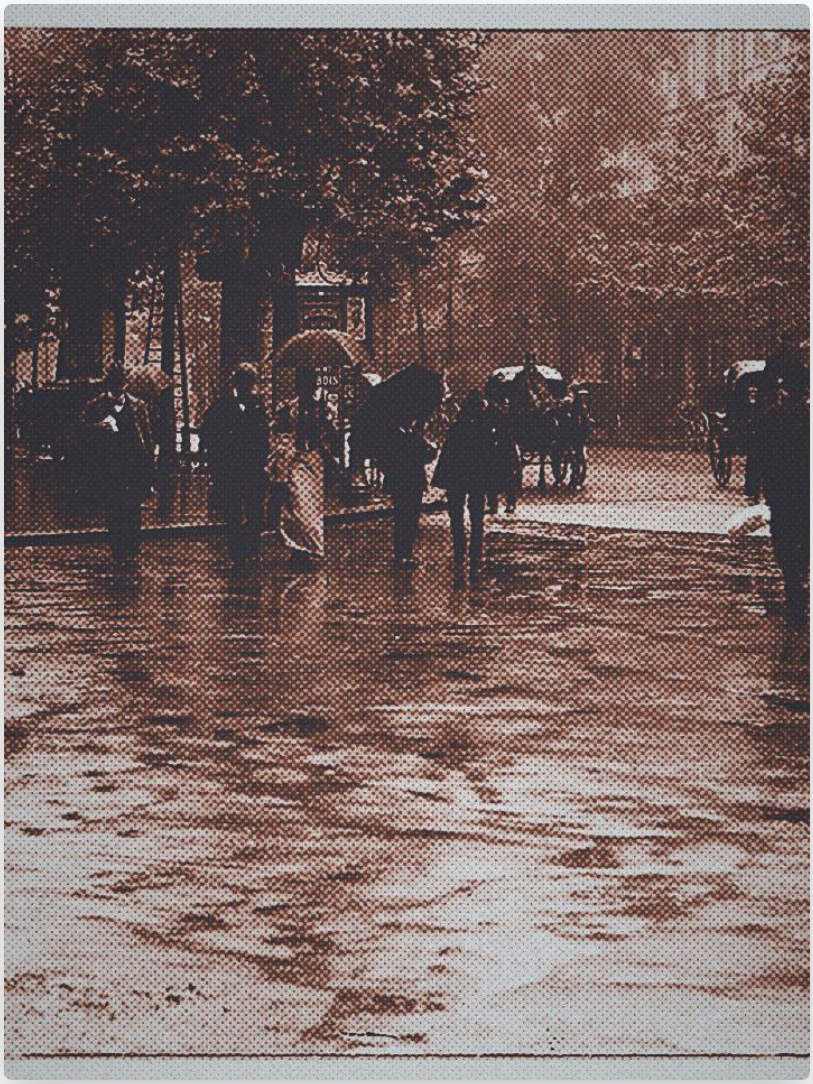
FORM S-1 · REGISTRATION STATEMENT

Aquantive Inc

IPO priced 2000-02-29 · $24.00 a share · AVEA



From S1 Directory · www.s1directory.com/s1/aquantive-inc/ · Source: https://www.sec.gov/Archives/edgar/data/1071806/000103221099001699/0001032210-99-001699.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON DECEMBER 8, 1999 REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 AVENUE A, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Washington	7319	91-1819567
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

506 SECOND AVENUE, 9TH FLOOR SEATTLE, WASHINGTON 98104 (206) 521-8800 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) BRIAN P. MCANDREWS CHIEF EXECUTIVE OFFICER AVENUE A, INC. 506 SECOND AVENUE, 9TH FLOOR SEATTLE, WASHINGTON 98104 (206) 521-8800 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

Copies to:

David F. McShea
Faith Wilson
Patrick J. Devine
PERKINS COIE LLP
1201 Third Avenue, 40th Floor
Seattle, Washington 98101-3099
(206) 583-8888

Patrick J. Schultheis
Jose F. Macias
Richard C. Sohn
WILSON SONSINI GOODRICH & ROSATI,
Professional Corporation
5300 Carillon Point
Kirkland, Washington 98033-7356
(425) 576-5800

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. [_] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] _____ IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] _____ IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] _____ IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, CHECK THE FOLLOWING BOX. [_]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
COMMON STOCK, $.01 PAR VALUE PER SHARE.....	$60,000,000	$15,840

(1) ESTIMATED SOLELY FOR THE PURPOSE OF CALCULATING THE REGISTRATION FEE IN ACCORDANCE WITH RULE 457(O).

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

++
+The information in this prospectus is not complete and may be changed. We may +
+not sell these securities until the registration statement filed with the   +
+Securities and Exchange Commission is effective. This prospectus is not an   +
+offer to sell securities and we are not soliciting offers to buy these   +
+securities in any state where the offer or sale is not permitted.   +
++

PROSPECTUS (SUBJECT TO COMPLETION) ISSUED DECEMBER 8, 1999 SHARES

[LOGO OF AVENUE A, INC.]

COMMON STOCK

AVENUE A, INC. IS OFFERING SHARES OF ITS COMMON STOCK. THIS IS OUR INITIAL PUBLIC OFFERING AND NO PUBLIC MARKET CURRENTLY EXISTS FOR OUR SHARES. WE ANTICIPATE THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $ AND $ PER SHARE.

WE HAVE FILED AN APPLICATION FOR OUR COMMON STOCK TO BE QUOTED ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "AVEA."

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

PRICE $ A SHARE

	UNDERWRITING DISCOUNTS AND COMMISSIONS	PRICE TO PUBLIC	PROCEEDS TO AVENUE A, INC.
Per Share	$	$	$
Total	$	$	$

AVENUE A, INC. HAS GRANTED THE UNDERWRITERS THE RIGHT TO PURCHASE UP TO AN ADDITIONAL SHARES TO COVER OVER-ALLOTMENTS.

THE SECURITIES AND EXCHANGE COMMISSION AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

MORGAN STANLEY & CO. INCORPORATED EXPECTS TO DELIVER THE SHARES TO PURCHASERS ON , 2000.

MORGAN STANLEY DEAN WITTER

SALOMON SMITH BARNEY

THOMAS WEISEL PARTNERS LLC

, 1999

Table of Contents

Page

Prospectus Summary..... 4 Risk Factors..... 7
Special Note Regarding Forward-Looking Statements..... 21 Use of
Proceeds..... 22 Dividend Policy..... 22
Capitalization..... 23 Dilution..... 24
Selected Consolidated Financial Data..... 25 Management's Discussion and Analysis of
Financial Condition and Results of Operations..... 26 Page
Business..... 34 Management..... 45
Related-Party Transactions..... 54 Principal
Shareholders..... 56 Description of Capital Stock..... 58
Shares Eligible for Future Sale..... 60

Underwriters..... 62 Legal Matters..... 64 Experts..... 64 Where You Can Find More Information..... 64 Index to Consolidated Financial Statements..... F-1 You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

Until , 2000, 25 days after commencement of the offering, all dealers that buy, sell or trade shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Prospectus Summary

You should read the following summary together with the more detailed information regarding Avenue A and the common stock being sold in this offering and the consolidated financial statements and related notes appearing elsewhere in this prospectus.

Avenue A is a leading provider of Internet advertising services. We integrate strategic Internet media planning and buying, proprietary ad management technology, user profiling and data analysis systems to help advertisers increase the effectiveness and return on investment of their Internet advertising campaigns. Through this integrated approach we have developed an extensive knowledge base of Internet advertising strategies, targeting methods and media placements that perform effectively. We believe this knowledge base grows richer and more valuable with each additional campaign we execute and with each additional client we serve. We focus on serving the needs of buyers of Internet advertising, providing a service that harnesses the complexity, interactivity and dynamic nature of the Internet with the objective of delivering the most successful advertising campaigns for our clients. Our revenue has grown to $20.3 million in the third quarter of 1999. Our top clients include Gateway, Microsoft, uBid and Uproar, based on revenue in this same period.

The Internet has become an important medium for advertising and commerce. Forrester Research, Inc. projects that online advertising expenditures in the United States will grow from $2.8 billion in 1999 to $22.0 billion in 2004. We believe this growth is driven by a number of factors, including the increasing number of Internet users, the growth of e-commerce and advances in online advertising technology. Unlike traditional media, the Internet enables the delivery of dynamic advertisements which can be tailored for individual viewers and quickly modified based on their response to the advertisements. Advertisers, however, often must overcome significant challenges to take full advantage of the Internet's potential as an advertising medium. Some of these challenges include the

scale and complexity of the Internet, significant data analysis and technology requirements, substantial operating costs and the limited number of service providers focused specifically on the needs of buyers of Internet advertising.

Avenue A seeks to provide a solution to these challenges. We have designed our service offering to meet the needs of buyers of Internet advertising. Our media planning and ad management services use our database to create and execute highly targeted advertising campaigns. Our scalable proprietary technology allows us to simultaneously conduct a large number of advertising campaigns which are delivered to a broad range of Web sites and advertising networks. Our technology and data analysis systems measure and analyze our clients' advertising campaigns based on criteria relevant to their specific business objectives to help increase the return on their investments.

Our objective is to be the leading provider of Internet and other digital media advertising services to advertisers. To achieve this goal we plan to:

. aggressively acquire new clients and develop new markets, in particular through our Growth Markets Division, which tailors our services to clients with smaller online advertising budgets;

. leverage our extensive database of information from prior Internet advertising campaigns and our data analysis expertise to improve and extend our services;

. provide superior client service through a comprehensive, integrated offering of Internet advertising and marketing services, including our recently launched Precision Email Service;

. continue to build, license and acquire technologies that will enable us to plan and execute increasingly effective Internet advertising and marketing campaigns;

. acquire complementary businesses and establish strategic relationships with other companies, including companies that provide traditional advertising and media services;

. exploit emerging digital media opportunities such as interactive television, Internet-enabled home appliances, hand-held computers and cellular telephones; and . expand our presence internationally in order to capitalize on the global reach of the Internet.

We began operations in July 1997 and were incorporated in Washington in February 1998. To expand our presence in the Internet advertising industry and allow us to serve a broader client base, we acquired iballs LLC, an Internet media company located in New York City, in September 1999. Our principal executive offices are located at 506 Second Avenue, Seattle, Washington 98104, and our telephone number is (206) 521-8800. Our World Wide Web site is www.avenuea.com. The information contained on our Web site is not part of, or incorporated by reference into, this prospectus.

"AVENUE A," "AVENUE A MEDIA," "AD CLUB NETWORK," "AXIS," "PRECISION E-MAIL," "PRECISION TARGETING" and the Avenue A logo are service marks of Avenue A for which service mark applications are pending. "IBALLS" and the iballs LLC logo are service marks of iballs LLC, a wholly owned subsidiary of Avenue A, for which service mark applications are pending. This

prospectus also includes trademarks, trade names and service marks of other companies. Use or display by Avenue A of other parties' trademarks, trade names or service marks is not intended to and does not imply a relationship with, or endorsement or sponsorship of Avenue A by, these other parties.

Unless the context requires otherwise, in this prospectus, the terms "Avenue A," "we," "us" and "our" refer to Avenue A, Inc. and its subsidiaries, and references to "iballs LLC" refer to I-Balls LLC, a wholly owned subsidiary of Avenue A, Inc.

The Offering

Common stock offered..... shares Common stock to be outstanding after this offering.. shares Use of proceeds..... For general corporate purposes, including working capital. See "Use of Proceeds." Proposed Nasdaq National Market symbol..... AVEA The foregoing information is based upon shares outstanding as of September 30, 1999 and excludes:

. 3,924,081 shares of common stock subject to outstanding options as of September 30, 1999, granted under our 1998 stock incentive compensation plan at a weighted average exercise price of $1.94 per share;

. 1,993,438 shares of common stock reserved for future grants under our 1998 stock incentive compensation plan, which includes 500,000 shares reserved in November 1999 for future grants under that plan;

. 875,000 shares of common stock subject to outstanding options as of September 30, 1999, granted outside of our stock incentive compensation plans at a weighted average exercise price of $2.45 per share;

. 451,807 shares of common stock issuable upon exercise of an outstanding warrant as of September 30, 1999 at an exercise price of $.83 per share; and . 1,000,000 shares of common stock reserved for issuance under our 1999 stock incentive compensation plan and 500,000 shares of common stock reserved for issuance under our 1999 employee stock purchase plan, which plans were approved by our board of directors in November 1999.

In addition, except as otherwise noted, all information in this prospectus:

. gives effect to the conversion of all outstanding shares of preferred stock into 16,416,098 shares of common stock effective upon the closing of this offering; and . assumes no exercise of the underwriters' over-allotment option.

SUMMARY CONSOLIDATED FINANCIAL DATA (in thousands, except share and per share data) The pro forma basic and diluted net loss per share data in the following table reflects the conversion of all outstanding shares of preferred stock into 16,416,098 shares of common stock effective upon the closing of this offering. See note 2 of notes to consolidated financial statements contained elsewhere in this prospectus for an explanation of the determination of the number of weighted average shares used to compute pro forma basic and diluted net loss per share amounts.

	Period From Inception (July 1, 1997) to December 31, 1997	Year Ended December 31, 1998	Nine Months Ended September 30, 1998	1999
			(unaudited)	

Consolidated Statements of Operations Data: Total revenue..... $ 18 $ 599 $ 276 $ 34,098 Loss from operations..... (284) (3,658) (2,096) (5,585) Net loss..... (284) (3,646) (2,106) (5,250) Basic and diluted net loss per share..... $ (.50) $ (.42) Shares used in computing basic and diluted net loss per share..... 7,240,455 12,394,634 Pro forma basic and diluted net loss per share..... $ (.41) $ (.22) Shares used in computing pro forma basic and diluted net loss per share..... 8,924,992 23,832,031 The following table presents consolidated balance sheet data as of September 30, 1999:

. on an actual basis; and

. on an as adjusted basis to reflect the sale of shares of common stock offered by this prospectus at an assumed initial public offering price of $ per share, and the receipt by Avenue A of the estimated net proceeds after deducting estimated underwriting discounts and commissions and estimated offering expenses.

As of September 30, 1999	Actual	As Adjusted (unaudited)
Consolidated Balance Sheet Data:		
Cash and cash equivalents.....	$17,831	$
Working capital.....	12,951	
Total assets.....	45,923	
Total liabilities.....	23,658	
Total shareholders' equity.....	22,265	

Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors and the other information in this prospectus before investing in our common stock. Our business, financial condition and operating results could be seriously harmed by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

Risks Related to Our Company and Business Our limited operating history makes evaluating our business difficult We have only a limited operating history upon which you can evaluate our business. Our business model is evolving and relies substantially upon the sale of Internet advertising services. Our prospects for financial and operational success must be considered in light of the risks frequently encountered by early-stage companies in the Internet advertising market, many of which may be beyond our control. These risks include our ability to:

. attract new clients and maintain current client relationships;

. achieve effective advertising campaign results for our clients;

. continue to develop and upgrade our technologies to keep pace with the growth of the Internet advertising market and changes in technology;

. continue to expand the number of services we offer;

. manage our expanding operations; and . maintain our reputation and build trust with our clients.

If we do not successfully address these risks, our business could suffer.

We have a history of losses and anticipate continued losses We incurred net losses of $3.9 million for the period from our inception on July 1, 1997 through December 31, 1998, and net losses of $5.3 million for the nine months ended September 30, 1999. As of September 30, 1999, our accumulated deficit was $8.6 million. We have not achieved profitability and expect to continue to incur operating losses for the foreseeable future. We expect to continue to make significant operating and capital expenditures and, as a result, we will need to generate significant additional revenue to achieve and maintain profitability. Although our revenue has grown quickly in recent quarters, we cannot assure you that we will generate sufficient revenue to achieve profitability. Even if we do achieve profitability, we cannot assure you that we can sustain or increase profitability on a quarterly or annual basis in the future. If our revenue grows more slowly than we anticipate, or if our operating expenses exceed our expectations or cannot be reduced, we will be unable to achieve or maintain profitability.

