, for instance, guarantees of a minimum number of impressions. To the extent that significant obligations remain, we defer recognition of the corresponding portion of the revenues until these obligations are met.

In addition, we may generate revenues from clients obtained through or referred to us by an ad agency. If an ad agency is used, we will usually bill the ad agency for work done on behalf of the agency's clients, and the ad agency will then be responsible for obtaining full payment from the client. We expect the percentage of our total revenues that we obtain from clients referred to us by ad agencies to increase in future periods. To date, we have paid no referral fees to any ad agencies, nor have any ad agencies paid referral fees to us, for referring clients. However, we expect to pay referral fees to ad agencies in a limited number of cases. In addition, we may receive referral fees in the future.

Cost of revenues consists primarily of the cost of procuring advertising space on third-party Internet sites and, to a lesser extent, of the telecommunications and other costs related to maintaining our ad servers at third-party locations. These costs are recorded in the period that the advertising impressions are delivered and the related revenues are recorded. Currently, we purchase advertising space on Internet sites for a particular media campaign. In the future, we may enter into purchase commitments to obtain advertising space in bulk without a particular media campaign identified in order to obtain more favorable pricing.

To date, we have expensed all of our research and development costs in the period in which we incur these costs. The period from achievement of technological feasibility to the general availability of our software to clients has been short, and therefore software development costs qualifying for capitalization have been insignificant.

In March 1999, we acquired Netranscend Software, Inc., a Java-based business automation solutions software company, for a note payable of $430,000, due in four annual installments beginning in March 2000, and 1,979,000 shares of common stock, with an estimated fair value of $1.29 per share. This acquisition was accounted for under the purchase method of accounting. We recorded $3.0 million of goodwill and other identifiable intangible assets in connection with this acquisition, which are being amortized over a three-year period.

We have a limited operating history upon which you may evaluate our business and prospects. We incurred net losses of $1.1 million in 1997, $2.0 million in 1998 and $21.8 million in 1999. At December 31, 1999, our accumulated deficit was $39.6 million, which includes $14.4 million related to the beneficial conversion feature incurred for the issuance of our Series C preferred stock. We anticipate that we will incur additional operating losses for the foreseeable future.

RESULTS OF OPERATIONS

The following table sets forth our statement of operations data expressed as a percentage of revenues:

	Year Ended December 31,		
	1999	1998	1997
Revenues	100.0 %	100.0 %	100.0 %
Cost of revenues	77.3	77.2	104.6
Gross profit (loss)	22.7	22.8	(4.6)
Operating expenses:			
Sales and marketing	28.0	22.8	112.9
Research and development	5.7	15.5	81.5
General and administrative	19.2	17.8	60.0
Stock-based compensation	43.0	16.1	2.6
Amortization of goodwill and intangibles	2.9	—	—
Total operating expenses	108.8	72.2	257.2
Loss from operations	(86.1)	(49.4)	(261.8)
Interest income (expense), net	3.5	(6.9)	(0.6)
Net loss	(82.6)	(56.3)	(262.4)
Beneficial conversion feature of			
Series C convertible preferred stock	(54.4)	—	—
Net loss attributable to common stockholders	(137.0) %	(56.3) %	(262.4) %

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Revenues

Revenues increased to $26.4 million for the year ended December 31, 1999 from $3.6 million for the year ended December 31, 1998. The period-to-period increase was primarily due to the growth of our of selling advertising campaign management services to a broad set of advertisers, including advertising agencies, which we began in April 1998. In 1999, substantially all of our revenues consisted of advertising fees received for providing advertising campaign management services. In 1998, our revenues were primarily derived from the sale of advertising on our Internet content sites.

Cost of Revenues

Cost of revenues increased to $20.4 million, or 77.3% of revenues, for the year ended December 31, 1999 from $2.8 million, or 77.2% of revenues, for the year ended December 31, 1998. The increase in cost of revenues in 1999 was primarily due to the increase in our revenues. The cost of revenues for the year ended December 31, 1999 comprised primarily media placement costs, including the telecommunications and other costs related to maintaining our ad servers at third-party sites, while the cost of revenues for the year ended December 31, 1998 consisted primarily of the cost of maintaining our Internet content sites.

Sales and Marketing

Sales and marketing expenses consist primarily of compensation expenses, including salaries, commissions and related payroll expenses, recruiting costs, and marketing expenses, including those expenses associated with customer service and support. Sales and marketing expenses increased to $7.4 million, or 28.0% of revenues, for the year ended December 31, 1999 from $820,000, or 22.8% of revenues, for the year ended December 31, 1998. The increase in sales and marketing expenses in both dollars and as a percentage of revenue during 1999 was primarily due to the significant growth of our sales and marketing organization in 1999 as we focused on selling advertising campaign management services. The number of sales and marketing personnel increased from 13 as of December 31, 1998 to 71 as of December 31, 1999. We expect that sales and marketing expenses will continue to increase.

Research and Development

Research and development expenses consist primarily of compensation and related expenses for our internal development staff and fees for outside contractor services. Research and development expenses increased to $4.1 million, or 15.7% of revenues, for the year ended December 31, 1999 from $556,000, or 15.5% of revenues, for the year ended December 31, 1998. This dollar increase in research and development expenses in both dollars and as a percentage of revenue was due primarily to an increase in the number of development engineers in our research and development organization. The number of development engineers increased from two as of December 31, 1998 to 43 as of December 31, 1999. We expect to continue to spend significant amounts on research and development as we continue to develop and upgrade our technology. Accordingly, we expect that research and development expenses will continue to increase.

General and Administrative

General and administrative expenses consist primarily of compensation and related expenses and fees for contractor services. General and administrative expenses increased to $5.1 million, or 19.2% of revenues, for the year ended December 31, 1999 from $636,000, or 17.8% of revenues, for the year ended December 31, 1998. The dollar increase in general and administrative expenses was due primarily to the hiring of additional general and administrative personnel. We had four general and administrative personnel as of December 31, 1998 and 26 persons as of December 31, 1999. We expect that general and administrative expenses will continue to increase.

Stock-based Compensation

Stock-based compensation expense increased to $11.4 million, or 43.0% of revenues, for the year ended December 31, 1999 from $578,000, or 16.1% of revenues, for the year ended December 31, 1998. For accounting purposes, we recognize stock-based compensation in connection with the issuance of shares of our common stock and the granting of options or warrants to purchase our common stock to employees and consultants with purchase or exercise prices that are less than the deemed fair market value at the grant date. Stock-based compensation related to the issuance of shares of common stock has been expensed in the period in which the common stock was issued. Stock-based compensation related to the issuance of options and warrants to purchase common stock is being amortized over the vesting period of the stock options. Total deferred stock compensation as of December 31, 1999 was $6.5 million. The deferred stock compensation associated with 66,667 options requires remeasurement at the end of each period and is directly related to the then current fair value of our common stock. Therefore, as our stock price increases, the stock-based compensation or the amortization of these deferred stock compensation amounts will proportionately increase.

Amortization of Goodwill and Intangible Assets

Amortization expense was $753,000, or 2.9% of revenues, for the year ended December 31, 1999, due to the amortization of goodwill and intangible assets recorded in connection with our acquisition of Netranscend Software, Inc. in March 1999. We recorded no goodwill amortization expense in 1998. We expect to recognize $251,000 of amortization expense for this transaction in each quarter through the first quarter of 2002.

