

UNITED ONLINE INC

FORM 10-Q (Quarterly Report)

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended December 31, 2001

or

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

For the transition period from _____ to _____

Commission file number 333-63704

UNITED ONLINE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0575839
(I.R.S Employer Identification No.)

**2555 Townsgate Road,
Westlake Village, California**
(Address of principal executive office)

91361
(Zip Code)

(805) 418-2000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

There were 39,916,300 shares of the registrant's common stock outstanding as of February 1, 2002

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In this document, "United Online," the "Company," "we," "us" and "our" collectively refers to United Online, Inc. and its wholly-owned subsidiaries.

PART I. FINANCIAL INFORMATION

UNITED ONLINE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2001	June 30, 2001
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 60,347,000	\$ 60,087,000
Short-term investments	65,434,000	59,129,000
Restricted cash	4,374,000	13,524,000
Accounts receivable, net of allowance for doubtful accounts of \$395,000 and \$354,000 at December 31, 2001 and June 30, 2001	11,705,000	9,027,000
Other current assets	3,410,000	5,823,000
	145,270,000	147,590,000
Property and equipment, net	25,583,000	28,877,000
Restricted cash	2,253,000	2,253,000
Goodwill	9,402,000	—
Intangible assets	56,652,000	1,466,000
Other assets	3,473,000	3,677,000
	\$ 242,633,000	\$ 183,863,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 24,066,000	\$ 24,870,000

Accrued liabilities	10,708,000	5,756,000
Deferred revenue	17,409,000	4,404,000
Current portion of notes payable	191,000	1,710,000
Current portion of capital leases	5,071,000	4,852,000
	<hr/>	<hr/>
Total current liabilities	57,445,000	41,592,000
Notes payable, less current portion	—	433,000
Capital leases, less current portion	748,000	2,881,000
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock	4,000	3,000
Treasury stock	(1,058,000)	—
Additional paid-in capital	539,035,000	460,991,000
Notes receivable from stockholders	(847,000)	(829,000)
Deferred stock-based charges	(2,960,000)	(9,708,000)
Accumulated other comprehensive income	512,000	867,000
Accumulated deficit	(350,246,000)	(312,367,000)
	<hr/>	<hr/>
Total stockholders' equity	184,440,000	138,957,000
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 242,633,000	\$ 183,863,000
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

UNITED ONLINE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
Revenues				
Billable services	\$ 41,035,000	\$ 105,000	\$ 48,698,000	\$ 538,000
Advertising and commerce	7,012,000	15,904,000	13,457,000	31,937,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	48,047,000	16,009,000	62,155,000	32,475,000
	<hr/>	<hr/>	<hr/>	<hr/>
Operating expenses				
Cost of billable services (including stock-based charges of \$52,000 and \$— for the quarters ended December 31, 2001 and 2000, and \$67,000 and \$— for the six months ended December 31, 2001 and 2000, respectively)	23,265,000	54,000	31,542,000	225,000
Cost of free services (including stock-based charges of \$27,000 and \$89,000 for the quarters ended December 31, 2001 and 2000, and \$60,000 and \$239,000 for the six months ended December 31, 2001 and 2000, respectively)	8,722,000	21,675,000	21,978,000	40,152,000
Sales and marketing (including stock-based charges of \$238,000 and \$1,451,000 for the quarters ended December 31, 2001 and 2000, and \$(154,000) and \$2,589,000 for the six months ended December 31, 2001 and 2000, respectively)	10,059,000	17,172,000	13,998,000	31,177,000
Product development (including stock-based charges of \$569,000 and \$2,772,000 for the quarters ended December 31, 2001 and 2000, and \$893,000 and \$3,523,000 for the six months ended December 31, 2001 and 2000, respectively)	7,418,000	8,663,000	12,081,000	13,634,000
General and administrative (including stock-based charges of \$1,638,000 and \$2,095,000 for the quarters ended December 31, 2001 and 2000, and \$2,699,000 and \$4,789,000 for the six months ended December 31, 2001 and 2000, respectively)	9,151,000	8,304,000	17,164,000	15,707,000
Restructuring costs	2,075,000	—	2,435,000	—

Amortization of goodwill and intangible assets	4,685,000	6,380,000	4,786,000	10,198,000
Total operating expenses	65,375,000	62,248,000	103,984,000	111,093,000
Loss from operations	(17,328,000)	(46,239,000)	(41,829,000)	(78,618,000)
Interest income, net	1,585,000	2,884,000	2,943,000	6,437,000
Other income (expense), net	—	—	1,007,000	(39,000)
Net loss	\$ (15,743,000)	\$ (43,355,000)	\$ (37,879,000)	\$ (72,220,000)
Unrealized loss on short-term investments	(463,000)	—	(355,000)	—
Comprehensive loss	\$ (16,206,000)	\$ (43,355,000)	\$ (38,234,000)	\$ (72,220,000)
Basic and diluted net loss per share	\$ (0.41)	\$ (1.90)	\$ (1.19)	\$ (3.26)
Shares used to calculate basic and diluted net loss per share	38,863,000	22,832,000	31,795,000	22,185,000

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

UNITED ONLINE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

	Six Months Ended December 31,	
	2001	2000
Cash flows from operating activities:		
Net loss	\$ (37,879,000)	\$ (72,220,000)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	14,356,000	17,833,000
Loss (gain) on sale of assets	(136,000)	71,000
Allowance for doubtful accounts	41,000	208,000
Stock-based charges, net	3,565,000	11,140,000
Other	(37,000)	(12,000)
Changes in operating assets and liabilities (excluding the effects of acquisitions):		
Restricted cash	9,150,000	774,000
Accounts receivable	2,910,000	(2,744,000)
Other assets	2,130,000	(5,576,000)
Accounts payable and accrued expenses	(17,822,000)	1,296,000
Deferred revenue	3,220,000	(764,000)
Net cash used for operating activities	(20,502,000)	(49,994,000)
Cash flows from investing activities:		
Purchases of property and equipment	(436,000)	(3,365,000)
Purchase of patent rights	(18,000)	(81,000)
Purchase of short-term investments	(34,605,000)	(66,067,000)
Proceeds from sale of short-term investments	27,945,000	26,470,000
Proceeds from sale of assets	1,190,000	—
Cash paid for acquisitions, net of cash acquired	32,307,000	(7,396,000)
Net cash provided by (used for) investing activities	26,383,000	(50,439,000)

Cash flows from financing activities:		
Payments on capital leases	(2,581,000)	(3,670,000)
Payments on notes payable	(1,952,000)	(791,000)
Proceeds from exercise of stock options	—	19,000
Common stock repurchases	(1,088,000)	—
Net cash used for financing activities	(5,621,000)	(4,442,000)
Change in cash and cash equivalents	260,000	(104,875,000)
Cash and cash equivalents, beginning of period	60,087,000	201,512,000
Cash and cash equivalents, end of period	\$ 60,347,000	\$ 96,637,000
Supplemental disclosure of non-cash investing activities:		
Stock issued for acquisitions	\$ 76,856,000	\$ 49,802,000

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

UNITED ONLINE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business.

United Online, Inc. ("United Online" or the "Company") is a leading provider of value-priced Internet access services. The Company was incorporated in Delaware in June 2001 and was formed in connection with the merger of NetZero, Inc. ("NetZero") and Juno Online Services, Inc. ("Juno") into two of United Online's wholly-owned subsidiaries, which was consummated on September 25, 2001 (the "Merger"). The Merger was accounted for under the purchase method of accounting and, as a result, NetZero and Juno each became wholly-owned subsidiaries of United Online. For financial accounting purposes, NetZero was the acquiror.

United Online, under both the NetZero and Juno brand names, offers consumers both free and value-priced Internet access, e-mail and customizable navigation tools. The Company's services are currently available in more than 5,000 cities across the United States and Canada. In addition to offering consumers access to the Internet, United Online offers marketers the ability to deliver their messages through several online advertising channels to select users of the Company's services. United Online also offers advertisers and commerce partners a variety of additional online advertising products, including online market research and measurement services.

2. Basis of Presentation.

The condensed consolidated financial statements and notes for the six months ended December 31, 2001 reflect the financial results of NetZero, as predecessor to United Online, prior to the Merger and the combined results of NetZero and Juno subsequent to the Merger. As a result, the operating results presented for the three and six months ended December 31, 2000 exclude the results of Juno. In addition, since the operating results for the six months ended December 31, 2001 only include Juno's results subsequent to the Merger, the results do not reflect the additional amortization expense that would have been incurred if the Merger had closed at the beginning of fiscal 2001.

The accompanying condensed consolidated financial statements are unaudited except for the balance sheet information at June 30, 2001 and include United Online and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period. Certain amounts in the prior period's financial statements have been reclassified to conform to the presentation of the current period. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended June 30, 2001 included in the Company's registration statement on Form S-4 filed on August 24, 2001 with the Securities and Exchange Commission (the "SEC").

At December 31, 2001, the Company had cash, cash equivalents and short-term investments of approximately \$125.8 million. The Company considers its existing cash, cash equivalents and short-term investments to be adequate to fund its operating activities, capital expenditures and other obligations for at least the next twelve months. However, additional capital may be needed in order to fund the

Company's operations, expand marketing activities, develop new or enhance existing services or products, to respond to competitive pressures or to acquire complementary services, businesses or technologies. If the Company's existing cash resources and cash generated from operations are insufficient, additional capital through public or private financings, strategic relationships or other

arrangements will be necessary. This additional funding might not be available on acceptable terms, or at all. Failure to raise sufficient capital when needed could have a material adverse effect on the business, results of operations and financial condition of the Company. If additional funds are raised through the issuance of equity securities, the percentage of stock owned by the then-current stockholders will be reduced. Furthermore, such equity securities might have rights, preferences or privileges senior to those of the common stockholders.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results may differ from those estimates.

3. Recent Accounting Pronouncements.

In July 2001, the FASB issued Statements of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. In addition, SFAS No. 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS No. 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 (i.e., the acquisition date is July 1, 2001 or after).

In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and indefinite-lived intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the amortization provisions do not apply until the Company applies the new accounting rules. The Company will be required to implement SFAS No. 142 in the first quarter of fiscal 2003. The Company is currently evaluating the impact of SFAS No. 142.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The FASB's new rules on asset impairment supersede SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and portions of APB Opinion No. 30, "Reporting the Results of Operations." SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value and carrying amount. SFAS No. 144 also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are incurred, rather than as of the measurement date as presently required. The Company will apply the new accounting rule beginning July 1, 2002 and is in process of evaluating the impact of adopting SFAS No. 144.

4. Significant Accounting Policies.

Revenue Recognition

Billable services revenues are recognized in the period in which the fees are fixed and determinable, the related products or services are provided to the user and, in circumstances where payment is not received in advance, collectibility is reasonably assured. Billable services revenue consists primarily of subscription fees that we receive from users of our fee-based Internet access services. We generally require that our subscribers pre-pay for their services, which results in the

deferral of certain revenues into the period in which the related access services are provided. Billable services also consist of technical support fees charged to users on access plans that do not include free customer support.

The Company also derives revenue from the sale of advertising, which includes banner advertisements, placements and sponsorships, referrals of users to other Web sites, performance-based agreements, e-commerce arrangements and advertising messages delivered to the Company's users via e-mail. Banner advertising and sponsorship revenues are recognized in the periods in which the advertisement or sponsorship placement is displayed, based upon the lesser of impressions delivered over the total number of guaranteed impressions or ratably

over the period in which the advertisement is displayed, provided that no significant Company obligations remain, fees are fixed and determinable, and collection of the related receivable is probable. The Company's obligations typically include the guarantee of a minimum number of impressions or the satisfaction of other performance criteria. Revenues from performance-based arrangements are recognized as the related performance criteria are met. Referral revenues are recognized as referrals are made to advertisers' or sponsors' Web sites, provided that no significant Company obligations remain, fees are fixed and determinable, and collection of the related receivable is reasonably assured.

Long Lived Assets

The Company identifies and records impairment losses on long-lived assets, including goodwill that is not identified with an impaired asset, when events and circumstances indicate that such assets might be impaired. Events and circumstances that may indicate that an asset is impaired include significant decreases in the market value of an asset, a change in the extent or manner in which an asset is used, shifts in technology, loss of key management or personnel, changes in the operating model or strategy and competitive forces.

If events and circumstances indicate that the carrying amount of an asset may not be recoverable and the expected undiscounted future cash flows attributable to the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based on the present value of estimated expected future cash flows using a discount rate commensurate with the risk involved, quoted market prices or appraised values, depending on the nature of the assets.

5. Acquisitions.

On September 25, 2001, NetZero and Juno merged with two wholly-owned subsidiaries of United Online. Under the terms of the Merger agreement, entered into on June 7, 2001, NetZero common stockholders received 0.2000 of a share of United Online common stock for each share they owned, and Juno common stockholders received 0.3570 of a share of United Online common stock for each share they owned. The Merger has been accounted for under the purchase method of accounting for business combinations. The purchase price of approximately \$89.3 million, including transaction costs, was allocated to Juno's net assets based on their fair values. The excess of the purchase price over the estimated fair values of the net assets acquired, including identifiable intangible assets, was recorded as goodwill. The fair value of the common stock issued was determined based on an average price per share of NetZero common stock on the dates surrounding the announcement of the execution of the merger agreement while the fair value of the Juno options assumed was determined based on the Black-Scholes option pricing model using a weighted average expected life of five years, 0% dividend,

volatility of 120%, and a risk-free interest rate of 5%. A summary of the purchase price and net assets acquired as of December 31, 2001 is as follows:

Purchase Price

Fair value of common stock issued	\$	76,900,000
Fair value of Juno options assumed		4,400,000
Acquisition costs		7,979,000
		<hr/>
Total purchase price	\$	89,279,000
		<hr/>

Net Assets Acquired

<u>Asset Classification</u>	<u>Estimated Fair Value</u>	<u>Estimated Amortizable Life</u>
Net tangible assets	\$ 20,077,000	
Intangible assets:		
Acquired customers	53,700,000	1-4 years
Software and technology	3,600,000	4-5 years
Trademark / brandname	2,300,000	5-7 years
Other miscellaneous	200,000	1 year
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Total intangible assets acquired	59,800,000	
	<hr/>	
Goodwill	\$ 9,402,000	
	<hr/>	
Total net assets acquired	\$ 89,279,000	

The following summarized unaudited pro forma financial information for the six months ended December 31, 2001 and 2000 assumes that the Merger and other acquisitions made during the six months ended December 31, 2001 and 2000, had occurred at the beginning of each period presented:

	Six Months Ended December 31,	
	2001	2000
Net Revenues	\$ 90,063,000	\$ 92,921,000
Net Loss	\$ (39,621,000)	\$ (127,852,000)
Net Loss per Share	\$ (1.02)	\$ (3.35)

6. Acquisition and Restructuring Costs.

In connection with the Merger, United Online has incurred the following acquisition costs, which have been capitalized and included as part of the purchase price (see Note 5):

Employee termination benefits	\$ 3,845,000
Investment banking, accounting and legal costs	2,301,000
Early contract termination fees	1,833,000
	<hr/>
Total	\$ 7,979,000

Immediately following the Merger, United Online reduced Juno's workforce by 49 employees and recorded employee termination benefit charges of \$3.8 million. Of the 49 employees terminated, 35 were in general and administrative, 11 were in sales and marketing and the remaining 3 were in product development functions. As of December 31, 2001, substantially all of the employee termination

benefits and other acquisition costs had been paid. United Online does not expect the final acquisition costs to differ materially from the amounts included and estimated in the accompanying unaudited condensed consolidated financial statements.

During the six months ended December 31, 2001 the Company recorded approximately \$2.4 million in restructuring costs, which consisted of \$0.6 million in employee termination benefits paid to NetZero employees and \$1.8 million in lease exit costs, which includes a charge of approximately \$0.8 million to write-off leasehold improvements associated with the Company's former offices in New York. In an effort to streamline its operations in response to changing market conditions, the Company reduced NetZero's workforce by approximately 93 employees during the six months ended December 31, 2001. Of the 93 employees terminated, 35 were in sales and marketing, 26 were in general and administrative, 23 were in product development, 6 employees were at RocketCash, and 3 were in network operations. In addition, the Company closed its regional sales office in San Francisco and combined NetZero's and Juno's offices into one facility in New York.

In connection with the Company's effort to streamline its operations, the Company completed the sale of one of its subsidiaries, RocketCash Corporation in August 2001. The sale included substantially all of the assets of RocketCash and resulted in net cash proceeds to the Company of approximately \$1.2 million. During the twelve months ended June 30, 2001, RocketCash had revenues and operating losses of \$0.3 and \$38.3 million, respectively. Included in RocketCash's operating losses was a charge to write down goodwill and intangible assets of \$21.7 million, which was incurred during the March 2001 quarter.

The Company expects to pay additional restructuring and merger-related charges of between \$4.6 and \$6.6 million over the next 15 months. These charges relate to employee stay bonuses for certain Juno employees that will be paid in March 2003 and are being expensed evenly over the period of performance, additional lease exit costs expected as a result of additional facility consolidations, employee termination benefits, and other fees and costs related to the early termination of certain contracts. These charges will be expensed during the period in which they are incurred.

7. Concentration of Credit Risk.

At December 31, 2001, one customer comprised approximately 23% of the accounts receivable balance. At June 30, 2001, two customers comprised approximately 36% and 12% of the consolidated accounts receivable balance. For the three and six months ended December 31, 2001 we did not have any individual customers that comprised more than 10% of total revenues. For the three and six months ended December 31, 2000, three customers comprised 35%, 12% and 10%, and two customers comprised 29% and 10% of revenues, respectively.

8. Equity.

NetZero and Juno Merger

On September 25, 2001 each share of NetZero common stock issued and outstanding was converted into 0.2000 of a share of United Online common stock and each share of Juno common stock issued and outstanding was converted into 0.3570 of a share of United Online common stock. Additionally, each outstanding stock option of NetZero and Juno was converted into an option to purchase that number of United Online common stock shares equal to the product of 0.2000 and 0.3570, respectively, multiplied by the number of shares of common stock underlying the option.

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Preferred Stock

The Company has authorized 5,000,000 shares of preferred stock with a par value of \$0.0001, of which 300,000 shares have been designated as Series A junior participating preferred stock. As of December 31, 2001, the Company had no shares issued and outstanding.

Stockholders Rights Plan

On November 15, 2001, the Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of its common stock. The dividend was paid on November 26, 2001 to the stockholders of record at the close of business on that date. Each right entitles the registered holder to purchase from the Company one unit consisting of one one-thousandth of a share of its Series A junior participating preferred stock of the Company, at a price of \$25 per unit. The rights generally will be exercisable only if a person or group acquires beneficial ownership of 15% or more of the Company's common stock or announces a tender or exchange offer which results in a person owning 15% or more of the Company's common stock. The Company generally will be entitled to redeem the rights at \$0.001 per right at any time until 10 days after a public announcement that a 15% position in the Company's common stock has been acquired or that a tender or exchange offer which would result in a person owning 15% or more of the Company's common stock has commenced. The rights expire on November 26, 2011.

Common Stock

The Company has authorized 300,000,000 shares of common stock with a par value of \$0.0001. As of June 30, 2001, the Company had 25,146,000 shares issued and outstanding. As of December 31, 2001, the Company had 39,877,000 shares issued and outstanding.

Common Stock Repurchase Program

On May 26, 2001 the Company's Board of Directors authorized a common stock repurchase program that allows United Online to repurchase, from time to time, up to \$10 million of common stock over a one-year period. During the six months ended December 31, 2001, the Company repurchased approximately 405,000 shares at an aggregate cost of approximately \$1.1 million under the repurchase program.