Our quarterly operating results are subject to fluctuations that may cause our stock price to decline Our quarterly operating results have fluctuated in the past and are likely to continue to do so in the future. It is possible that in the future our operating results in a particular quarter or quarters will not meet the expectations of securities analysts or investors. If so, the market price of our common stock could decline. We believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance and should not be relied upon to predict the future performance of our stock price.

Our revenue, expenses and operating results could vary significantly from quarter to quarter for several reasons, many of which are beyond our control. These factors include:

. demand for our advertising services and the mix of advertisements placed and services provided;

. commitment of advertisers to Internet advertising in general;

. addition of new clients or loss of current clients;

. seasonal fluctuations in advertising spending;

. timing variations on the part of advertisers to implement advertising campaigns;

. changes in the availability and pricing of advertising space;

. changes in the pricing of our services or the services of our competitors;

. introduction of new services by us or our competitors;

. timing and amount of costs relating to the expansion of our operations;

. costs related to any possible future acquisitions of technologies or businesses;

. changes in the growth rate of Internet usage; and . general economic and market conditions.

Our current and future expense estimates are based, in large part, on estimates of future revenue, which is difficult to predict. In particular, we plan to increase our operating expenses significantly in order to enhance our proprietary technology, expand our client services, sales and marketing operations and expand internationally. We may be unable to, or may elect not to, adjust spending quickly enough to offset any unexpected revenue shortfall. If our expenses are not accompanied by increased revenue in the same quarter, our quarterly operating results would be harmed.

Our operating results may fluctuate seasonally, and these fluctuations may cause our stock price to decline Our stock price may decline due to seasonal fluctuations. We believe that our operating results will fluctuate depending on the season because retail advertisers generally purchase substantially more advertising space during the fourth calendar quarter of each year than during other quarters, particularly the first calendar quarter. Due to this seasonal pattern, we expect our revenue in the first quarter of 2000 to be significantly less than our revenue in the fourth quarter of 1999. Given our limited operating history, we cannot be certain how pronounced these seasonal trends may be or what, if any, other seasonal trends may emerge that would affect our business.

We rely on a limited number of clients, and the loss of a major client or a reduction in a major client's Internet advertising budget could significantly reduce our revenue Our business would be harmed by the loss of any of our major clients, a reduction in the Internet advertising budgets of any of these clients or any significant reduction in revenue generated from these clients. A substantial amount of our revenue to date has been derived from a limited number of advertisers that use our services. In the third quarter of 1999, Gateway, Microsoft, uBid and Uproar each accounted for approximately 10% or more of our total revenue, and collectively accounted for approximately 60% of our total revenue. In addition, our top ten clients collectively accounted for over 78% of our revenue in the third quarter of 1999. Current clients may decide not to continue purchasing advertising services from us or may significantly reduce their advertising spending, and we may not be able to successfully attract additional clients. In addition, the non-payment of amounts due to us from one or more of our significant clients would harm our business.

Our client contracts have short terms, and the loss of a significant number of these contracts in a short period of time could harm our business We derive substantially all of our revenue from the sale of advertising services under short-term advertising campaign services contracts, all of which are cancelable upon 90 days' or less notice. In addition, these contracts generally do not contain penalty provisions for cancellation before the end of the contract term. The non-renewal, cancellation or deferral of a significant number of these contracts in any one period would cause an immediate and significant decline in our revenue and harm our business.

We are substantially dependent on our ability to perform third-party ad serving and any limitation on this ability could harm our business We are substantially dependent on our ability to perform advertisement delivery, or ad serving, on third-party Web sites, and any limitation on this ability could harm our business. Our technology and advertising services have been structured around third-party

ad serving, and we currently do not plan to shift our focus or diversify our services to diminish the relative importance of third-party ad serving. Our business could suffer from a variety of factors that limit or reduce our ability to perform third-party ad serving, including:

. refusal by Web sites or advertising networks to accept advertisements served by us;

. technological changes that render our ad serving systems obsolete or incompatible with the systems of Web sites or advertising networks;

. introduction of more advanced or lower-priced ad serving services by our competitors;

. lawsuits or injunctions based on claims that our ad serving technologies violate the proprietary rights of other parties;

. increases in ad serving directly from advertisers to Web sites; and . interruptions, failures or defects in our ad serving systems.

We may be subject to patent infringement claims, including claims that our ad serving technologies, processes or methods infringe the patents of others, which may cause us to incur significant expenses, pay substantial damages and be prevented from providing our services Other parties may claim that our technologies, processes or methods infringe their patents. Any such claim may cause us to incur significant expenses and, if successfully asserted against us, may cause us to pay substantial damages and prevent us from providing some of our services, including our core ad serving services, which would substantially harm our business. A U.S. patent was issued to DoubleClick Inc. in September 1999 relating to a method of delivery, targeting and measuring of advertising over networks. This patent may cover some of the technologies, processes or methods that we use in our ad serving systems. DoubleClick recently brought suit against L90, Inc., one of its competitors, claiming that L90's methods and networks for delivery, targeting and measuring advertising over the Internet infringe this patent. We cannot assure you that we will be able to distinguish our technologies, processes or methods from those covered under the DoubleClick patent or that the DoubleClick patent would be invalidated if challenged.

In addition, DoubleClick and MatchLogic, Inc., a subsidiary of At Home Corporation, have each filed U.S. patent applications and related applications under the Patent Cooperation Treaty that appear to cover technologies relating to ad serving. Also, 24/7 Media, Inc. has announced that it has received a notice of allowance for a U.S. patent application on its ad delivery technology that 24/7 Media asserts relates to enabling technology currently in use by a number of ad serving systems. If patents are issued pursuant to these applications, we cannot assure you that we will be able to distinguish our technologies, processes or methods from those covered under these patents or that the patents would be invalidated if challenged. The patent field covering Internet-related technologies is rapidly evolving and surrounded by a great deal of uncertainty, and other patents or patent applications relating to the delivery of Internet advertising may exist of which we are unaware.

Any claims that might be brought against us relating to infringement of patents, including the DoubleClick patent and other patents that may be issued to DoubleClick, MatchLogic or 24/7 Media, may cause us to incur significant expenses and, if successfully asserted against us, may cause us to pay

substantial damages and limit our ability to use the intellectual property subject to these claims. Even if we were to prevail, any litigation could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations. Furthermore, as a result of a patent infringement suit, we may be prevented from providing some of our services, including our core ad serving services, unless we enter into royalty or license agreements. We may not be able to obtain royalty or license agreements on terms acceptable to us, or at all.

In addition to patent infringement claims, third parties may assert other intellectual property claims, which may cause us to incur significant expenses, pay substantial damages and be prevented from providing our services In addition to patent infringement claims, third parties may claim that we are infringing or violating their other intellectual property rights, including their copyrights, trademarks and trade secrets, which may cause us to incur significant expenses and, if successfully asserted against us, pay substantial damages and be prevented from providing our services. We are aware of third parties that use the name "Avenue A," one of which is a Canadian advertising agency. There may be other third parties using this name of whom we are unaware. A successful claim of intellectual property infringement against us could substantially harm our business. Even if we were to prevail, any litigation regarding our intellectual property could be costly and time- consuming and divert the attention of our management and key personnel from our business operations. Furthermore, as a result of an intellectual property infringement suit, we may be prevented from providing some of our services or using some of the service marks for which we have sought service mark protection unless we enter into royalty or license agreements. We may not be able to obtain royalty or license agreements on terms acceptable to us, or at all.

Our intellectual property may be subject to legal challenges, unauthorized use or infringement, which could diminish the value of our services to existing and potential clients If we fail to successfully enforce our intellectual property rights, the value of our services could be diminished and our business may suffer. Our success depends in large part on our proprietary technology. Although we recently filed eight provisional patent applications in the United States for aspects of our technology, processes and methods, we have not been issued any patents to date. We cannot assure you that our patent applications will be granted, that any future patent of ours will not be challenged, invalidated or circumvented, or that the rights granted under any future patent of ours will provide competitive advantages to us. Our success also depends on our continuing use of our service marks, especially the "Avenue A" service mark. We have recently filed service mark applications for our service marks and cannot assure you that these applications will be approved. Even if these applications are approved, any service marks may be successfully challenged by others or invalidated. If our service mark applications are not approved or if our service marks are invalidated because of prior third-party registrations, our use of these marks could be restricted unless we entered into arrangements with these third parties, which might not be available on commercially reasonable terms, if at all.

We currently are reliant on a combination of copyright, trademark and trade secret laws and confidentiality procedures to establish and protect our proprietary rights. We may be required to spend significant resources to monitor and enforce these rights. Third parties may obtain and use our technology without authorization or develop similar technology independently which may infringe our

proprietary rights. We may not be able to detect such infringements or may lose competitive position in the market before we do so. In addition, competitors may design around our technology or develop competing technologies substantially similar to ours. We generally enter into confidentiality agreements with our employees and many of our consultants and generally control access to and distribution of our technology, documentation and other proprietary information. Despite these efforts, unauthorized parties may attempt to disclose, obtain or use our technology. Our precautions may not prevent misappropriation of our intellectual property, particularly in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States.

Any limitation on our ability to conduct targeted advertising could impair our ability to retain existing clients and attract new clients Any limitation on our ability to conduct targeted advertising for our clients could harm our business. Targeted advertising is an essential element of our business. As more advertisers demand targeted advertising services, we will need to develop increasingly effective tools and larger databases that can provide greater precision in targeted advertisement management and delivery. The development of these tools and databases is technologically challenging and expensive. We cannot assure you that we can develop any of these tools or databases in a cost-effective or timely manner, if at all, and failure to do so could limit our ability to conduct targeted advertising. Moreover, privacy concerns may result in limitations or prohibitions on the use of Internet user information, which could also limit our ability to conduct targeted advertising. Any limitation or prohibition would impair our ability to retain our existing clients and to attract new clients, which would harm our business.

Any limitation on our ability to aggregate or use data from our clients' advertising campaigns could decrease the value of our services, result in significant expenditures of resources and harm our business Any limitation on our ability to aggregate data from our clients' advertising campaigns or to use this data could decrease the value of our services, result in significant expenditures and harm our business. In addition to the detailed data we collect and store for individual clients, we aggregate non-personally identifiable data on the activity of Internet users from the advertising campaigns of all of our clients. We rely on this data to build user behavioral models to assist in the targeting of Internet advertising. Although the data we aggregate from the campaigns of different clients is, once aggregated, not identifiable by client, our clients might decide not to allow us to collect some or all of this anonymous data or limit our use of this data. In addition, although our advertising campaign services contracts generally permit us to aggregate anonymous data from advertising campaigns, our clients might nonetheless request that we discontinue using data from their campaigns that has already been aggregated with other client campaign data. It would be difficult if not impossible to comply with these requests, and such requests could result in significant expenditures of resources. Interruptions, failures or defects in our data collection and storage systems, as well as privacy concerns regarding the collection of user data, could also result in limitations on our ability to aggregate data from our clients' advertising campaigns.

Our business model is unproven and evolving and may not succeed Our business model is new and unproven, is continually evolving, and ultimately may not succeed. We generate revenue by providing technology-based Internet advertising services to our clients. The Internet has not been in existence for a sufficient period of time to demonstrate its effectiveness as an advertising medium. Internet banner advertising, email marketing and other types of Internet advertising and marketing, as well as technology-based methods for targeting advertisements and tracking the results of Internet advertising, may not achieve broad market acceptance. Also, the intense competition among Internet advertising service providers has led to the creation of a number of alternative service offerings and pricing structures for Internet advertisers. Our model for generating revenue may prove unsuccessful in light of this competition. Our ability to generate revenue from our clients will depend, in part, on our ability to:

. demonstrate to our clients that Internet advertising and marketing services will add value and increase advertising or marketing effectiveness;

. attract and retain clients by differentiating the services we offer; and . obtain advertising space at competitive prices from a large base of Web sites and advertising networks sufficient to meet the needs of our clients.

If we fail to effectively manage our growth, our business could suffer Failure to manage our growth could harm our business. We have grown significantly since our inception and expect to grow quickly in the future. We have increased our number of employees from 46 as of September 30, 1998 to 159 as of September 30, 1999. In addition, we have recently added 15 employees in New York City in connection with our acquisition of iballs LLC, an Internet media company. Because many of our executives, including our chief executive officer, have only recently joined us, our management team has only worked together for a short time and may not work together effectively.

Future expansion could be expensive and strain our management and other resources. In order to effectively manage growth, we must:

. continue to develop an effective planning and management process to implement our business strategy;

. hire, train and integrate new personnel in all areas of our business, especially in our Client Service teams;

. improve our financial and managerial controls and accounting and reporting systems and procedures; and . expand our facilities and increase our capital investments.

We cannot assure you that we will be able to effectively accomplish these tasks or otherwise effectively manage our growth.

The loss of key personnel or any inability to attract and retain additional personnel could impair our ability to maintain or expand our business The loss of the services of any member of our management team or other key employees could harm our business. Our future success depends to a significant extent on the continued service of our key management, client service, engineering, sales and technical

personnel. We do not maintain key person life insurance on any of our executive officers and do not intend to purchase any in the future. Although we generally enter into noncompetition agreements with our employees, our business could be harmed if one or more of our officers or key employees decided to join a competitor or otherwise compete with us.

Our future success also depends on our ability to attract, retain and motivate highly skilled employees. In particular, we will need to hire a significant number of client service personnel. Competition for qualified personnel in the Internet and technology industries is intense. If we fail to hire and retain a sufficient number of client service personnel, as well as engineering, sales and technical personnel, we will not be able to maintain or expand our business.

Many of our clients have limited operating histories, are unprofitable and may not be able to pay for our services If any of our current or future clients is unable to pay for our services, our business could suffer. Many of our principal clients have limited operating histories and have not achieved profitability. In the past we have lost clients who could not pay for our services because they were unable to secure ongoing funding. The ability of many of our clients to meet their payment obligations is affected by the risks, expenses and difficulties encountered by companies with limited operating histories, particularly in the evolving Internet market.

We have many competitors and may not be able to compete successfully in the market for Internet advertising The market for Internet advertising is relatively new, yet intensely competitive. Our competitors include the following:

. Internet media buyers that integrate ad serving technology and Internet media buying, such as AppNet Inc. (through its i33 Communications division), and MediaPlex, Inc.;

. Interactive advertising agencies, such as Modem Media . Poppe Tyson Inc., Ogilvy & Mather Worldwide (through its OgilvyOne division) and Saatchi & Saatchi Advertising (through its Darwin Digital Media Services division);

. Enabling online advertising technology providers, such as AdForce, Inc., AdKnowledge, Inc., At Home Corporation (through its MatchLogic, Inc. subsidiary), CMGI, Inc. (through its Engage Technologies, Inc. subsidiary) and DoubleClick Inc.;

. Advertising networks, such as DoubleClick Inc., Flycast Communications Corporation, L90, Inc. and 24/7 Media, Inc.;

. Targeted email service providers, such as At Home Corporation (through its MatchLogic, Inc. subsidiary), ClickAction Inc., Digital Impact, Inc., DoubleClick Inc. and E-Dialog, Inc.; and . Traditional advertising agencies that perform Internet advertising and marketing as part of their services to clients, such as Ogilvy & Mather Worldwide and Saatchi & Saatchi Advertising.

In addition, we compete with other traditional advertising agencies that use traditional advertising media, and in general we compete with television, radio, cable and print media for a share of advertisers' budgets.