Interest Income (Expense), Net

Interest income, net was $912,000 for the year ended December 31, 1999, representing primarily interest earned on the cash and cash equivalents we generated in 1999 from private placements of convertible preferred stock and the initial public offering. The net interest expense of $247,000 for the year ended December 31, 1998 was primarily due to the beneficial conversion feature of a note payable to stockholders.

Net Loss

Net loss was $21.8 million for the year ended December 31, 1999, and $2.0 million for the year ended December 31, 1998. The increase in net loss of $19.8 million from 1998 to 1999 was primarily due to the increase in operating expenses of $26.1 million, which includes a $10.8 million increase in stock-based compensation expense, from 1998 to 1999.

Beneficial Conversion Feature of the Series C Convertible Preferred Stock

In August 1999, Mediaplex issued 4,000,000 shares of Series C convertible preferred stock at a purchase price of $3.59 per share. These shares were converted into shares of common stock on a one-for-one basis. Because the conversion price was less than the low end of the price range for the anticipated initial public offering, the Series C preferred stock was deemed to have an embedded beneficial conversion feature. This feature allows the holders to acquire common stock at a purchase price below its deemed fair value. The amount of the discount assigned to the beneficial conversion feature is limited to the amount of the proceeds. Consequently, the issuance and sale of the Series C preferred stock resulted in a beneficial conversion feature of $14.4 million, which has been reflected as a preferred dividend in our 1999 statement of operations.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Revenues

Revenues increased to $3.6 million for the year ended December 31, 1998 from $426,000 for the year ended December 31, 1997. The increase in revenues in 1998 from 1997 was primarily due to the commencement of selling advertising campaign management services in April 1998. In 1997, we were selling advertising space on our Internet content sites under our prior business model. In 1998, we began providing our advertising campaign management services and increased our sales force, resulting in significant revenue growth in 1998.

Cost of Revenues

Cost of revenues increased to $2.8 million, or 77.2% of revenues, for the year ended December 31, 1998 from $445,000, or 104.6% of revenues, for the year ended December 31, 1997. The increase in cost of revenues in 1999 was primarily due to the increase in our revenues. The cost of revenues for the year ended December 31, 1998 comprised primarily media placement costs, while the cost of revenues for the year ended December 31, 1997 consisted primarily of the cost of maintaining our Internet content sites.

Sales and Marketing

Sales and marketing expenses increased to $820,000, or 22.8% of revenues, for the year ended December 31, 1998 from $481,000, or 112.9% of revenues, for the year ended December 31, 1997. The dollar increase in sales and marketing expenses was due primarily to an increase in the number of sales and marketing personnel.

Research and Development
Research and development expenses increased to $556,000, or 15.5% of revenues, for the year ended December 31, 1998 from $347,000, or 81.5% of revenues, for the year ended December 31, 1997. This dollar increase in research and development expenses was due primarily to an increase in the number of development engineers in our research and development organization throughout most of the year.

General and Administrative
General and administrative expenses increased to $636,000, or 17.8% of revenues, for the year ended December 31, 1998 from $256,000, or 60.0% of revenues, for the year ended December 31, 1997. The dollar increase in general and administrative expenses was due primarily to the hiring of general and administrative personnel.

Stock-based Compensation
Stock-based compensation expense increased to $578,000, or 16.1% of revenues, for the year ended December 31, 1998 from $11,000, or 2.6% of revenues, for the year ended December 31, 1997. Total deferred stock compensation as of December 31, 1998 was $53,000.

Interest Income (Expense), Net
Interest expense, net increased to $247,000 for the year ended December 31, 1998 from $3,000 for the year ended December 31, 1997.

Net Loss
Net loss was $2.0 million for the year ended December 31, 1998, and $1.1 million for the year ended December 31, 1997. The increase in net loss of $0.9 million from 1997 to 1998 was primarily due to the increase in operating expenses of $1.5 million from 1997 to 1998. In particular, stock-based compensation increased $567,000 from 1997 to 1998.

LIQUIDITY AND CAPITAL RESOURCES

From our inception in September 1996 through August 1999, we financed our operations primarily through the private placement of preferred stock, which has generated net proceeds of $24.2 million. In November 1999, we completed an initial public offering of our common stock, which generated net proceeds of $75.5 million. As of December 31, 1999, we had $78.1 million in cash and cash equivalents.

Net cash used in operating activities for the year ended December 31, 1999, 1998, and 1997 was $9.1 million, $240,000 and $150,000, respectively. Net cash used in operating activities in each of these periods was primarily the result of net losses before non-cash charges and net increases in accounts receivable, offset by increases in accrued liabilities, deferred revenues, and accounts payable.

Net cash used in investing activities for the year ended December 31, 1999, 1998, and 1997 was $12.7 million, $79,000 and $70,000, respectively. Net cash used in investing activities in all periods presented was due principally to the acquisition of computer equipment and software. As of December 31, 1999, we invested our proceeds from the public offering of our common stock into short-term investments.

Net cash provided by financing for the year ended December 31, 1999, 1998, and 1997 was $99.5 million, $551,000 and $335,000, respectively. In 1999, net cash provided by financing activities was primarily due to issuance of shares of our common stock and our preferred stock. In 1999 and 1998 the funds borrowed from stockholders under notes payable bore interest at 6% per annum. These notes payable were paid off in 1999, we currently have no other borrowings.

Although we have no material commitments for capital expenditures, we anticipate an increase in the rate of capital expenditures consistent with our anticipated growth in operations, infrastructure and personnel. We believe that our current level of cash and cash equivalents will be sufficient to meet our anticipated liquidity needs for working capital and capital expenditures for at least twelve months from December 31, 1999. After that time, we may need additional funds to expand or to meet all of our operating needs. Our forecast of the period of time through which our financial resources will be adequate to support operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially as a result of the factors described above. If we require additional capital resources to grow our business internally or to acquire complementary technologies and businesses, we may seek to sell additional equity or debt securities or secure a bank line of credit. The sale of additional equity or convertible debt securities could result in additional dilution to our stockholders. We cannot assure you that any financing arrangements will be available in amounts or on terms acceptable to us.

INTEREST RATE RISK

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and investments in marketable securities in a variety of securities, including commercial papers and money market funds.

The following table presents the amounts of our financial instruments that are subject to interest rate risk by year of expected maturity and average interest rates as of December 31, 1999:

	Cost (Dollars in thousands)
Cash and cash equivalents	$ 78,052
Average interest rate	6.46%
Short-term investments in marketable securities	$ 9,912
Average interest rate	5.54%

We did not hold derivative financial instruments as of December 31, 1999, and have never held these instruments in the past.

FOREIGN CURRENCY RISK

As of December 31, 1999, we have had limited transactions in Germany. Accordingly, we are subject to exposure from adverse movements in foreign currency exchange rates. This exposure is primarily related to revenues and operating expenses in Germany. The effect of foreign exchange rate fluctuations for 1999 was not material. We do not use financial instruments to hedge operating activities denominated in the local currency. We assess the need to utilize financial instruments to hedge currency exposures on an ongoing basis. As of December 31, 1999 we had $115,000 in cash and cash equivalents denominated in foreign functional currencies.