Restricted Stock Awards

In July 2000, certain employees were granted restricted stock awards totaling approximately 300,000 shares of common stock. The shares of common stock subject to such awards vested ratably over twelve quarterly installments beginning in August 2000. In connection with the award, the Company recorded deferred stock-based charges of approximately \$7.8 million. In October 2001, the Board of Directors authorized that the remaining unvested restricted stock awards immediately become fully vested. As a result, approximately 165,000 shares of restricted common stock became vested and the remaining balance of \$1.5 million in deferred stock-based charges was expensed.

9. Net Loss per Share.

The Company has adopted SFAS No. 128 "Earnings per Share" ("EPS") which requires a dual presentation of basic and diluted EPS. As the Company has incurred losses in each of the periods presented, potential shares of common stock have not been included in the calculation of EPS as they would be antidilutive.

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The following table sets forth the computation of basic and diluted net loss per share:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
Numerator:				
Net loss	\$ (15,743,000)	\$ (43,355,000)	\$ (37,879,000)	\$ (72,220,000)
Denominator:				
Weighted average common shares	39,965,000	25,027,000	33,031,000	24,413,000
Adjustment for common shares subject to repurchase	(1,102,000)	(2,195,000)	(1,236,000)	(2,228,000)
Adjusted weighted average common shares	38,863,000	22,832,000	31,795,000	22,185,000
Basic and diluted net loss per share	\$ (0.41)	\$ (1.90)	\$ (1.19)	\$ (3.26)

The diluted per share computations exclude unvested common stock, warrants and options which were antidilutive. The number of potential shares excluded from the diluted net loss per share was approximately 9.5 and 4.5 million for the three months ended December 31, 2001 and 2000, respectively.

10. Commitments and Contingencies.

In April 2001, NetZero and certain of its officers and directors were served with a complaint alleging violations of the federal securities laws. A number of other complaints have since been filed and/or served containing similar allegations. These complaints were brought as purported shareholder class actions under Sections 11 and 15 of the Securities Act of 1933, as amended. The complaints generally allege that the prospectus through which NetZero conducted its initial public offering in September 1999 was materially false and misleading because it failed to disclose, among other things, that (i) the underwriters of NetZero's initial public offering had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriters allocated to those investors material portions of the restricted number of NetZero shares issued in connection with initial public offering; and (ii) the underwriters had entered into agreements with customers whereby they agreed to allocate NetZero shares to those customers in the initial public offering in exchange for which the customers agreed to purchase additional NetZero shares in the aftermarket at pre-determined prices.

The pending lawsuits involve complex questions of fact and law and likely will require the expenditure of significant funds and the diversion of other resources to defend. Although the Company believes the outcome of the above outstanding legal proceedings, claims and litigation will not have a material adverse effect on its business, results of operations or financial position, the results of litigation are inherently uncertain. The Company is unable to estimate the range of possible loss from outstanding litigation, and no amounts have been provided for such matters in the accompanying unaudited condensed consolidated financial statements.

Juno entered into subscriber referral agreements with two former providers of free Internet access, WorldSpy and Freewwwweb, under which Juno is obligated to pay certain amounts based on the number of "Qualified Referred Subscribers" generated by referral activities specified in the agreements. A new Juno subscriber referred to Juno by WorldSpy or Freewwwweb is a Qualified Referred Subscriber if he or she meets certain qualification criteria defined in the relevant subscriber referral agreement. Under the terms of these agreements, Juno has the right to settle a portion of the liabilities incurred in connection with acquiring the Qualified Referred Subscribers through the issuance of shares of its common stock. At December 31, 2001, the Company had liabilities recorded of approximately

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\$4.0 million as an estimate of the remaining amounts that may be settled through the issuance of its common stock or the payment of cash.

The Company is subject to various other legal proceeding and claims, which arise in the ordinary course of business. In the opinion of management, the amount, and ultimate liability, if any, with respect to these actions will not materially affect the financial position, results of operations or cash flows of the Company.

11. Subsequent Events.

In January 2002, the Board of Directors authorized the Company to loan each of the Company's seven executive officers up to \$200,000 for the exercise of certain stock options that had been previously awarded to the officers. The principal balance of the notes accrue interest at annual rates ranging from prime plus 1% to prime plus 2%, which is payable at the end of each calendar quarter. The principal balance of the notes becomes due in full on February 5, 2007. Additionally, the entire principal balance and any accrued interest become immediately payable 90 days following the termination of employment with the Company. The notes are full recourse obligations and are secured by the underlying

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements based on our current expectations, estimates and projections about our operations, industry, financial condition and liquidity. Words such as "anticipates," "expects," "intends," "plans," "believes," "may," "will" or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Such statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. The sections entitled "Risk Factors" in this Form 10-Q and our Registration Statement on Form S-4 as filed with the Securities and Exchange Commission on August 24, 2001 set forth some of the important risk factors that may affect our business, results of operations and financial condition. We undertake no obligation to revise or update publicly any forward-looking statements, other than as required by law.

Overview

United Online was incorporated in June 2001 and, on September 25, 2001, commenced operations following the Merger of NetZero and Juno into two of its wholly-owned subsidiaries. The Merger was accounted for under the purchase method of accounting for business combinations as an acquisition of Juno by NetZero, which is considered the predecessor company to United Online. Under the purchase method of accounting, the estimated cost of approximately \$89.3 million, including transaction costs, has been allocated to the underlying net assets of Juno based on their estimated fair values. The excess of the purchase price over the estimated fair value of net assets acquired has been recorded as goodwill. The financial results of Juno have been included in United Online's results since the date of the Merger.

We are a leading value-priced Internet Service Provider (ISP) offering Internet access in more than 5,000 cities across the United States and Canada. In addition to offering consumers access to the Internet, we offer marketers targeting capabilities through numerous online advertising channels. We also offer advertisers and commerce partners a variety of additional services, including referring our users to partners' Web sites and providing online market research and measurement services. We had 1.45 million subscribers to our billable service plans at December 31, 2001 and approximately 5.6 million active users during the month of December 2001, including pay subscribers. An "active" user is one who has logged onto our services during the preceding 31 days.

Juno launched its first service, a free, dial-up email service, in April 1996. NetZero launched its free Internet access service in October 1998. Both Juno's and NetZero's free services were predicated on generating advertising revenues to fund their operations. Due to a variety of factors, including reductions in online advertising rates, both NetZero and Juno have taken various measures to limit the cost of providing free services. We may take additional measures to further reduce such costs in the future.

Juno started offering fee-based Internet services in 1998 and NetZero started offering fee-based Internet services in January 2001. Our fee-based Internet services, NetZero and Juno Platinum, are offered through various pricing plans, generally \$9.95 per month, and differ from our free services in that hourly and other limitations set for the free services do not apply and the services feature small toolbars without a persistent on-screen advertising banner.

Billable Services Revenues

We currently offer billable Internet access services under a number of pricing plans, ranging from \$4.95 to \$29.95 per month. Currently, the most common pricing plan for our fee-based access services

is \$9.95 per month. However, we continually experiment with the use of discounted pricing plans both in connection with offers extended to some of our existing subscribers and through selected external marketing channels. We intend to continue testing a variety of pricing plans in the future to determine their impact on profitability, subscriber acquisition, and conversion and retention rates. We continually evaluate the desirability and effectiveness of our plans, and may in the future make changes to our pricing plans. We may also offer promotions such as a free month of service or a discounted rate for an initial or prepaid period, as well as a wide range of discounted flat-rate plans. Future changes in our plans and promotional discounts may adversely impact the number of pay users and the amount of billable services revenues we receive from such users.

Our pay user base increased by approximately 214,000, from 1.25 million at September 30, 2001 to 1.46 million at December 31, 2001. In October 2001, we reduced the number of hours per month that a household can use the NetZero free service from 40 to no less than 10 and eliminated the free service in certain geographical areas where telecommunications costs make the offering cost prohibitive. As a result we saw a significant increase in pay users during the month of October and a decrease in our active free user base. We may experience periodic fluctuations in our pay user base in the future as a result of a number of factors including, but not limited to, the imposition of additional limitations on our free services; changes in our free service user base; promotional free trial periods of our pay services; increases or decreases in our marketing spend; acquisitions; competitive factors, including competition in the value-priced segment of the ISP market; the effects of customer churn and seasonality; and changes in the price of our billable service plans.

We previously operated a broadband service, Juno Express. However, due to a variety of factors including the failure of several providers of the high-speed services, this broadband service has been terminated. We have tested a cable version of Juno Express and have entered into an agreement with AOL Time Warner to utilize their cable network to offer such services, but there are numerous operational and other issues that could impact whether Juno will offer these services over AOL Time Warner's cable systems in the near term, or at all. Furthermore, the agreement with AOL Time Warner is subject to termination by either party and is also subject to the approval of the Federal Trade Commission.

Billable services revenues are recognized in the period in which the fees are fixed and determinable and the related products or services are provided to the user. Billable services revenue consists primarily of subscription fees that we receive from users of our fee-based access services. We generally require that our subscribers pre-pay for their services, which results in the deferral of certain revenues into the period in which the access services are provided. Billable services also consist of technical support fees charged to users on service plans that do not include free customer support and, to a much lesser extent, fees charged to users for producing, shipping and handling copies of our software on CDs. We have a limited history with respect to our various billable services and there can be no assurances that we will be successful in continuing to grow this business.

Advertising and Commerce Revenues

Our advertising and commerce revenues consist of fees from the placement of media, direct marketing agreements, referring our users to partners' Web sites, enabling customer registrations for partners, and fees from electronic commerce transactions. We also generate revenues from our online market research and measurement services.

Banner advertising and sponsorship revenues are recognized in the periods in which the advertisement or sponsorship placement is displayed, based upon the lesser of impressions delivered over the total number of guaranteed impressions or ratably over the period in which the advertisement is displayed, provided that no significant obligations on our part remain, fees are fixed and determinable, and collection of the related receivable is probable. Our obligations typically include the

guarantee of a minimum number of impressions or the satisfaction of other performance criteria. Revenues from performance-based arrangements, including click-throughs, are recognized as the related performance criteria are met. Referral revenues are recognized in the periods in which the referrals are made to advertisers' or sponsors' Web sites, provided that no significant obligations on our part remain, fees are fixed and determinable, and collection of the related receivable is probable.

Advertising on the Internet, particularly the products and services we offer, is a relatively new and changing industry, and there is no assurance that the products and services we offer now, or in the future, will meet with commercial acceptance. Internet advertising rates have declined significantly, and it is possible that rates will continue to decline. Many of the purchasers of Internet advertising have been companies with Internet-based business models. Certain of these companies have come under financial pressure and have not been able to access the capital markets to fund their operations. This trend has impacted our ability to generate advertising and commerce revenues and could continue to do so in the future. This trend could also result in increased allowances for doubtful accounts.

Due to market forces and other factors, our advertising and commerce revenues may fluctuate from period to period. We have experienced six sequential quarters of decreased advertising and commerce revenues and there can be no assurance that we will not experience decreased revenues in sequential quarters in future periods. Factors impacting our advertising and commerce revenues include, but are not limited to, the state of the online advertising market, increases and decreases in our user base and reductions in advertising inventory available for sale.

We have entered into barter transactions on an extremely limited basis. There is no barter revenue in the historical or pro forma revenues for the three and six months ended December 31, 2001. In the historical results for the three and six months ended December 31, 2000, barter revenue was less than 1% of advertising and commerce revenue. In the pro forma results for the three and six months ended December 31, 2000 barter revenue was approximately 2% of advertising and commerce revenues for both periods.

Cost of Billable Services

Cost of billable services includes direct costs that have been allocated to our billable services based on the aggregate hourly usage of our

pay users as a percentage of total hourly usage of both our free and pay users. Allocated costs consist primarily of telecommunications costs, personnel and related costs associated with operating our network and data centers and depreciation of network computers and equipment. In addition, cost of billable services includes direct costs incurred in providing technical and customer support and costs associated with providing customer billing and billing support.

We have expended significant funds on our network infrastructure. While we may expend significant additional funds on capital expenditures in the future, such expenditures are dependent upon our expectation of user growth and usage patterns, as well as needs associated with acquired businesses and new products. Telecommunications costs for network access are expensed as incurred. Our failure to accurately forecast users' needs could result in significant overcapacity, which would adversely impact our results of operations. Conversely, under-forecasting usage could adversely impact the ability of users to receive adequate service and adversely impact our reputation and our ability to maintain or increase our user base. We have limited history in forecasting our user requirements, and there can be no assurance that we will be able to accurately forecast such requirements in the future.

Cost of Free Services

Cost of free services includes direct costs that have been allocated to our free services based on the aggregate hourly usage of our free users as a percentage of total hourly usage of both our free and pay users. Allocated costs consist primarily of telecommunications costs, personnel and related costs associated with operating our network and data centers, and depreciation of network equipment. In

addition, cost of free services includes certain direct costs incurred in providing technical and customer support to our free users and certain costs associated with delivering advertising to our free users.

Sales and Marketing

Sales and marketing expenses include advertising and promotion expenses, salaries, sales commissions, employee benefits, travel and related expenses for our direct sales force, fees paid to third-party advertising sales agents, customer services costs incurred to acquire new users, and sales support functions. In the past, we have expended significant amounts on sales and marketing, including national branding campaigns comprised of television, radio and print advertising, sponsorships and a variety of other promotions. Due to the timing of these promotions, amounts expended have varied significantly from period to period. Marketing costs may fluctuate significantly from quarter to quarter. Marketing and advertising costs to promote our products and services are expensed in the period incurred.

Product Development

Product development costs include expenses for the development of new or improved technologies and products, including salaries and related expenses for the software development and product management departments, as well as costs for contracted services, facilities and equipment.

General and Administrative

General and administrative expenses include salaries, employee benefits and expenses for executive, finance, legal, human resources and internal customer support personnel. In addition, general and administrative expenses include fees for professional services, non-income taxes, permits and licenses, bad debt expense, and occupancy and other overhead-related costs.

Restructuring Costs

Restructuring costs consist of severance costs, lease exit costs and the write-off of leasehold improvements associated with terminated leases.

Amortization of Goodwill and Intangible Assets

Amortization of goodwill and intangible assets includes amortization of goodwill, acquired customers, purchased technologies and other identifiable intangible assets associated with our various acquisitions. At December 31, 2001, we had approximately \$9.4 million in goodwill and \$56.7 million in intangible assets primarily resulting from our acquisition of Juno on September 25, 2001. We expect to incur significant amortization expense in connection with the intangible assets in future periods. In July 2001, the FASB issued Statements of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite-lived assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and other indefinite-lived intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the amortization provisions do not apply until the Company applies the

new accounting rules. The Company will be required to implement SFAS No. 142 in the first quarter of fiscal 2003. The Company is currently evaluating the impact of SFAS No. 142. Since our acquisition of Juno was completed after June 30, 2001 we are not amortizing the goodwill acquired as a result of that acquisition in accordance with SFAS No. 142.

Amortization of Stock-Based Charges

We recorded deferred stock-based charges in connection with the grant of stock options and restricted stock to employees, the imposition of restrictions on shares of stock held by founders and the issuance of restricted shares of stock in connection with prior acquisitions, which are being amortized over the vesting period of the applicable shares.

Significant Financial Trends

We have experienced significant growth in our billable services revenues and pay users over the last twelve months as a result of the launch of the NetZero Platinum billable service plan during the March 2001 quarter and the acquisition of Juno in the September 2001 quarter. Growth in pay users has been positively impacted by limitations imposed on our free services at various times during 2001. While we believe that we will continue to grow our pay user base and billable services revenues, we do not expect that we will maintain the same rate of growth that we have recently experienced. We have also experienced declining advertising and commerce revenues over the last six quarters due to the loss of several significant advertising agreements and decreased advertising inventory as a result of limitations imposed on our free services. We believe that pricing in the online advertising market has begun to stabilize and, although we anticipate lower advertising and commerce revenues in the March 2002 quarter, we do not expect to experience the same rate of declines in advertising and commerce revenues in the future.

We expect average revenue per user to decrease in the March 2002 quarter. Average revenue per user is calculated by dividing billable services revenues for a period by the average number of users during the period, which is calculated using the number of users at the beginning and ending of such period. Fluctuations in the number of subscribers early or late in a period can cause average revenue per user to be skewed higher or lower. The average monthly revenue per user in the December 2001 quarter was slightly above normal levels due to a surge in billable subscribers occurring early in the quarter primarily as a result of limitations imposed on NetZero's free service in October 2001.

We have recently experienced a decrease in the cost of billable services as a percentage of billable services revenues and we expect cost of billable services as a percentage of billable services revenues to decrease modestly in the March 2002 quarter as a result of cost savings gained through the consolidation of NetZero's and Juno's billing and customer relationship management functions. Also, we have recently experienced a significant decline in the cost of free services. The limitations imposed on our free services have resulted in a decline in our telecommunications expense and our active free user base. We anticipate that the active users of our free services may continue to decline and that, as a result, the cost of free services may also decrease.

We have significantly reduced our level of spending on marketing and promotion of our services over the last twelve months. Our future marketing and promotion spend may vary significantly from quarter to quarter and may impact our ability to grow our pay user base. Our ability to grow our pay user base will be impacted by a number of factors including, but not limited to, our ability to continue to attract new users to our services and successfully migrate our free users to billable services, the effects of competition and the success of our marketing efforts based on current levels of expenditure.

We have reduced our employee base by 142 employees over the last six months, which has favorably impacted our personnel-related expenses associated with our sales and marketing, product development and general and administrative functions. In addition, we sold substantially all of the assets our RocketCash subsidiary in August 2001. Also, we have consolidated and closed various regional offices, which has favorably impacted our occupancy costs. As a result of these initiatives, we have reduced significantly our product development and general and administrative expenses. We currently anticipate that such expenses will remain at or slightly below the level of expenses incurred during the December 2001 quarter.

Critical Accounting Policies and Estimates.

Our critical accounting policies are revenue recognition, valuation of long-lived and intangible assets and goodwill, estimating valuation allowances for doubtful accounts and assessment of liabilities associated with pending litigation.

We apply the provisions of SEC Staff Accounting Bulletin ("SAB") No. 101. "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in the financial statements filed with the SEC. SAB 101 outlines the basic criteria that must

be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies. In June 2000, the SEC issued SAB 101B, which required the implementation of SAB 101 no later than June 30, 2001. The SEC issued additional guidance in the form of its Frequently Asked Questions and Answers document in October 2000.

We recognize billable services revenues in the period in which fees are fixed and determinable and the related products or services are provided to the user. Our pay users generally pay in advance for their service by credit card, check or money order and revenue is then recognized ratably over the period of which the related services are provided. In circumstances where payment is not received in advance, revenue is only recognized if collectibility is reasonably assured.