Many of our existing competitors, as well as a number of potential new competitors, have longer operating histories, greater name recognition, larger client bases and significantly greater financial, technical and marketing resources than we have. Also, many of our current and potential competitors have established or may establish cooperative relationships among themselves or with third parties. In addition, several of our competitors, including AdForce, Inc., AdKnowledge, Inc. and Flycast Communications Corporation, have combined or are in the process of combining with larger companies with greater resources than ours. These competitors may:

. engage in more extensive research and development;

. undertake more far-reaching marketing campaigns;

. make more attractive offers to existing and potential employees and clients;

. adopt more aggressive pricing policies and provide services similar to ours at no additional cost by bundling them with their other product and service offerings;

. develop services that are equal or superior to our services or that achieve greater market acceptance than our services; and . develop databases that are larger than or otherwise superior to our databases.

Increased competition is likely to result in price reductions, reduced gross margins and loss of market share. We cannot assure you that we will be able to compete successfully, and competitive pressures may harm our business.

Consolidation in the Internet industry may impair our ability to retain our clients Many of our clients may be affected by rapid consolidation in the Internet industry. Our business would suffer if we were to lose a substantial number of clients or any of our significant clients as a result of consolidation. These clients may be required to use the advertising services of the companies that acquire them or of other advertising service providers.

Consolidation of Internet advertising networks and large Internet portals may impair our ability to serve advertisements, to acquire advertising space at favorable rates and to collect campaign data The consolidation of Internet advertising networks and large Internet portals could harm our business. This type of consolidation is currently occurring at a rapid pace and may eventually lead to a concentration of desirable advertising space on a very small number of networks and large Web sites. This type of concentration could substantially impair our ability to serve advertisements if these networks or large Web sites decide not to permit us to serve advertisements on their Web sites or if they develop ad placement systems that are not compatible with our ad serving systems. These networks or Web sites could also use their greater bargaining power to increase their rates for advertising space or prohibit or limit our aggregation of advertising campaign data. In addition, concentration of desirable advertising space in a small number of networks and Web sites could diminish the value of our advertising campaign databases, as the value of these databases depends on the continuous aggregation of data from advertising campaigns on a variety of different Web sites and advertising networks.

We may be unable to adequately protect our data warehouse information Failure to adequately protect our data warehouse information could harm our business. Other than typical security features in our systems, we do not take additional steps to protect our data warehouse information. Our operations may be susceptible to hacker interception, break-ins and other disruptions. These disruptions may jeopardize the security of information stored in and transmitted through our systems. If any of these disruptions were to happen to our systems, we might be subject to lawsuits by the affected clients or the users we profile, damage to our reputation among our current and potential clients and significant expenditures of capital and other resources.

Any failure of our technology to perform satisfactorily could result in lost revenue, damage to our reputation and expenditure of significant resources Any failure of our technology to perform satisfactorily could result in lost revenue, damage to our reputation and expenditure of significant resources. Our technology is relatively new and complex and has had, and may have in the future, errors, defects or performance problems. In particular, we may encounter problems when we update our technology to expand and enhance its capabilities. Our technology may malfunction or suffer from currently unknown design defects that become apparent only after further use. If our technology malfunctions or contains such defects, our systems may be rendered incompatible with the systems used by our clients or by the Web sites and advertising networks where we serve advertisements. Furthermore, our services could be rendered unreliable, or be perceived as unreliable by our clients. In such instances, we would need to expend significant resources to address these problems, and may nonetheless be unable to adequately remedy these problems. These problems could result in lost revenue and damage to our reputation.

Sustained or repeated system failures could significantly impair our operations and lead to client dissatisfaction Sustained or repeated system failures could significantly impair our operations and reduce the attractiveness of our services to our current and potential clients. The continuous and uninterrupted performance of these systems is critical to our success. Our operations depend on our ability to protect our systems against damage from fire, power loss, water damage, earthquakes, telecommunications failures, viruses, vandalism and other malicious acts, and similar unexpected adverse events. Clients may become dissatisfied by any system failure that interrupts our ability to provide our services to them. In particular, the failure of our ad serving systems, including failures that delay or prevent the delivery of targeted advertisements to Web sites and advertising networks, could reduce client satisfaction and damage our reputation. Our ad serving systems, which generally serve thousands of advertisements per second during peak periods, experienced some significant failures prior to the second quarter of 1999, and may in the future be subject to periodic interruptions and failures.

Our services are substantially dependent on systems provided by third parties, over whom we have little control. Interruptions in our services could result from the failure of telecommunications providers and other third parties to provide the necessary data communications capacity in the time frame required. Our ad serving systems and computer hardware are primarily located in the Seattle, Washington metropolitan area at facilities operated by Exodus Communications, Inc. and Verio Inc. We depend on these third-party providers of Internet communication services to provide continuous and

uninterrupted service. We also depend upon Internet service providers that provide access to our services. In the past, Web sites have occasionally experienced difficulties placing advertisements delivered by our systems due to software incompatibility or system failures unrelated to our systems. Any disruption in the Internet access provided by third-party providers or any failure of third-party providers to handle higher volumes of user traffic could impair our ability to deliver advertisements and harm our business.

If we are unable to scale our technology infrastructure, we may experience capacity constraints that could impair our ability to provide our services to clients If we are unable to scale our technology infrastructure, we may experience significant capacity constraints. Our technology infrastructure may not be able to support higher volumes of advertisements, additional clients or new types of Internet and digital media advertising or marketing services. The volume of advertising delivered through our ad servers has increased from approximately 4.1 million impressions per day in September 1998 to approximately 85.3 million impressions per day in September 1999. Heightened demand from existing or new clients for our services will require us to accommodate large increases in the number of advertisements we serve, the number of campaigns we manage and the amount of data we store. We will also need to accommodate the introduction of new and evolving types of Internet and digital media advertising and marketing that may require greater system resources than current methods of Internet advertising and marketing. We may not be able to continue to scale our technology infrastructure in a timely manner or within budget to meet these demands. Any significant increase in the volume of advertising services provided through our systems could strain the capacity of our technology infrastructure and ad serving systems, which could lead to slower response times or system failures. Such delays or system failures could reduce our ability to place advertisements and accordingly reduce our revenues, damage our reputation and impair our ability to retain clients or acquire new clients.

Acquisitions or strategic investments may be unsuccessful and may divert our management's attention and consume significant resources In September 1999, we acquired iballs LLC, an Internet media company. We may in the future acquire or make strategic investments in other businesses as well as products and technologies to complement our current business. Any future acquisition or investment may require us to use significant amounts of cash, make potentially dilutive issuances of equity securities and incur debt. In addition, acquisitions, including the iballs LLC acquisition, involve numerous risks, any of which could harm our business, including:

. difficulties in the integration of the operations, technologies, services and personnel of acquired businesses;

. diversion of management's attention from other business concerns;

. unavailability of favorable financing for future acquisitions;

. potential loss of key employees of acquired businesses;

. inability to maintain the key business relationships and the reputations of acquired businesses;

. responsibility for liabilities of acquired businesses;

. inability to maintain our standards, controls, procedures and policies; and . increased fixed costs.

Clients may attempt to prohibit us from providing services to their competitors, limiting our business opportunities To use our services more effectively, clients often provide us with confidential business and marketing information. Many companies are wary of third parties having access to this information, because access by third parties increases the risk that confidential business and marketing information may become known, even if unintentionally, to these companies' competitors. These confidentiality concerns may prompt our clients to attempt to contractually prohibit us from managing the Internet advertising campaigns of their competitors. Limitation of our client base in a particular industry in this manner could limit the growth of our business.

International expansion could impose substantial burdens on our resources and divert management's attention from domestic operations International expansion of our operations could impose substantial burdens on our resources, divert management's attention from domestic operations, and otherwise harm our business. This expansion into international markets will require extensive management attention and resources. In addition, we may need to rely extensively on strategic partners in foreign countries to help conduct our international operations, coordinate with foreign Web sites and conduct sales and marketing efforts. Our success in international markets will depend to a large degree on the success of these strategic partners, over whom we may have little control, and on their willingness to dedicate sufficient resources to our relationships. Furthermore, international operations are subject to several inherent risks, including:

. difficulties and costs of staffing and managing foreign offices;

. the impact of recessions in economies outside the United States;

. changes in regulatory requirements;

. export restrictions, including export controls relating to encryption technology;

. more stringent rules relating to the collection and use of information regarding Internet users;

. reduced protection of intellectual property rights;

. adverse tax consequences;

. political and economic instability;

. tariffs and other trade barriers; and . fluctuations in currency exchange rates.

Our failure to address these risks adequately could harm our business.

Potential year 2000 problems with our internal systems or third-party systems could harm our business Potential year 2000 problems with our internal systems or third-party systems could harm our business. Many currently installed computer systems and software products and systems worldwide are coded to accept only two-digit entries to identify a year in the date code field. Consequently, on or around January 1, 2000, many of these systems could fail or malfunction because they are not able to distinguish between the year 1900 and the year 2000. These system failures or malfunctions could cause significant disruptions of our operations.

As a company engaged in Internet advertising services, we rely on computer programs and systems in connection with our services as well as with our internal and external communication networks and systems and other business functions. Although we believe that our internally developed software, as well as the software, computer equipment and internal telecommunications systems that we have purchased from third parties, are year 2000 compliant, we cannot assure you that they are year 2000 compliant. We have not engaged any third parties to independently verify our year 2000 readiness, nor have we assessed potential costs associated with year 2000 risks or made any contingency plans to address these risks. Although we have received assurances from some of the suppliers of our third-party software, computer equipment and systems that their products are year 2000 compliant, to date we have generally relied on publicly available information regarding the year 2000 compliance of their products. We also generally do not have any contractual rights with these providers if their products fail to function due to year 2000 issues. If these failures do occur, we may incur unanticipated expenses to remedy any problems, including purchasing replacement software, computer equipment and systems. Any failures of our internally developed software or the third-party software, computer equipment and systems that we use could result in financial loss, damage to our reputation and legal liability.

We rely on the continued operations of the Web-based computer systems of our clients and of the vendors whose Web sites or advertising networks host our clients' advertisements. The successful delivery of our services for our clients depends on the satisfactory functioning of our clients' and vendors' computer systems. If these systems fail because they are not year 2000 compliant, we may be unable to fully deliver the services that our clients have requested, which could harm our quarterly and annual operating results.

We also rely on the satisfactory performance and reliability of the external communication and computer networks, systems and services integral to the Internet, such as telecommunications providers and Internet service providers. In particular, we rely on the satisfactory performance and reliability of the networks, systems and services of Exodus Communications and Verio, the Internet service providers that operate our co-location facilities. Because these external networks, systems and services are maintained or provided by third parties, the success of our efforts to address the year 2000 problem depends in part on parallel efforts being undertaken by these third parties. We have identified and initiated communications with most of these third parties to determine the status of their year 2000 compliance efforts. We cannot, however, assure you that they have provided accurate or complete information, or that all of their networks, systems or services will achieve full year 2000 compliance in a timely fashion.

The most reasonably likely worst-case scenario for us resulting from the year 2000 problem is that disruptions of the external third-party networks, systems or services on which we depend would reduce or eliminate for a period of time our ability to provide our Internet advertising services to our clients. If these disruptions were frequent or long in duration, they could seriously harm our business. The compliance of third-party networks, systems and services, including telecommunications providers and Internet service providers, is not within our control. Accordingly, a contingency plan for this worst-case scenario does not exist, and we do not believe we will be able to develop one.

We may need additional financing in the future, which we may be unable to obtain We may need additional financing in the future, which we may be unable to obtain. Our business does not currently generate the cash needed to fund our operations. We currently anticipate that our available cash resources combined with the net proceeds from this offering will be sufficient to meet our anticipated capital expenditures and working capital requirements through the next twelve months. Thereafter, we may need to raise additional funds to finance our operations, as well as to enhance our services, fund our expansion, respond to competitive pressures or acquire complementary businesses or technologies. Poor financial results, unanticipated expenses or unanticipated opportunities that require financial commitments could give rise to additional financing requirements sooner than we expect. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our existing shareholders would be reduced, and these securities might have rights, preferences or privileges senior to those of our common stock. Additional financing may not be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our ability to enhance our services, fund our expansion, respond to competitive pressures or take advantage of business opportunities would be significantly limited, and we might need to significantly restrict our operations.

Risks Related to Our Industry Privacy concerns could lead to limitations on the use of cookie technology and user profiling, upon which we depend Privacy concerns relating to "cookie" technology and user profiling could significantly impair our ability to conduct targeted advertising campaigns and compile data that we use to formulate campaign strategies for our clients. Cookies are small files of information stored on a user's computer which allow us to recognize that user's browser when we serve advertisements. Cookies are often placed on the user's computer without the user's knowledge or consent. Our systems use "cookies" to track Internet users and their online behavior to build user profiles. We are substantially dependent on cookie technology and user profiling to target our clients' advertising campaigns and measure their effectiveness. Any reduction in our ability to use cookies or other means to build user profiles could harm our business.

Governmental bodies concerned with the privacy of Internet users have suggested limiting or eliminating the use of cookies or user profiling. United States legislators in the past have introduced a number of bills aimed at regulating the collection and use of personal data from Internet users and additional similar bills may be considered during any congressional session. Also, the Federal Trade Commission and the Department of Commerce recently held hearings regarding user profiling and online privacy. In addition, privacy concerns have led to legal and technical limitations on the use of cookies and user profiling in some jurisdictions. For example, the European Union recently adopted a directive addressing data privacy that may result in limitations on the collection and use of information regarding Internet users. Also, Germany has imposed its own laws limiting the use of user profiling, and other countries may impose similar limitations. In addition, users may limit or eliminate the placement of cookies on their computers by using third-party software that blocks cookies, or by disabling the cookie functions of their Internet browser software. If our ability to use cookies or build user profiles were substantially restricted by technology, government regulation or any other means, we would likely have to use other technology or methods that allow the gathering of user profile data in other ways in

order to provide our services to our clients. This change in technology or methods could require significant reengineering time and resources, and might not be done in time to avoid negative consequences to our business. In addition, alternative technology or methods might not be available at all, or might be prohibitively expensive.

Legislation or regulations may be adopted that could impair our ability to provide our services to clients Legislation or regulations may be adopted that could impair our ability to provide our services to clients. The legal and regulatory environment governing the Internet is uncertain and may change. Laws and regulations may be adopted covering issues such as privacy, pricing, acceptable content, taxation, consumer protection and quality of products and services on the Internet. These laws and regulations could dampen the growth in use of the Internet generally and decrease the acceptance of the Internet as an advertising medium. In addition, due to the global nature of the Internet, it is possible that multiple federal, state or foreign jurisdictions might inconsistently regulate our activities or the activities of advertising networks or Web sites. Any of these developments could harm our business.

We may not be able to adapt to rapidly changing Internet technology trends and evolving industry standards The Internet and Internet advertising markets are characterized by rapidly changing technologies, evolving industry standards, frequent new product and service introductions, and changing client demands. The introduction of new products and services embodying new technologies and the emergence of new industry standards may render our services obsolete. Our future success will depend on our ability to adapt to rapidly changing technologies, enhance our existing Internet advertising services and develop and introduce a variety of new services to address our clients' changing demands. We may experience difficulties that could delay or prevent the successful design, development, introduction or marketing of our services. In addition, any new services or enhancements must meet the requirements of our current clients and must achieve significant market acceptance. Material delays in introducing new services and enhancements may cause clients to discontinue use of our services and use the services of our competitors.

The Internet advertising market may develop more slowly than expected, which could impair our ability to retain our existing clients and to attract new clients If the market for Internet advertising develops more slowly than we expect, our business could suffer. Our future success is highly dependent on an increase in the use of the Internet as an advertising medium, and on the willingness of our potential clients to outsource their Internet advertising and marketing needs. The Internet advertising market is new and rapidly evolving, and it cannot yet be compared with traditional advertising media to gauge its effectiveness. As a result, demand and market acceptance for Internet advertising services is uncertain. Many of our current or potential clients have little or no experience using the Internet for advertising purposes and have allocated only a limited portion of their advertising budgets to Internet advertising. Also, we must compete with traditional advertising media, including television, radio, cable and print, for a share of our clients' total advertising budgets. Our current and potential clients may find Internet advertising to be less effective than traditional advertising media for promoting their

products and services. In addition, "filter" software programs are available that limit or prevent advertising from being delivered to an Internet user's computer. The widespread adoption of such software could significantly undermine the commercial viability of Internet advertising.