The introduction of the Euro has not had a material impact on how we conduct business and we do not anticipate any changes in how we conduct business as a result of increased price transparency.

Our international business is subject to risks typical of an international business, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, our future results could be materially and adversely affected by changes in these or other factors.

NEW ACCOUNTING PRONOUNCEMENTS

Mediaplex continually assesses the effects of recently issued accounting standards. The impact of all recently adopted and issued accounting standards has been disclosed in the financial statements to this annual report.

BALANCE SHEETS

	December 31, 1999	December 31, 1998
Assets		
Cash and cash equivalents	$ 78,052,259	$ 374,567
Accounts receivable, net	7,629,628	936,497
Short-term investments	9,912,500	—
Other current assets	939,939	—
Total current assets	96,534,326	1,311,064
Property and equipment, net	4,039,459	105,921
Goodwill and intangible assets, net of accumulated amortization of $753,187 as of December 31, 1999	2,256,548	—
Other assets	612,154	27,030
Total assets	$103,442,487	$ 1,444,015
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities:		
Accounts payable	$ 2,029,911	$ 1,528,600
Accrued liabilities	9,222,440	423,216
Deferred revenue	1,086,718	479,764
Notes payable to stockholders, current portion	110,000	339,569
Advance from stockholders	—	262,750
Payables to stockholders	—	139,701
Total current liabilities	12,449,069	3,173,600
Notes payable to stockholders	280,457	232,161
Total liabilities	12,729,526	3,405,761
Commitments (Note 6)		
Stockholders' Equity (Deficit):		
Common stock, $0.0001 par value; authorized 150,000,000 and 40,000,000 shares, respectively; 31,690,855 and 6,983,628 shares issued and outstanding as of December 31, 1999 and 1998, respectively	3,169	698
Additional paid-in capital	134,324,423	1,482,685
Warrants	2,472,354	—
Deferred stock compensation	(6,520,700)	(53,371)
Accumulated deficit	(39,566,285)	(3,391,758)
Total stockholders' equity (deficit)	90,712,961	(1,961,746)
Total liabilities and stockholders' equity (deficit)	$103,442,487	$ 1,444,015

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

STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	1999	1998	1997
Revenues	$ 26,405,120	$ 3,588,094	$ 425,877
Cost of revenues	20,417,637	2,770,567	445,372
Gross profit (loss)	5,987,483	817,527	(19,495)
Operating expenses:			
Sales and marketing	7,399,010	819,641	480,756
Research and development	4,135,030	555,736	347,130
General and administrative	5,066,966	636,651	256,413
Stock-based compensation	11,360,106	577,525	11,000
Amortization of goodwill and intangibles	753,187	—	—
Total operating expenses	28,714,299	2,589,553	1,095,299
Loss from operations	(22,726,816)	(1,772,026)	(1,114,794)
Interest income (expense), net	912,289	(247,186)	(2,572)
Net loss	(21,814,527)	(2,019,212)	(1,117,366)
Beneficial conversion feature of Series C convertible preferred stock	(14,360,000)	—	—
Net loss attributable to common stockholders	$ (36,174,527)	$ (2,019,212)	$ (1,117,366)
Net loss per share attributable to common stockholders – basic and diluted	$ (2.34)	$ (0.25)	$ (0.13)
Weighted average shares used to compute net loss per share – basic and diluted	15,426,913	8,186,127	8,457,464

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

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	Convertible Preferred Stock		Common Stock		Additional Paid-In		Deferred Stock		
	Shares	Amount	Shares	Amount	Capital	Warrants	Compensation	Deficit	Total
Balance, December 31, 1996	—	$ —	4,660,000	$ 466	$ 232,259	$ —	$ —	$ (255,180)	$ (22,455)
Issuance of common stock			1,795,338	180	338,421				338,601
Conversion of payable to stockholder for common stock			4,643,228	464	231,697				232,161
Issuance of common stock for services			220,000	22	10,978				11,000
Net loss								(1,117,366)	(1,117,366)
Balance, December 31, 1997	—	—	11,318,566	1,132	813,355	—	—	(1,372,546)	(558,059)
Repurchase of common stock for convertible note payable			(4,643,228)	(464)	(231,697)				(232,161)
Beneficial conversion feature of note payable to stockholder					232,161				232,161
Issuance of common stock			76,000	7	37,993				38,000
Issuance of common stock for services			232,290	23	151,404				151,427
Options granted to former employees for services rendered					286,079				286,079
Deferred stock compensation					193,390		(193,390)		—
Amortization of deferred stock compensation							140,019		140,019
Net loss								(2,019,212)	(2,019,212)
Balance, December 31, 1998	—	—	6,983,628	698	1,482,685	—	(53,371)	(3,391,758)	(1,961,746)
Issuance of common stock for services			92,633	9	416,838				416,847
Issuance of common stock upon acquisition of Netranscend			1,979,000	198	2,569,068				2,569,266
Issuance of common stock upon exercise of option			239,357	24	361,104				361,128
Issuance of Series A convertible preferred stock, net of issuance costs of $46,701	1,206,000	121			1,460,678				1,460,799
Conversion of note payable to stockholder for common stock			947,009	95	70,931				71,026
Issuance of Series B convertible									8,690,722
preferred stock, net of issuance costs of $741,632	4,500,000	450			8,257,918	432,354			8,690,722
Conversion of note payable for common stock			4,643,228	464	231,697				232,161
Issuance of Series C convertible preferred stock, net of issuance costs of $238,441	4,000,000	400			14,121,159				14,121,559
Dividend relative to beneficial conversion feature related to issuance of Series C convertible preferred stock					14,360,000			(14,360,000)	—
Issuance of common stock upon exercise of options in connection with waiver of payable to stockholder			200,000	20	12,400				12,420
Issuance of warrant for services						2,040,000			2,040,000
Sale of common stock, net of issuance costs of $7,354,862			6,900,000	690	75,444,448				75,445,138
Conversion of convertible preferred stock	(9,706,000)	(971)	9,706,000	971					—
Deferred stock compensation					15,535,497		(15,535,497)		—
Amortization of deferred stock compensation							9,068,168		9,068,369
Net loss								(21,814,527)	(21,814,527)
Balance, December 31, 1999	—	$ —	31,690,855	$ 3,169	$134,324,423	$2,472,354	$(6,520,700)	$(39,566,285)	$90,712,961