Advertising and commerce revenues include targeted and non-targeted banner advertisements, placements and sponsorships, referrals of users to other Web-sites, performance-based agreements and advertising messages delivered to our users via e-mail. We recognize banner advertising and sponsorship revenues in the periods in which the advertisement or sponsorship placement is displayed, based upon the lesser of impressions delivered over the total number of guaranteed impressions or ratably over the period in which the advertisement is displayed, provided that no significant obligations remain on our part, fees are fixed and determinable, and collection of the related receivable is reasonably assured. Our obligations typically include the guarantee of a minimum number of impressions or the satisfaction of other performance criteria. We recognize revenues from performance-based arrangements as the related performance criteria are met. We recognize referral revenues as referrals are made to advertisers' or sponsors' Web-sites, provided that no significant obligations remain, fees are fixed and determinable, and collection of the related receivable is reasonably assured. In determining whether an arrangement exists, we ensure that a binding contract is in place, such as our standard insertion order or a fully executed customer specific agreement. We assess whether performance criteria have been met and whether our fees are fixed and determinable based on a reconciliation of the performance criteria and the payment terms associated with the transaction. Our reconciliation of the performance criteria includes a comparison of internally tracked performance data to the contractual performance obligation and to third party or customer performance data in circumstances where that data is available. We assess collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. If we determine that collection is not reasonably assured, we defer the revenues until collection becomes reasonably assured, which is generally upon receipt of cash.

We assess the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise level goodwill whenever events or changes in circumstances indicate that such assets might be impaired and the carrying value may not be recoverable. Events and circumstances that may indicate that an asset is impaired include significant decreases in the market value of an asset, a change in the extent or manner in which an asset is used, shifts in technology, loss of key management or personnel, changes in our operating model or strategy and competitive forces. If events and circumstances indicate that an asset may not be recoverable and the expected undiscounted future cash flows attributable to the asset is less than the carrying amount of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based on the present value

of estimated expected future cash flows using a discount rate commensurate with the risk involved, quoted market prices or appraised values, depending on the nature of the assets.

Factors we consider important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, significant decline in our stock price for a sustained period, and our market capitalization relative to net book value. When we determine that the carrying value of intangibles, long-lived assets and related goodwill and enterprise level goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

Estimating reserves for pending litigation and the valuation allowance for doubtful accounts requires that we make estimates and assumptions that affect the reported amount of assets and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of expenses during the reported period. Significant management judgments and estimates must be made and used in connection with establishing the reserves and allowances in any accounting period. Material differences may result in the amount and timing of our expenses for any period if management made different judgments or utilized different estimates.

Liabilities recorded related to some of our pending litigation are based on claims for which an unfavorable outcome is likely and our management can estimate the probable amount of loss. We have not recorded liabilities for some of our pending litigation because of the uncertainties related to assessing both the amount and the probable outcome of those claims. As additional information becomes available, we continually assess the potential liability related to all of our pending litigation. We currently believe that the liabilities recorded on our balance sheet are sufficient to cover pending litigation for which an unfavorable outcome is probable.

Inflation

We do not currently anticipate that inflation will have a material impact on our results of operations.

Results of Operations

The historical consolidated results of operations reflect only the operating results of NetZero prior to September 25, 2001 as predecessor to United Online. Due to the Merger, many of the historical comparisons to the prior year are less meaningful and the trends indicated by such comparisons may not be indicative of the currently existing trends in the business. Accordingly, in order to improve comparisons, the following discussion of results of operations includes pro forma consolidated results of operations for the quarter ended December 31, 2000 and the six months ended December 31, 2001 and 2000. These results reflect the combined results of NetZero and Juno as if the Merger had occurred at the beginning of each of the periods presented and include certain reclassifications of each company's historical operating results to conform to United Online's financial statement presentation.

Three and Pro Forma Six Months Ended December 31, 2001 Compared to the Pro Forma Three and Six Months Ended December 31, 2000

The pro forma results for the quarter ended December 31, 2000 and the six months ended December 31, 2001 and 2000 reflect the combined results of NetZero and Juno as if the Merger had occurred at the beginning of each of the periods presented and include certain reclassifications of each company's historical operating results to conform with United Online's financial statement presentation.

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In order to better assess the underlying operating trends, management believes that the results of operations for each period should be analyzed after excluding the effects of certain items that management believes to be non-recurring or merger-related. These items are included in merger-related costs and are discussed in more detail herein. The following table sets forth the historical selected unaudited consolidated statement of operations data (in thousands) for the three months ended December 31, 2001 and selected unaudited pro forma consolidated statement of operations data (in thousands) for the three months ended December 31, 2000 and the six months ended December 31, 2001 and 2000:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
Income Statement Data:				
Revenues:				
Billable services	\$ 41,035	\$ 19,889	\$ 73,613	\$ 39,284
Advertising and commerce	7,012	26,413	16,450	53,629
Total revenues	48,047	46,302	90,063	92,913
Operating expenses:				
Cost of billable services	23,190	11,832	42,316	23,429
Cost of free services	8,683	33,151	24,752	64,209
Sales and marketing	9,781	26,361	18,068	66,794
Product development	6,654	8,952	13,829	16,671
General and administrative	7,354	11,974	16,835	22,106
Amortization of stock-based charges	2,524	6,450	3,589	11,182
Amortization of goodwill and intangible assets	4,685	10,966	9,370	19,370
Restructuring costs	2,075	—	2,435	—
Merger-related costs	429	—	2,799	—
Total operating expenses	65,375	109,686	133,993	223,761
Loss from operations	(17,328)	(63,384)	(43,930)	(130,848)
Interest income, net	1,585	3,858	3,302	8,574
Other income (expense), net	—	—	1,007	(39)
Net loss	\$ (15,743)	\$ (59,526)	\$ (39,621)	\$ (122,313)

Revenues.

Billable services revenues for the three months ended December 31, 2001 were \$41.0 million, which represented an increase of \$21.1 million, or 106%, from pro forma \$19.9 million for the three months ended December 31, 2000. Pro forma billable services revenues for the six months ended December 31, 2001 were \$73.6 million, which represented an increase of \$34.3 million, or 87%, from \$39.3 million for the six months ended December 31, 2000. The increase in revenues is attributable to a 610,000, or 72%, increase in total billable subscribers from pro forma 842,000 at December 31, 2000 to 1,452,000 at December 31, 2001, and an increase in average monthly revenue per subscriber. The increase in billable subscribers was primarily due to the introduction of the NetZero Platinum billable service plan during the March 2001 quarter and, to a lesser extent, an increase in the Juno billable subscriber base. During the quarter and six months ended December 31, 2001, average monthly revenue per user was approximately \$10.11 and pro forma \$9.64 compared to pro forma \$8.32 and pro forma \$8.33 during the quarter and six months ended December 31, 2000. The increase in average monthly revenue per user is attributable to the introduction of new pay service plans over the last few

quarters that resulted in higher average monthly revenue per user and fluctuations in the beginning and ending number of pay subscribers during the period.

Advertising and Commerce

Advertising and commerce revenues for the three months ended December 31, 2001 were \$7.0 million, which represented a decrease of \$19.4 million, or 73%, from pro forma \$26.4 million for the three months ended December 31, 2000. Pro forma advertising and commerce revenues for the six months ended December 31, 2001 were \$16.5 million, which represented a decrease of \$37.1 million, or 69%, from \$53.6 million for the six months ended December 31, 2000. The decrease in revenues is attributable to the termination of several significant advertising agreements during 2001, the most significant of which were LookSmart Ltd. in January 2001 and Cisco in August 2001. During the quarter ended December 31, 2000 we generated approximately \$5.6 and \$1.6 million of advertising and commerce revenues from LookSmart and Cisco, respectively, and during the six months ended December 31, 2000 we generated approximately \$9.5 and \$3.4 million of advertising and commerce revenues from LookSmart and Cisco, respectively. The remaining decrease in advertising and commerce revenues is attributable to decreased advertising inventory as a result of limitations imposed on our free services, decreased barter revenues from Juno and overall softness in the online advertising market including significant declines in advertising rates and the number of advertisers on our services. During the three and six months ended December 31, 2001 we did not recognize any barter revenue compared to pro forma \$1.0 million and \$2.1 million in the quarter and six months ended December 31, 2000.

Cost of Billable Services.

Cost of billable services for the three months ended December 31, 2001 was \$23.2 million, which represented an increase of \$11.4 million, or 97%, from pro forma \$11.8 million for the three months ended December 31, 2000. Pro forma cost of billable services for the six months ended December 31, 2001 was \$42.3 million, which represented an increase of \$18.9 million, or 81%, from \$23.4 million for the six months ended December 31, 2000. The increase in cost of billable services is attributable to the increase in billable subscribers, which resulted in increased customer service and billing-related costs and increased telecommunications costs, partially offset by a decrease in average hourly telecommunications costs. Average hourly telecommunications cost decreased over 15% and 20% in the three and six months ended December 31, 2001 compared to the three and six months ended December 31, 2000, respectively. Cost of billable services as a percentage of billable services revenue decreased to 56.5% and 57.5% for the three and six months ended December 31, 2001 from 59.5% and 59.6% for the three and six months ended December 31, 2000, respectively. The improvement is due to higher average monthly revenue per billable subscriber and lower average hourly telecommunication costs as result of operating efficiencies gained through the consolidation of NetZero's and Juno's telecommunications networks during the December 2001 quarter, partially offset by increased billing and customer support related costs as a result of the increase in billable subscribers.

Cost of Free Services.

Cost of free services for the three months ended December 31, 2001 was \$8.7 million, which represented a decrease of \$24.5 million, or 74%, from pro forma \$33.2 million for the three months ended December 31, 2000. Pro forma cost of free services for the six months ended December 31, 2001 was \$24.8 million, which represented a decrease of \$39.4 million, or 61%, from \$64.2 million for the six months ended December 31, 2000. The decrease in cost of free services is due to a decrease in average monthly usage primarily as a result of limitations imposed on users our free services, a decrease of approximately 3.0 million, or 42%, in active free users from pro forma 7.1 million in December 2000 to 4.1 million in December 2001, a decrease in the average hourly telecommunications costs and a

decrease in customer support costs for free users. Beginning in October 2001, we imposed hourly and geographical limitations on NetZero's

free service, which resulted in a 15% decline in the number of active users of our free services during the quarter.

Sales and Marketing.

Sales and marketing expenses for the three months ended December 31, 2001 were \$9.8 million, which represented a decrease of \$16.6 million, or 63%, from pro forma \$26.4 million for the three months ended December 31, 2000. Pro forma sales and marketing expenses for the six months ended December 31, 2001 were \$18.1 million, which represented a decrease of \$48.7 million, or 73%, from \$66.8 million for the six months ended December 31, 2000. Advertising and promotion expenses decreased by approximately \$10.3 million and \$38.7 million from the three months and six months ended December 31, 2000, respectively. These decreases are due to reductions in direct mail campaigns as well as other marketing activities including television, radio, outdoor and other advertising campaigns. The remaining decreases for the three and six months ended December 31, 2001 were due to a decrease in personnel-related expenses as a result of headcount reductions in the sales and marketing departments at both NetZero and Juno during 2001, a decrease in telemarketing expenses related to subscriber acquisition and retention activities, a decrease in costs related to NetZero's former RocketCash subsidiary which was sold in August 2001, and reduced sales commissions as a result of lower advertising and commerce revenue.

Product Development.

Product development expenses for the three months ended December 31, 2001 were \$6.7 million, which represented a decrease of \$2.3 million, or 26%, from pro forma \$9.0 million for the three months ended December 31, 2000. Pro forma product development expenses for the six months ended December 31, 2001 were \$13.8 million, which represented a decrease of \$2.9 million, or 17%, from \$16.7 million for the six months ended December 31, 2000. The decreases in the quarter and six months ended December 31, 2001 were due to a \$1.2 million and \$0.6 million decrease in costs related to NetZero's former RocketCash subsidiary which was sold in August 2001, a \$0.7 million and \$1.1 million decrease in consulting expenses and a \$0.4 million and \$0.7 million decrease in personnel-related expenses as a result of headcount reductions in the product development functions at both Juno and NetZero during 2001.

General and Administrative.

General and administrative expenses for the three months ended December 31, 2001 were \$7.4 million, which represented a decrease of \$4.6 million, or 38%, from pro forma \$12.0 million for the three months ended December 31, 2000. Pro forma general and administrative expenses for the six months ended December 31, 2001 were \$16.8 million, which represented a decrease of \$5.3 million, or 24%, from \$22.1 million for the six months ended December 31, 2000. The decreases in the quarter and six months ended December 31, 2001 were due to a \$1.9 million and \$2.6 million decrease in occupancy costs and other administrative expenses as a result of office consolidations during 2001, a \$1.1 million and \$1.3 million decrease in bad debt expense, a \$0.9 million and \$1.2 million decrease in personnel-related expenses as a result of headcount reductions in the accounting, legal, human resource and other administrative departments at both Juno and NetZero during 2001, and a \$0.5 million and \$0.2 million decrease in general and administrative costs as a result of the sale of substantially all of the assets of RocketCash in August 2001.

Amortization of Stock-based Charges.

Stock-based charges are attributable to the following operating expense line items:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
Operating expenses:				
Cost of billable services	\$ 52,000	\$ —	\$ 67,000	\$ —
Cost of free services	27,000	89,000	60,000	239,000
Sales and marketing	238,000	1,451,000	(154,000)	2,589,000
Product development	569,000	2,772,000	893,000	3,523,000
General and administrative	1,638,000	2,138,000	2,723,000	4,831,000
Total stock-based charges	\$ 2,524,000	\$ 6,450,000	\$ 3,589,000	\$ 11,182,000

Amortization of stock-based charges for the three months ended December 31, 2001 were \$2.5 million, which represented a decrease of \$3.9 million, or 61%, from pro forma \$6.4 million for the three months ended December 31, 2000. Pro forma amortization of stock-based charges for the six months ended December 31, 2001 were \$3.6 million, which represented a decrease of \$7.6 million, or 68%, from

\$11.2 million for the six months ended December 31, 2000. The decrease in amortization of stock-based charges is a result of the sale of our RocketCash subsidiary in the September 2001 quarter, the cancellation of issued securities that were previously being amortized over their vesting period and decreased stock-based charges associated with our acquisition of Simpli.com in August 2000. These decreases were partially offset by increased stock-based charges in connection with the accelerated vesting of restricted stock awards that occurred in October 2001.

Amortization of Goodwill and Intangible Assets.

Amortization of goodwill and intangible assets for the three months ended December 31, 2001 and 2000 were \$4.7 million and pro forma \$11.0 million, respectively. Pro forma amortization of goodwill and intangible assets for the six months ended December 31, 2001 and 2000 were \$9.4 million and \$19.4 million, respectively. These decreases were due to the write-down of goodwill and intangible assets totaling \$48.6 million that was recorded during the March 2001 quarter, which reflected the amount by which the carrying amount of the intangible assets exceeded their respective fair market values. The write-down consisted of \$33.5 million for goodwill and \$15.1 million of other acquired intangible assets and other assets. These decreases were partially offset by an increase in amortization of intangible assets resulting from our acquisition of Juno in the September 2001 quarter. In connection with this acquisition, we recorded \$59.8 million in other intangible assets and \$9.4 million in goodwill. The intangible assets are being amortized over periods ranging from one to seven years and we are not amortizing the goodwill associated with our acquisition of Juno in accordance with SFAS No. 142.

Restructuring Costs.

During the six months ended December 31, 2001 we recorded approximately \$2.4 million in restructuring costs, which consisted of \$0.6 million in employee termination benefits and \$1.8 million in lease exit costs, which includes a charge of approximately \$0.8 million to write-off leasehold improvements associated with our former offices in New York. In an effort to streamline our operations in response to changing market conditions, we reduced NetZero's workforce by approximately 93 employees during the six months ended December 31, 2001. Of the 93 employees terminated, 35 were in sales and marketing, 26 were in general and administrative, 23 were in product development, 6 employees were at RocketCash, and 3 were in network operations. In addition, we closed our regional sales offices in San Francisco and combined NetZero's and Juno's offices into one facility in New York.

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Merger-related Costs.

During the six months ended December 31, 2001 we incurred merger-related costs of \$2.8 million. The merger-related costs include certain legal, banking and accounting fees incurred by Juno in connection with the merger, consulting fees for the integration of Juno and NetZero's operations, and bonuses paid to employees, including employee stay bonus accruals for certain key Juno employees which we anticipate paying in March 2003. We expect to pay additional restructuring and merger-related costs of between \$4.6 and \$6.6 million over the next 15 months as we further streamline and consolidate our operations.

Interest Income, Net.

Interest income, net for the three months ended December 31, 2001 was \$1.6 million, which represented a decrease of \$2.3 million, or 59%, from pro forma \$3.9 million for the three months ended December 31, 2000. Pro forma interest income, net for the six months ended December 31, 2001 was \$3.3 million, which represented a decrease of \$5.3 million, or 62%, from \$8.6 million for the six months ended December 31, 2000. These decreases in interest income, net were a result of lower average cash balances and lower interest rates, partially offset by reduced interest expense as a result of decreases in capital lease and notes payable balances. Interest income consists of earnings on our cash and cash equivalents, short-term investments and restricted cash. Interest expense consists of interest expense on capital leases and notes payable.

Other Income (Expense), Net.

Other income (expense), net for the six months ended December 31, 2001 was \$1.0 million. During the quarter ended September 30, 2001, we sold substantially all of the assets of RocketCash and recognized a gain of approximately \$1.0 million.

Income Taxes.

As a result of operating losses and our inability to recognize a benefit from our deferred tax assets, we have not recorded a benefit for income taxes for the quarters and six months ended December 31, 2001 and 2000.

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**Historical Three and Six Months Ended December 31, 2001 Compared to
The Historical Three and Six Months Ended December 31, 2000**

The Merger was accounted for under the purchase method of accounting for business combinations. As such, the historical results reflect only the financial impact of the Merger subsequent to September 25, 2001. The following table sets forth, for the periods presented, selected unaudited historical statements of operations data (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2001	2000	2001	2000
Income Statement Data:				
Revenues:				
Billable services	\$ 41,035	\$ 105	\$ 48,698	\$ 538
Advertising and commerce	7,012	15,904	13,457	31,937
Total revenues	48,047	16,009	62,155	32,475
Operating expenses:				
Cost of billable services	23,213	54	31,475	225
Cost of free services	8,695	21,586	21,918	39,913
Sales and marketing	9,820	15,721	14,151	28,588
Product development	6,850	5,891	11,189	10,111
General and administrative	7,513	6,209	14,465	10,918
Amortization of stock-based charges	2,524	6,407	3,565	11,140
Amortization of goodwill and intangible assets	4,685	6,380	4,786	10,198
Restructuring costs	2,075	—	2,435	—
Total operating expenses	65,375	62,248	103,984	111,093
Loss from operations	(17,328)	(46,239)	(41,829)	(78,618)
Interest income, net	1,585	2,884	2,943	6,437
Other income (expense), net	—	—	1,007	(39)
Net loss	\$ (15,743)	\$ (43,355)	\$ (37,879)	\$ (72,220)

Revenues.

Billable Services

Billable services revenues for the three months ended December 31, 2001 were \$41.0 million, which represented an increase of \$40.9 million compared to the three months ended December 31, 2000. Billable services revenues for the six months ended December 31, 2001 were \$48.7 million, which represented an increase of \$48.2 million compared to the six months ended December 31, 2000. Billable services revenue increased as a result of the launch of the NetZero Platinum billable service plan during the March 2001 quarter and the acquisition of Juno in the September 2001 quarter, which added over 875,000 pay users to our billable services.

Advertising and Commerce

Advertising and commerce revenues for the three months ended December 31, 2001 were \$7.0 million, which represented a decrease of \$8.9 million, or 56%, from \$15.9 million for the three months ended December 31, 2000. Advertising and commerce revenues for the six months ended December 31, 2001 were \$13.5 million, which represented a decrease of \$18.4 million, or 58%, from \$31.9 million for the six months ended December 31, 2000. Advertising and commerce revenues decreased as a result of the termination of several significant advertising agreements during 2001, the

on our services. During the quarter ended December 31, 2000, we generated approximately \$5.6 and \$1.6 million of advertising and commerce revenues from LookSmart and Cisco, respectively, and during the six months ended December 31, 2000 we generated approximately \$9.5 and \$3.4 million of advertising and commerce revenues from LookSmart and Cisco, respectively.