We recently expanded our service offering to include email advertising and marketing services. The market for email advertising and marketing in general is vulnerable to the negative public perception associated with unsolicited email. Public perception, press reports or governmental action related to solicited or unsolicited email could reduce the overall demand for email advertising and marketing in general and our email services in particular.

If the Internet infrastructure is unable to effectively support the growth in demand placed on it, our business could suffer We depend entirely on the Internet for revenue and the increased use of the Internet is essential for our business to grow. Accordingly, our success will depend, in large part, upon the maintenance of the Internet infrastructure. We cannot assure you that the Internet infrastructure will continue to effectively support the demands placed on it as the Internet continues to experience increased numbers of users, frequency of use and bandwidth requirements. Even if the necessary Internet infrastructure or technologies are developed, we may have to spend considerable resources to adapt our services accordingly. Furthermore, the Internet has experienced a variety of outages and other delays due to damage to portions of its infrastructure. Outages and delays could impair our ability to serve advertisements on Web sites and advertising networks. Outages and delays could also adversely affect our clients' Web sites and online operations and decrease the level of user traffic on Web sites where our clients advertise. Such occurrences could result in lost revenue.

Risks Related to This Offering Our stock price will fluctuate after this offering, which could result in substantial losses for investors Although the initial public offering price will be determined based on several factors, the market price for our common stock will vary from the initial public offering price after this offering. These fluctuations could result in substantial losses for investors. The market price of our common stock may fluctuate significantly in response to a number of factors, many of which are beyond our control. These factors include:

. quarterly variations in operating results;

. changes in financial estimates by securities analysts;

. announcements by us or our competitors of new products or services, significant contracts, acquisitions or strategic relationships;

. publicity about our company, our services, our competitors, or Internet advertising in general;

. additions or departures of key personnel;

. any future sales of our common stock or other securities; and . stock market price and volume fluctuations of publicly traded companies.

The trading prices of Internet-related companies have been especially volatile. Investors may be unable to resell their shares of our common stock at or above the offering price. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action

litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention, which could seriously harm our business.

Future sales of shares by existing shareholders could affect our stock price If our shareholders sell substantial amounts of our common stock in the public market following this offering, the market price of our common stock could fall, potentially resulting in substantial losses to investors. These sales also might make it more difficult for us to sell equity or equity- related securities in the future at a time and price that we deem appropriate. Based on shares outstanding as of September 30, 1999, upon completion of this offering, we will have outstanding shares of common stock, assuming no exercise of options after January , 2000, the conversion of all shares of outstanding preferred stock into common stock and the exercise of an outstanding warrant. Holders of shares will be subject to agreements with the underwriters or us that restrict their ability to transfer their stock for 180 days from the date of this prospectus. After these agreements expire, an additional shares will be eligible for sale in the public market assuming no exercise of stock options after January , 2000. For more information see "Shares Eligible for Future Sale."

An active public market for our common stock may not develop, which could impede your ability to sell your shares and depress the market price of your shares Before this offering, you could not buy or sell our common stock on a public market. An active public market for our common stock may not develop or be sustained after this offering, which could impede your ability to sell your shares and depress the market price of your shares. The market price of your shares may vary significantly from the initial public offering price.

New shareholders will incur substantial dilution as a result of this offering The initial public offering price is expected to be substantially higher than the book value per share of our outstanding common stock. As a result, investors purchasing common stock in this offering will incur immediate and substantial dilution. In addition, we have issued options to acquire common stock at prices significantly below the assumed initial public offering price. To the extent these outstanding options are ultimately exercised, there will be further dilution to investors in this offering. For more information see "Dilution."

Because our directors and executive officers own a large percentage of our voting stock, your voting power may be limited Based on the number of shares outstanding as of October 31, 1999, after this offering, it is anticipated that our executive officers and directors will beneficially own or control, directly or indirectly, 17,485,521 shares of common stock, which in the aggregate will represent approximately 50.1% of the outstanding shares of common stock. As a result, if these persons act together, they will have the ability to exert significant control over matters submitted to our shareholders for approval, including the election and removal of directors and the approval of any business combination. This may delay or prevent an acquisition or affect the market price of our stock.

Our management has discretion as to the use of the net proceeds from this offering Our management has broad discretion as to the use of the net proceeds that we will receive from this offering. We intend to use these net proceeds, over time, for general corporate purposes and working capital. We may also

use a portion of the net proceeds to expand our operations internationally or to acquire complementary businesses or technologies, although we have no such specific plans at this time. We cannot assure you that management will apply these funds effectively, nor can we assure you that the net proceeds from this offering will be invested to yield a favorable return. For more information see "Use of Proceeds."

We have adopted antitakeover provisions that could make the sale of Avenue A more difficult Our articles of incorporation and bylaws contain provisions, such as undesignated preferred stock, which could make it more difficult for a third party to acquire us without the consent of our board of directors. In addition, our board of directors has approved amendments to our articles of incorporation and bylaws, which, subject to shareholder approval, will provide for a staggered board, removal of directors only for cause, two-thirds shareholder approval of certain business transactions, advance notice of shareholder proposals and nominations and restrictions on the persons that may call special shareholder meetings. These provisions may delay or prevent a change of control of Avenue A even if this change of control would benefit our shareholders.

Special Note Regarding Forward-looking Statements

This prospectus contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, intend, anticipate, believe, estimate, predict, potential or continue, the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined in the Risk Factors section above. These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We are under no duty to update any of the forward- looking statements after the date of this prospectus to conform such statements to actual results or to changes in our expectations.

Use of Proceeds

We estimate that our net proceeds from this offering will be $ million at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses. If the underwriters' over-allotment option is exercised in full, we estimate that our net proceeds will be approximately $ million. We expect to use the net proceeds for general corporate purposes and working capital. We may also use a portion of the net proceeds to expand our operations internationally or to acquire complementary businesses or technologies;

however, we currently have no commitments or agreements and are not involved in any negotiations with respect to any such transactions. Pending any of these uses, we intend to invest the net proceeds of this offering in interest-bearing, investment-grade securities.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

Capitalization

The following table sets forth our capitalization as of September 30, 1999:

. on an actual basis;

. on a pro forma basis to reflect the conversion of all outstanding shares of preferred stock into 16,416,098 shares of common stock effective upon the closing of this offering; and . on a pro forma as adjusted basis to reflect the sale of shares of common stock offered by this prospectus at an assumed initial public offering price of $ per share, and our receipt of the estimated net proceeds after deducting estimated underwriting discounts and commissions and estimated offering expenses.

You should read this table in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

September 30, 1999 Pro Forma Actual Pro Forma as Adjusted (in thousands, except share and per share data) Shareholders' equity: Convertible preferred stock, $.01 par value per share; 17,500,000 shares authorized; 16,416,098 shares issued and outstanding, actual; no shares issued and outstanding, pro forma and pro forma as adjusted..... $ 164 $ -- $ Common stock, $.01 par value per share; 50,000,000 shares authorized; 15,887,992 shares issued and outstanding, actual; 32,304,090 shares issued and outstanding, pro forma; shares issued and outstanding, pro forma as adjusted..... 159 323 Paid-in capital..... 47,586 47,586 Deferred stock compensation..... (16,062) (16,062) Subscriptions receivable..... (965) (965) Accumulated deficit..... (8,617) (8,617) Total shareholders' equity..... $ 22,265 $ 22,265 $ Total capitalization..... $ 22,265 $ 22,265 $ The information in the table above does not include:

. 3,924,081 shares of common stock subject to outstanding options as of September 30, 1999, granted under our 1998 stock incentive compensation plan;

. 1,993,438 shares of common stock reserved for future grant under our 1998 stock incentive compensation plan, which includes 500,000 shares reserved in November 1999 for future grants under that plan;

. 875,000 shares of common stock subject to outstanding options as of September 30, 1999, granted outside of our stock incentive compensation plans;

. 451,807 shares of common stock issuable upon exercise of an outstanding warrant as of September 30, 1999; and . 1,000,000 shares of common stock reserved for issuance under our 1999 stock incentive compensation plan and 500,000 shares of common stock reserved for issuance under our 1999 employee stock purchase plan, which plans were approved by our board of directors in November 1999.

Dilution

Our pro forma net tangible book value as of September 30, 1999 was approximately $16.6 million, or $.51 per share of common stock, assuming the conversion of all outstanding shares of preferred stock into 16,416,098 shares of common stock. Pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities, divided by the pro forma number of outstanding shares of common stock. After giving effect to the sale of the shares of common stock offered by this prospectus, at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses, our pro forma as adjusted net tangible book value as of September 30, 1999 would have been $ million, or $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share to existing shareholders and an immediate dilution of $ per share to investors purchasing shares in this offering. Dilution is determined by subtracting pro forma net tangible book value per share after the offering from the assumed initial public offering price per share. The following table illustrates this per share dilution:

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share as of September 30, 1999..... $.51 Increase per share attributable to new investors..... Pro forma as adjusted net tangible book value per share after this offering..... Dilution per share to new investors..... $ The following table sets forth as of September 30, 1999, on the pro forma basis described above, the difference between the number of shares of common stock purchased from us, the total consideration paid, and the average price per share paid by the existing shareholders and by investors purchasing shares in this offering, based upon an assumed initial public offering price of $ per share and before deducting estimated underwriting discounts and commissions and estimated offering expenses:

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing shareholders.....	32,304,090		$47,909,000		$1.48
New investors.....					
Total.....		100%	$	100%	$

As of September 30, 1999, we had outstanding options to purchase 3,924,081 shares of common stock under our 1998 stock incentive compensation plan at a weighted average exercise price of $1.94 per share, a warrant to purchase 451,807 shares of common stock at an exercise price of $.83 per share and options to purchase 875,000 shares of common stock issuable upon exercise of outstanding options granted outside of our stock incentive compensation plans at a weighted average exercise price of

$2.45 per share. We have also reserved 1,993,438 shares of common stock for future grant under our 1998 stock incentive compensation plan, which includes 500,000 shares reserved in November 1999 for future grants under that plan. In addition, we have reserved 1,000,000 shares of common stock for issuance under our 1999 stock incentive compensation plan and 500,000 shares of common stock reserved for issuance under our 1999 employee stock purchase plan, which plans were approved by our board of directors in November 1999. To the extent these options or the warrant are exercised, and to the extent we issue new options or rights under our stock plans or issue additional shares of common stock in the future, new investors will experience further dilution.

Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this prospectus. The consolidated statement of operations data for the period from inception on July 1, 1997 to December 31, 1997 and for the year ended December 31, 1998, and the consolidated balance sheet data as of December 31, 1997 and December 31, 1998, have been derived from our audited consolidated financial statements and related notes thereto included elsewhere in this prospectus. The consolidated statements of operations data for the nine-month periods ended September 30, 1998 and 1999 and the consolidated balance sheet data as of September 30, 1999 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. In the opinion of management, such unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements referred to above and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of results of operations for the indicated periods. Results of operations for the nine months ended September 30, 1999 are not necessarily indicative of the results that may be expected for the full fiscal year or for any future period.

Period From Inception (July 1, 1997) to December 31, 1997	Year Ended December 31, 1998	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1999
			(unaudited)
(in thousands, except share and per share data)			

Consolidated Statements of Operations Data: Revenue: Advertising services.. $ -- $ -- $ -- $ 33,425 Advertising service fees..... 18 599 276 673 Total revenue..... 18 599 276 34,098 Expenses: Cost of advertising services..... 20 125 93 28,007 Client services..... 19 382 117 2,585 Technology and operations..... -- 1,493 973 1,796 Selling, general and administrative..... 263 2,257 1,189 6,435 Amortization of deferred stock compensation..... -- -- -- 860 Total expenses..... 302 4,257 2,372 39,683 Loss from operations.... (284) (3,658) (2,096) (5,585) Interest income (expense)..... -- 12 (10) 335 Net loss..... $(284) $ (3,646) $(2,106) $ (5,250) Basic and diluted net loss per share..... $ (.50) $ (.42) Shares used in computing basic and diluted net loss per share..... 7,240,455 12,394,634 Pro forma basic and diluted net loss per share(1)..... $ (.41) $ (.22) Shares used in computing pro

forma basic and diluted net loss per share(1)..... 8,924,992 23,832,031 Other Data: Total billings(2)..... $ 18 $ 3,626 $ 1,233 $ 37,787 As of December 31, As of ---------- September 30, 1997 1998 1999 (unaudited) (in thousands)

Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 3	$ 847	$17,831
Working capital (deficit)	(338)	(30)	12,951
Total assets	75	3,441	45,923
Total liabilities	359	2,431	23,658
Total shareholders' equity (deficit)	(284)	1,010	22,265

(1) See Note 2 of Notes to Consolidated Financial Statements for an explanation of the method used to calculate pro forma basic and diluted net loss per share. (2) Total billings represents gross billings to customers for advertising services. Although total billings is not a recognized method of revenue recognition under generally accepted accounting principles, we believe that total billings is a standard measure of advertising volume for the Internet advertising industry that enables a meaningful comparison of activity from period to period and from one company to another.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this prospectus. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus.

Overview

Avenue A is a leading provider of Internet advertising services. We integrate strategic Internet media planning and buying, proprietary ad management technology, user profiling and data analysis systems to help advertisers increase the effectiveness and return on investment of their Internet advertising campaigns. We focus on serving the needs of buyers of Internet advertising, providing a service that harnesses the complexity, interactivity and dynamic nature of the Internet with the objective of delivering the most successful advertising campaigns for our clients.

Revenue

We generate revenue by providing Internet advertising services, which include the procurement of Internet advertising space for our clients. Due to a change in the way we structure our advertising contracts, we have changed from accounting for our revenue primarily as advertising service fee revenue to accounting for our revenue primarily as advertising services revenue. Advertising service fee revenue consists of commissions earned on services we provide to our clients. Advertising services revenue consists of the gross value of our billings to our clients, which includes the price of the advertising space we purchase from Web sites to resell to our clients.

We began operations in July 1997 and were incorporated in February 1998. Through December 31, 1998, our primary source of revenue consisted of advertising service fees. To generate advertising service fee revenue, we buy advertising space from publisher Web sites on behalf of our clients and earn fees based on the dollar amount of advertising space we purchase. Under advertising service fee contracts, our clients are ultimately responsible for payment to the publisher Web sites for the cost of the advertising space purchased. Cost of advertising service fee revenue consists only of the cost of delivering advertisements over the Internet.

During the first quarter of 1999, we began replacing many of our advertising service fee contracts with advertising services contracts. All of the clients we acquired during 1999 have entered into advertising services contracts, and substantially all of the contracts with clients acquired in 1997 and 1998 have been converted to advertising services contracts. To generate advertising services revenue, we purchase advertising space from publisher Web sites and sell the purchased space to our clients. Under advertising services contracts, we are ultimately responsible for payment to publisher Web sites for the cost of advertising space we purchase from them. Revenue under both advertising service fee contracts and advertising services contracts is recognized over the period that the related advertising is delivered.

As advertising services contracts have been phased in during 1999, revenue has increased disproportionately relative to prior periods as a result of the recognition of gross billings to our clients as revenue. Although we currently derive some of our revenue from advertising service fee contracts, we expect that the majority of our future revenue will be derived from advertising services contracts.

To expand our presence in the Internet advertising industry and allow us to serve a broader client base, in September 1999 we acquired iballs LLC, an Internet media company, for a combination of cash and common stock totaling approximately $6.1 million. We are currently seeking to replace the advertising service fee contracts between iballs LLC and its clients with advertising services contracts.

Expenses

Cost of advertising services. Cost of advertising services consists of the cost of advertising space that we purchase from publisher Web sites, including inventory purchased by our AdClub, Inc. subsidiary, and the cost of delivering advertisements over the Internet. AdClub, a reseller of advertising space, sells advertising only to our clients and its operations are not material to us as a whole.