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

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net loss	$ (21,814,527)	$ (2,019,212)	$ (1,117,366)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,210,658	54,810	20,023
Write-off of property and equipment	17,500	18,853	—
Allowance for sales credits and doubtful accounts	3,475,327	109,156	20,211
Stock-based compensation expense	11,360,106	577,525	11,000
Gain on short-term investments	(184,445)	—	—
Amortization of debt discount	17,692	—	—
Interest expense related to beneficial conversion feature of note payable	—	232,161	—
Changes in assets and liabilities			
Accounts receivable	(10,168,457)	(1,041,686)	(24,178)
Other assets	(1,525,063)	(22,030)	(3,350)
Accounts payable	386,889	1,149,477	378,322
Payables to stockholders	(77,281)	90,828	309,621
Accrued liabilities	7,568,265	273,149	112,864
Deferred revenue	606,954	337,364	142,400
Net cash used in operating activities	(9,126,382)	(239,605)	(150,453)
Cash flows from investing activities:			
Purchase of property and equipment	(2,989,964)	(78,819)	(69,892)
Purchase of short-term investments	(9,728,056)	—	—
Net cash used in investing activities	(12,718,020)	(78,819)	(69,892)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	75,445,138	38,000	338,601
Net proceeds from issuance of preferred stock	23,940,828	—	—
Proceeds from exercise of stock options	361,128	—	—
Payments of capital lease obligations	—	(24,753)	(3,380)
Proceeds from notes payables – stockholders	—	275,000	—
Payment of notes payable – stockholders	(225,000)	—	—
Advance from stockholder	—	262,750	—
Net cash provided by financing activities	99,522,094	550,997	335,221
Net increase in cash and cash equivalents	77,677,692	232,573	114,876
Cash and cash equivalents at beginning of period	374,567	141,994	27,118
Cash and cash equivalents at end of period	$ 78,052,259	$ 374,567	$ 141,994

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

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS

	Year Ended December 31,		
	1999	1998	1997
Cash paid for interest	$ 12,976	$ 1,804	$ 2,572
Noncash financing and investing activities:			
Issuance of common stock for acquisition	$ 2,552,910	$ —	$ —
Issuance of note payable for acquisition	$ 430,000	$ —	$ —
Conversion of payables to stockholders to common stock	$ —	$ —	$ 232,161
Conversion of stockholder's notes payable to common stock	$ 303,187	$ —	$ —
Repurchase of common stock in exchange for a note payable	$ —	$ 232,161	$ —
Issuance of note payable to a stockholder for settlement of outstanding payable to stockholder	$ —	$ —	$ 64,569
Issuance of warrant to purchase common and preferred stock in connection with completing Series B preferred stock financing	$ 597,254	$ —	$ —
Conversion of advance from stockholder to Series A preferred stock	$ 262,750	$ —	$ —
Conversion of note payable and accrued interest to Series C preferred stock	$ 69,502	$ —	$ —
Beneficial conversion feature of Series C convertible preferred stock	$ 14,360,000	$ —	$ —
Beneficial conversion feature of notes payable	$ —	$ 232,261	$ —
Conversion of convertible preferred stock to common	$ 24,273,080	$ —	$ —
Exercise of common stock options in connection with waiver of payable to stockholder	$ 12,420	$ —	$ —
Purchase of equipment under capital leases	$ —	$ 3,036	$ 37,915
Deferred stock compensation from issuance of options	$ 15,535,497	$ 193,390	$ —

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

1. BUSINESS ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Mediaplex, Inc. provides technology-based advertising and marketing services for companies and advertising agencies that seek to optimize their internet marketing campaigns. The Company's service offerings include planning and execution of online media and marketing campaigns, proprietary third-party ad serving to advertisers, and tracking and reporting of an advertiser's return on investment ("ROI"), including evaluation of online transactions. The Company's technology-based services enable companies to deliver customized online advertising messages in response to changes in their underlying business variables, such as inventory levels, product pricing and customer data.

REINCORPORATION

In August 1999, the Company's board of directors approved reincorporating in Delaware and changing its name to Mediaplex, Inc. In connection with the reincorporation, the Company authorized (i) an increase in the number of authorized shares of common stock to 150,000,000 and (ii) 10,000,000 shares of undesignated preferred stock. All share data and stock option plan information has been restated to reflect the reincorporation.

NETRANSCEND SOFTWARE, INC. ACQUISITION

On March 25, 1999, the Company acquired Netranscend Software, Inc., a Java-based business automation solutions software company, for a non-interest note payable of $430,000, due in four annual installments (Note 5) beginning on the first anniversary of the acquisition, and 1,979,000 shares of the Company's common stock with an estimated fair value of $1.29 per share. The Company incurred transaction costs of $68,231.

The acquisition was accounted for using the purchase method of accounting. The aggregate purchase price of $2,993,906, together with $15,826 of net liabilities assumed, has been allocated based on the fair value of the assets acquired. Goodwill and intangible assets, consisting of proprietary technology, totaling $3,009,732 are being amortized over three years.

The following unaudited pro forma results of operations reflect the combined results of the Company and Netranscend Software, Inc. for the fiscal years ended December 31, 1999, 1998 and 1997 and have been prepared as though the entities had been combined as of January 1, 1999, 1998 and 1997, respectively. The unaudited pro forma results do not reflect any nonrecurring charges that resulted directly from the transaction.

	1999	1998	1997
		(unaudited)	
Revenues	$ 26,405,120	$ 3,558,094	$ 425,877
Net loss attributable to common stockholders	$ 36,192,111	$ (3,032,444)	$ (2,124,951)
Net loss per share attributable to common stockholders—basic and diluted	$ (2.28)	$ (0.30)	$ (0.20)
Weighted average shares used to compute net loss per share—basic and diluted	15,866,088	10,165,127	10,436,464

USE OF ESTIMATES

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

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash equivalents and accounts receivable. The Company has cash equivalents and short-term investment policies that require placement of these funds in financial institutions evaluated as highly credit-worthy. The Company's credit risk is mitigated by the Company's ongoing credit evaluation of its customers' financial condition. The Company does not require collateral or other security to support accounts receivable and maintains an allowance for doubtful accounts. At December 31, 1999, one customer represented 12% of outstanding accounts receivable. Four customers accounted for 76% of the outstanding accounts receivable at December 31, 1998. Two, two, and one customers accounted for 22%, 77%, and 91% of revenues for the years ended December 31, 1999, 1998 and 1997, respectively.

RISKS AND UNCERTAINTIES

The Company is subject to all of the risks inherent in an early stage company in the Internet advertising industry. These risks include, but are not limited to, a limited operating history, limited management resources, dependence upon consumer acceptance of the Internet, Internet-related security risks and the changing nature of the electronic commerce industry. The Company's operating results may be materially affected by the foregoing factors.

Cash, Cash Equivalents, and Investments in Marketable Securities

All highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

The Company's financial instruments include cash and cash equivalents, borrowings and accounts payable, and are carried at cost, which approximates their fair value due to their short-term maturities.

The Company classifies its investments in marketable securities as available-for-sale. Accordingly, these investments are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Unrealized gain and losses at December 31, 1999 were insignificant. The Company recognizes gains and losses when securities are sold using the specific identification method. For the years ended December 31, 1999, 1998, and 1997, the Company did not recognize any material gains or losses upon the sale of securities.

At December 31, 1999, cash and cash equivalents and short-term investments consist of the following:

	Cost
Cash and cash equivalents:	
Cash	$ (1,766,118)
Money market funds	2,334,801
Commercial papers	77,483,576
	$ 78,052,259
Short-term investments:	
Commercial papers	$ 9,912,500

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Maintenance and repairs are charged to operations as incurred. Depreciation and amortization are based on the straight-line method over the estimated useful lives of the related assets, which range from three to five years. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected in operations in the period realized.