Cost of Billable Services.

Cost of billable services for the three and six months months ended December 31, 2001 was \$23.2 million and \$31.5 million, respectively. Cost of billable services increased over the prior year periods as a result of the launch of the NetZero Platinum billable service plan during the March 2001 quarter and the acquisition of Juno in the September 2001 quarter, which added over 875,000 pay users to our billable services. Prior to the March 2001 quarter we did not have any pay users and billable service revenues related to sales of CD's, which were \$0.1 million and \$0.5 million for the three and six months ended December 31, 2000, respectively.

Cost of Free Services.

Cost of free services for the three months ended December 31, 2001 were \$8.7 million, which represented a decrease of \$12.9 million, or 60%, from \$21.6 million for the three months ended December 31, 2000. Cost of free services for the six months ended December 31, 2001 were \$21.9 million, which represented a decrease of \$18.0 million, or 45%, from \$39.9 million for the six months ended December 31, 2000. Cost of free services decreased as a result of limitations imposed on our free users, which contributed to a 15% decline in the number of active users of our free services during the December 2001 quarter, a decrease in the average hourly cost of telecommunications services purchased, and a decrease in customer support costs associated with our free users, partially offset by an increase in the number of active free users as a result of our acquisition of Juno, which added over 2.1 million free users to our service.

Sales and Marketing.

Sales and marketing expenses for the three months ended December 31, 2001 were \$9.8 million, which represented a decrease of \$5.9 million, or 38%, from \$15.7 million for the three months ended December 31, 2000. Sales and marketing expenses for the six months ended December 31, 2001 were \$14.2 million, which represented a decrease of \$14.4 million, or 50%, from \$28.6 million for the six months ended December 31, 2000. Sales and marketing expenses decreased as a result of decreased advertising and promotion expenses and decreased sales and marketing costs directly related to NetZero's former RocketCash subsidiary, partially offset by increased personnel-related costs as a result of our acquisition of Juno. Advertising and promotion expenses decreased by approximately \$5.8 million and \$13.1 million compared to the three and six months ended December 31, 2000, respectively.

Product Development.

Product development expenses for the three months ended December 31, 2001 were \$6.9 million, which represented an increase of \$1.0 million, or 17%, from \$5.9 million for the three months ended December 31, 2000. Product development expenses for the six months ended December 31, 2001 were \$11.2 million, which represented an increase of \$1.1 million, or 11%, from \$10.1 million for the six months ended December 31, 2000. Product development costs increased as a result of increased personnel-related costs as a result of our acquisition of Juno, which were partially offset by a

\$0.6 million decrease in product development costs as a result of the sale of substantially all of the assets of RocketCash in August 2001.

General and Administrative.

General and administrative expenses for the three months ended December 31, 2001 were \$7.5 million, which represented an increase of \$1.3 million, or 21%, from \$6.2 million for the three months ended December 31, 2000. General and administrative expenses for the six months ended December 31, 2001 were \$14.5 million, which represented an increase of \$3.6 million, or 33%, from \$10.9 million for the three months ended December 31, 2000. General and administrative expenses increased as a result of increased personnel-related expenses and occupancy costs as a result of our acquisition of Juno and increased merger-related costs incurred in connection with our acquisition of Juno, which were partially offset by a decrease in costs as a result of the sale of substantially all of the assets of RocketCash in August 2001. Included in general and administrative expenses for the three and six months ended December 31, 2001 were \$1.5 million and \$1.6 million of merger-related expenses, respectively. These expenses relate to consulting fees incurred for the integration of Juno and NetZero's operations and bonuses paid to employees.

Amortization of Stock-based Charges

Stock-based charges are attributable to the following operating expense line items:

Three Months Ended
December 31,

Six Months Ended
December 31,

	2001	2000	2001	2000
Operating expenses:				
Cost of billable services	\$ 52,000	\$ —	\$ 67,000	\$ —
Cost of free services	27,000	89,000	60,000	239,000
Sales and marketing	238,000	1,451,000	(154,000)	2,589,000
Product development	569,000	2,772,000	893,000	3,523,000
General and administrative	1,638,000	2,095,000	2,699,000	4,789,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total stock-based charges	\$ 2,524,000	\$ 6,407,000	\$ 3,565,000	\$ 11,140,000
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Amortization of stock-based charges for the three months ended December 31, 2001 were \$2.5 million, which represented a decrease of \$3.9 million, or 61%, from \$6.4 million for the three months ended December 31, 2000. Pro forma amortization of stock-based charges for the six months ended December 31, 2001 were \$3.6 million, which represented a decrease of \$7.5 million, or 68%, from \$11.1 million for the six months ended December 31, 2000. The decrease in amortization of stock-based charges is a result of the sale of our RocketCash subsidiary in the September 2001 quarter, the cancellation of issued securities that were previously being amortized over their vesting period and decreased stock-based charges associated with our acquisition of Simpli.com in August 2000. These decreases were partially offset by increased stock-based charges in connection with the accelerated vesting of restricted stock awards that occurred in October 2001.

Amortization of Goodwill and Intangible Assets.

Amortization of goodwill and intangible assets for the three months ended December 31, 2001 and 2000 was \$4.7 million, and \$6.4 million, respectively. Amortization of goodwill and intangible for the six months ended December 31, 2001 and 2000 was \$4.8 million and \$10.2 million, respectively. These decreases were due to the write-down of goodwill and intangible assets totaling \$48.6 million that was recorded during the March 2001 quarter, which reflected the amount by which the carrying amount of the intangible assets exceeded their respective fair market values. The write-down consisted of

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\$33.5 million for goodwill and \$15.1 million of other acquired intangible assets and other assets. These decreases were partially offset by an increase in amortization of intangible assets resulting from our acquisition of Juno in the September 2001 quarter. In connection with this acquisition, we recorded \$59.8 million in other intangible assets and \$9.6 million in goodwill. The intangible assets are being amortized over periods ranging from one to seven years and we are not amortizing the goodwill associated with our acquisition of Juno in accordance with SFAS No. 142.

Restructuring Costs.

During the six months ended December 31, 2001 we recorded approximately \$2.4 million in restructuring costs, which consisted of \$0.6 million in employee termination benefits paid to our employees and \$1.8 million in lease exit costs, which includes a charge of approximately \$0.8 million to write-off leasehold improvements associated with our former offices in New York. In an effort to streamline our operations in response to changing market conditions, we reduced NetZero's workforce by approximately 93 employees during the six months ended December 31, 2001. Of the 93 employees terminated, 35 were in sales and marketing, 26 were in general and administrative, 23 were in product development, 6 employees were at RocketCash, and 3 were in network operations. In addition, we closed our regional sales offices in San Francisco and combined NetZero's and Juno's offices into one facility in New York.

Interest Income, Net.

Interest income, net decreased as a result of lower average cash balances and reduced interest rates. The decrease in interest income, net was partially offset by decreased interest expense as a result of decreases in capital lease and notes payable balances.

Other Income (Expense), Net.

Other income (expense), net for the six months ended December 31, 2001 was \$1.0 million. During the quarter ended September 31, 2001, we sold substantially all of the assets of RocketCash and recognized a gain of approximately \$1.0 million.

Income Taxes.

As a result of operating losses and our inability to recognize a benefit from our deferred tax assets, we have not recorded a benefit for

income taxes for the three and six months ended December 31, 2001 and 2000.

Liquidity and Capital Resources

From our inception to December 31, 2001, operations have been financed primarily through the sale of equity securities, and, to a lesser extent, cash generated from its billable services and advertising and commerce revenues, net cash acquired from acquisitions, equipment lease financing. At December 31, 2001, we had approximately \$125.8 million in cash, cash equivalents and short-term investments and approximately \$6.6 million in restricted cash.

For the six months ended December 31, 2001, net cash used for operating activities was \$20.5 million consisting primarily of operating losses, a decrease in accounts payable and accrued expenses, partially offset by depreciation and amortization, stock-based charges, a reduction in restricted cash accounts receivable, and other assets and an increase in deferred revenue. For the six months ended December 31, 2000 net cash used for operating activities was \$50.0 million which consisted of operating losses, increases in other assets and accounts receivable, partially offset by depreciation and amortization, stock-based charges, and an increase in accounts payable and accrued expenses.

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For the six months ended December 31, 2001, net cash provided by investing activities was \$26.4 million of which \$32.3 million represented the net cash acquired from the acquisition of Juno, offset by \$6.7 million net purchases of short-term investments. For the six months ended December 31, 2000, cash used for investing activities of \$50.4 million consisted of net purchases of short-term investments for \$39.6 million, cash paid for acquisitions, net of cash acquired of \$7.4 million and capital expenditures of \$3.4 million.

Net cash used for financing activities was \$5.6 million for the six months ended December 31, 2001 and related to payments on capital lease and notes payable obligations, and common stock repurchases. In the six months ended December 31, 2000 cash used for financing activities was \$4.4 million and related to payments on capital lease and notes payable obligations.

Our original business model of offering free Internet access was predicated on deriving revenues from a variety of advertising and online commerce-related arrangements. However, softness in the advertising market and reduced Internet advertising rates have resulted in declining advertising revenues. We have limited visibility as to when, or if, online advertising rates will stabilize or increase, and recognize that they may continue to decrease. We have taken steps to address our declining advertising revenues by focusing efforts on billable services and implementing restrictions designed to decrease the costs of our free services. In addition, we have implemented limitations on operating expenses, particularly with regard to our marketing expenses. We have substantially built out our network infrastructure and, in the near term, do not foresee the need for the same level of capital expenditures we have experienced in the past. In order to generate positive cash flow, we must continue to increase revenues from billable services and maintain or increase advertising revenues while controlling telecommunications costs, operating expenses and capital expenditures. Many factors will impact our ability to grow revenues including, but not limited to, the number of users who sign up for billable services, the growth or reduction in our user base, the Internet advertising market, and our ability to sell our existing products and develop new revenue-generating products. We cannot assure you that we will be able to maintain or grow our pay users. In addition, as a result of implementing limitations on our free services, we anticipate that we may lose a number of our active free users. There can be no assurance that we will be able to effectively manage our business to decrease our cash flow deficit.

We are continuing to integrate the operations of NetZero and Juno, and, as a result, we expect to incur between \$4.6 and \$6.6 million in restructuring and merger-related costs over the next 15 months. We anticipate that we will realize further synergies in the future particularly in the areas of customer support and billing. However, there can be no assurance that we will be able to successfully integrate all of the operations of NetZero and Juno and realize all such synergies.

We have invested significantly in our network infrastructure, software licenses, furniture, fixtures and equipment and may need to make further investments in the future. The actual amount of capital expenditures will depend on the rate of growth or reduction in our user base, which is difficult to predict and could change dramatically over time. Technological advances may also require us to make capital expenditures to develop or acquire new equipment or technology. We intend to use cash to fund our future operating losses, repurchase outstanding common stock on a limited basis, and, in combination with capital lease financing, fund any necessary future capital expenditures. However, we cannot assure you that lease financing will be available on favorable terms, if at all, and if it is not available, we would be required to use a greater portion of cash to fund any capital expenditures.

We currently anticipate that our existing cash, cash equivalents and short-term investments will be sufficient to fund our operating activities, capital expenditures and other obligations for at least the next twelve months. However, if we are not successful in generating sufficient cash flow from operations, we may need to raise additional capital for a variety of reasons including, without limitation, to fund our operations, expand our marketing activities, develop new or enhance existing

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services or products to respond to competitive pressures or to acquire complementary services, businesses or technologies. We may need to raise additional capital through public or private financings, strategic relationships or other arrangements. This additional funding, if needed, might not be available to us on acceptable terms, or at all. Our failure to raise sufficient capital when needed could have a material adverse effect on the business, results of operations and financial condition. If additional funds were raised through the issuance of equity securities, the percentage of stock owned by the then-current stockholders would be reduced. Furthermore, such equity securities might have rights, preferences or privileges senior to holders of our common stock.

Recent Accounting Pronouncements

In July 2001, the FASB issued Statements of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. In addition, SFAS No. 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS No. 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 (i.e., the acquisition date is July 1, 2001 or after).

In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and indefinite-lived intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the amortization provisions do not apply until the Company applies the new accounting rules. The Company will be required to implement SFAS No. 142 in the first quarter of fiscal 2003. The Company is currently evaluating the impact of SFAS No. 142.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The FASB's new rules on asset impairment supersede SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and portions of APB Opinion No. 30, "Reporting the Results of Operations." SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value or carrying amount. SFAS No. 144 also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are incurred, rather than as of the measurement date as presently required. The Company will apply the new accounting rule beginning July 1, 2002 and is in process of evaluating the impact of adopting SFAS No. 144.

Future results of operations may vary due to certain factors

Our operating results may fluctuate substantially in the future as a result of a variety of factors, many of which are outside of our control, including those discussed elsewhere in this Form 10-Q. While we currently intend to limit operating expenses and to gain synergies as a result of integrating the operations of NetZero and Juno, we may increase our operating expenses and capital expenditures for a variety of reasons including, without limitation, unanticipated growth in our user base, expansion of our sales and marketing efforts, enhancement of the features and functionality of our services, the development of new services and products, costs associated with integrating acquired companies, upgrading our internal network infrastructure, pursuing new distribution channels and hiring new personnel across all levels of the organization. Expenditures in each of these categories may vary

significantly from period to period. While some expenses are fixed in the short-term, total operating expenses are principally determined on the basis of anticipated growth in revenues. There are risks associated with the timing and achievement of revenue targets due to a variety of factors, and there can be no assurance that revenues will increase commensurately with expenses. As a result of these and other factors, operating results may vary substantially from quarter to quarter.

Seasonal trends could affect both costs and revenues generated. To the extent that expenses depend significantly on the amount of usage by subscribers, any seasonal fluctuations in Internet usage could affect expenses during such periods of fluctuation. We anticipate that the summer and year-end vacation and holiday periods will impact user traffic levels. Moreover, the rate at which new users sign up for our service may be related to gifts or purchases of personal computers, which typically increase during the fourth calendar quarter because of the holiday season and may decline during other periods. As a result, billable subscriber registration may be subject to seasonality. However, because our business model has changed and our operating history is limited, it is difficult to accurately predict these trends and plan accordingly. Since operating expenses are based on expectations of future revenues, it is possible that seasonal fluctuations could materially and adversely affect our business, results of operations and financial condition.

In addition to seasonality, there are several other factors that may cause our quarter-to-quarter revenues to fluctuate significantly, including demand for online advertising, changes in advertising rates, increases or decreases in the pricing of our pay services, promotional discounts, fluctuations in our user count, and termination of material contracts. These and other factors may cause significant fluctuations in our quarter-to-quarter revenues.

The timing of implementation of any further limitations on our free services may impact billable subscriber registrations as well as the number of active subscribers on our free services. In October 2001, we implemented additional limitations on NetZero's free service. This resulted in a substantial increase in sign-ups for our billable services in October and a decrease in the number of active free users. Quarterly fluctuations in our subscriber base, both free and pay, may not be indicative of an ongoing trend.

Our billable services revenues and financial results are dependent on the number of pay users on our service. Each month, a significant number of our pay users cancel their service for a variety of reasons. During 2001, the number of new pay users signing-up for our services has exceeded the number of users canceling their service, in part as a result of limitations imposed on our free services. Increasing our pay user base involves two components: converting our free service users to our billable services and gaining new pay users who have not previously used our free service. We have experienced, and may in the future experience, decreases in our free user base, which we believe will cause us to rely more heavily on signing up more pay users who have not previously used our free service. In addition, as our pay user base grows, we are required to obtain an increasing number of pay users to replace the users who cancel their service. We are competing directly with other billable service offerings and there is no assurance we will achieve success in signing up new pay users. The average cost to acquire a new pay user in our industry is significantly higher than we anticipate spending, and there is no assurance that we will be able to acquire new pay users at a reasonable acquisition cost. If we experience decreases in the number of new pay users signing up from our billable services, our pay user base is likely to decrease, and our business, results of operations and financial position will be adversely impacted.

We have previously experienced reductions in advertising and commerce revenues from material customers and may experience additional reductions in the future. Our advertising agreement with LookSmart was terminated on January 19, 2001. After the termination of the LookSmart agreement, we experienced a significant decline in revenues derived from search functionality on our start page and we do not anticipate generating the amount of revenue from our start page that we historically

experienced. In addition, we derived approximately 5% of our revenues for the quarter ended December 31, 2001 from our agreement with General Motors Corporation. While we have a long-term relationship with General Motors Corporation, they were recently provided reductions in their advertising obligations and may be provided additional reductions in the future. We can give no assurance that we will continue to derive the amount of anticipated revenues from General Motors. The termination or renegotiation of material agreements, as well as the timing of orders under material agreements, may cause significant fluctuations in our quarterly advertising and commerce revenues. Our business, results of operations and financial condition will be materially and adversely affected if we are unable either to maintain or renew our material agreements or to replace such agreements with similar agreements with new customers.

RISK FACTORS

Before deciding to invest in our Company or to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information in this report and our other filings with the SEC. The risks and uncertainties described below are not the only ones facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occur, our business, financial condition or results of operations could be seriously harmed. In that event, the market price of our common stock could decline and you may lose all or part of your investment.

Risks Associated with the Merger

We may fail to realize the anticipated benefits of the Merger.

The Merger was completed on September 25, 2001. The success of the Merger will depend, in part, on our ability to realize the anticipated synergies from combining the businesses of NetZero and Juno. To realize the anticipated benefits of this combination, members of our management team must develop strategies and implement a business plan that, in addition to addressing the risks discussed elsewhere in this document, will:

- successfully integrate each company's organizations, operations, technologies, services and customer bases;
- integrate and retain advertising customers, vendors, personnel and subscribers from both companies;
- successfully manage telecommunications contracts to efficiently benefit NetZero's and Juno's services;
- reduce the costs associated with each company's operations; and
- successfully market both companies' services.

If we cannot achieve these objectives, the anticipated benefits of the Merger may not be realized. In particular, the anticipated cost and other synergies may not materialize, which would adversely affect our results of operations and financial condition and harm the market price

of shares of our common stock.

Costs associated with the Merger.

We have paid approximately \$13.4 million in restructuring and merger-related costs in connection with the Merger and the integration of NetZero's and Juno's operations and anticipate paying additional costs over the next fifteen months. Costs that have yet to be paid include additional employee termination benefits, early contract and lease termination costs, employee stay bonuses and other exit costs. While these additional costs are estimated to be between \$4.6 million and \$6.6 million, there can be no assurance that actual costs will not exceed estimated amounts.

Risks Associated with our Operations

We cannot predict our success because our business model is unproven and changing.

Juno began offering email services in April 1996 and NetZero began offering Internet services in October 1998. Each company has made significant changes to its business model to address changes in the market as well as other factors. We may make additional changes to each company's business model in the future. These factors make it difficult to evaluate or predict our performance. We cannot assure you that our current business model will be successful, that we will not make significant changes to our model or that any changes we make to our model will be successful.

NetZero and Juno have a history of losses and we expect additional losses; our stock price could fall as a result of future losses and negative cash flow.