Client services expenses. Client services expenses consist primarily of salaries and related expenses for client service personnel. These employees are organized into Client Service teams consisting of client strategists, media buyers, account coordinators and media engineers. Client services expenses also include the salaries and related expenses for personnel in our data analysis group.

Technology and operations expenses. Technology and operations expenses consist of salaries and related costs for information technology and software development personnel. In addition, these expenses include the cost of housing our ad servers and other equipment at third-party co-location facilities.

Selling, general and administrative expenses. Selling, general and administrative expenses consist primarily of salaries and related expenses for executive, sales, finance, marketing, human resource and administrative personnel and other general corporate expenses including amortization of goodwill and depreciation of property and equipment. In addition, these expenses include marketing costs such as trade shows and the costs of advertising our services in trade publications.

Amortization of deferred stock compensation. Amortization of deferred stock compensation consists of expenses related to employee stock option grants with option exercise prices below the deemed fair value of our common stock as of the date of grant. The amount of deferred stock compensation resulting from these grants is being amortized on an accelerated basis over a four-year period.

Net Losses

We incurred net losses of $284,000 for the period from our inception on July 1, 1997 through December 31, 1997, $3.6 million for the year ended December 31, 1998 and $5.3 million for the nine months ended September 30, 1999, and had an accumulated deficit of $8.6 million as of September 30, 1999. We expect operating losses and negative cash flow to continue for the foreseeable future. We anticipate our net losses will increase from current levels, since we expect to incur additional costs and expenses related to brand development, marketing and other promotional activities, deferred compensation expenses, amortization of goodwill resulting from the acquisition of iballs LLC, the expansion of our operations, increasing investment in the systems that we use to process client orders and payments, and the expansion of our service offering.

We believe that our operating results will continue to be subject to seasonal fluctuations because retail advertisers generally purchase substantially more advertising space during the fourth calendar quarter of each year than during other quarters, particularly the first calendar quarter. Due to this seasonal pattern, we expect our revenues in the first quarter of 2000 to be less than those in the fourth quarter of 1999.

Results of Operations Selected Quarterly Results of Operations Because we have a limited operating history, we believe that year-to-year comparisons are less meaningful than an analysis of our recent quarterly operating results. Accordingly, we are providing a discussion and analysis of our results of operations for the five quarters ended September 30, 1999.

The following tables present, in dollars and as a percentage of revenue, unaudited statements of operations data for the five quarters ended September 30, 1999. This information reflects all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of such information. The results of any quarter are not necessarily indicative of results for any future period.

	Three Months Ended				
	September 30, 1998	December 31, 1998	March 31, 1999	June 30, 1999	September 30, 1999
	(in thousands)				
Consolidated Statements of Operations Data:					
Revenue:					

Advertising services	$ --	$ --	$ 2,021	$11,369	$20,035
Advertising service fees	245	323	436	121	116
Total revenue	245	323	2,457	11,490	20,151
Expenses:					
Cost of advertising services	31	32	1,766	9,498	16,743
Client services	64	265	460	785	1,340
Technology and operations	435	520	498	530	768
Selling, general and administrative	572	1,068	1,187	2,064	3,184
Amortization of deferred stock compensation	--	--	--	3	857
Total expenses	1,102	1,885	3,911	12,880	22,892
Loss from operations	(857)	(1,562)	(1,454)	(1,390)	(2,741)
Interest income (expense)	(6)	22	22	112	201
Net loss	$ (863)	$(1,540)	$(1,432)	$(1,278)	$(2,540)

	Three Months Ended				
	September 30, 1998	December 31, 1998	March 31, 1999	June 30, 1999	September 30, 1999
As a Percentage of Revenue:					
Revenue:					
Advertising services	-- %	-- %	82.3 %	98.9 %	99.4 %
Advertising service fees	100.0	100.0	17.7	1.1	.6
Total revenue	100.0	100.0	100.0	100.0	100.0
Expenses:					
Cost of advertising services	12.7	9.9	71.9	82.7	83.1
Client services	26.1	82.0	18.7	6.8	6.6
Technology and operations	177.6	161.0	20.3	4.6	3.8
Selling, general and administrative	233.4	330.7	48.3	18.0	15.8
Amortization of deferred stock compensation	--	--	--	--	4.3
Total expenses	449.8	583.6	159.2	112.1	113.6
Loss from operations	(349.8)	(483.6)	(59.2)	(12.1)	(13.6)
Interest income (expense)	(2.4)	6.8	.9	1.0	1.0
Net loss	(352.2)%	(476.8)%	(58.3)%	(11.1)%	(12.6)%

Revenue. Revenue increased in each of the five quarters ended September 30, 1999. These increases were primarily due to the change from the use of advertising service fee contracts to the use of advertising services contracts and an increase in the number of our clients from 12 as of September 30, 1998 to 47 as of September 30, 1999.

Cost of advertising services. Cost of advertising services increased in each of the five quarters ended September 30, 1999. These increases were primarily due to increases in the volume of advertising space we purchased in each quarter. Cost of advertising services as a percentage of revenue also increased during this period. These increases were primarily due to the change from the use of

advertising service fee contracts to the use of advertising services contracts. During the quarters ended September 30, 1998 and December 31, 1998, revenue consisted of commissions derived from our advertising service fee contracts with our clients during those periods. These commissions have no associated cost of revenue. During the quarter ended March 31, 1999, revenue consisted of both commissions derived from advertising service fee contracts and revenue derived from advertising services contracts. During the quarters ended June 30, 1999 and September 30, 1999, revenue consisted almost entirely of revenue derived from advertising services contracts. Cost of advertising services revenue as a percentage of revenue remained essentially unchanged at approximately 83% during the quarters ended June 30, 1999 and September 30, 1999.

Client services. Client services expenses increased in each of the five quarters ended September 30, 1999. These increases were primarily due to the increase in the number of our Client Service teams during this period, which was in response to the increase in the number of our clients from 12 as of September 30, 1998 to 47 as of September 30, 1999. We anticipate continued increases in our client services expenses to accommodate growth in our client base.

Technology and operations. Technology and operations expenses increased in each of the five quarters ended September 30, 1999, with the exception of a decrease from the fourth quarter of 1998 to the first quarter of 1999. These increases were primarily due to increases in the number of personnel in software development, production systems and information systems. Due to our increasing volume of advertisements served during this period, we have increased our capacity for ad serving, in part by adding computer equipment to the data centers maintained at our co-location facilities, resulting in increased rental charges. We anticipate continued increases in our technology and operations expenses in future periods as we add additional technology- based services to our service offering, supply additional productivity tools to our Client Service teams and accommodate additional clients.

Selling, general and administrative. Selling, general and administrative expenses increased in each of the five quarters ended September 30, 1999. These increases were primarily due to increases in the number of personnel in executive, sales, marketing, finance, accounting and administrative positions, and the amortization of goodwill resulting from the purchase of iballs LLC in September 1999. During this period, we added substantially to our management team, developed an in-house accounting function, created a marketing department and increased our recruiting efforts. We anticipate continued growth of our selling, general and administrative expenses as we expand our administrative and marketing staff, add new marketing programs, incur additional costs associated with becoming a public company and record amortization of goodwill in connection with the acquisition of iballs LLC.

Amortization of deferred stock compensation. During the quarter ended September 30, 1999, we recorded total deferred stock compensation of $16.9 million. We have recorded aggregate amortization of deferred stock compensation of $860,000 through September 30, 1999. The amount is being amortized on an accelerated basis over the four-year vesting period of the applicable options. The remaining unamortized balance of $16.1 million will be fully amortized by the quarter ending September 30, 2003. We expect to incur additional deferred stock compensation and increased amortization of stock compensation in the fourth quarter of 1999.

Interest income (expense). Interest income (expense) consists of earnings on our cash and cash equivalents. Interest income increased for the quarter ended June 30, 1999. This increase was primarily due to higher cash balances resulting from our Series B preferred stock financing, which was completed in February 1999, and our Series C preferred stock financing, which was completed in May 1999. Interest income decreased in the quarter ended September 30, 1999 due to lower cash balances resulting from the purchase of iballs LLC in September 1999 and the financing of our operating losses.

Our quarterly and annual revenue, expenses and operating results have fluctuated in the past and are likely to fluctuate significantly in the future due to a variety of factors, many of which are beyond our control. Because of these fluctuations, we believe that period-to-period comparisons are not a good indication of our future financial performance. We may not be able to sustain or increase our level of revenue or our rate of revenue growth on a quarterly or annual basis. Our quarterly or annual operating results may not meet the expectations of securities analysts or investors. If this happens, the price of our stock could decline. See "Risk Factors--Our quarterly operating results are subject to fluctuations that may cause our stock price to decline," "--Our operating results may fluctuate seasonally, and these fluctuations may cause our stock price to decline," "--We rely on a limited number of clients, and the loss of a major client or a reduction in a major client's Internet advertising budget could significantly reduce our revenue" and "--Our business model is unproven and evolving and may not succeed."

Comparison of Nine Months Ended September 30, 1998 and 1999 The following table presents, for the periods indicated, certain statement of operations data as a percentage of total revenue.

Nine Months Ended Year Ended September 30, December 31, ---------- 1998 1998 1999 (unaudited)

Revenue:			
Advertising services	-- %	-- %	98.0 %
Advertising service fees	100.0	100.0	2.0
Total revenue	100.0	100.0	100.0
Expenses:			
Cost of advertising services	20.9	33.7	82.1
Client services	63.8	42.4	7.6
Technology and operations	249.2	352.5	5.3
Selling, general and administrative	376.8	430.8	18.9
Amortization of deferred stock compensation	--	--	2.5
Total expenses	710.7	859.4	116.4
Loss from operations	(610.7)	(759.4)	(16.4)
Interest income (expense)	2.0	(3.6)	1.0
Net loss	(608.7)%	(763.0)%	(15.4)%

Revenue. We began to generate revenue during the second quarter of 1998. Revenue increased from $276,000 for the nine months ended September 30, 1998 to $34.1 million for the nine months ended September 30, 1999. This increase was due to the change in the majority of our contracts from advertising service fee contracts to advertising services contracts and an increase in the number of our clients from 12 as of September 30, 1998 to 47 as of September 30, 1999.

Cost of advertising services. Cost of advertising services increased from $93,000, or 33.7% of revenue, for the nine months ended September 30, 1998 to $28.0 million, or 82.1% of revenue, for the nine months ended September 30, 1999. This increase in cost of advertising services was primarily due to

increases in the volume of advertising space we purchased during this period. The increase in cost of advertising services as a percentage of revenue was primarily due to the change from the use of advertising service fee contracts to the use of advertising services contracts.

Client services. Client services expenses increased from $117,000, or 42.4% of revenue, for the nine months ended September 30, 1998 to $2.6 million, or 7.6% of revenue, for the nine months ended September 30, 1999. This increase was primarily due to the increase in the number of our Client Service teams, which was in response to the increase in the number of our clients from 12 as of September 30, 1998 to 47 as of September 30, 1999.

Technology and operations. Technology and operations expenses increased from $973,000, or 352.5% of revenue, for the nine months ended September 30, 1998 to $1.8 million, or 5.3% of revenue, for the nine months ended September 30, 1999. This increase was primarily due to increases in the number of personnel in software development, production systems and information systems.

Selling, general and administrative. Selling, general and administrative expenses increased from $1.2 million, or 430.8% of revenue, for the nine months ended September 30, 1998 to $6.4 million, or 18.9% of revenue, for the nine months ended September 30, 1999. This increase was primarily due to increases in the number of personnel in executive, sales, marketing, finance, accounting, human resources and administrative positions. The increase was also due to increases in the amount of sales commissions and increased marketing expenses.

Amortization of deferred stock compensation. Amortization of deferred stock compensation began in the quarter ended June 30, 1999. We have recorded aggregate deferred stock compensation of $16.9 million and recorded aggregate amortization of deferred stock compensation of $860,000 through September 30, 1999.

Comparison of Years Ended December 31, 1997 and 1998 We began operations in July 1997, but did not begin to generate significant revenue until after we were incorporated in February 1998. Our total expenses increased from $302,000 in 1997 to $4.3 million in 1998. The increase in expenses was primarily due to increases in client services expenses, technology and operations expenses, and selling, general and administrative expenses as our business grew during this period.

Provision for Income Taxes As of December 31, 1998, we had net operating loss carryforwards for federal income tax reporting purposes of approximately $3.0 million, and research and development tax credit carryforwards of approximately $40,000 which begin to expire in 2001 if not utilized. The Internal Revenue Code contains provisions that limit the use in any future period of net operating loss and credit carryforwards upon the occurrence of specified events, including significant change in ownership interests. We had deferred tax assets, including our net operating loss carryforwards and tax credits, totaling approximately $7.7 million as of September 30, 1999. We have recorded a valuation allowance for the entire deferred tax asset as a result of uncertainties regarding the realization of the asset balance. See note 5 of the notes to our consolidated financial statements included elsewhere in this prospectus.

Liquidity and Capital Resources Since inception we have financed our operations primarily through the net proceeds from the private placement of equity securities, which raised approximately $28.1 million through September 30, 1999.

As of September 30, 1999, we had cash and cash equivalents of $17.8 million. We have a $1.0 million equipment term loan facility with Silicon Valley Bank which was unused as of September 30, 1999.

Cash used in operating activities was $2.7 million for the year ended December 31, 1998 and cash provided by operating activities was $7,000 for the nine months ended September 30, 1999.

Cash used in investing activities was $1.1 million for the year ended December 31, 1998 and $5.8 million for the nine months ended September 30, 1999. Cash used in investing activities for the nine months ended September 30, 1999 was primarily related to the purchase of iballs LLC and purchases of computer equipment to expand our ad serving capacity and to equip employees hired during that period.

Cash provided by financing activities was $4.7 million for the year ended December 31, 1998 and $22.8 for the nine months ended September 30, 1999. The cash provided by financing activities during the nine months ended September 30, 1999 primarily related to the net proceeds from private placements of equity securities, which raised approximately $21.9 million through September 30, 1999.

On October 1, 1999 we entered into a lease for our headquarters facility in Seattle, Washington. This lease expires in September 2004 and contains one five-year renewal option. We expect this facility to be fully utilized during the second half of 2000 and we anticipate that we will require additional office space.

We have no material commitments other than obligations under operating leases for office space and office equipment of $6.5 million as of September 30, 1999, of which some commitments extend through 2004. Commitments under our current facility lease are $5.6 million for the next five years. We are also committed at September 30, 1999 to pay rent of $433,000 under our former facility sublease which ends in June 2001. However, this commitment is offset by rental income of $420,000 from our sublease of this facility to another tenant.

Our operating expenses will consume a material amount of our cash resources, including a portion of the net proceeds of this offering. We intend to invest our cash in excess of current operating requirements in short-term, interest-bearing, investment-grade securities. We believe that the net proceeds of this offering, together with our existing cash and cash equivalents, and available bank borrowings, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for the next twelve months. Thereafter, we may require additional funds to support our working capital requirements, expand internationally, acquire complementary businesses and technologies, or for other purposes. Future capital requirements will depend on many factors, including increases in the number of employees and the need to expand our ad serving capacity. We may seek to

raise additional funds in the future through public or private equity financing or from other sources. We may not, however, be able to obtain adequate or favorable financing. Any financing we obtain may dilute your ownership interest in us.

Year 2000 Compliance

Many currently installed computer systems and software products and systems worldwide are coded to accept only two-digit entries to identify a year in the date code field. Consequently, on or around January 1, 2000, many of these systems could fail or malfunction because they are not able to distinguish between the year 1900 and the year 2000. These system failures or malfunctions could cause significant disruptions of operations, including disruptions of our Internet advertising services. As a company engaged in Internet advertising services, we rely on computer programs and systems in connection with our services as well as with our internal and external communication networks and systems and other business functions. Any failure to provide year 2000 compliant services to our clients could result in financial loss, damage to our reputation and legal liability.