Goodwill and Intangible Assets

Goodwill and intangible assets consist of the excess of the purchase price paid over the value of identified intangible and tangible net assets resulting from the acquisition of Netranscend Software, Inc. Due to the rapid technological changes occurring in the Internet industry, the goodwill and intangible assets are amortized using the straight-line method over three years, the period of expected benefit. Valuation of goodwill and intangible assets is based on forecasted discounted cash flows and is reassessed periodically. Cash flow forecasts are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Revenue Recognition

Revenues are generated primarily from fixed fees for campaign management services. Advertising revenues are recognized ratably as impressions are delivered over the period in which the advertisement is displayed, provided that no significant Company obligations remain at the end of a period and collection of the resulting receivable is probable. Company obligations typically includes guarantees of minimum number of "impressions," or times that an advertisement appears in pages viewed by users of the Company's online properties. To the extent minimum guaranteed impressions are not met, the Company defers recognition of a pro rata portion of the corresponding revenues until the remaining guaranteed impression levels are achieved.

Amounts payable to third-party Web sites for providing advertising space are recorded as cost of revenues in the period the advertising impressions are delivered.

Deferred Revenues

Deferred revenues consist of advertising fees received or billed in advance of delivery of the advertisement.

Research and Development Expenses

Research and development expenses and enhancements to existing products are charged to operations as incurred. Software development costs are required to be capitalized when a product's technological feasibility has been established by completion of a working model of the product and ending when a product is available for general release to customers. To date, completion of a working model of the Company's products and general release have substantially coincided. As a result, the Company has not capitalized any software development costs.

ADVERTISING EXPENSES

The Company expenses the cost of advertising and promoting its services as incurred. These costs are included in sales and marketing on the statements of operations. The Company has not incurred any advertising expenses to date.

STOCK-BASED COMPENSATION

The Company accounts for stock-based employee compensation arrangements under the intrinsic value method and complies with the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under the intrinsic value method, compensation cost is recognized based on the difference, if any, on the measurement date between the fair value of the Company's stock and the amount an employee must pay to acquire the stock.

The Company accounts for non-employee stock-based awards in which goods or services are the consideration received for the equity instruments issued in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force No. 96-18, "Accounting for Equity Instruments that are Issued to Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

The Company amortizes stock-based compensation recorded in connection with certain stock option grants over the vesting periods of the related options.

INCOME TAXES

In accordance with SFAS No. 109, "Accounting for Income Taxes," deferred income taxes are recognized for the differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is recognized for deferred tax assets when it is more likely than not, based on available evidence, that some portion or all of the deferred tax asset will not be realized. Income tax expense or benefit is the tax payable or refundable, respectively, for the period plus or minus the change during the period in deferred tax assets and liabilities.

NET LOSS PER SHARE

Net loss per share is presented in accordance with the provisions of SFAS No. 128, "Earnings per Share," and Staff Accounting Bulletin No. 98. Basic net loss per share is computed based on the weighted average number of shares of common stock outstanding, while diluted net loss per share reflects the potential dilution that would occur if preferred stock had been converted and stock options and warrants had been exercised. Common equivalent shares from stock options and warrants have been excluded from the computation of diluted net loss per share as their effect would be antidilutive.

COMPREHENSIVE INCOME

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

SEGMENT INFORMATION

The Company complies with the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company operates in a single business segment providing advertising campaign management services in the United States.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior year's financial statements to conform with the current year presentation.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which defines derivatives, requires that all derivatives be carried at fair value, and provides for hedge accounting when certain conditions are met. SFAS No. 133 is effective for the Company in fiscal 2000. Although the Company has not fully assessed the implications of SFAS No. 133, the Company does not believe the adoption of this statement will have a material effect on the Company's financial position, results of operations or cash flows.

In March 1998, the Accounting Standards Executive Committee ("ASEC") issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 provides guidance on when costs related to software developed or obtained for internal use should be capitalized or expensed. The SOP is effective for transactions entered into for fiscal years beginning after December 15, 1998. The adoption of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

In December 1998, the AICPA issued SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions." SOP 98-9 amends SOP 97-2 and SOP 98-4 by extending the deferral of the application of certain provisions of SOP 97-2 amended by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. The Company does not anticipate adoption of this statement to have a material effect on the Company's financial position, results of operations or cash flows.

In November 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin ("SAB") No. 100, "Restructuring and Impairment Charges." In December 1999, the SEC issued SAB No. 101, "Revenue Recognition in Financial Statements." SAB No. 100 expresses the views of the SEC staff regarding the accounting for and disclosure of certain expenses not commonly reported in connection with exit activities and business combinations. This includes the accrual of exit and employee termination costs and the recognition of impairment charges. SAB No. 101 expresses the views of the SEC staff in applying accounting principles generally accepted in the United States to certain revenue recognition issues. The Company does not anticipate that these SABs will have a material impact on its financial position, results of operations, or cash flows.

3. BALANCE SHEET DATA

Accounts receivable as of December 31, 1999 and 1998 are summarized as follows:

	December 31, 1999	December 31, 1998
Accounts receivable, net:		
Accounts receivable	$ 11,234,321	$ 1,065,864
Less: Allowance for sales credits	(2,577,575)	(92,000)
Less: Allowance for bad debts	(1,027,118)	(37,367)
	$ 7,629,628	$ 936,497

Allowances for sales credits was $3,327,019, $126,103, and $0 for the years ended December 31, 1999, 1998, and 1997, respectively. Bad debt expense was $1,038,380, $17,156, and $20,211 for the years ended December 31, 1999, 1998 and 1997, respectively.

Property and equipment as of December 31, 1999 and 1998 are summarized as follows:

	December 31, 1999	December 31, 1998
Property and equipment, net:		
Computer equipment and software	$ 4,021,324	$ 161,336
Furniture	461,166	5,369
Less: Accumulated depreciation	(443,031)	(60,784)
	$ 4,039,459	$ 105,921

Depreciation and amortization expense related to property and equipment was $457,471, $54,810, and $20,023 for the years ended December 31, 1999, 1998 and 1997, respectively.

Accrued liabilities as of December 31, 1999 and 1998 are summarized as follows:

	December 31, 1999	December 31, 1998
Accrued liabilities:		
Accrued cost of revenues	$ 6,102,036	$ 293,590
Accrued cost for property and equipment	1,312,771	—
Accrued legal fees	310,112	—
Accrued payroll-related costs	724,932	24,090
Other accrued liabilities	772,589	105,536
	$ 9,222,440	$ 423,216

4. INCOME TAXES

The Company has incurred losses from inception through December 31, 1999. Management believes that, based on its history of losses and other factors, the weight of available evidence indicates it is more likely than not that the Company will not be able to realize its deferred tax assets. Thus, a full valuation reserve has been recorded at December 31, 1999 and 1998. The Company's net deferred tax asset is comprised as follows:

	December 31, 1999	December 31, 1998
Net operating loss carryforwards	$ 2,900,000	$ 896,000
Deferred stock compensation	2,509,000	—
Allowances against accounts receivables	1,544,000	55,000
Deferred revenue	466,000	205,000
Other	165,000	(99,000)
	7,584,000	1,057,000
Less valuation allowance	(7,584,000)	(1,057,000)
Net deferred tax asset	$ —	$ —

As of December 31, 1999, the Company has net operating loss carryforwards of approximately $6,790,000 and $6,674,000 for federal and state income tax purposes, respectively. The carryforwards will begin to expire in 2011 and 2004 for federal and state income tax purposes, respectively. For federal and state income tax purposes, a portion of the Company's net operating loss may be subject to certain limitations on annual utilization due to changes in ownership, as defined by federal and state tax laws. The amount of such limitations, if any, has not yet been determined.