Both NetZero and Juno have a history of losses and there is no assurance that we will ever become profitable. NetZero incurred net losses of approximately \$334.5 million from its inception in July 1997 through September 30, 2001. Juno incurred net losses of approximately \$191.3 million from its inception in June 1995 through September 30, 2001. In the quarter ended December 31, 2001, United Online incurred net losses of approximately \$15.7 million. Although our strategy is to increase revenues and maximize the profitability of both companies, we cannot assure you that we will be successful in doing so, or that we will achieve profitability. We may never be successful in implementing our business strategies or in addressing the risks and uncertainties facing our company. Even if we do implement these strategies and address these risks successfully, our business may never become cashflow positive or profitable. Were we to achieve profitability for any particular period, we cannot assure you that we would be able to sustain or increase profitability on a quarterly or annual basis thereafter. If we fail to achieve and maintain profitability, the market price for our common stock would suffer.

Our business is subject to fluctuations that may negatively impact the price of our common stock.

NetZero's and Juno's revenues, expenses and operating results have varied in the past and ours may fluctuate significantly in the future due to a variety of factors including, without limitation, fluctuations in our pay and free user base, changes in the number of hours subscribers use our services, changes in our business model and service offerings, changes in the market for Internet advertising, the effect of material contracts with advertisers and vendors and fluctuations in marketing and telecommunications expenses. In addition, our operating expenses are based on our expectations of our future revenues and are relatively fixed in the short term. We cannot assure you that the expectations or projections made by our management will be achieved by us. Furthermore, we may be unable to adjust spending quickly enough to offset any revenue shortfall, which may cause our business and financial results to suffer.

Due to all of the above factors and the other risks discussed in this section, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. It is possible that in some future periods our results of operations may be below the projections of our management and expectations of public market analysts and investors. In this event, the price of our common stock is likely to fall.

Our market share and revenues will suffer if we are unable to compete effectively with established and new providers of Internet access services.

Competition for users of Internet access services is intense. We compete for users with established online service and content providers, such as AOL Time Warner, CompuServe and The Microsoft Network; independent national Internet service providers, such as EarthLink and Prodigy; and national

long-distance carriers, such as AT&T WorldNet, Verizon and MCI WorldCom. We also compete with local telephone companies and regional and local commercial Internet service providers.

We also face competition from companies that provide broadband Internet access. We do not currently provide broadband services. It is uncertain whether we will offer broadband services in the future. Our failure to develop and implement a broadband strategy will adversely impact our ability to compete for new users.

We expect competition to continue to intensify. Many of our competitors have significantly greater resources and larger marketing budgets, more advanced features and services and lower cost structures that may allow them to profitably offer competing services at a lower price. While many of our competitors price their standard services above our standard offering price, there are other competitors with lower pricing and there is no assurance that we will be price competitive.

There is no assurance that we will be able to successfully compete. Our inability to effectively compete could require us to make significant revisions to our strategies and business model, and would likely result in increased costs, decreased revenues and the loss of users, all of which could materially and adversely impact our business, financial position and results of operations.

Restrictions on our free services may result in significant reductions in our free user base.

NetZero and Juno have from time to time implemented restrictions and limitations on their free services. As a result of these measures and other factors, we have experienced a decline in our free user base and a decrease in the number of new users registering for our free services.

These measures may adversely impact our reputation as a provider of free services and make it more difficult to recruit new free users. Since a portion of our strategy is to increase our pay user base by converting free users to pay users, reductions in our free user base may adversely impact this strategy in the long-term. There can be no assurance that these measures will not adversely impact our business.

If we are unable to grow our pay user base, we may not be able to generate revenues.

Growth in our pay user base will be critical to our future success. Increasing our pay user base involves two components: converting our free service users to our pay service and gaining new pay users who have not previously used our free service. We have experienced, and may experience in the future, decreases in our free user base, which we believe will cause us to rely more heavily on signing up more pay users who have not previously used our free service. In addition, as our pay user base grows, we are required to obtain an increasing number of pay users to replace the users who cancel their service. We are competing directly with other pay service offerings and there is no assurance we will achieve success in signing up new pay users. The average cost to acquire a pay subscriber in our industry is significantly higher than we anticipate spending, and there is no assurance that we will be able to acquire new pay users at a reasonable acquisition cost. If we experience decreases in our pay user base, our business, results of operations and financial position will be adversely impacted.

We are relying on the migration of free users to pay users as a major source of subscribers to our pay services. Since July 1998, Juno has advertised to its free users encouraging them to upgrade and NetZero initiated a similar campaign in March 2001. There is a risk that repeated exposure to their advertisements may cause their effectiveness to decline. Furthermore, to the extent that our number of active free subscribers declines, we will have a smaller pool of free subscribers to solicit, further reducing the absolute number of potential migrations to our pay services. The rate at which users of the free service upgrade to our pay services has from time to time declined and may continue to decline, which would adversely impact our ability to retain or grow our pay user base.

If we are unable to retain subscribers, our business and financial results will suffer.

Our business and financial results are dependent on the number of subscribers to our services. Our number of active subscribers has a significant impact on our ability to attract advertisers, the number of advertising impressions we have available to sell, and on how many billable service subscribers we can potentially acquire by soliciting users of our free service. Our number of billable service subscribers is critical to our ability to generate revenues. Each month, a significant number of subscribers cancel their service or become inactive and the vast majority of registered users are not actively using our services. This is due to competition, the imposition of limitations on free services, changes in pricing plans and other factors. In addition, there may be significant overlap between NetZero's and Juno's active free user bases, so the actual combined active user base may be less than anticipated.

We anticipate further significant reductions in our free user base if we implement additional restrictions on our free services. We may also in the future make additional changes to the terms or prices of our billable services, which may result in additional billable subscriber attrition. If these or other factors result in the loss of a significant number of subscribers, our business and financial results will suffer. There is no assurance that we will be able to effectively retain subscribers or generate enough new subscribers to make up for lost subscribers.

Federal Trade Commission action could impact our financial results and marketing practices.

The FTC has been investigating the advertising, billing and cancellation practices of various Internet-related companies, including Juno. As a result of this investigation, Juno and the FTC entered into a consent agreement, which was approved by the FTC on June 29, 2001, after a public comment period. The consent agreement provides for redress payments and specific disclosures or notices regarding, among other things, the cost of its Internet access services, its cancellation terms and local versus long-distance charges, as well as the requirement to provide adequate customer support to process subscriber cancellations. The compensatory payments made to date pursuant to the agreement have not been material. There can be no certainty as to what impact the FTC order, or any other action that may be taken by the FTC, will have on our business.

If we fail to generate significant revenues and derive a profit from our pay services, we may not be able to support our operations.

Our ability to generate significant revenues from our pay services will be critical to our future success. Generating pay revenues includes both increasing our pay user base as well as maintaining or increasing our pricing. Juno has offered a variety of pricing programs and has, in certain cases, increased the pricing to certain users based on their usage. Juno's monthly prices have ranged from \$4.95 to \$29.95 per month. A significant number of users who have experienced price increases have discontinued their service, which adversely impacts revenues.

Our ability to offer a value-priced pay service will be adversely impacted if subscribers to our pay service use the Internet excessively. We price our standard offering based on the expectation that users will access the Internet for only a limited number of hours each month. If the average monthly usage for our pay subscribers exceeds our expectations, or if our average hourly telecommunications cost increases, we may not be able to operate our value priced pay service profitably. We may have to impose hourly limits on our pay services or increase our standard pricing, either of which could adversely impact our ability to attract and retain users to our pay services or compete effectively.

If we fail to generate sufficient advertising revenues, we may not be able to support our operations.

Advertising revenues are intended to be an important component of our strategy and revenue base going forward. Our revenues from advertising have, from time to time, decreased from quarter to quarter due to a variety of factors, including the deterioration of the online advertising market and the

decrease in capital available to Internet companies. We have experienced a number of situations where our advertising arrangements are terminated early, are not renewed, are renewed at significantly lower rates or are repriced during the term of the arrangement. Our success may depend on our ability to effectively target users based on demographic and other information. We may encounter technical, legal and other limitations on this ability.

Competition for Internet-based advertising revenues is intense and the demand for advertising space has been declining. These and other factors are causing Internet advertising rates to decline, and it is possible that rates will continue to decline in the future. Many of our advertising competitors have longer operating histories, greater name recognition, larger user bases, significantly greater financial, technical, sales, development and marketing resources and more established relationships with advertisers than we do. We must also compete with television, radio, cable and print media for a share of advertisers' total advertising budgets. Advertisers may be reluctant to devote a significant portion of their advertising budget to Internet advertising if they perceive the Internet to be a limited or ineffective advertising medium.

In light of these factors, there can be no assurance that we will be able to maintain or grow advertising revenues.

If we are unable to successfully integrate acquisitions into our operations, then we may not realize the benefits associated with such acquisitions and our financial condition and results of operations may be adversely affected.

We may acquire other companies or undertake other business combinations that can complement our current or planned business activities. We are currently evaluating the possibility of acquiring and integrating additional Internet service providers offering pay services. Acquisitions may not be available at the times or on terms acceptable to us, or at all. In addition, acquiring a business involves many risks, including:

- disruption of our ongoing business and diversion of resources and management time;
- unforeseen obligations or liabilities;
- difficulty assimilating the acquired operations and personnel;
- risks of entering markets in which we have little or no direct prior experience;
- potential impairment of relationships with employees or users as a result of changes in management; and
- potential dilutive issuances of equity, large and immediate write-offs, the incurrence of debt, and amortization of goodwill or

other intangible assets.

There can be no assurance that we will make any further acquisitions, that we will be able to obtain additional financing for such acquisitions, if necessary, or that any acquisitions will be successful.

We may not realize the benefits associated with our intangible assets.

We also may not realize the benefits associated with our intangible assets, including those associated with acquisitions. For example, as of December 31, 2000, NetZero had approximately \$55.0 million in intangible assets recorded on its balance sheet, which primarily included goodwill and acquired technologies associated with acquisitions. During the quarter ended March 31, 2001, NetZero determined the carrying value of these assets was impaired using the undiscounted cash flow method and the market comparison method. An impairment charge relating to goodwill, intangible assets and other assets totaling approximately \$48.6 million was recorded during the quarter, reflecting the amount by which the carrying amount of the assets exceeded their respective fair values. The impairment

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consisted of approximately \$33.5 million for goodwill and approximately \$15.1 million for other acquired intangible assets and other assets. There can be no assurance that we will not experience similar impairment losses related to the Merger or other acquisitions in the future. Any such loss could adversely and materially impact our results of operations and financial condition.

The provision of Internet access for free creates substantial risks.

We face numerous costs, operational and legal risks, and other uncertainties associated with our provision of free Internet access to consumers. These risks include risks that our paying subscribers will cancel their subscription and switch to our free service and risks that the number of hours our free service users use, and the costs of providing the service, will not decrease, and may increase.

If the number of our subscribers who remain on, or return to, the free service is significant, our business and financial results may suffer. As users of the service spend more time connected, the costs we incur to provide the service increase. If aggregate hours of connection time associated with our free services increase or do not continue to decline, our business and financial results may suffer.

We may not be able to grow or retain our user base if we are unsuccessful in maintaining our brands and marketing our services.

If we are unsuccessful in maintaining and continuing to market the NetZero and Juno brands, we may not be able to grow or retain our user base. Promotion of our brands will depend on our success in providing high-quality Internet products and services. If our users and advertisers do not perceive our existing products and services as high quality, or if we introduce new products or services or enter into new business ventures that are not favorably received by our users and advertisers, then we may be unsuccessful in building brand recognition and brand loyalty in the marketplace.

Our marketing activities may be insufficient to increase or maintain the size of our subscriber base and may be insufficient to develop or maintain awareness of our services. NetZero and Juno have relied on a variety of cash-intensive subscriber acquisition activities in the past, including the distribution of CDs, the acquisition of competitors, fee-based referral agreements and extensive advertising. These activities may be curtailed in the future, although there is no assurance that subscriber acquisition costs will decrease. If we incur costs in implementing marketing campaigns without generating sufficient new subscribers to our services, or if capital limitations or other factors prevent us from implementing marketing campaigns, or if marketing campaigns undertaken by competitors cause attrition in our subscriber base, our business and financial results will suffer.

Our advertising and commerce revenues would significantly decrease if we lose key marketing and advertising relationships.

We have entered into a number of strategic marketing alliances with third parties. The number of terminations or nonrenewals of various types of advertising contracts by our partners has increased. In particular, Internet companies have scaled back the resources devoted to advertising. In light of the concentration of our advertisers within the Internet industry, we expect that we will continue to experience a significant number of terminations or nonrenewals in the future.

A small number of customers have accounted for, and may in the future account for, a significant portion of our advertising and commerce revenues. Each of NetZero and Juno has previously experienced reductions in revenues from material customers. For example, LookSmart, General Motors and Cisco have been material customers of NetZero. The LookSmart agreement was terminated in January 2001 and the Cisco agreement was terminated in August 2001. NetZero was not able to replace either agreement with a comparable arrangement. While the relationship with General Motors Corporation is long-term, they were recently provided reductions in their advertising obligations and

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may be provided additional reductions in the future. We can give no assurance that we will continue to derive the amount of anticipated revenues from General Motors.

The termination or renegotiation of significant agreements, as well as the timing of orders under such agreements, has caused, and may in the future cause, significant fluctuations in our quarterly results. Our business, results of operations and financial condition will be materially and adversely affected if we are unable either to maintain or renew our significant agreements or to replace such agreements with similar agreements with new customers.

Our business is dependent on a small number of telecommunications carriers and our inability to maintain agreements at attractive rates with such carriers may negatively impact our business.

Our business substantially depends on the capacity, affordability, reliability and security of our telecommunications networks. Only a small number of telecommunications providers offer the network services we require. Several vendors have ceased operations or ceased offering the services we require, causing us to switch vendors. In addition, several vendors are experiencing significant financial difficulties and may be unable to perform satisfactorily or to continue to offer their service. The loss of vendors has resulted, and may in the future result, in increased costs, decreased service quality and the loss of users. Certain of our telecommunications services are provided pursuant to short-term agreements that the providers can terminate or elect not to renew. In addition, each of our telecommunications carriers provides network access to some of our competitors, and could choose to grant those competitors preferential network access or pricing. Many of our telecommunications providers compete, or have announced an intention to compete, with us in the market to provide consumer Internet access. As a result, any or all of our current telecommunications service providers could discontinue providing us with service at rates acceptable to us, or at all, which could materially and adversely affect our business, results of operations and financial condition.

Our margins are highly sensitive to variations in prices for the telecommunications services we purchase. Our business could be harmed if minimum connection charges increase or become more prevalent. In addition, the availability and pricing of telecommunications services varies geographically, and we may not be able to obtain new or substitute telecommunications services in certain geographic areas on commercially reasonable terms, if at all.

Our business will suffer if the scope or quality of service from our telecommunications carriers is inadequate.

If our third-party telecommunications service providers deliver unacceptable service, the quality of our Internet access service would suffer. In this event, we would likely lose users who are dissatisfied with our service. Since we do not have direct control over our telecommunications carriers' network reliability and the quality of their service, there can be no assurance that we will be able to provide consistently reliable Internet access for our users.

We do not offer Internet access in all areas. Many potential subscribers may be unable to access our services through a point of presence that is within their local calling area. These subscribers may be particularly reluctant to use our service to access the Web, either through our free service or through a billable service, due to the telecommunications charges that they would incur. We cannot be sure if or when additional infrastructure developments by our telecommunications providers will establish points of presence that cover these areas at costs acceptable to us.

If we fail to manage our telecommunications or our internal network capacities, our service levels may suffer or we may experience increased per-user costs.

We will have to accurately anticipate our future telecommunications capacity needs within lead-time requirements. If we fail to procure sufficient quantities of telecommunications services, we

may be unable to provide our users with acceptable service levels. We also run the risk of purchasing excessive amounts of telecommunications services. In that event, we would be required to bear the costs of excess telecommunications capacity without commensurate increases in revenues or subscriber usage. NetZero and Juno have recently experienced decreases in telecommunications usage in excess of the amounts anticipated when entering into certain agreements for telecommunications services. This has resulted in significant excess capacity in the near term, which may result in increased costs per user on an hourly basis if we are not able to implement the synergies contemplated by the Merger. Our failure to effectively manage telecommunications costs would likely have a material adverse effect on our business, results of operations, financial position and cash flow.

In addition, we may from time to time experience increases in our telecommunications usage, which exceed our then-available telecommunications capacity and the capacity of our internal servers. As a result, users may be unable to register or log on to our service, may experience a general slow-down in their Internet access or may be disconnected from their sessions. Excessive user demand could also result in system failures of our internal server networks, which would prevent us from generating advertising revenues. Inaccessibility, interruptions or

other limitations on the ability to access our service due to excessive user demand, or any failure of our servers to handle user traffic, could have a material adverse effect on our reputation and our revenues.

We may not successfully develop and market new products in a timely or cost-effective manner; consumers or advertisers may not accept our new products.

We may not be able to compete effectively if we are not able to adapt to changes in technology and industry standards, and to develop and introduce new and enhanced products and service offerings. New products may be dependent on our obtaining needed technology from third parties. We also believe that our ability to compete successfully will also depend upon the continued compatibility of our services with products offered by various vendors.

If we are unable to respond in a timely manner to technological advances, we may not be able to compete effectively for users, which could cause our revenues to decrease. We have expended, and may in the future expend, significant resources developing and implementing new products. Product development involves a number of uncertainties, including unanticipated delays and expenses. New products may have technological problems or may not be accepted by our users or advertisers. Several of the new products we have offered, or intend to offer, are intended to generate additional revenues for us. There is no assurance that such products will provide us with any meaningful revenue. In particular, the expansion of a broadband service offering, including a cable offering, could result in significant expenses without a commensurate increase in revenues.

We may not be able to compete effectively if we are not able to protect our proprietary rights.

If we are not able to protect our proprietary rights, we may not be able to compete effectively. We principally rely upon patent, copyright, trade secret and contract laws to protect our proprietary technology. We cannot be certain that we have taken adequate steps to prevent misappropriation of our technology or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technologies. In addition, since we provide our Internet access software for free, we are extremely susceptible to various forms of unauthorized use of our software. These actions could adversely affect our brand names.

In addition, both Juno and NetZero have engaged in lawsuits and expended significant resources attempting to enforce their proprietary rights. We may attempt to enforce our proprietary rights in the future, which could result in significant costs without a corresponding economic or competitive benefit.

We may incur substantial costs and diversion of management resources if we are accused of infringing upon the proprietary rights of others.

Third parties may assert claims against us for infringement of their proprietary rights and these claims may be successful. In addition, a number of third-party owners of patents have claimed to hold patents that cover various forms of online transactions or online technology. As with other online service providers, patent claims could be asserted against us based upon our services or technologies. NetZero and Juno have had claims asserted against them in the past although they do not believe that any claims to date are material to their businesses.

We could incur substantial costs and diversion of management resources in the defense of any claims relating to proprietary rights. Parties making these claims could secure a judgment awarding substantial damages as well as injunctive or other equitable relief that could effectively block our ability to use our products in the United States or abroad. If a third party asserts a claim relating to proprietary technology or information against us, we may seek licenses to the intellectual property from the third party. We cannot be certain, however, that third parties will extend licenses to us on commercially reasonable terms, or at all. If we fail to obtain the necessary licenses or other rights, it could materially and adversely affect our ability to operate our business.

A security breach, virus or inappropriate use by Internet users could disrupt our service.