Our internally developed software was designed to be year 2000 compliant and, based on internal tests we have conducted, we believe that this software is year 2000 compliant, meaning that the use or occurrence of dates on or after January 1, 2000 will not materially affect its performance or its ability to correctly create, store, process and output data involving dates. Substantially all of our third-party software, computer equipment and internal telecommunications systems were purchased in the past twelve months. As a result, we believe that our third-party software, computer equipment and internal telecommunications systems are also generally year 2000 compliant. However, we cannot assure you that our internally developed software, and the software, computer equipment and internal telecommunications systems that we purchased from third parties, are year 2000 compliant.

We have not, to date, incurred any costs relating to year 2000 issues separate from the expenditures for acquiring new third-party software, computer equipment and systems to address year 2000 issues. We do not anticipate incurring any material costs directly related to addressing year 2000 issues, and we have not deferred any of our ongoing development efforts to address year 2000 issues.

We have not engaged any third parties to independently verify our year 2000 readiness, nor have we assessed potential costs associated with year 2000 risks or made any contingency plans to address these risks. Although we have received assurances from some of the suppliers of our third-party software, computer equipment and systems that their products are year 2000 compliant, to date we have generally relied on publicly available information regarding the year 2000 compliance of their products. We also generally do not have any contractual rights with these providers if their products fail to function due to year 2000 issues. If these failures do occur, we may incur unanticipated expenses to remedy any problems, including purchasing replacement software, computer equipment and systems. Any failures of our internally developed software or the third-party software, computer equipment and systems that we use could result in financial loss, damage to our reputation and legal liability.

We rely on the continued operations of the Web-based computer systems of our clients and of the vendors whose Web sites or advertising networks host our clients' advertisements. The successful delivery of our services for our clients depends on the satisfactory functioning of our clients' and vendors' computer systems. If these systems fail because they are not year 2000 compliant, we may be unable to fully deliver the services that our clients have requested, which could harm our quarterly and annual operating results.

We also rely on the satisfactory performance and reliability of the external communication and computer networks, systems and services integral to the Internet, such as telecommunications providers and Internet service providers. In particular, we rely on the satisfactory performance and reliability of the networks, systems and services of Exodus Communications and Verio, the Internet service providers that operate our co-location facilities. Because all of these external networks, systems and services are maintained or provided by third parties, the success of our efforts to address the year 2000 problem depends in part on parallel efforts being undertaken by these third parties. We have initiated communications with most of these third parties to determine the status of their year 2000 compliance. We cannot, however, assure you that they have provided accurate or complete information, or that all of their networks, systems or services will achieve full year 2000 compliance in a timely fashion.

The most reasonably likely worst-case scenario for us resulting from the year 2000 problem is that disruptions of the external third-party networks, systems or services on which we depend would reduce or eliminate for a period of time our ability to provide our Internet advertising services to our clients. If these disruptions were frequent or long in duration, they could seriously harm our business. The compliance of third-party networks, systems and services, including telecommunications providers, Internet service providers and co-location facilities, is not within our control. Accordingly, a contingency plan for this worst-case scenario does not exist, and we do not believe we will be able to develop one.

Recent Accounting Pronouncements In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 (SOP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 was effective for financial statements for years beginning after December 15, 1998. SOP 98-1 provides guidance on accounting for computer software developed or obtained for internal use, including the requirement to capitalize specific costs and amortization of such costs. We implemented SOP 98-1 and capitalized approximately $242,000 of internally developed software costs. Accumulated depreciation related to the capitalized costs was $37,000 as of September 30, 1999.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-Up Activities." SOP 98-5, which is effective for fiscal years beginning after December 15, 1998, provides guidance on the financial reporting of start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. The implementation of SOP 98-5 did not have a material impact on our financial position or operating results.

Business

Overview

Avenue A is a leading provider of Internet advertising services. We integrate strategic Internet media planning and buying, proprietary ad management technology, user profiling and data analysis systems to help advertisers increase the effectiveness and return on investment of their Internet advertising campaigns. Through this integrated approach we have developed an extensive knowledge base of Internet advertising strategies, targeting methods and media placements that perform effectively. We believe this knowledge base grows richer and more valuable with each additional campaign we execute and with each additional client we serve. We focus on serving the needs of buyers of Internet advertising, providing a service that harnesses the complexity, interactivity and dynamic nature of the Internet with the objective of delivering the most successful advertising campaigns for our clients. Our revenue has grown to $20.3 million in the third quarter of 1999. Our top clients include Gateway, Microsoft, uBid and Uproar, based on revenues in this same period.

Our services for Internet advertisers include the following key elements:

. Strategic Internet media planning and buying. We develop Internet advertising strategies for our clients and use our proprietary database and experience from past advertising campaigns to plan highly targeted advertising campaigns. We negotiate and purchase Internet advertising space for our clients using our buying power and our historical pricing and performance data from past campaigns.

. Proprietary technology. We use our proprietary technology in media planning and buying, ad serving, user profiling, performance reporting and data collection and analysis to increase the effectiveness of our clients' Internet advertising campaigns.

. Data warehousing and analysis. Our technology enables us to collect, store and analyze extensive data from our previous and current Internet advertising campaigns that we use to plan current and future advertising campaigns for all of our clients. We also use historical statistical data generated from prior advertising campaigns as well as near real- time feedback on current campaigns to improve the performance of our clients' advertising campaigns.

We believe that our early entry advantage in the Internet advertising market, our media planning and buying expertise, our proprietary technology and our commitment to serving only advertisers will enable us to continue to strengthen our leadership position in Internet advertising.

Industry Background

Emergence of the Internet as an Advertising Medium The Internet has become an important medium for advertising and commerce. Forrester Research, Inc. projects that online advertising expenditures in the United States will grow from $2.8 billion in 1999 to $22.0 billion in 2004. We believe this growth is driven by a number of factors, including the growing number of Internet users, the growth of e-commerce and advances in online advertising technology. According to International Data Corporation, the number of Web users worldwide is projected to grow from approximately 196 million

in 1999 to over 500 million by the end of 2003, and consumer e- commerce spending in the United States is projected to increase from approximately $71 billion in 1999 to over $200 billion by the end of 2003.

Historically, the leading Internet advertisers have included technology companies, Internet portals and e-commerce companies. However, many of the largest advertisers in traditional media, including mass marketers such as consumer products companies and automobile manufacturers, have recently expanded their use of online advertising. Expenditures for online advertising currently represent a small portion of all media spending, but these expenditures are expected to grow at a much higher rate than expenditures for traditional advertising. While traditional advertising spending is expected to increase by approximately 27% from 1999 through 2004, online advertising spending is expected to increase by over 690% during that period, based on data from Forrester Research, Inc.

Advantages of Internet Advertising Unlike traditional advertising, Internet advertising involves the delivery of dynamic messages which can be tailored for individual viewers, making the Internet a revolutionary vehicle for advertisers. Because Internet advertisements are generally delivered to individual viewers across a digital infrastructure, the Internet has several advantages as an advertising medium, including:

Measurability. The Internet provides the ability to observe and record a wide range of online activities, including the delivery of advertisements to a browser, click-throughs on Internet advertisements, the completion of online purchases and the downloading of software files. As a result, sophisticated Internet advertisers can collect and measure data about a broad range of consumer behaviors associated with a particular advertisement. Using this data, advertisers can track, monitor and measure the effectiveness of their Internet advertising campaigns.

Personalization and targeting capabilities. Because each Internet image or message is generally delivered to one user at a time, specific advertisements or emails can be tailored with the goal of addressing the interests and needs of the user, increasing the likelihood that the advertisement or email will elicit the desired response from the user. Using the Internet, advertisers can target advertising campaigns to specific geographic regions, specific audiences, and individual consumers with specific demographic or behavioral profiles. Advertisers can also control the number of times a user's browser receives an advertisement and rotate sequentially the advertisements that are delivered to that user's browser. In addition, advertisers can build highly detailed user profiles for future advertising campaigns through the use of transaction information, registration procedures and anonymous matching techniques.

Rapid feedback and response. The Internet enables much more rapid measurement of and response to the effectiveness of an advertising campaign than most traditional media. Information on consumer responses to campaigns can be provided in near real-time, allowing an advertiser to respond almost immediately to that feedback through every stage of the online sales cycle.

Compressed sales cycle. The Internet provides advertisers the opportunity to accelerate a consumer's progression from awareness of a product to need recognition to purchase. A consumer can often initiate an online purchase simply by clicking on an Internet advertisement, and can complete the

purchase with very few intermediate steps. Advertisers therefore can conduct efficient advertising campaigns with rapid response rates.

Efficient reach. As a medium with no geographic boundaries, the Internet enables advertisers to reach large audiences throughout the United States and internationally. Unlike traditional print, outdoor, television or radio broadcast advertising, which may require advance media purchases in hundreds of markets to reach an international audience, Internet advertisers can reach individuals worldwide in near real-time with a single Internet advertising campaign.

Challenges of Internet Advertising Despite the capabilities of the Internet as an advertising medium, individual advertisers seeking to take advantage of the Internet's potential face numerous challenges, including:

Scale and complexity. The proliferation of Web sites and the dispersed nature of the Internet audience make it difficult for individual advertisers and ad agencies to target, measure, analyze and optimize Internet advertising campaigns. An advertiser seeking to conduct a campaign across a large number of Web sites or advertising networks must be able to identify appropriate Web sites, understand the technical capabilities of individual Web sites, determine available inventory of desired advertisement placements, choose the size and location of advertisements, negotiate placement pricing and prepare its systems to deliver advertisements and track results. To determine the overall effectiveness of its advertising, an advertiser managing campaigns across different Web sites and advertising networks must reconcile reports from these multiple parties, which are often based on different measurement methodologies and therefore are not easily consolidated or compared.

Data analysis and technology requirements. The measurement and recording of a wide range of online advertising responses, such as click-throughs, purchases or software downloads, can generate large amounts of data. To evaluate and optimize their Internet advertising campaigns, advertisers must analyze this data, which requires access to sophisticated data aggregation, storage and mining technology and capabilities. Individual advertisers conducting their own campaigns may not have sufficient in-house data storage and analysis capabilities, and accordingly the data from their advertising campaigns may often be underutilized.

Operating costs and requirements. Developing, building and operating an Internet advertisement management and delivery system to fully exploit the advantages of Internet advertising is costly and time-consuming. Managing and tracking numerous advertising campaigns that reach millions of Internet users on hundreds of Web sites requires complex networking and computing applications, as well as one or more large, complex data centers with back-up capabilities. These systems must be continuously maintained to ensure reliable performance 24 hours a day, seven days a week. For most advertisers and advertising agencies, the operating costs associated with these systems would constitute a substantial diversion of resources from their core businesses.

Limited services for advertising buyers. The Internet advertising market is broadly segmented into two groups: advertisers seeking to conduct the most effective Internet advertising campaigns at the lowest possible price, and Web sites and advertising networks seeking to maximize the revenue generated by their advertising inventory. We believe that while selling power has been aggregated by large portal

sites and advertising networks, there are relatively few buyers of Internet advertising that match the scale of these aggregated sellers. In addition, because the interests of large portals and advertising networks may conflict with those of advertisers, advertisers may be unwilling to share data with them in order to improve the effectiveness of their advertising campaigns. As a result, performance reports from portals and advertising networks are often limited to metrics that may have little value to purchasers of advertising, such as click-throughs, rather than metrics that are meaningful to the advertiser's business, such as sales generated, leads generated, page views and software downloads.

Need for an Outsourced Internet Advertising Service The rapid growth and complexity of the Internet as an advertising medium have made the management and delivery of effective advertising extremely important to advertisers but expensive and difficult to implement. The technical, operational and resource challenges faced by an advertiser seeking to independently plan, deliver and optimize its own Internet advertising campaigns can divert the advertiser's resources and attention away from its core business. The costs of aggregating and analyzing the large volume of data necessary to plan, execute and dynamically refine an Internet advertising campaign can diminish the return on the advertiser's investment. In addition, individual advertisers may have little power to negotiate lower prices for their advertising or obtain meaningful data from Web sites on metrics that measure the effectiveness of their campaigns. We believe advertisers can benefit from an outsourced advertising service that integrates strategic media planning expertise, media buying power, ad management technology, user profiling, and data collection and analysis systems, and that achieves economies of scale, to enable them to effectively and efficiently conduct Internet advertising campaigns. By using this outsourced service, advertisers can focus on their core businesses while realizing the potential benefits of Internet advertising.

The Avenue A Solution The Avenue A solution integrates proprietary technology, media expertise and buying power to help advertisers realize the potential of Internet advertising, providing the following benefits:

Comprehensive Internet advertising management services. We provide a full range of services to conduct and increase the effectiveness of Internet advertising campaigns, including strategic media planning and buying, ad serving, ad management and data analysis. We have designed our services to enable advertisers to easily and cost-effectively conduct multiple advertising campaigns across a broad range of Web sites and advertising networks.

Technology-enabled analysis, monitoring, tracking and optimization. We collect and analyze data about hundreds of publisher Web sites, numerous advertising campaigns and tens of millions of Web user profiles, so that our client strategists can structure targeted advertising campaigns to achieve our clients' desired business results. To improve campaign performance, we use our proprietary technology and data analysis capabilities to track, store and measure data on Web users' responses to Internet advertisements in near real- time. Based on this data, we generate detailed performance reports which clients can view over the Internet at any time. Using these reports, we can refine and improve our clients' advertising campaigns while they are being conducted to increase their efficiency and effectiveness.

Proprietary knowledge base. Because we have executed a substantial number of Internet advertising campaigns for our clients, we have captured a large quantity of data regarding the efficacy of online advertising campaigns and techniques. We believe that the more data we accumulate and analyze, the faster our rate of learning about Internet advertising grows. Our Client Service teams draw upon our dynamically updated databases to help improve the results of our clients' advertising campaigns. In particular, these teams use our proprietary knowledge base to more accurately predict and understand which techniques are the most effective, what pricing for placements is appropriate and which targeting efforts are best suited for a particular client's needs.

Focus on Internet advertisers. Because we serve a large number of Internet advertisers, we are a large and frequent purchaser of Internet advertising space. We therefore are able to exercise buying power when negotiating with and purchasing from sellers of advertising space. We use this buying power, as well as our extensive knowledge of historical pricing and performance information, to negotiate efficient, cost-effective advertising purchases for Internet advertisers.

Cost savings through economies of scale. Because we serve numerous Internet advertisers, we are able to spread the substantial costs of developing, building and operating Internet ad management and delivery systems and database technologies across a large base of clients. As a result, we are able to deliver cost-effective services to our clients.

Business Strategy

Our objective is to be the leading provider of Internet and other digital media advertising services to advertisers. We plan to achieve this goal through the following key strategies:

Aggressively acquire new clients and develop new markets. We intend to expand our client base by aggressively pursuing new clients that focus their advertising efforts on the Internet as well as clients that have historically relied on traditional media for advertising. Our sales force is dedicated to acquiring new clients by converting them from traditional advertising to Internet advertising, and by demonstrating to online advertisers the benefits of our Internet advertising services. In addition, although we currently provide a service tailored primarily to the needs of companies with significant online advertising budgets, we plan to expand our services to new markets. In particular, we plan to aggressively expand our Growth Markets Division, which tailors our services to clients with smaller online advertising budgets.

Leverage our proprietary knowledge base. We seek to build upon and further leverage our extensive database and our data analysis expertise to attract additional clients and improve the quality of our services. We believe that by increasing the scale and diversity of our client base as well as the number and type of advertising campaigns we conduct, we will aggregate more statistically significant data and relevant analysis to improve our clients' campaigns. By sharing our expertise with our clients, we believe we can provide greater value to Internet advertisers than they would be able to obtain by conducting advertising campaigns independently. We intend to use our proprietary knowledge base as a platform to enhance our current services as well as to develop new services for our clients.