The components of income tax provision are as follows:

	December 31,	
	1999	1998
Deferred:		
Federal	$ 5,058,000	$ 445,000
State	1,469,000	130,000
Total deferred	6,527,000	575,000
Change in valuation allowance	(6,527,000)	(575,000)
Total	$ —	$ —

The principal items accounting for the difference between income taxes computed at the U.S. statutory rate and the provision for income taxes are as follows:

	December 31,		
	1999	1998	1997
U.S. statutory rate	34.0%	34.0%	34.0%
Permanent difference	(9.6)	(9.8)	(0.3)
Adjustment to increase valuation allowance	(25.0)	(24.2)	(33.7)
Research and development credits	0.6	—	—
	—	—	—

5. NOTES PAYABLE TO STOCKHOLDERS

The Company's notes payable to stockholders consisted of the following:

	December 31,	
	1999	1998
Note payable to stockholder	$ 390,457	$ —
Convertible note payable to stockholder, 6% per annum, due July 1999	—	64,569
Convertible note payable to stockholder, 6% per annum, due April 2000	—	232,161
Convertible note payable to stockholder, 6% per annum, due August 1999	—	150,000
Notes payable to stockholder, 6% per annum, due August 1999	—	125,000
Total notes payable to stockholders	390,457	571,730
Less current portion	110,000	339,569
	$ 280,457	$ 232,161

In connection with the Netranscend Software, Inc. acquisition in March 1999, the Company agreed to pay $430,000 as a part of the purchase consideration. This note is payable over four years, with the first payment of $110,000 due on the first anniversary, $110,000 due on the second anniversary, $100,000 due on the third anniversary and $110,000 due on the fourth anniversary. The note payable has been recorded at $372,765, net of a discount. The discount will be amortized as interest expense over the four-year term of the note.

In May 1998, the Company entered into two senior subordinated secured convertible promissory notes and two senior subordinated secured promissory notes with a stockholder. Under these agreements, the stockholder advanced to the Company a total of $275,000 bearing interest at the rate of 6% per annum. The unpaid principal and accrued interest were payable on August 1, 1999, but could be prepaid without penalty. In the event of any default, as defined in the agreement, the holder could convert the outstanding amount and accrued interest into preferred stock at the price that was applicable to preferred stock issued in the most recent round of financing. At December 31, 1998, the outstanding notes payable balance was $275,000. In May 1999, the Company paid $225,000 along with the accrued interest to the stockholder. In August 1999, the holder of the $50,000 note payable converted the note and the related accrued interest into 19,360 shares of Series C convertible preferred stock. At December 30, 1999, nothing remained outstanding.

During 1996 and 1997, a founder of the Company purchased certain assets and incurred expenses on behalf of the Company (Note 8). In June 1997, $232,161 of the outstanding amount was converted into 4,643,228 shares of common stock at $0.05 per share. In April 1998, the Company repurchased the 4,643,228 shares from the founder at the original conversion price of $0.05 per share with a convertible promissory note payable. The note bore interest at the rate of 6% per annum, was due in April 2000, and was convertible into common stock at $0.05 per share. The Company recorded the difference between the conversion price of the note and the fair value of the common stock, or the beneficial conversion feature, on the date the note was issued as additional interest expense.
In March 1999, this outstanding promissory note payable was converted into 4,643,228 shares of common stock at $0.05 per share.

A law firm affiliated with a stockholder performed legal services for the Company during 1996 and 1997. In July 1997, the Company issued a convertible note payable to the law firm for $64,569 for these services. This note bore interest at a rate of 6% per annum, and had a due date of July 1999. In March 1999, the Company converted the outstanding amount and accrued interest of $6,458 into 947,009 shares of common stock at $0.075 per share. The law firm subsequently transferred the shares to the stockholder.

The Company incurred interest expense of $17,692 and $17,015 for the years ended December 31, 1999 and 1998, respectively, in connection with the notes payable to stockholders.

6. COMMITMENTS AND CONTINGENCIES

LEASE AGREEMENTS

The Company leases office space under noncancelable operating lease agreements that expire in 2002. The terms of the leases provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

Future minimum lease payments under noncancelable operating leases as of September 30, 1999 are as follows:

Year Ended December 31,	
2000	$ 2,117,713
2001	2,158,898
2002	2,015,905
2003	1,648,598
2004	1,203,296
	$ 9,144,410

Rent expense was $629,653, $92,550, and $41,555 for the years ended December 31, 1999, 1998, and 1997, respectively.

SEVERANCE PAYMENTS

The Company has entered into employment agreements under which the employees would be entitled to receive severance payments totaling $825,000 if their employment were terminated under certain conditions.

LEGAL PROCEEDINGS

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business. The Company is not currently aware of any legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on its business, financial condition or operating results.

7. STOCKHOLDERS' EQUITY (DEFICIT)

COMMON STOCK

The Company is authorized to issue 40,000,000 shares of common stock. In August 1999, the Company amended its certificate of incorporation to increase the number of authorized shares of common stock to 150,000,000 shares.

In November 1999, the Company completed a public offering of 6,900,000 shares of common stock generating proceeds of $75,445,138, net of issuance costs of $7,354,862.

The Company recognizes stock-based compensation upon the issuance of common stock for less than the deemed fair market value and upon the issuance of common stock in exchange for services. Accordingly, the Company recorded stock-based compensation of $251,938, $151,427, and $11,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

CONVERTIBLE PREFERRED STOCK

The Company is authorized to issue 10,000,000 shares of preferred stock. In 1999, the Company issued 1,206,000 shares as Series A preferred stock, 4,775,000 shares as Series B preferred stock and 4,000,000 shares as Series C preferred stock. All outstanding preferred stock was converted into the Company's common stock on November 19, 1999, upon the completion of the initial public offering.

In August 1999, the Company recorded a preferred dividend of $14,360,000 which represents the difference between the deemed fair value of the Company's common stock and the purchase price of $3.59 per share of the Series C convertible preferred stock.

WARRANTS

In January 1999, the Company issued a warrant to an employee to purchase 500,000 shares of common stock at $0.50 per share. The warrant became exercisable only upon completion of certain milestones that were primarily related to achievement of certain levels of earned revenues.

As of December 31, 1999, all milestones were completed and the warrant to purchase 500,000 shares became exercisable. Accordingly, the Company recorded compensation expense in the amount of $2,040,000 based on the difference between the exercise price and the fair value of the Company's common stock on the date the milestones were met.

In June 1999, in connection with services provided related to the issuance of Series B preferred stock, the Company granted warrants to two non-employees, exercisable for 275,000 and 100,000 shares of common stock at exercise prices of $2.00 per share and $0.50 per share, respectively. The warrants are exercisable by the holder at any time until June 2002. The holder of the warrant is not entitled to any voting rights. The fair value of the warrants calculated using Black-Scholes model was $432,354 and has been included in the offering costs of the Series B convertible preferred stock.

1997 Stock Plan

The Company's 1997 Stock Plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code and for the granting to employees and consultants of nonstatutory stock options and stock purchase rights.