The future success of our business will depend on the security of our network and, in part, on the security of the network infrastructures of our third-party telecommunications service providers. In addition, the sending of "spam" through our network could result in third parties asserting claims against us. Unauthorized or inappropriate access to our computer systems, including by current or former employees, could potentially jeopardize the security of confidential information, including credit card information, and that could cause losses to our users or us. Users or third parties may also potentially expose us to liability by "identity theft." Users or others may assert claims of liability against us as a result of any failure by us to prevent these network malfunctions and security breaches. Although we intend to use industry-standard security measures, such measures have been circumvented in the past, and we cannot assure you that these measures will not be circumvented in the future. We also cannot assure you that the security measures of our third-party network providers, providers of billing or customer services or other vendors will be adequate. In addition to potential legal liability as a result of computer viruses or other inappropriate uses or security breaches, we may have to interrupt, delay, or temporarily cease service to our users, which could have a material adverse effect on our revenues and could also result in increased user turnover.

If our software or hardware contains errors, or if we encounter difficulties integrating our systems and technologies, our business could be seriously harmed.

The software and hardware used to operate and provide our services is complex and may contain undetected errors or failures. We have in the past encountered, and may in the future encounter, errors in the software or hardware used to operate our business and provide our services. This has resulted in, and may in the future result in, a number of adverse consequences, which have included or may include:

- users being disconnected from our service or being unable to access our service;
- loss of data or revenue;
- injury to reputation; and
- diversion of development resources.

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We have experienced some technical and customer support issues associated with our products and software releases. These issues have resulted in users discontinuing our service and have adversely impacted our revenues. A number of NetZero's and Juno's material technologies and systems, including their software client systems, billing systems, ad-serving technologies and customer relationship management systems, are based on different platforms or are sourced from different vendors. To the extent we attempt to integrate these technologies and systems, we may experience a number of difficulties, errors, failures and unanticipated costs. In addition, virtually every aspect of NetZero's internal operations is dependent upon software provided by Oracle and any significant failure of this software could materially and adversely affect our business. We cannot assure you that we will not experience significant problems in the future.

We are dependent on third parties for technical and customer service support and our business may suffer if they are unable to provide these services, cannot expand to meet our needs, or terminate their relationships with us.

Our business and financial results depend, in part, on the availability and quality of live technical and customer service support services. We outsource most of these functions from ClientLogic Corporation. As a result, we maintain only a small number of internal customer service personnel. We are not equipped to provide the necessary range of customer service functions in the event that ClientLogic becomes unable or unwilling to offer these services to us. At times, Juno's subscribers have experienced lengthy waiting periods to reach representatives trained to provide the technical or customer support they require. Maintaining desired customer support levels may require significantly more support personnel than are currently available to us, or significantly greater expense than we feel it is appropriate, or than we are able, to incur. If our relationship with ClientLogic terminates and we are unable to enter into a comparable arrangement with a replacement vendor, if our current vendor is unable to provide the quality and quantity of service required, or if we are unable to develop internally the additional customer service and technical support capacity we expect to need, our business and financial results will suffer.

We are dependent on third-party software to accurately bill subscribers to our various pay services.

The operation of our pay services requires the accurate operation of billing system software by us and our development of policies designed to reduce the incidence of credit card fraud and other forms of "chargebacks." If errors, defects or malfunctions occur in the operation of our billing system, we could erroneously overcharge customers or under-collect revenue, either of which could hurt our business and financial results.

We cannot predict our future capital needs and we may not be able to secure additional financing.

We may need to raise substantial additional funds in the future to fund our operations. Additional financing may not be available on terms favorable to us, or at all. If adequate funds are not available or not available when required in sufficient amounts or on acceptable terms, we may not be able to devote sufficient cash resources to continue to provide our services in their current form, acquire additional subscribers, enhance or expand our services, respond to competitive pressures or take advantage of perceived opportunities, and our business and financial results may suffer, or we could be forced to cease our operations entirely.

If we are unable to successfully defend against legal actions against us, we could face substantial liabilities.

NetZero and Juno are currently parties to pending legal actions against them. Defending against these lawsuits may involve significant expense and diversion of management's attention and resources from other matters. Due to the inherent uncertainties of litigation, we may not prevail in these actions.

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In addition, our ongoing operations may continue to subject us to significant litigation and costs in the future.

Our business could be shut down or severely impacted if a natural disaster occurs.

Our computer equipment and the telecommunications infrastructure of our third-party network providers are vulnerable to damage from fire, earthquakes, power loss, telecommunications failures, and similar events. NetZero has experienced situations where power loss and telecommunications failures have adversely impacted service, although to date such failures have not been material to its operations. A significant portion of our computer equipment, including critical equipment dedicated to our Internet access services, is located at our headquarters in Westlake Village and at facilities in Los Angeles and San Jose, California; Cambridge, Massachusetts; and Jersey City, New Jersey. A natural disaster or other unanticipated problems at our headquarters or at a network hub, or within a third-party network provider's network, could cause interruptions in the services that we provide. Our systems are not fully redundant. Any prolonged disruption of our services due to system failure could result in user turnover and decreased revenues.

Our ability to operate our business could be seriously harmed if we lose members of our senior management team and other key employees.

Our business is largely dependent on the personal efforts and abilities of our senior management and other key personnel, particularly Mark Goldston, our chairman, chief executive officer and president. Any of our officers or employees can terminate his or her employment relationship at any time. The loss of these key employees or our inability to attract or retain other qualified employees could seriously harm our business and prospects. We do not carry key man life insurance on any of our employees.

We will not be able to grow our business if we are not able to retain or hire additional personnel.

Our future success also depends on our ability to attract, retain and motivate highly skilled technical, managerial, editorial, merchandising, sales, marketing and user service personnel. Competition for such personnel is intense, particularly in the Internet and high technology industry. As a result, we may be unable to successfully attract, assimilate or retain qualified personnel. In addition, the Merger may cause many employees to leave the company, many of whom may be integral to our integration efforts. If we cannot retain those employees who are key to the integration of the businesses of NetZero and Juno, our operations and integration efforts could be adversely affected.

Any staff attrition we experience, whether initiated by the departing employees or by us, could place a significant strain on our managerial, operational, financial and other resources. There can be no assurance that we will be able to identify and hire adequate replacement staff promptly, or at all. Both Juno and NetZero have engaged in significant staffing reductions and additional staffing reductions may take place. These reductions may make it more difficult for us to integrate the businesses of NetZero and Juno, manage existing, or establish new, relationships with advertisers, vendors and other parties, or to integrate, expand and improve our service offerings. Our business and financial results could suffer as a result of the staff reductions undertaken to date and from any future staff reductions and attrition that might occur.

Changes in government regulation of the provision of Internet services could decrease our revenues and increase our costs.

Changes in the regulatory environment regarding the Internet could decrease our revenues and increase our costs. As a provider of Internet access services, we are not currently subject to direct regulation by the Federal Communications Commission. However, some telecommunications carriers

have sought to have communications over the Internet regulated by the FCC in the same manner as other more traditional telecommunications services. Local telephone carriers have also petitioned the FCC to regulate Internet service providers in a manner similar to long distance telephone carriers and to impose access fees on these providers and some developments suggest that they may be successful in obtaining the treatment they seek. In addition, we operate our services throughout the United States, and regulatory authorities at the state level may seek to regulate aspects of our activities as telecommunications services. As a result, we could become subject to FCC and state regulation as Internet services and telecommunications services converge.

Changes in, or interpretations of, laws regarding consumer protection could subject us to liability or cause us to change our practices.

Consumer protection laws and enforcement actions regarding advertising and user privacy, especially relating to children, are becoming more prevalent. The FTC has conducted investigations into the privacy practices of companies that collect information about individuals on the Internet and has also investigated a variety of Internet service providers, including Juno, in connection with marketing and disclosure practices. Various state agencies as well as individuals have also asserted claims against, or instituted inquiries into, Internet service providers, including Juno and NetZero, in connection with marketing and disclosure practices. There is no assurance that our services and business practices, or changes to our services and business practices, will not subject us to claims and liability. The enactment of any additional laws or regulations in

this area, increased enforcement activity of existing laws and regulations, or claims by individuals could significantly impact our costs or the manner in which we conduct business, all of which could cause our business to suffer and adversely impact our results of operations.

We could be exposed to liability for defamation, negligence and infringement.

Because users download and redistribute materials that are cached or replicated by us in connection with our Internet services, claims could be made against us for defamation, negligence, copyright or trademark infringement, or other theories based on the nature and content of such materials. While we have attempted to obtain safe harbor protection against claims of copyright infringement under the Digital Millennium Copyright Act of 1998, there can be no guarantee that we will prevail in any such claims. We also could be exposed to liability because of third-party content that may be accessible through our services, including links to Web sites maintained by our users or other third parties, or posted directly to our Web site and subsequently retrieved by a third party through our services.

Seasonal trends in Internet usage and advertising sales may negatively affect our business.

Seasonal trends could affect the advertising revenues we generate from operating our Internet services. To the extent that our advertising revenues depend on the amount of usage by our users, seasonal fluctuations in Internet usage could affect our advertising revenues during these periods of fluctuation. In addition, the rate at which new users sign up for our services may vary during certain seasons and holiday periods. Because our operating history is so limited, it is difficult for us to accurately predict these trends and plan accordingly. Since our operating expenses are based on our expectations of future revenues, it is possible that seasonal fluctuations could materially and adversely affect our revenues and our operating results.

Risks Related to the Market for Our Common Stock

NetZero's and Juno's stock prices have been highly volatile; our stock price may be highly volatile and may cause limitations on the trading market for our stock.

The market price of NetZero's and Juno's common stock fluctuated significantly in the past. The market price of our common stock has fluctuated significantly since our stock began trading on the Nasdaq National Market in September and it is likely to continue to be volatile with extreme volume fluctuations. The Nasdaq National Market, where most publicly held Internet companies are traded, has experienced substantial price and volume fluctuations. These broad market and industry factors may harm the market price of our common stock, regardless of our actual operating performance, and for this or other reasons we could continue to suffer significant declines in the market price of our common stock.

Future sales of our common stock may negatively affect our stock price.

Approximately 39 million shares are currently outstanding and available for resale, subject to volume and manner of sale limitations applicable to affiliates under Rule 144. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market, or the perception that such sales could occur. These sales also might make it more difficult for us to sell equity securities in the future at a price that we think is appropriate, or at all.

We may issue common stock resulting in dilution to our stockholders, and the dilutive effect of these issuances would increase to the extent that our stock price declines.

Juno entered into a number of relationships in which it may use its common stock to compensate third parties for services, including subscriber referral services, and we may enter into additional such relationships in the future. If the price of our common stock should decline, our electing to pay with common stock would entail issuing a relatively larger number of shares, increasing the dilutive effect on our stockholders, and potentially impairing our ability to execute financing transactions. Additionally, the third parties to whom we issue common stock will generally have registration rights that require us to register these shares of common stock for resale in the public markets. The market price of our common stock could decline as a result of sales of these shares in the market, or the perception that such sales could occur. If we raise additional funds, acquire assets, or obtain goods or services through the issuance of equity securities, stockholders may experience significant dilution of their ownership interest and the newly issued securities may have rights superior to those of our common stock. The dilutive effect of these issuances will be increased to the extent our share price declines.

Our directors will have the ability to exercise significant influence over us.

Our executive officers, directors, and persons and entities affiliated with our executive officers or directors, own in the aggregate approximately 20% of our outstanding common stock. As a result of this concentration of ownership, our executive officers and directors will be able to exercise significant influence over matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership could also have the effect of delaying or preventing a change in control of

the Company that may adversely impact stockholders by preventing them from realizing a premium price for their stock in connection with a sale of the Company.

We have anti-takeover provisions which may make it difficult for a third party to acquire us.

Provisions of our certificate of incorporation, our bylaws and Delaware law could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders because of a premium price offered by a potential acquiror. In addition, our board of directors adopted a

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stockholder rights plan on November 15, 2001, which is an anti-takeover measure that will cause substantial dilution to a person who attempts to acquire the company on terms not approved by our board of directors.

We do not plan to pay dividends in the foreseeable future and, as a result, you will need to sell your shares in order to realize a near-term return on your investment.

We intend to retain any future earnings to finance the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Consequently, stockholders will need to sell shares of common stock in order to realize a return on their investment, if any.

ITEM 3. QUANTATATIVE AND QUALATATIVE DISCLOSURES ABOUT MARKET RISK

We maintain a short-term investment portfolio consisting of A1 and P1 commercial paper, U.S. Government or U.S. Government Agency obligations and money market funds. Increases and decreases in short-term interest rates could have a material impact on interest income from our investment portfolio.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material developments in the legal proceedings discussed in our Quarterly Report on Form 10-Q filed with the SEC on November 14, 2001 and, as of the date of this Report, there are no new material legal proceedings to report.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On November 15, 2001, the Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of its common stock. The dividend was paid on November 26, 2001 to the stockholders of record at the close of business on that date. Each right entitles the registered holder to purchase from the Company one unit consisting of one one-thousandth of a share of its Series A junior participating preferred stock of the Company, at a price of \$25 per unit.

The rights generally will be exercisable only if a person or group acquires beneficial ownership of 15% or more of the Company's common stock or announces a tender or exchange offer which results in a person owning 15% or more of the Company's common stock. The Company will generally be entitled to redeem the rights at \$0.001 per right at any time until 10 days after a public announcement that a 15% position in the Company's common stock has been acquired or that a tender or exchange offer which would result in a person owning 15% or more of the Company's common stock has commenced. The rights expire on November 26, 2011. For a more complete description of the terms of the rights, please see the rights agreement, dated as of November 15, 2001 by and between the Company and U.S. Stock Transfer Corporation, as rights agent, filed as an exhibit to this Report.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

No.	Exhibit
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
3.3**	Certificate of Designation for Series A Junior Participating Preferred Stock (included in exhibit 4.1 below).
4.1**	Rights Agreement, dated as of November 15, 2001, between the Company and U.S. Stock Transfer Corporation, which includes the form of Certificate of Designation for the Series A junior participating preferred stock as Exhibit A, and the form of Rights Certificate as Exhibit B
10.1 +	Amended and Restated Registration Rights Agreement

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10.2 +	Lease Agreement between Westlake Gardens and Registrant
10.3 +	2001 Employee Stock Purchase Plan
10.4 +	2001 Stock Incentive Plan
10.5 +	2001 Supplemental Stock Incentive Plan
10.6 +	Employment Agreement between the Registrant and Mark R. Goldston
10.7 +	Amendment to Employment Agreement between the Registrant and Mark R. Goldston
10.8 +	Stock Pledge Agreement between Registrant and Mark R. Goldston
10.9 +	Note Secured by Stock Pledge Agreement made by Mark R. Goldston in favor of Registrant
10.10 +	Employment Agreement between the Registrant and Charles S. Hilliard
10.11 +	Amendment to Employment Agreement between the Registrant and Charles S. Hilliard
10.12 +	Stock Pledge Agreement between Registrant and Charles S. Hilliard
10.13 +	Note Secured by Stock Pledge Agreement made by Charles S. Hilliard in favor of Registrant
10.14 +	Employment Agreement between the Registrant and Frederic A. Randall, Jr.
10.15 +	Amendment to Employment Agreement between the Registrant and Frederic A. Randall, Jr.

- 10.16 + Employment Agreement between the Registrant and Brian Woods
- 10.17 + Amendment to Employment Agreement between the Registrant and Brian Woods
- 10.18 Form of Note Secured by Stock Pledge Agreement made by certain officers of the Company in favor of Registrant
- 10.19 Form of Stock Pledge Agreement between Registrant and certain officers of the Company
- 10.20 Form of Restricted Stock Purchase Agreement between Registrant and certain officers of the Company
-

* Incorporated by reference from the exhibits to the Current Report on Form 8-K filed by Registrant with the SEC on October 1, 2001 (File No. 333-63704).

** Incorporated by reference from the exhibits to the Current Report on Form 8-K filed by Registrant with the SEC on November 23, 2001 (File No. 333-63704).

+ Incorporated by reference from the exhibits to the Quarterly Report on Form 10-Q filed by Registrant with the SEC on November 14, 2001 (File No. 333-63704).

(b) Reports on Form 8-K.

1. On October 1, 2002, the Registrant filed a Current Report on Form 8-K to report that, on September 25, 2001, pursuant to the Agreement and Plan of Merger, dated as of June 7, 2001, by and among NetZero, Juno, United Online and two acquisition subsidiaries of United Online, NetZero and Juno became wholly-owned subsidiaries of United Online.
2. On November 23, 2001, the Registrant filed a Current Report on Form 8-K to report that, on November 15, 2001, the Registrant's board of directors adopted a Stockholder Rights Plan.

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SIGNATURES

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

UNITED ONLINE, INC.
(REGISTRANT)

Dated: February 14, 2002

By: /s/ CHARLES S. HILLIARD

Charles S. Hilliard
*Executive Vice President, Finance and
Chief Financial Officer*

Dated: February 14, 2002

By: /s/ NEIL P. EDWARDS

Neil P. Edwards
*Vice President, Finance and Treasurer
Chief Accounting Officer*

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No.

Exhibit

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 - 10.9+ Note Secured by Stock Pledge Agreement made by Mark R. Goldston in favor of Registrant
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 - 10.11+ Amendment to Employment Agreement between the Registrant and Charles S. Hilliard
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 - 10.13+ Note Secured by Stock Pledge Agreement made by Charles S. Hilliard in favor of Registrant
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Exhibit 10.18

Form of
UNITED ONLINE, INC.

NOTE SECURED BY STOCK PLEDGE AGREEMENT

\$

February 5, 2002
Westlake Village, California

(the "Maker") promises to pay to the order of United Online, Inc., a Delaware corporation (the "Corporation"), at its corporate offices at 2555 Townsgate Road, Westlake Village, California 91361, the principal sum of \$ _____, together with all accrued interest thereon, upon the terms and conditions specified herein.

1. **Interest.** Interest shall accrue at the rate of [prime plus 1%] [prime plus 2%] per annum, with such rate to be set at the end of each calendar quarter during which this Note is outstanding, on the outstanding balance under this Note from the execution date of this Note until this Note is repaid. Interest shall accrue at such rate on the basis of a three hundred sixty (360) day year, and any interest due and payable for a period of less than one full month shall be calculated by multiplying the actual number of days elapsed in such period by the daily interest rate based on such three hundred sixty (360)-day year. Interest shall be payable on the last day of each calendar quarter.

2. **Payment.** Subject to the acceleration provisions set forth in Section 3, the entire principal balance, together with all accrued and unpaid interest, shall become payable in one lump sum payment on February 5, 2007. Payments of principal and interest on this Note shall be made without offset or deduction and shall be made in lawful tender of the United States. Prepayment of the principal balance of this Note, together with all unpaid and accrued interest on the entire Note balance, may be made in whole or in part at any time without penalty.

3. **Events of Acceleration.** The entire outstanding principal amount of this Note, together with all accrued and unpaid interest, shall become immediately due and payable upon the occurrence of any of the following events:

(a) the expiration of the ninety (90)-day period following the date the Maker ceases for any reason to remain employed by the Corporation; the insolvency of the Maker;

(b) the commission of any act of bankruptcy by the Maker,

(c) the execution by the Maker of a general assignment for the benefit of creditors;

(d) the filing by or against the Maker of any petition in bankruptcy or any petition for relief under the provisions of the Federal bankruptcy act or any other state or Federal law for the relief of debtors and the continuation of such petition without dismissal for a period of thirty (30) days or more;

(e) the appointment of a receiver or trustee to take possession of any property or assets of the Maker or the attachment of or execution against any property or assets of the Maker; or

(f) the appointment of a receiver or trustee to take possession of any property or assets of the Maker of the attachment of or execution against any property or assets of the Maker; or

(g) the occurrence of any event of default under the Stock Pledge Agreement securing this Note or any obligation secured thereby provided that such default is not cured within the period required by the Stock Pledge Agreement.