Provide superior client service through a comprehensive service offering. As part of our goal to provide our clients with superior Internet advertising and marketing services, we plan to continue to add services that expand our clients' abilities to advertise and market on the Internet. We recently launched our Strategic Partnership Program, in which we negotiate and manage exclusive or complex partnership arrangements between our clients and Web sites or advertising networks that generally have terms ranging from six months to a year. In addition, we recently initiated our Precision Email Service and intend to offer it to all our clients in early 2000. We also intend to add services over time based on advances in online marketing technology to provide a comprehensive, fully integrated Internet advertising and marketing service for our clients.

Continue to improve technology. We plan to continue to build, license, and acquire technologies, including enhanced ad serving and media measurement technologies, that will enable us to plan and execute more effective Internet advertising and marketing campaigns for our clients. In addition, we intend to continue to increase our investment in data mining technology and data analysis expertise in our efforts to realize the full potential of the data that these campaigns generate.

Acquire complementary businesses and establish strategic relationships. In September 1999, we acquired iballs LLC, an Internet media company located in New York City. We intend to continue to aggressively pursue opportunities to acquire complementary businesses to expand and enhance our capabilities and services and increase our number of clients. We also plan to establish strategic relationships with companies that provide traditional advertising and media services. Through these relationships we intend to increase our sales penetration, gain access to their clients and become the preferred or exclusive provider of Internet advertising and marketing services for these companies.

Exploit emerging digital media opportunities. We believe that in the future, advertisements may be delivered through a number of digital media in addition to the Internet, including interactive television, Internet-enabled home appliances, hand-held computers, cellular telephones, pagers and automobile personal computers. We plan to extend our technology and capabilities to be able to deliver targeted advertisements through emerging digital media.

Expand internationally. We plan to expand our presence internationally in order to capitalize on the global reach of the Internet. We believe there is a significant opportunity to provide our services to companies based outside of the United States. In addition, we intend to expand our service offering for our domestic clients to include advertising and marketing on Web sites operated in foreign markets.

The Avenue A Experience We have structured our service offering to provide a smooth, efficient, positive experience for our clients during the entire advertising campaign process. When a client enlists our services, the client first meets with a client strategist to discuss the client's campaign objectives. Using our publisher Web site and user profile databases, the strategist works with the client to determine target user groups and develop an online media strategy. Once the client and the strategist have agreed on a media strategy, our media buyers create a media plan by identifying appropriate placements for the client's advertisements on a variety of Web sites and advertising networks. The

buyers negotiate placement rates and, upon authorization from the client, purchase the advertising space. Our media engineers and account coordinators work with the client to obtain the client's advertisements for delivery by our ad serving systems.

When the campaign begins, the Web sites and advertising networks on which our media buyers have purchased space automatically request advertisements from our ad servers. Before we serve an advertisement, our ad serving systems can search the Web user's computer for an Avenue A "cookie," an anonymous registration file placed by our systems on a computer the first time we serve an advertisement to that computer. If we find a cookie when we search the Web user's computer, our ad serving systems query our data warehouse, which might contain data regarding prior actions conducted on that Web user's computer that relate to our client, including responses to our client's previous advertising campaigns and actions taken by that user on our client's Web site. This query process generally takes less than one second. Using this information, our systems can serve a specific, targeted advertisement to the user based on our client's advertising objectives.

As the campaign progresses, our systems can collect data regarding users' interactions with the advertisements served to them (e.g., banners served, click-throughs and Web sites visited) and, if the user clicks through and visits the Web site of the advertiser, the user's behavior on that Web site (e.g., what sections of the Web site the user visited, whether the user got to an order page and whether the user bought something). Using the data collected, our systems generate comprehensive, easy-to-read performance reports that permit both Avenue A and the client to track the progress of the campaign in light of the client's campaign objectives. The reports are available online to the client 24 hours a day, seven days a week, and are updated throughout the day to provide timely statistics on the performance of the campaign.

The Client Service team reviews the performance reports with the client and, based on the reports, adjusts the campaign to improve its performance. For example, if the client's advertisements were initially served to 50 Web sites, but only 40 Web sites are generating favorable cost per customer acquisition rates, the Client Service team can take a number of actions to improve the campaign, including narrowing the scope of the campaign to focus on the 40 Web sites with favorable performance or negotiating lower rates for continuing advertisement placements on the other sites. Our ad serving systems enable the Client Service team to control the frequency with which each advertisement is displayed, program the sequence with which advertisements are viewed and target specific advertisements to specific browsers.

Once the campaign is concluded, we provide performance reports to the client indicating the success of the campaign and recommendations for future campaigns. Because our systems have automatically stored data collected from the campaign, we can use this data in additional advertising campaigns for the client. Using cookie technology, we can anonymously profile Web users so that future advertisements delivered to those users' browsers in the client's future advertising campaigns can be customized based on their user profiles.

Avenue A's Services

Core services. Our core services include strategic media planning and buying, ad serving, campaign analysis, optimization and data collection and aggregation.

. Strategic media planning and buying. Our strategic media planning and buying services are performed by Client Service teams, which evaluate the client's needs and objectives, outline a media strategy for the client, develop a media plan by identifying appropriate media placements, and execute this plan by negotiating the rates for these placements.

. Ad serving. Our media engineers coordinate and monitor the ad serving process once an advertising campaign begins. Our ad servers receive billions of advertisement requests each month, and process a majority of these requests at sub-millisecond speed. Our ad serving systems allow us to adjust advertising campaigns quickly and efficiently because changes required to the advertisements are made on our ad serving systems rather than on each individual Web site where the advertisements appear.

. Campaign analysis. Our proprietary ad serving systems enable us to evaluate advertising campaigns along any dimension important to the client (e.g., sales, leads, registrations, software downloads, etc.). We provide this campaign data to our clients in comprehensive online performance reports generated by our system, which our client strategists review with the clients.

. Optimization. Our Client Service teams can quickly adjust an advertising campaign in progress to improve its performance. If a Web site is generating unacceptably low response rates, we can remove that Web site from the campaign, reduce the number of impressions allocated to that site, or negotiate a lower rate for advertisement placements on that site. If a Web site is generating high responses, we can serve more advertisements to that Web site.

. Data collection and aggregation. As we conduct advertising campaigns, we collect and store data on these campaigns in our data warehouse. We aggregate data with the data from all our advertising campaigns as we continue to expand our data warehouse and build our user profiles.

Precision Targeting Program(TM). Our Precision Targeting Program enables us to target tailored advertisements to the browsers of users which have previously visited our clients' Web sites. The program is designed to strengthen the clients' relationship with the user, improve response rates and accelerate the sales cycle. This targeting is based on data acquired from prior interactions conducted through that computer on the client's Web site. For example, if the information in our data warehouse indicates that the computer of a particular Web user was previously used to purchase a backpack from our client, our ad serving systems can serve an advertisement to that user's computer recommending additional, complementary purchases, such as hiking boots, tents or fleece jackets.

Strategic Partnership Program(TM). Through our Strategic Partnership Program, we manage exclusive or complex partnerships between our clients and Web sites or advertising networks, such as exclusive sponsorships of specific locations or features of a Web site, or advertising campaigns based on several complex measurement criteria or methods of advertising. These arrangements typically have terms ranging from six months to one year. Managers in the Strategic Partnership Program consult with clients to determine their objectives and to negotiate the terms of the advertising relationships with appropriate Web sites and advertising networks. We then help manage the partnership by monitoring

and optimizing results during the term of the partnership. Avenue A brings value to these relationships through media buying and negotiating expertise, advertising campaign analysis and ongoing campaign optimization.

Precision Email Service(TM). We recently launched our Precision Email Service and plan to make it commercially available to our clients in early 2000. We plan to use this service to deliver targeted emails to specific customer segments based on their shopping and browsing behavior. We intend to integrate precision email campaigns with our online advertising campaigns to enhance the overall effectiveness of our clients' Internet advertising and marketing campaigns.

Sales, Marketing and Client Service We acquire clients primarily through our field sales force, which works in sales offices in Seattle, New York City and Chicago. As we continue to launch additional services, including our Precision Email Service, we plan to augment the general sales force with sales specialists that focus on those particular services. We generate sales leads primarily through field sales, client referrals, our Web site and responses to our public relations and marketing efforts.

In addition, we market our services through our Client Service teams as the services become appropriate for an individual advertiser's evolving needs. For example, if a client has achieved its initial goal of acquiring customers through our advertising services, the client might begin using our Precision Targeting Program to retain these customers or use our Precision Email Service to expand into email marketing.

We use a variety of marketing methods to build awareness of Avenue A and our service offerings within our target market and to establish credibility and leadership in the marketplace. These methods include marketing materials, advertising, press coverage and other public relations efforts, direct marketing, trade shows, seminars and conferences, relationships with recognized industry analysts, and the Avenue A Web site.

Avenue A's client service organization provides all of our primary services to our clients. As of September 30, 1999, we had over 95 employees in our Client Service teams. Our team-focused approach is designed to encourage an entrepreneurial spirit and greater accountability to clients' needs.

We have implemented an intensive training program and have built information systems that are designed to enable employees to draw from our existing knowledge base. This knowledge base includes both the historical performance of a given client's campaigns and an aggregated knowledge base of results from all advertising campaigns. The training program and information systems are intended to enable new employees to quickly achieve a high performance level by utilizing institutional knowledge and experience.

Our Clients

The number of our active clients has grown from 12 as of September 30, 1998 to 47 as of September 30, 1999. Our top fifteen currently active clients, based on revenues in the quarter ended September 30, 1999, are:

.Creative Computers, Inc. .Onvia.com, Inc.

.eBags Inc. .ProFlowers.com, Inc.

.Eddie Bauer, Inc. .RealNetworks, Inc.

.Gateway, Inc. .Snowball.com, Inc.

.Gear.com, Inc. .Ticketmaster Online-City Search, Inc.

.Libertybay.com, Inc. .uBid, Inc.

.Microsoft Corporation .Uproar Ltd.

.MTV Networks

We have historically sought clients that are large, sophisticated Internet advertisers spending at least $1,000,000 annually on Internet advertising. We plan to aggressively expand our Growth Markets Division to provide a service offering designed for advertisers with smaller Internet advertising budgets.

Technology

Our proprietary technology delivers advertisements, tracks users' responses, aggregates data and provides standardized reporting and data processing support to the Client Service teams, to the Data Analytics group and to our clients. Our systems and applications consist of several independently scalable components: data warehousing, technological applications for media planning, campaign management and trafficking and ad serving. In building these systems and applications, we have developed a significant amount of proprietary software and techniques, and have also leveraged leading industry-standard software and hardware.

Data warehousing. Our data warehouse is the foundation of our campaign management, ad serving, targeting, data collection, data analysis and performance reporting systems. These systems feed into or utilize the warehouse for a significant portion of their overall system functionality. We have developed a number of proprietary data management and compression technologies that allow us to keep billions of pieces of historical campaign information online and immediately available to our other systems. We also utilize industry-standard database technology to aggregate and store information.

Media planning. Our media planning tools help our client strategists and media buyers keep track of Web sites and select sites and placements during initial media planning activities. After an advertising campaign is underway, these tools support ongoing planning and optimization activities.

Campaign management and trafficking. Each month, our media buyers initiate hundreds of advertising campaigns and make thousands of advertisement purchases on behalf of our clients. We use our campaign management and trafficking tools to manage the information from these campaigns and to assist in or automate the process of communicating with our clients and with the Web sites on which we serve advertisements.

Ad serving. Our ad serving systems are multi-tiered applications that were built for reliability and scalability. Based on a distributed architecture, the systems receive billions of advertisement requests each month and process a majority of these requests at sub-millisecond speed. Each response to an

advertisement request is based on several factors, which may include the advertising viewing history of a user's browser. We use standard cookie technology to anonymously track Internet users' activity on our clients' Web sites, and on each Web site on which the users' computers receive advertisements served by our systems. The modular design of our ad serving systems allows us to grow capacity incrementally by adding a single server at a time, or scale substantially by adding several servers at a time.

Our ad serving systems are designed to operate 24 hours a day, 7 days a week. These systems are located in two data centers in Seattle: an Exodus Communications co-location site and a Verio co-location site. The two data centers give us redundant capabilities in the event of a hardware failure or loss of connectivity at one data center.

Competition

The market for Internet advertising is relatively new, yet intensely competitive. Our competitors include the following:

. Internet media buyers that integrate ad serving technology and Internet media buying, such as AppNet Inc. (through its i33 Communications division) and MediaPlex, Inc.;

. Interactive advertising agencies, such as Modem Media . Poppe Tyson Inc., Ogilvy & Mather Worldwide (through its OgilvyOne division) and Saatchi & Saatchi Advertising (through its Darwin Digital Media Services division);

. Enabling online advertising technology providers, such as AdForce, Inc., AdKnowledge, Inc., At Home Corporation (through its MatchLogic, Inc. subsidiary), CMGI, Inc. (through its Engage Technologies, Inc. subsidiary) and DoubleClick Inc.;

. Advertising networks, such as DoubleClick Inc., Flycast Communications Corporation, L90, Inc. and 24/7 Media, Inc.;

. Targeted email service providers, such as At Home Corporation (through its MatchLogic, Inc. subsidiary), ClickAction Inc., Digital Impact, Inc., DoubleClick Inc. and E-Dialog, Inc.; and . Traditional advertising agencies that perform Internet advertising and marketing as part of their services to clients, such as Ogilvy & Mather Worldwide and Saatchi & Saatchi Advertising.

In addition, we compete with other traditional advertising agencies that use traditional advertising media, and in general we compete with television, radio, cable and print media for a share of advertisers' budgets.

We believe that the principal competitive factors affecting our market are ad serving technology and functionality, data analysis capabilities, client service and price. Although we believe we currently compete adequately with respect to these factors, our continued ability to compete depends on a number of circumstances both within and beyond our control, such as:

. our capability to plan advertising campaigns and serve advertisements across a broad range of Web sites;

. our ability to respond to rapid technological change and provide feature enhancements and expanded service offerings;

. the quality and reliability of our operations and client service and support organizations; and . the effectiveness of our sales and marketing efforts.

Many of our existing competitors, as well as a number of potential new competitors, have longer operating histories, greater name recognition, larger client bases and significantly greater financial, technical and marketing resources than we have. Also, many of our current and potential competitors have established or may establish cooperative relationships among themselves or with third parties. In addition, several of our competitors, including AdForce, Inc., AdKnowledge, Inc. and Flycast Communications Corporation, have combined or are in the process of combining with larger companies with greater resources than ours. These competitors may engage in more extensive research and development, undertake more far-reaching marketing campaigns and make more attractive offers to existing and potential employees and clients than we do. They could also adopt more aggressive pricing policies and may even provide services similar to ours at no additional cost by bundling them with their other product and service offerings. They may also develop services that are equal or superior to our services or that achieve greater market acceptance than our services. In addition, our competitors may develop databases that are larger than or otherwise superior to our databases. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share. We cannot assure you that we will be able to compete successfully, and competitive pressures may harm our business.

Intellectual Property To protect our proprietary rights, we rely generally on copyright, trademark and trade secret laws, and confidentiality agreements with employees and many of our consultants. Despite these protections, third parties might obtain and use our technology without authorization or develop similar technology independently. The steps we have taken may not prevent misappropriation of our intellectual property, particularly in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States.

We have applied for registration of the following service marks: "AVENUE A," "AVENUE A MEDIA," "AD CLUB NETWORK," "AXIS," "IBALLS," "PRECISION E-MAIL," "PRECISION TARGETING," the Avenue A logo and the iballs logo. We cannot assure you that any of our service mark applications will be approved. Even if these applications are approved, any service marks may be successfully challenged by others or invalidated. We are aware of third parties that use the name "Avenue A," one of which is a Canadian advertising agency. There may be other third parties using this name of whom we are unaware. If our service mark applications are not approved or if our service marks are invalidated because of prior third-party registrations, our use of these marks could be restricted unless we entered into arrangements with these third parties, which might not be available on commercially reasonable terms, if at all.