In November 1998, the Company granted options to purchase 505,667 shares of common stock with exercise prices ranging from $0.05 to $0.50 to both former and current employees for services previously rendered under the 1997 Stock Plan. The options granted to former employees were immediately exercisable until February 1999. At December 31, 1998, 347,063 shares were exercisable. For those options granted to current employees, the Company recorded $193,390 in deferred stock compensation for the difference between the exercise price and the assumed fair value of the common stock at the measurement date. For the years ended December 31, 1999 and 1998, the Company recorded stock compensation charge of $35,454 and $140,019, respectively.

The Company recorded the fair value for the options granted to former employees as stock-based compensation expense of $286,079 in 1998. The fair value of the options granted to the former employees was determined using a Black-Scholes option-pricing model using a weighted average risk-free rate of 4.65%, weighted average expected life of three months and price volatility of 103%. No dividend yield was assumed as the Company has not paid dividends and has no plans to do so.

Options generally become exercisable in equal increments over a four-year vesting period and expire at the end of ten years from the date of the grant, or sooner if terminated by the Board of Directors.

The Amended and Restated 1999 Stock Plan

In February 1999, the Company adopted the 1999 Stock Plan (the "1999 Plan"). Options granted under the 1999 Plan may be either incentive stock options ("ISOs") or nonstatutory stock options ("NSOs"). ISOs may be granted only to Company employees. NSOs may be granted to Company employees, directors and consultants. The Company originally reserved 9,000,000 shares of common stock for issuance under the 1999 Plan. The 1999 Plan was amended in August 1999, raising the number of shares reserved for issuance to 12,000,000. Commencing January 1, 2000, the number of shares reserved for issuance under the 1999 Plan will be increased by an amount equal to the least of (a) 1,000,000 shares, (b) 4% of the outstanding shares or (c) an amount determined by our board of directors.

In the case of ISOs granted to an employee who, at the time of the option was granted, owns stock representing more than 10% of the voting power of all classes of stock, the term of the option cannot exceed five years. The exercise price of an ISO or NSO may not be less than 100% or 85%, respectively, of the estimated fair value of the underlying stock on the date of grant and the exercise price of an ISO or NSO granted to a 10% shareholder may not be less than 100% of the estimated fair value of the underlying stock on the date of grant. Options generally become exercisable in equal increments over a four-year vesting period and expire at the end of ten years from the date of grant, or sooner if terminated by the Board of Directors.

For the year ended December 31, 1999, the Company recorded stock compensation charge of $9,748,105 in connection with stock option grants to employees and $5,787,392 of stock compensation charge related to options granted to non-employees. The deferred stock compensation charge of $15,535,497 will be amortized over the vesting periods of the related stock options through 2003. The fair value of the options granted to the non-employees were determined using Black-Scholes option-pricing model using a weighted average risk-free rate of 4.60%, a weighted average expected life of 1.5 years and price volatility of 77%. No dividend yield was assumed as the Company has not paid dividends and has no plans to do so. The stock options to non-employees require the Company to account for them under variable accounting pronouncements which requires remeasurement of the deferred expense for the unvested portion of the options each interim period based on the then fair value of the Company's common stock.

The following table summarizes option activity through December 31, 1999:

	Shares Available For Grants	Options Outstanding: Number of Shares	Exercise Price	Aggregate Price	Weighted Average Exercise Price
Shares authorized under the 1997 plan	505,667	—			
Granted	(505,667)	505,667	$0.05 - $ 0.50	$ 33,685	$0.07
Balance, December 31, 1998	—	505,667	$0.05 - $ 0.50	33,685	$0.07
Shares authorized under the 1999 plan	12,000,000	—			
Granted	(9,659,721)	9,659,721	$0.50 - $67.88	11,024,078	$1.14
Cancelled	244,135	(244,135)	$0.50 - $ 8.00	(561,258)	$2.30
Exercised	—	(439,357)	$0.05 - $ 3.25	(371,130)	$0.84
Balance, December 31, 1999	2,584,414	9,481,896	$0.05 - $67.88	$10,127,375	$1.07

The following table summarizes information for stock options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise	Number Exercisable	Weighted Average Exercise Price
$ 0.05 - $ 0.50	8,099,958	9.2	$ 0.49	5,397,903	$0.49
$ 1.80 - $ 3.25	1,019,538	9.6	$ 2.88	91,521	$2.59
$ 6.50 - $ 12.00	355,500	9.9	$ 8.29	—	—
$ 32.50 - $ 67.88	6,900	9.9	$ 41.77	—	—
	9,481,896			5,489,424	

For the years ended December 31, 1999, 1998 and 1997, the Company recorded stock compensation expenses, resulting from issuance of common stock, of $251,938, $151,427 and $11,000, respectively. In connection with issuance of warrants, the Company recorded stock compensation expenses of $2,040,000 for the year ended December 31, 1999. For the years ended December 31, 1999 and 1998, the Company recorded stock compensation expenses, resulting from option granted under 1997 Stock Plan, of $35,454 and $426,098, respectively. In connection with stock option grants made under the Amended and Restated 1999 Stock Plan, the Company recorded total stock compensation of $9,032,714 for the year ended December 31, 1999.

Under SFAS No. 123, the Company is required to calculate the pro forma fair market value of options granted to employees and report the impact that would result from recording the compensation expense. The fair value of option grants has been estimated on the measurement date using the Black-Scholes option-pricing model using a weighted average risk-free interest rate of 5.14%, a weighted average expected life of 3 years, and a price volatility of 118%. No dividend yield was assumed as the Company has not paid dividends and has no plans to do so.

The weighted average expected life was calculated based on the vesting period and the expected life at the date of grant. The risk-free interest rate was calculated based on rates prevailing during the grant periods and expected lives of options at the date of grants.

The weighted average fair values of options granted to employees for the year ended December 31, 1998 was $1.70.

Had compensation expenses for option grants to employees been determined under SFAS No. 123 the Company's net loss would have been as follows:

	Year Ended December 31,		
	1999	1998	1997
Net loss attributable to common stockholders—as reported	$ (36,174,527)	$ (2,019,212)	$ (1,117,366)
Net loss attributable to common stockholders—SFAS No. 123 adjusted	$ (38,364,527)	$ (2,019,212)	$ (1,117,366)
Net loss per share attributable to common stockholders—basic and diluted as reported	$ (2.34)	$ (0.25)	$ (0.13)
Net loss per share attributable to common stockholders—basic and diluted SFAS No. 123 adjusted	$ (2.49)	$ (0.25)	$ (0.13)
Antidilutive securities including options, warrants and convertible preferred stock not included in historical net loss per share calculations	10,356,896	505,667	—

The pro forma net loss disclosures made above are not necessarily representative of the effects on pro forma net income (loss) for future years as options typically vest over several years and additional option grants are expected to be made in future years.

8. RELATED PARTY TRANSACTIONS

In relation to the related party obligations discussed in Note 5, the Company had the following related party balances as of December 31, 1998:

Payables to stockholders	$ 71,781
Payables to founders	67,920
Total payables to stockholders	$ 139,701

In June 1999, the Company entered into an agreement with a former employee and stockholder, under which the stockholder will receive commissions on the net proceeds (defined as gross revenue minus associated costs) generated from certain customers. The agreement expires in July 2000. The Company expensed $680,000 during 1999 related to this agreement.