4. **Employment.** The Maker shall be deemed to continue in employment with the Corporation for so long as he or she remains an employee of the Corporation or one or more of its fifty percent or more owned (directly or indirectly) subsidiaries.

5. **Security.** The proceeds of the loan evidenced by this Note shall be applied solely to the payment of the purchase price of shares of the Corporation's common stock (the "Purchased Shares") and payment of this Note shall be secured by a pledge of those shares with the Corporation pursuant to the Stock Pledge Agreement to be executed this date by the Maker.

6. **Full Recourse Obligation.** The Maker is personally liable for payment of the entire outstanding balance of this Note, and any and all assets of the Maker may be applied to the satisfaction of the Maker's obligations hereunder.

7. **Representations and Warranties.** The Maker hereby represents and warrants to the Corporation that the execution of this Note does not contravene any contractual or judicial restriction binding on or affecting the Maker and that this Note is the legal, valid and binding obligation of the Maker enforceable against the Maker in accordance with its terms.

8. **Collection.** In the event that any action, suit or proceeding arising out of this Note and/or in any action or proceeding to enforce a judgment based on a cause of action arising out of this Note, the prevailing party shall be paid by the other party thereto an amount equal to all of the prevailing party's costs and expenses, including attorneys' fees incurred in each and every such action, suit or proceeding (including any and all appeals or petitions therefrom).

9. **Waivers .**

(a) No waiver by the Corporation of any breach or default by Maker under this Note shall be deemed a waiver of any breach or default thereafter occurring. Any forbearance, failure or delay by the Corporation in exercising any right, power or remedy under this Note shall not be deemed to be a waiver of such right, power or remedy or prejudice its rights as against Maker in any respect. Any single or partial exercise of any right, power or remedy under this Note shall not preclude the further exercise thereof, and every right, power and remedy of the Corporation under this Note shall continue in full force and effect unless such right, power or remedy is specifically waived by an instrument executed by the Corporation. Any such waiver shall be limited to its express terms. The rights, privileges, remedies and options granted to the Corporation under this Note or under any applicable law shall be deemed cumulative and may be exercised successively or concurrently at the Corporation's option.

(b) The Maker waives presentment, demand, notice of dishonor, notice of default or delinquency, notice of acceleration, notice of protest and nonpayment, notice of costs, expenses or losses and interest thereon, notice of interest on interest and diligence in taking any action to collect any sums owing under this Note or in proceeding against any of the rights or interests in or to properties securing payment of this Note.

10. **Enforceability.** If any one or more of the provisions of this Note are determined to be unenforceable, in whole or in part, for any reason, the remaining provisions shall remain fully operative.

11. **Assignment.** This Note shall be binding on the Maker and his successors, assigns, executors, personal representatives, heirs and legatees, and shall inure to the benefit of the Corporation, any future holder of this Note and their respective successors and assigns. The Corporation may at any time sell, assign or otherwise transfer to any other person or entity all or part of the benefits or obligations of the

Corporation under this Note or the Stock Pledge Agreement. The Maker may not assign or transfer this Note or any of the Maker's obligations hereunder without the Corporation's prior written consent.

12. **Governing Law.** This Note shall be construed in accordance with the laws of the State of Delaware without resort to that State's conflict-of-laws rules.

MAKER

QuickLinks

[Form of UNITED ONLINE, INC. NOTE SECURED BY STOCK PLEDGE AGREEMENT](#)

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Exhibit 10.19

**Form of
UNITED ONLINE, INC.**

STOCK PLEDGE AGREEMENT

THIS STOCK PLEDGE AGREEMENT (this "Agreement") has been entered into as of this 5th day of February 2002 by and between United Online, Inc., a Delaware corporation (the "Corporation"), and ("Pledgor").

RECITALS

A. In connection with the purchase of _____ shares of the Corporation's common stock (the "Purchased Shares") pursuant to that certain Stock Purchase Agreement by and between Pledgor and the Corporation (the "Purchase Agreement"), Pledgor has issued that certain promissory note (the "Note"), dated February 5, 2002, payable to the order of the Corporation in the principal amount of \$ _____.

B. Such Note is secured by the Purchased Shares and other collateral upon the terms set forth in this Agreement.

NOW, THEREFORE, it is hereby agreed as follows:

1. **Grant of Security Interest .**

(a) Pledgor hereby grants the Corporation a security interest in, and assigns, transfers to and pledges with the Corporation, the following securities and other property (collectively, the "Collateral"):

(i) the Purchased Shares delivered to and deposited with the Corporation as collateral for the Note;

(ii) any and all new, additional or different securities or other property subsequently distributed with respect to the Purchased Shares which are to be delivered to and deposited with the Corporation pursuant to the requirements of Paragraph 2 of this Agreement;

(iii) any and all other property and money which is delivered to or comes into the possession of the Corporation pursuant to the terms of this Agreement; and

(iv) the proceeds of any sale, exchange or disposition of the property and securities described in subparagraphs (i), (ii) or (iii) above.

(b) To perfect the Corporation's security interest in and lien on the Collateral, Pledgor shall, upon the execution of this Agreement, immediately deliver to the Corporation, together with properly endorsed stock power assignments executed in blank, all certificates representing the Purchased Shares to be held by the Corporation until released pursuant to this Agreement.

2. **Duty to Deliver .** Any new, additional or different securities or other property (other than regular cash dividends) which may now or hereafter become distributable with respect to the Collateral by reason of (a) any stock split, stock dividend, recapitalization, combination of

shares, exchange of shares or other change affecting the Corporation's common stock (the "Common Stock") as a class without the Corporation's receipt of consideration or (b) any merger, consolidation or other reorganization affecting the capital structure of the Corporation shall, upon receipt by Pledgor, be promptly delivered to and deposited with the Corporation as part of the Collateral hereunder. Any securities shall be accompanied by one or more properly endorsed stock power assignments.

3. **Representations and Warranties** . Pledgor hereby represents and warrants that:

(a) this Agreement has been duly authorized, executed and delivered by Pledgor and constitutes the legal, valid and binding obligation of Pledgor, enforceable in accordance with its terms;

(b) no consent, approval, authorization or other order of any Person is required for (i) the execution and delivery of this Agreement by Pledgor or the delivery by Pledgor of the Collateral to the Corporation as provided herein or (ii) for the exercise by the Corporation of the rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement; and

(c) Pledgor is the owner of and has the full right and power to transfer the Collateral to the Corporation free and clear of any security interest, lien, restriction or encumbrance other than encumbrances set forth in the Stock Purchase Agreement and those created by entering into this Agreement.

4. **Covenants** .

(a) Pledgor will not, without the prior written consent of the Corporation, sell, assign, transfer, mortgage, pledge or otherwise encumber any of its rights in or to the Collateral or any dividends or other distributions or payments with respect thereto or grant a lien on any thereof.

(b) Pledgor will, at his own expense, execute, acknowledge and deliver all such instruments and take all such action as the Corporation from time to time may reasonably request in order to ensure to the Corporation the benefits of the first priority lien on and to the Collateral intended to be created by this Agreement.

(c) Pledgor will defend the title to the Collateral and the lien of the Corporation thereon against the claim of any person or entity claiming against or through Pledgor and will maintain and preserve such lien so long as this Agreement shall remain in effect.

(d) Pledgor agrees that he will not at any time plead, claim or take the benefit of any appraisal, valuation, stay, extension, moratorium or redemption law now or hereafter in force in order to prevent or delay the enforcement of this Agreement, or the absolute sale of the whole or any part of the Collateral or the possession thereof by any purchaser at any sale hereunder, and Pledgor waives the benefit of all such laws to the extent it lawfully may do so. Pledgor agrees that he will not interfere with any right, power and remedy of the Corporation provided for in this Agreement or now or hereafter existing at law or in equity or by statute or otherwise, or the exercise or beginning of the exercise by the Corporation of any one or more such rights, powers or remedies.

(e) Pledgor shall pay, prior to the delinquency date, all taxes, liens, assessments and other charges against the Collateral, and in the event of Pledgor's failure to do so, the Corporation may at its election pay any or all of such taxes and other charges without contesting the validity or legality thereof provided however, that the Corporation shall have provided Pledgor with at least fifteen days prior written notice of such election. The payments so made shall become part of the indebtedness secured hereunder and until paid shall bear interest at the per annum rate of interest in effect under the Note.

5. **Stockholder Rights** . So long as there exists no event of default under this Agreement, Pledgor may exercise all stockholder voting rights and be entitled to receive any and all regular cash dividends paid on the Collateral and all proxy statements and other stockholder materials pertaining to the Collateral.

6. **Rights and Powers of Corporation** . The Corporation may, without obligation to do so, exercise at any time and from time to time one or more of the following rights and powers with respect to any or all of the Collateral:

(a) subject to the applicable limitations of Paragraph 9, accept in its discretion other property of Pledgor in exchange for all or part of the Collateral and release Collateral to Pledgor to the extent necessary to effect such exchange, and in such event the other property received in the exchange shall become part of the Collateral hereunder;

(b) perform such acts as are necessary to preserve and protect the Collateral and the rights, powers and remedies granted with respect to such Collateral by this Agreement; and

(c) transfer record ownership of the Collateral to the Corporation or its nominee and receive, endorse and give receipt for, or collect by legal proceedings or otherwise, dividends or other distributions made or paid with respect to the Collateral, *provided and only if* there exists at the time an outstanding event of default under Paragraph 10 of this Agreement. Any cash sums which the Corporation may so receive shall be applied to the payment of the Note and any other indebtedness secured hereunder, in such order of application as the Corporation deems appropriate. Any remaining cash shall be paid over to Pledgor.

Any action by the Corporation pursuant to the provisions of Paragraph 6 may be taken without notice to Pledgor. Expenses reasonably incurred in connection with such action shall be payable by Pledgor and form part of the indebtedness secured hereunder as provided in Paragraph 13.

7. **Care of Collateral.** The Corporation shall exercise reasonable care in the custody and preservation of the Collateral. However, the Corporation shall have no obligation to (a) initiate any action with respect to, or otherwise inform Pledgor of, any conversion, call, exchange right, preemptive right, subscription right, purchase offer or other right or privilege relating to or affecting the Collateral, (b) preserve the rights of Pledgor against adverse claims or protect the Collateral against the possibility of a decline in market value or (c) take any action with respect to the Collateral requested by Pledgor unless the request is made in writing and the Corporation determines that the requested action will not unreasonably jeopardize the value of the Collateral as security for the Note and other indebtedness secured hereunder. Subject to the limitations of Paragraph 9, the Corporation may at any time release and deliver all or part of the Collateral to Pledgor, and the receipt thereof by Pledgor shall constitute a complete and full acquittance for the Collateral so released and delivered. The Corporation shall accordingly be discharged from any further liability or responsibility for the Collateral, and the released Collateral shall no longer be subject to the provisions of this Agreement.

8. **Transfer of Collateral.** In connection with the transfer or assignment of the Note (whether by negotiation, discount or otherwise), the Corporation may transfer all or any part of the Collateral, and the transferee shall thereupon succeed to all the rights, powers and remedies granted the Corporation hereunder with respect to the Collateral so transferred. Upon such transfer, the Corporation shall be fully discharged from any further responsibility for the transferred Collateral and all liability for the Collateral arising after the date of such transfer.

9. **Release of Collateral.** Provided there does not otherwise exist any event of default under Paragraph 10, the Purchased Shares, together with any additional Collateral which may hereafter be pledged and deposited hereunder, shall be released from pledge and returned to Pledgor in accordance with the following provisions:

(a) Upon payment or prepayment of principal under the Note, together with payment of all accrued but unpaid interest to date on the principal amount so paid or prepaid, one or more of the Purchased Shares held as Collateral hereunder shall (subject to the applicable limitations of Paragraphs 9(c) and 9(d) below) be released within two days following such payment or prepayment. The number of shares to be so released shall be equal to the number obtained by

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multiplying (i) the total number of Purchased Shares held under this Agreement at the time of the payment or prepayment, by (ii) a fraction, the numerator of which shall be the amount of the principal paid or prepaid and the denominator of which shall be the unpaid principal balance of the Note immediately prior to such payment or prepayment. In no event, however, shall any fractional shares be released.

(b) Any additional Collateral which may hereafter be pledged and deposited with the Corporation pursuant to the requirements of Paragraph 2 shall be released at the same time the particular shares of Common Stock to which the additional Collateral relates are to be released in accordance with the applicable provisions of Paragraph 9(a).

(c) Under no circumstances shall any Purchased Shares or any other Collateral be released if previously applied to the payment of any indebtedness secured hereunder. In addition, in no event shall any Purchased Shares or other Collateral be released pursuant to Paragraph 9(a) or (b) if, and to the extent, the fair market value of the Collateral which would otherwise remain in pledge hereunder after such release were effected would be less than the unpaid principal and accrued interest under the Note.

(i) For all valuation purposes under this Agreement, the fair market value per share of any equity securities on any relevant date shall be determined in accordance with the following provisions:

(A) If the securities are at the time traded on the Nasdaq Stock Market, the fair market value shall be the closing selling price per share on the date in question, as such prices are reported by the National Association of Securities Dealers on the Nasdaq Stock Market. If there is no reported closing selling price for the securities on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be deemed the fair market value.

(B) If the securities are at the time listed on any securities exchange, then the fair market value shall be the closing selling price per share on the date in question on the securities exchange serving as the primary market for the securities,

as such price is officially quoted in the composite tape of transactions on such exchange. If there is no reported sale of the securities on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

(C) If the securities are at the time neither listed on any securities exchange nor traded on the Nasdaq Stock Market, the fair market value shall be determined by the Corporation's Board of Directors after taking into account such factors as the Board shall deem appropriate

(ii) Any Collateral (other than equity securities) shall be valued by the Corporation, taking into account such factors (including liquidity and transferability) as the Corporation shall, in its sole discretion, deem appropriate.

(d) So long as the Collateral is in whole or in part comprised of "margin stock" within the meaning of Section 221.2 of Regulation U of the Federal Reserve Board, then no Collateral shall thereafter be substituted for any Collateral under the provisions of Paragraph 6(a) or be released under Paragraph 9(a) or (b), unless there is compliance with each of the following additional requirements:

(i) The substitution or release must not increase the amount by which the indebtedness secured hereunder at the time of such substitution or release exceeds the maximum loan value (as defined below) of the Collateral immediately prior to such substitution or release.

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(ii) The substitution or release must not cause the amount of indebtedness secured hereunder at the time of such substitution or release to exceed the maximum loan value of the Collateral remaining after such substitution or release is effected.

(iii) For purposes of this Paragraph 9(d), the maximum loan value of each item of Collateral shall be determined on the day the substitution or release is to be effected and shall, in the case of the shares of Common Stock and any additional Collateral (other than margin stock), equal the good faith loan value thereof (as defined in Section 221.2 of Regulation U) and shall, in the case of all margin stock (other than the Common Stock), equal fifty percent of the current market value of such stock.

10. **Events of Default** . The occurrence of one or more of the following events shall constitute an event of default under this Agreement:

(a) Pledgor's failure to pay the outstanding principal and accrued interest under the Note when due;

(b) Pledgor's failure to perform any obligation imposed upon Pledgor by reason of this Agreement that is not cured within the thirty days following written notice to Pledgor detailing the failure; or

(c) Pledgor's breach of any warranty contained in this Agreement.

Upon the occurrence of any such event of default, the Corporation may, at its election, declare the Note and all other indebtedness secured hereunder to become immediately due and payable and may exercise any or all of the rights and remedies granted to a secured party under the provisions of the Delaware Uniform Commercial Code (as now or hereafter in effect), including (without limitation) the power to dispose of the Collateral by public or private sale or to accept the Collateral in full payment of the Note and all other indebtedness secured hereunder.

Any proceeds realized from the disposition of the Collateral pursuant to the foregoing power of sale shall be applied first to the payment of expenses incurred by the Corporation in connection with the disposition, then to the payment of the Note and finally to any other indebtedness secured hereunder. Any surplus proceeds shall be paid over to Pledgor. However, in the event that such proceeds prove insufficient to satisfy all obligations of Pledgor under the Note, then Pledgor shall remain personally liable for the resulting deficiency.

11. **Other Remedies** . The rights, powers and remedies granted to the Corporation pursuant to the provisions of this Agreement shall be in addition to all rights, powers and remedies granted to the Corporation under any statute or rule of law. No waiver by the Corporation of any breach or default by Pledgor under this Agreement shall be deemed a waiver of any breach or default thereafter occurring. Any forbearance, failure or delay by the Corporation in exercising any right, power or remedy under this Agreement shall not be deemed to be a waiver of such right, power or remedy. Any single or partial exercise of any right, power or remedy under this Agreement shall not preclude the further exercise thereof, and every right, power and remedy of the Corporation under this Agreement shall continue in full force and effect unless such right, power or remedy is specifically waived by an instrument executed by the Corporation. Any such waiver shall be limited to its express terms.

12. **Costs and Expenses** . In the event that any action, suit or proceeding arising out of this Agreement and/or in any action or

proceeding to enforce a judgment based on a cause of action arising out of this Agreement, the prevailing party shall be paid by the other party thereto an amount equal to all of the prevailing party's costs and expenses, including attorneys' fees incurred in each and every such action, suit or proceeding (including any and all appeals or petitions therefrom). If the Corporation is the prevailing party in such an action, all of the Corporation's costs and expenses, including attorneys' fees, shall become part of the indebtedness secured hereunder and shall constitute

a personal liability of Pledgor payable immediately upon demand and shall bear interest at the per annum rate of interest in effect under the Note.

13. **Applicable Law** . This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without resort to that State's conflict-of-laws rules.

14. **Successors** . This Agreement shall be binding upon the Corporation and its successors and assigns and upon Pledgor and the executors, heirs and legatees of Pledgor's estate.

15. **Amendment** . None of the terms or provisions of this Agreement may be waived, altered, modified or amended except in writing duly signed for and on behalf of the Corporation and Pledgor.

16. **Severability** . If any provision of this Agreement is held to be invalid under applicable law, then such provision shall be ineffective only to the extent of such invalidity, and neither the remainder of such provision nor any other provisions of this Agreement shall be affected thereby.

IN WITNESS WHEREOF , this Agreement has been entered into by Pledgor and the Corporation as of the date set forth in the introductory paragraph of this Agreement.

, PLEDGOR

Address:

AGREED TO AND ACCEPTED BY:

UNITED ONLINE, INC.

By:

Title:

Dated:

Form of
UNITED ONLINE, INC.

RESTRICTED STOCK PURCHASE AGREEMENT

THIS RESTRICTED STOCK PURCHASE AGREEMENT has been entered into as of this 5th day of February 2002, by and between United Online, Inc., a Delaware corporation, and _____, Optionee.

All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement or in the attached Appendix.

A. **EXERCISE OF OPTION**

1. **Exercise** . Optionee hereby purchases _____ shares of Common Stock (the "Purchased Shares") pursuant to that certain option (the "Option") granted to Optionee on September 26, 2001 (the "Grant Date") to purchase no more than _____ shares of Common Stock (the "Option Shares") under the Plan at the exercise price of \$1.84 per share (the "Exercise Price"). The portion of the Option being exercised is that portion that qualifies as an Incentive Stock Option under Section 422 of the Internal Revenue Code.