In January 1999, the Company converted $12,420 of the payables to founders into 200,000 shares of common stock in connection with the founder's exercise of stock options.

In May 1998, the Company entered into a sublease agreement, on a month-to-month basis, for office space with a stockholder, who was the original tenant of the office space. The Company paid $79,753 and $41,000 during the years ended December 31, 1999 and 1998, respectively, to the stockholder.

During 1996 and 1997, founders of the Company purchased certain assets and incurred expenses on behalf of the Company for a total of $274,661. In June 1997, $232,161 of the outstanding amount was converted into common stock (see Note 5). During 1997 and 1998, $12,830 and $11,750 was paid back to the founders, respectively. In 1998, a founder advanced the Company $50,000, which the Company repaid in 1999.

The Company incurred expenses of $196,611 and $66,546 for the years ended December 31, 1998 and 1997, respectively, in connection with legal and consulting services performed by a law firm affiliated with a stockholder.

9. EMPLOYEE BENEFIT PLAN

The Company maintains a retirement and deferred savings plan for its employees (the "401(k) Plan") that is intended to qualify as a tax-qualified plan under the Internal Revenue Code. The 401(k) Plan provides that each participant may contribute up to 15% of his or her pre-tax gross compensation (up to a statutory limit). All amounts contributed by participants and earnings on these contributions are fully vested at all times. To date, the Company has not made discretionary contributions under the 401(k) Plan.

10. EMPLOYEE STOCK PURCHASE PLAN

In August 1999, the Board of Directors adopted the 1999 Employee Stock Purchase Plan (the "Purchase Plan") effective on the date of the Company's initial public offering. The Company has reserved 400,000 shares for issuance there under. Employees generally will be eligible to participate in the Purchase Plan if they are customarily employed by the Company for more than 20 hours per week and more than five months in a calendar year and are not 5% or greater stockholders. Under the Purchase Plan, eligible employees may select a rate of payroll deduction up to 10% of their compensation subject to certain maximum purchase limitations. The Purchase Plan will be implemented in a series of overlapping twenty-four month offering periods beginning on the effective date of the Company's initial public offering. Subsequent offering periods will begin on the first trading day on or after May 1 and November 1 of each year. Purchases will occur on each April 30 and October 31 (the "purchase dates") during each participation period. Under the Purchase Plan, eligible employees will be granted an option to purchase shares of common stock at a purchase price equal to 85% of the fair market value per share of common stock on either the start date of the offering period or the end date of the offering period, whichever is less. If the fair market value of the common stock at the end of the purchase period is lower than the fair market value on the start date of that offering period, then all participants in that offering period will be automatically withdrawn from such offering period and re-enrolled in the offering period immediately following.

11. SUBSEQUENT EVENTS

In March 2000, the Company filed on Form S-8, registering 1997 Stock Plan, 1999 Amended and Restated Plan and 1999 Employee Stock Purchase Plan.

In March 2000, the Company granted options to purchase 20,000 shares to an advisory board member. The Company will record stock compensation expenses on these options using variable accounting method.

In March 2000, the Company entered into an employment agreement whereby it granted an option to purchase 293,385 shares of the Company's common stock to an officer of the Company. Of these shares, 75,000 vested upon the commencement of the officer's employment. The officer was to receive a loan from the Company in the amount of $1,000,000. Because the officer voluntarily terminated his employment with the Company in March 2000, he is not eligible to receive this loan from the Company.

In March 2000, the Company paid $157,500 in severance fees to a former officer. In addition the Company accelerated vesting for this former officer to purchase 125,000 shares within 30 days of the effective date at $3.25 per share. The accelerated vesting is subject to approval of the Board of Directors. The Company will record stock compensation expense of $6.0 million, resulting from the acceleration.

To the Board of Directors and Stockholders of
Mediaplex, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Mediaplex, Inc. at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

San Francisco, California
January 21, 2000,
except for Note 11 for which
the date is March 8, 2000

The following is a list of all of our clients that purchased more than $50,000 in services from January 1, 1999 to February 29, 2000:

1800DAYTRADE.COM
AdAuction.com
Akamai Technologies, Inc.
AnyDay.com
Ashford.com
Le Club des Createurs de Beaute
BigVine
Capstone Studio
Cassava Enterprises Ltd.
DATEK Online
Deutsche Bank
DoveBid
DriveSavers
eCOST.com
eFax.com
eTranslate
Evite
Financial Engines
Fisher Investments, Inc.
Flowerfarm.com
FreeShop.com
FreshFlowerSource.com, Inc.
Hewlett-Packard
HomeGain
Investor's Business Daily
LuckySurf.com
macys.com
Mamma.com
more.com
musicmaker.com
MyShopNow.com
myTrack
National Discount Brokers
NextPlanetOver
OfficeMax.com
Orbis Online
PCMall/Creative Computers, Inc.
Providian Financial Corporation
Reflect.com
ReplayTV, Inc.
sales.com
School Specialty, Inc.
SelfCare.com
ShopMattel.com
ShopNow.com
Silicon Graphics, Inc.
Sprint PCS
Strong Funds
Sun Microsystems, Inc.
The Media Edge
ToyTime, Inc.
uBid.com
Virtumundo, Inc.
Visto Corporation
WinStar Interactive

The following is a list of advertising agencies and holding companies with which we have alliances as of February 29, 2000:

Critical Mass
DraftWorldwide
DynaMind, LLC
Gardner, Geary, Coll & Young
Hampel Stefanides
Impiric
KellTech Internet Services
KSL Media, Inc.
Lowe & Partners
McCann-Erickson/A&L
Publicis & Hal Riney
The Digital Edge
The Interpublic Group of Companies
Tonic 360
Winkler Advertising
Young & Rubicam Inc.

We have established alliances with the following technology and service companies as of February 29, 2000:

Across Media Networks
Ariba, Inc.
FreeStyle Interactive
Icon Medialab
Net Perceptions
OpenGrid
OTP Software, Inc.
Post Communications
SAP Labs, Inc.
SoftCoin

EXECUTIVE OFFICERS

Gregory R. Raifman	Chairman of the Board & Chief Executive Officer
Jon Logan Edwards	President
Walter Haefeker	Chief Operating Officer
Barclay R. Jiang	Chief Technology Officer
Timothy M. Favia	Executive Vice President, Sales & Business Development
Robert M. Henely	Senior Vice President, Technical Operations
Brian J. Powley	Senior Vice President, Client Services
Joy Fauvre	Senior Vice President, Marketing
Alan M. Raifman	Senior Vice President, Business & Legal Affairs
Sameer Prabhavalkar	Vice President, Finance & Controller

BOARD OF DIRECTORS

Gregory R. Raifman
Chairman of the Board
& Chief Executive Officer
Mediaplex, Inc.

Jon Logan Edwards
President
Mediaplex, Inc.

James DeSorrento
Former Chairman of the Board
& Chief Executive Officer
Triax Telecommunications Company L.L.C.

Lawrence D. Lenihan Jr.
Managing Director
Pequot Capital Management, Inc.

Peter Sealey, Ph.D.
Adjunct Professor of Marketing
and Co-Director
Center for Marketing and Technology
Haas School of Business
University of California at Berkeley

A. Brooke Seawell
General Partner
Technology Crossover Ventures

Mediaplex
Advertising Technology[SM]

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