2. **Payment** . Concurrently with the delivery of this Agreement to the Corporation, Optionee shall pay the Exercise Price for the Purchased Shares in accordance with the provisions of the Option Agreement and shall deliver whatever additional documents may be required by the Option Agreement as a condition for exercise, together with a duly-executed blank Assignment Separate from Certificate (in the form attached hereto as Exhibit I) with respect to the Purchased Shares.

3. **Stockholder Rights** . Until such time as the Corporation exercises the Repurchase Right, Optionee (or any successor in interest) shall have all the rights of a shareholder (including voting, dividend and liquidation rights) with respect to the Purchased Shares, subject, however, to the transfer restrictions contained in this Agreement.

4. **Restriction on Transfer** . Optionee shall not transfer, assign, encumber or otherwise dispose of any of the Purchased Shares which are subject to the Repurchase Right. The Purchased Shares shall be held in escrow by the Corporation until such time as the Repurchase Right has lapsed.

B. **REPURCHASE RIGHT**

1. **Grant** . The Corporation shall have the right (the "Repurchase Right") to repurchase at the Exercise Price any or all of the Purchased Shares in which Optionee is not, at the time of his or her cessation of Service, vested in accordance with the Vesting Schedule applicable to those shares or the special vesting acceleration provisions of Paragraph B.6 of this Agreement (such shares to be hereinafter referred to as the "Unvested Shares").

2. **Exercise of the Repurchase Right** . The Repurchase Right shall be exercisable by written notice delivered to Optionee prior to the end of the sixty (60)-day period following the date Optionee ceases for any reason to remain in Service or (if later) during the sixty (60)-day period following the execution date of this Agreement. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than thirty (30) days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to the Corporation on or before the close of business on the date specified for the repurchase. Concurrently with the receipt of such stock certificates, the Corporation shall pay to Optionee, in cash or cash equivalents (including the cancellation of any purchase-money indebtedness), an amount equal to the Exercise Price previously paid for the Unvested Shares which are to be repurchased from Optionee.

3. **Termination of the Repurchase Right** . The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Paragraph B.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to any and all Purchased Shares in which Optionee vests in accordance with the Vesting Schedule. All Purchased Shares as to which the Repurchase Right lapses shall, however, remain subject to terms of the Stock Pledge Agreement.

4. **Aggregate Vesting Limitation** . If the Option is exercised in more than one increment so that Optionee is a party to one or more other Stock Purchase Agreements (the "Prior Purchase Agreements") which are executed prior to the date of this Agreement, then the total number of Purchased Shares as to which Optionee shall be deemed to have a fully-vested interest under this Agreement and all Prior Purchase Agreements shall not exceed in the aggregate the number of Purchased Shares in which Optionee would otherwise at the time be vested, in

accordance with the Vesting Schedule, had all the Purchased Shares (including those acquired under the Prior Purchase Agreements) been acquired exclusively under this Agreement.

5. **Recapitalization** . Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any Recapitalization distributed with respect to the Purchased Shares shall be immediately subject to the Repurchase Right and any escrow requirements hereunder, but only to the extent the Purchased Shares are at the time covered by such right or escrow requirements. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of Purchased Shares subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon the Corporation's capital structure; provided, however, that the aggregate purchase price shall remain the same.

6. **Corporate Transaction** .

(a) The Repurchase Right shall automatically terminate in its entirety, and all the Purchased Shares shall vest in full, immediately prior to the consummation of any Corporate Transaction, except to the extent the Repurchase Right is to be assigned to the successor entity in such Corporate Transaction.

(b) To the extent the Repurchase Right remains in effect following a Corporate Transaction, such right shall apply to any new securities or other property (including any cash payments) received in exchange for the Purchased Shares in consummation of the Corporate Transaction, but only to the extent the Purchased Shares are at the time covered by such right. Appropriate adjustments shall be made to the price per share payable upon exercise of the Repurchase Right to reflect the effect of the Corporate Transaction upon the Corporation's capital structure; provided, however, that the aggregate purchase price shall remain the same. The new securities or other property (including any cash payments) issued or distributed with respect to the Purchased Shares in consummation of the Corporate Transaction shall be immediately deposited in escrow with the Corporation (or the successor entity) and shall not be released from escrow until Optionee vests in such securities or other property in accordance with the same Vesting Schedule in effect for the Purchased Shares.

(c) The vesting of the Purchased Shares (and/or the proceeds thereof) following a Corporate Transaction or Change in Control shall be determined in accordance with the terms of Optionee's employment agreement, if any, or the United Online 2001 Stock Incentive Plan if Optionee does not have an employment agreement.

C. **SPECIAL TAX ELECTION** The acquisition of the Purchased Shares may result in adverse tax consequences which may be avoided or mitigated by filing an election under Code Section 83(b). Such election must be filed within thirty (30) days after the date of this Agreement. A description of the tax consequences applicable to the acquisition of the Purchased Shares and the form for making the Code Section 83(b) election are set forth in Exhibit II. ***Optionee should consult with his or her tax advisor to***

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determine the tax consequences of acquiring the Purchased Shares and the advantages and disadvantages of filing the Code Section 83(b) election. Optionee acknowledges that it is Optionee's sole responsibility, and not the Corporation's, to file a timely election under Code Section 83(b), even if Optionee requests the Corporation or its representatives to make this filing on his or her behalf.

D. **GENERAL PROVISIONS**

1. **Assignment** . The Corporation may assign the Repurchase Right to any person or entity selected by the Board, including (without limitation) one or more stockholders of the Corporation.

2. **No Employment or Service Contract** . Nothing in this Agreement or in the Plan shall confer upon Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining Optionee) or of Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's Service at any time for any reason, with or without cause.

3. **Notices** . Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten (10) days advance written notice under this paragraph to all other parties to this Agreement.

4. **No Waiver** . The failure of the Corporation in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights and/or rights of first refusal that may subsequently arise under the provisions of this Agreement or any other agreement between the Corporation and Optionee. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

5. **Cancellation of Shares** . If the Corporation shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Purchased Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and the Corporation shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

6. **Optionee Undertaking** . Optionee hereby agrees to take whatever additional action and execute whatever additional documents the Corporation may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Optionee or the Purchased Shares pursuant to the provisions of this Agreement.

7. **Agreement is Entire Contract** . This Agreement constitutes the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and shall in all respects be construed in conformity with the terms of the Plan.

8. **Governing Law** . This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware without resort to that State's conflict-of-laws rules.

9. **Counterparts** . This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

10. **Successors and Assigns** . The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and upon Optionee, Optionee's permitted assigns and the legal representatives, heirs and legatees of Optionee's estate, whether or not

any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof.

IN WITNESS WHEREOF , the parties have executed this Agreement on the day and year first indicated above.

UNITED ONLINE, INC

By: _____

Title: _____

Address: _____

OPTIONEE

Address: _____

SPOUSAL ACKNOWLEDGMENT

The undersigned spouse of Optionee has read and hereby approves the foregoing Stock Purchase Agreement. In consideration of the Corporation's granting Optionee the right to acquire the Purchased Shares in accordance with the terms of such Agreement, the undersigned hereby agrees to be irrevocably bound by all the terms of such Agreement, including (without limitation) the right of the Corporation (or its assigns) to purchase any Purchased Shares in which Optionee is not vested at time of his or her cessation of Service.

OPTIONEE'S SPOUSE

Address: _____

**EXHIBIT I
ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED sell(s), assign(s) and transfer(s) unto United Online, Inc. (the "Corporation"), () shares of the Common Stock of the Corporation standing in his or her name on the books of the Corporation represented by Certificate No. herewith and do(es) hereby irrevocably constitute and appoint Attorney to transfer the said stock on the books of the Corporation with full power of substitution in the premises.

Dated: _____

Signature _____

Instruction: Please do not fill in any blanks other than the signature line. Please sign exactly as you would like your name to appear on the issued stock certificate.

**EXHIBIT II
FEDERAL INCOME TAX CONSEQUENCES AND
SECTION 83(b) TAX ELECTION**

I. ***Federal Income Tax Consequences and Section 83(b) Election For Exercise of Non-Statutory Option*** . If the Purchased Shares are acquired pursuant to the exercise of a Non-Statutory Option, as specified in the Grant Notice, then under Code Section 83, the excess of the Fair Market Value of the Purchased Shares on the date any forfeiture restrictions applicable to such shares lapse over the Exercise Price paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions" includes the right of the Corporation to repurchase the Purchased Shares pursuant to the Repurchase Right. However, Optionee may elect under Code Section 83(b) to be taxed at the time the Purchased Shares are acquired, rather than when and as such Purchased Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within thirty (30) days after the date of the Agreement. Even if the Fair Market Value of the Purchased Shares on the date of the Agreement equals the Exercise Price paid (and thus no tax is payable), the election must be made to avoid potentially adverse tax consequences in the future. The form for making this election is attached as part of this exhibit . **FAILURE TO MAKE THIS FILING WITHIN THE APPLICABLE THIRTY (30)-DAY PERIOD MAY RESULT IN THE RECOGNITION OF ORDINARY INCOME BY OPTIONEE AS THE FORFEITURE RESTRICTIONS LAPSE .**

II. ***Federal Income Tax Consequences and Conditional Section 83(b) Election For Exercise of Incentive Option*** . If the Purchased Shares are acquired pursuant to the exercise of an Incentive Option, as specified in the Grant Notice, then the following tax principles shall be applicable to the Purchased Shares:

(i) For regular tax purposes, no taxable income will be recognized at the time the Option is exercised.

(ii) The excess of (a) the Fair Market Value of the Purchased Shares on the date the Option is exercised or (if later) on the date any forfeiture restrictions applicable to the Purchased Shares lapse over (b) the Exercise Price paid for the Purchased Shares will be includable in Optionee's taxable income for alternative minimum tax purposes.

(iii) If Optionee makes a disqualifying disposition of the Purchased Shares, then, in most cases, Optionee will recognize ordinary income in the year of such disposition equal in amount to the excess of (a) the Fair Market Value of the Purchased Shares on the date the Option is exercised or (if later) on the date any forfeiture restrictions applicable to the Purchased Shares lapse over (b) the Exercise Price paid for the Purchased Shares. Any additional gain recognized upon the disqualifying disposition will be either short-term or long-term capital gain depending upon the period for which the Purchased Shares are held prior to the disposition.

(iv) For purposes of the foregoing, the term "forfeiture restrictions" will include the right of the Corporation to repurchase the

Purchased Shares pursuant to the Repurchase Right. The term "disqualifying disposition" means any sale or other disposition ¹ of the Purchased Shares within either two (2) years after the Grant Date or within one (1) year after the exercise date of the Option.

(v) In the absence of final Treasury Regulations relating to Incentive Options, it is not certain whether Optionee may, in connection with the exercise of the Option for any Purchased Shares at the time subject to forfeiture restrictions, file a protective election under Code Section 83(b) which would limit Optionee's ordinary income upon a disqualifying disposition to the excess of the Fair Market Value of the Purchased Shares on the date the Option is exercised over the Exercise Price paid for the Purchased Shares. Accordingly, such election if properly filed will only be allowed to

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the extent the final Treasury Regulations permit such a protective election. Page 2 of the attached form for making the election should be filed with any election made in connection with the exercise of an Incentive Option.

(vi) The Code Section 83(b) election will be effective in limiting the Optionee's alternative minimum taxable income to the excess of the Fair Market Value of the Purchased Shares at the time the Option is exercised over the Exercise Price paid for those shares.

¹ Generally, a disposition of shares purchased under an Incentive Option includes any transfer of legal title, including a transfer by sale, exchange or gift, but does not include a transfer to the Optionee's spouse, a transfer into joint ownership with right of survivorship if Optionee remains one of the joint owners, a pledge, a transfer by bequest or inheritance or certain tax free exchanges permitted under the Code.

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SECTION 83(b) ELECTION

This statement is being made under Section 83(b) of the Internal Revenue Code, pursuant to Treasury Regulation Section 1.83-2.

- (1) The taxpayer who performed the services is:

Name:
Address:
Taxpayer Ident. No.:
- (2) The property with respect to which the election is being made is _____ shares of the common stock of United Online, Inc.
- (3) The property was issued on _____.
- (4) The taxable year in which the election is being made is the calendar year _____.
- (5) The property is subject to a repurchase right pursuant to which the issuer has the right to acquire the property at the original purchase price if for any reason taxpayer's service with the issuer terminates. The issuer's repurchase right lapses in a series of installments over a _____-year period ending on _____, _____.
- (6) The fair market value at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) is \$ _____ per share.
- (7) The amount paid for such property is \$ _____ per share.
- (8) A copy of this statement was furnished to United Online, Inc. for whom taxpayer rendered the services underlying the transfer of property.
- (9) This statement is executed on _____, _____.

Spouse (if any)

Taxpayer

This election must be filed with the Internal Revenue Service Center with which taxpayer files his or her Federal income tax returns and must be made within thirty (30) days after the execution date of the Stock Purchase Agreement. This filing should be made by registered or certified mail, return receipt requested. Optionee must retain two (2) copies of the completed form for filing with his or her Federal and state tax returns for the current tax year and an additional copy for his or her records. Optionee must also deliver one copy to the Corporation.

The property described in the above Section 83(b) election is comprised of shares of common stock acquired pursuant to the exercise of an incentive stock option under Section 422 of the Internal Revenue Code (the "Code"). Accordingly, it is the intent of the Taxpayer to utilize this election to achieve the following tax results:

1. The purpose of this election is to have the alternative minimum taxable income attributable to the purchased shares measured by the amount by which the fair market value of such shares at the time of their transfer to the Taxpayer exceeds the purchase price paid for the shares. In the absence of this election, such alternative minimum taxable income would be measured by the spread between the fair market value of the purchased shares and the purchase price which exists on the various lapse dates in effect for the forfeiture restrictions applicable to such shares. The election is to be effective to the full extent permitted under the Code.

2. Section 421(a)(1) of the Code expressly excludes from income any excess of the fair market value of the purchased shares over the amount paid for such shares. Accordingly, this election is also intended to be effective in the event there is a "disqualifying disposition" of the shares, within the meaning of Section 421(b) of the Code, which would otherwise render the provisions of Section 83(a)

of the Code applicable at that time. Consequently, the Taxpayer hereby elects to have the amount of disqualifying disposition income measured by the excess of the fair market value of the purchased shares on the date of transfer to the Taxpayer over the amount paid for such shares. Since Section 421(a) presently applies to the shares which are the subject of this Section 83(b) election, no taxable income is actually recognized for regular tax purposes at this time, and no income taxes are payable, by the Taxpayer as a result of this election. The election shall be effective to the full extent permitted under the Code.

THIS PAGE 2 IS TO BE ATTACHED TO ANY SECTION 83(b) ELECTION FILED IN CONNECTION WITH THE EXERCISE OF AN INCENTIVE STOCK OPTION UNDER THE FEDERAL TAX LAWS.

APPENDIX

The following definitions shall be in effect under the Agreement:

1. **Agreement** shall mean this Stock Purchase Agreement.
2. **Change in Control** shall mean the event of a change in ownership or control of the Corporation effected through either of the following transactions:
 - (a) the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) of beneficial ownership (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934, as amended) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders, or
 - (b) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (i) have been Board members continuously since the beginning of such period or (ii) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (i) who were still in office at the time the Board approved such election or nomination.
3. **Code** shall mean the Internal Revenue Code of 1986, as amended.
4. **Common Stock** shall mean shares of the Corporation's common stock.
5. **Corporate Transaction** shall mean either of the following stockholder approved transactions to which the Corporation is a party:
 - (a) a merger, consolidation or reorganization approved by the Corporation's stockholders, *unless* securities representing more than

fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Corporation's outstanding voting securities immediately prior to such transaction, or

(b) any stockholder-approved transfer or other disposition of all or substantially all of the Corporation's assets.

6. **Corporation** shall mean United Online, Inc., a Delaware corporation, and any successor corporation to all or substantially all of the assets or voting stock of United Online, Inc. which has assumed the Plan.

7. **Exercise Price** shall have the meaning assigned to such term in Paragraph A.1.

8. **Fair Market Value** per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(a) If the Common Stock is at the time traded on the Nasdaq Stock Market, then the Fair Market Value shall be deemed equal to the closing selling price per share of Common Stock on the date in question, as the price is reported by the National Association of Securities Dealers on the Nasdaq Stock Market. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists, or

(b) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be deemed equal to the closing selling price per share of Common Stock on the date

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in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

9. **Grant Date** shall have the meaning assigned to such term in Paragraph A.1.

10. **Grant Notice** shall mean the Notice of Grant of Stock Option pursuant to which Optionee has been informed of the basic terms of the Option.

11. **Incentive Option** shall mean an option which satisfies the requirements of Code Section 422.

12. **Involuntary Termination** shall mean the termination of Optionee's Service by reason of:

(a) Optionee's involuntary dismissal or discharge by the Corporation (or any Parent or Subsidiary) for reasons other than Misconduct, or

(b) Optionee's voluntary resignation following (A) a material reduction in the scope of his or her day-to-day responsibilities at the Corporation (or any Parent or Subsidiary), it being understood that a change in Optionee's title shall not, in and of itself, be deemed a material reduction, (B) a reduction in Optionee's base salary or (C) a relocation of Optionee's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation (or any Parent or Subsidiary) without Optionee's consent.

13. **Misconduct** shall mean the commission of any act of fraud, embezzlement or dishonesty by Optionee, any unauthorized use or disclosure by Optionee of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by Optionee adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of Optionee or any other individual in the Service of the Corporation (or any Parent or Subsidiary).

14. **Non-Statutory Option** shall mean an option not intended to satisfy the requirements of Code Section 422.

15. **Option** shall have the meaning assigned to such term in Paragraph A.1.

16. **Option Agreement** shall mean all agreements and other documents evidencing the Option.

17. **Optionee** shall mean the person to whom the Option is granted under the Plan.

18. **Parent** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

19. **Plan** shall mean the United Online, Inc. 2001 Stock Incentive Plan.

20. **Plan Administrator** shall mean either the Board or a committee of the Board acting in its capacity as administrator of the Plan.

21. **Prior Purchase Agreement** shall have the meaning assigned to such term in Paragraph B.4.

22. **Purchased Shares** shall have the meaning assigned to such term in Paragraph A.1.

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23. **Recapitalization** shall mean any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the Corporation's outstanding Common Stock as a class without the Corporation's receipt of consideration.

24. **Reorganization** shall mean any of the following transactions:

(a) a merger or consolidation in which the Corporation is not the surviving entity,

(b) a sale, transfer or other disposition of all or substantially all of the Corporation's assets,

(c) a reverse merger in which the Corporation is the surviving entity but in which the Corporation's outstanding voting securities are transferred in whole or in part to a person or persons different from the persons holding those securities immediately prior to the merger, or

(d) any transaction effected primarily to change the state in which the Corporation is incorporated or to create a holding company structure.

25. **Repurchase Right** shall mean the right granted to the Corporation in accordance with Article B.

26. **Service** shall mean the Optionee's performance of services for the Corporation (or any Parent or Subsidiary) in the capacity of an employee, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance, a non—employee member of the board of directors or an independent consultant.

27. **Stock Pledge Agreement** shall mean the Stock Pledge Agreement entered into on February 5, 2002 by and between the Corporation and Optionee.

28. **Subsidiary** shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

29. **Vesting Schedule** shall mean the vesting schedule specified in the Grant Notice pursuant to which the Optionee is to vest in the Option Shares in a series of installments over his or her period of Service.

30. **Unvested Shares** shall have the meaning assigned to such term in Paragraph B.1.

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