We recently filed eight provisional patent applications in the United States for aspects of our technology, processes and methods, but we have not been issued any patents to date. We cannot assure you that our provisional patent applications, or any future patent applications, will be granted, that any

future patent of ours will not be challenged, invalidated or circumvented, or that the rights granted under any future patent of ours will provide competitive advantages to us. If a blocking patent has issued or issues in the future to a third party, and we are not able to distinguish our technologies, processes or methods from those covered under the patent, we may need to either obtain a license or develop noninfringing technologies, processes or methods with respect to that patent. We may not be able to obtain a license on commercially reasonable terms, if at all, or design around the patent, which could impair our ability to provide our services. We also cannot assure you that any proprietary rights with respect to our technology will be viable or of value in the future since the validity, enforceability and scope of protection of proprietary rights in Internet-related industries are uncertain and still evolving.

Other persons may claim that our technologies, processes or methods infringe their patents. Any such claims may cause us to incur significant expenses and, if successfully asserted against us, may cause us to pay substantial damages and prevent us from providing some of our services, including our core ad serving services, which would substantially harm our business.

A U.S. patent was issued to DoubleClick in September 1999 relating to a method of delivery, targeting and measuring of advertising over networks. This patent may cover some of the technologies, processes or methods we use in our ad serving systems. DoubleClick recently brought suit against L90, Inc., one of its competitors, claiming that L90's methods and networks for delivery, targeting and measuring advertising over the Internet infringe this patent. We have purchased advertising space from DoubleClick in the past and expect to do so in the future. We are currently evaluating the patent as it pertains to our technologies. We cannot assure you that we will be able to distinguish our technologies, processes or methods from those covered under the DoubleClick patent or that the DoubleClick patent would be invalidated if challenged.

In addition, DoubleClick and MatchLogic, a subsidiary of At Home Corporation, have each filed U.S. patent applications and related applications under the Patent Cooperation Treaty that appear to cover technologies relating to ad serving. In addition, 24/7 Media, Inc. has announced that it has received a notice of allowance for a U.S. patent application on its ad delivery technology that 24/7 Media asserts relates to enabling technology currently in use by a number of ad serving systems. If patents are issued pursuant to these applications, we cannot assure you that we will be able to distinguish our technologies, processes or methods from those covered under these patents or that the patents would be invalidated. The patent field covering Internet-related technologies is rapidly evolving and surrounded by a great deal of uncertainty, and other patents or patent applications relating to the delivery of Internet advertising may exist of which we are unaware.

Any claims that might be brought against us relating to intellectual property infringement, including claims of infringement of the DoubleClick patent and other patents issued or that may be issued to DoubleClick, MatchLogic or 24/7 Media, may cause us to incur significant expenses and, if successfully asserted against us, may cause us to pay substantial damages and limit our ability to use the intellectual property subject to these claims. Even if we were to prevail, such litigation could be costly and time-consuming and could divert the attention of our management and key personnel from our business

operations. Furthermore, as a result of a patent infringement suit, we may be prevented from providing some of our core services, including our ad serving services, unless we enter into royalty or license agreements. We may not be able to obtain royalty or license agreements on terms acceptable to us, or at all.

Our technology enables us to collect and use data derived from user activity on the Internet. Although we believe that we generally have the right to use this information and to compile it in our databases, we cannot assure you that any trade secret, copyright or other protection will be available for this information. In addition, our clients and other parties may claim rights to this information.

Employees

As of September 30, 1999, we had 159 employees, including 97 in client services and support, 37 in engineering and technology, 12 in sales and marketing, and 13 in general and administrative. In addition, as of September 30, 1999, our iballs LLC subsidiary had 15 employees. We believe that we have good relationships with our employees. We have never had a significant work stoppage, and none of our employees is represented under a collective bargaining agreement or by a union. We believe that our future success will depend in part on our ability to attract, integrate, retain and motivate highly qualified technical and managerial personnel and upon the continued service of our senior management and key technical personnel. Competition for qualified personnel in our industry and geographical locations is intense, and we cannot assure you that we will succeed in attracting, integrating, retaining and motivating a sufficient number of qualified personnel to conduct our business in the future.

Facilities

Our principal executive, administrative, engineering, marketing and sales facility currently occupies approximately 33,000 square feet of office space in Seattle and will increase to approximately 44,000 square feet in March 2000. The lease for this facility expires in October 2004, with an option to renew for an additional five-year term. We expect this facility will be adequate to meet our requirements through the second quarter of 2000, but anticipate that we will need additional space thereafter as more personnel are hired. We also lease other sales and services office space in offices in New York City and Chicago. In addition, our iballs LLC subsidiary leases approximately 6,400 square feet of office space in New York City under a lease that expires in August 2001 with an option to renew for an additional one-year term. We use network facilities to house our ad servers and other systems at two locations in Seattle under agreements with Exodus Communications and Verio. Our agreement with Exodus Communications expires in January 2000 with automatic renewal for one-year terms. Our agreement with Verio is on a month- to-month basis.

Legal Proceedings

From time to time, we may become involved in litigation relating to claims arising in the ordinary course of our business. We believe that there are no claims or actions pending or threatened against us that, if adversely determined, would have a material adverse effect on us.

Management

Executive Officers and Directors The following table sets forth information with respect to our executive officers and directors as of October 31, 1999:

Name Age Position

Brian P. McAndrews..... 40 Chief Executive Officer, Director Nicolas J. Hanauer(1)... 40 Chairman of the Board Bruce Allenbaugh..... 43 Vice President, Marketing Anna R. Collins..... 35 Vice President, Media Michael T. Galgon..... 32 Senior Vice President, Marketing and Business Development Clark M. Kokich..... 47 Vice President, General Manager Growth Markets Division Scott E. Lipsky..... 35 Chief Technology Officer Robert M. Littauer..... 51 Chief Financial Officer, Vice President, Finance & Administration, Secretary and Treasurer Jeffrey J. Miller..... 52 Vice President, Corporate Development and Legal Affairs Neve R. Savage..... 55 Vice President, Client Results Sumit T. Sen..... 31 Chief Analytics Officer Jason Green(2)..... 32 Director Fredric W. Harman(1)(2)..... 39 Director Gregory B. Maffei(1)(2)..... 39 Director (1) Member of the compensation committee.

(2) Member of the audit committee.

Brian P. McAndrews has served as our Chief Executive Officer and a director since September 1999. From July 1990 to September 1999, Mr. McAndrews worked for ABC, Inc., holding executive positions at ABC Sports, ABC Entertainment and ABC Television Network; most recently he served as Executive Vice President and General Manager of ABC Sports. From 1984 to 1989, Mr. McAndrews served as a product manager for General Mills, Inc., a leading consumer products manufacturer. He holds an M.B.A. degree from Stanford University and a B.A. degree from Harvard University.

Nicolas J. Hanauer, a co-founder of Avenue A, has served as our Chairman of the Board since June 1998. He also served as our Chief Executive Officer from June 1998 to September 1999. Since January 1990, Mr. Hanauer has been the Executive Vice President, Sales and Marketing of Pacific Coast Feather Company, a pillow and bedding manufacturing company. Mr. Hanauer holds a B.A. degree from the University of Washington. In addition to serving as a director of Avenue A, Mr. Hanauer currently serves as a director of Gear.com, Inc., Museum Quality Discount Framing, Inc. and Pacific Coast Feather Company.

Bruce Allenbaugh has served as our Vice President, Marketing since October 1999. From December 1994 to October 1999, Mr. Allenbaugh served as Vice President, Marketing Services for NEXTLINK Communications, Inc., a telecommunications company. From August 1985 to October 1994, he served in various capacities for The Pepsi Cola Company, most recently as Director, New Products. Mr. Allenbaugh holds an M.B.A. degree from Northwestern University and a B.A. degree from the University of Washington.

Anna R. Collins has served as our Vice President, Media since August 1999. From July 1996 to July 1999, Ms. Collins worked at CVS/Pharmacy, Inc., a healthcare and pharmacy company, serving as a manager of New Business Development and most recently as Director of New Business Development. From July 1995 to June 1996, Ms. Collins served as Director of Business Development & Eastern

Operations for Vivra Orthopaedics, Inc., an orthopedics practice management company. In 1994, she served as a consultant with APM Incorporated, a healthcare management consulting firm. Ms. Collins holds an M.B.A. degree from the Harvard Business School and a B.A. degree from Harvard University.

Michael T. Galgon, a co-founder of Avenue A, has served as our Senior Vice President, Marketing and Business Development since October 1999. From October 1998 to October 1999, he served as our President, and from October 1997 to October 1998, he served as our General Manager. From October 1995 to October 1997, Mr. Galgon attended the Harvard Business School. From October 1994 to October 1995, he served as a full-time volunteer with Volunteers In Service To America (VISTA). Mr. Galgon holds an M.B.A. degree from the Harvard Business School and a B.A. degree from Duke University.

Clark M. Kokich has served as our Vice President, General Manager Growth Markets Division since July 1999. From April 1996 to October 1998, Mr. Kokich served as President and Chief Executive Officer of Calla Bay, Inc., an apparel retailer. From January 1992 to April 1996, he served as the Director, Sales & Marketing for AT&T Wireless Services. Mr. Kokich holds a B.S. degree from the University of Oregon.

Scott E. Lipsky, a co-founder of Avenue A, has served as our Chief Technology Officer since October 1997. From March 1996 to September 1997, Mr. Lipsky served as Vice President of Business Expansion for Amazon.com, Inc. From February 1994 to March 1996, Mr. Lipsky served as Chief Information Officer for Barnes & Noble, Inc., a national bookstore chain, and Chief Technology Officer for Barnes & Noble College Bookstores, Inc., a national college bookstore chain. From September 1991 to January 1994, Mr. Lipsky served as President and Chief Executive Officer for Omni Information Group, Inc., a software company providing solutions for retail chains. From September 1987 to September 1991, Mr. Lipsky served as Vice President of MIS and Chief Technology Officer for Babbages's, Inc., a retail company.

Robert M. Littauer has served as our Chief Financial Officer and Vice President, Finance & Administration since August 1998, and as our Secretary and Treasurer since January 1999. From October 1996 to June 1998, Mr. Littauer served as Chief Financial Officer and Vice President of Finance and Administration for Ostex International Inc., a medical diagnostics company. From June 1987 to September 1996, Mr. Littauer served in various capacities at NeoRx Corporation, a biotechnology company, including Senior Vice President, Chief Financial Officer and Treasurer. From June 1982 to May 1987, Mr. Littauer was Vice President, Finance and Treasurer of Concept, Inc., a surgical products manufacturer. He holds an M.B.A. degree in Finance and B.S. degrees in Industrial Engineering and Operations Research from Cornell University and is a Certified Public Accountant.

Jeffrey J. Miller, Ph.D., has served as our Vice President, Corporate Development and Legal Affairs since July 1999. From November 1997 to June 1999, Dr. Miller served as the President and Chief Executive Officer of Reprogen, Inc., a functional genetics company. From October 1996 to October 1997, he served as Senior Vice President of Corporate Development for Ostex International Inc. From April 1987 to September 1996, Dr. Miller served in various capacities at NeoRx Corporation, including Senior Vice President, Business Development and Legal Affairs, Secretary and General Counsel. From

1985 to April 1987, he was a partner in the Seattle law firm of Seed and Berry. Dr. Miller holds a Ph.D. degree in biology from the University of California at Santa Cruz, a J.D. degree from Loyola University of Los Angeles and a B.A. degree from the University of California at Los Angeles.

Neve R. Savage has served as our Vice President, Client Results since November 1998. From August 1994 to September 1998, Mr. Savage served as Vice President, Marketing of AT&T Wireless Services. From October 1988 to July 1994, Mr. Savage served as the Executive Group Director of Ogilvy & Mather, an advertising company. Mr. Savage holds M.A. and B.A. degrees from Oxford University.

Sumit T. Sen has served as our Chief Analytics Officer since September 1999. From December 1998 to August 1999, Mr. Sen was a Principal of Proforma Consulting, a marketing and risk management consulting firm. From December 1997 to November 1998, Mr. Sen served as the Executive Vice President, Risk Management for The Money Store Inc., a consumer finance company. From October 1994 to October 1997, Mr. Sen served in various capacities at Household International Inc., a consumer loan and credit card company, including Director, Risk Management and Director, Scoring & Analysis. Mr. Sen holds a B.S. degree from Johns Hopkins University.

Jason Green has served as one of our directors since May 1999. Since September 1997, Mr. Green has served as a general partner of U.S. Venture Partners, a venture capital firm. From September 1995 to August 1997, Mr. Green was an Ewing Marion Kauffman Fellow with Venrock Associates, a venture capital firm. From June 1994 to August 1995, Mr. Green served as a Research Fellow at the Harvard Business School. Mr. Green has served as a vice president of Muzertechnika, an Eastern European computer and telecommunications company, and has also served as a consultant with Bain & Company, a strategy consulting firm. Mr. Green holds an M.B.A. degree from the Harvard Business School and a B.A. degree from Dartmouth College. He currently serves as a director of NightFire Software Inc., PerksatWork.com Inc. and PrintNation.com.

Fredric W. Harman has served as one of our directors since May 1999. Since 1992, Mr. Harman has managed several venture capital funds affiliated with Oak Investment Partners, a venture capital firm. From 1991 to 1994, he served as a general partner of Morgan Stanley Venture Capital. Mr. Harman holds an M.B.A. degree from the Harvard Business School and B.S. and M.S. degrees in electrical engineering from Stanford University. Mr. Harman currently serves as a director of ILOG, S.A., InterNAP Network Services Corporation, Inktomi Corporation, Primus Knowledge Solutions, Inc., Quintus Corporation and several privately held companies.

Gregory B. Maffei has served as one of our directors since September 1999. Since 1997, Mr. Maffei has served as the Chief Financial Officer of Microsoft Corporation. From 1993 to 1997, Mr. Maffei served in various capacities at Microsoft, including Director of Business Development & Investment; Vice President, Corporate Development; and Treasurer. Mr. Maffei holds an M.B.A. degree from the Harvard Business School and an A.B. degree from Dartmouth College. He currently serves as a director of Starbucks Corporation, Skytel Communications, Inc., CNET Business Services and Ragen MacKenzie Group Incorporated.

Board Committees

The board of directors has a compensation committee and an audit committee.

Compensation Committee. The compensation committee's duties include establishing, reviewing and making recommendations to the board regarding compensation of our officers, considering compensation plans for our employees, and carrying out other duties under our stock incentive compensation and other plans approved by us as may be assigned to the committee by the board. The current members of the compensation committee are Nicolas J. Hanauer, Fredric W. Harman and Gregory B. Maffei. The current members of the compensation committee do not meet the definition of "non- employee" directors for purposes of SEC Rule 16(b)(3). Until the compensation committee is composed of "non-employee" directors, the full board of directors will continue to approve stock option grants for our officers in order to qualify the option grants for an exemption from short-swing trading rules.

Audit Committee. The audit committee recommends the selection and retention of our independent auditors, reviews the scope and results of audits and submits appropriate recommendations regarding audits, reviews our internal controls and reviews procedures to ensure compliance with applicable financial reporting requirements. The current members of the audit committee are Jason Green, Fredric W. Harman and Gregory B. Maffei.

Compensation Committee Interlocks and Insider Participation During the year ended December 31, 1998, Mr. Hanauer, our former chief executive officer, served on the compensation committee of our board of directors, as did Eric Moen and Roy Clothier, both former directors of Avenue A. Our board of directors' compensation committee currently consists of Messrs. Hanauer, Harman and Maffei. None of our executive officers serves as a member of the compensation committee or board of directors of any entity that has an executive officer serving as a member of our compensation committee or board of directors.

Director Compensation We reimburse our nonemployee directors for reasonable expenses they incur in attending meetings of the board of directors and its committees. In 1998 and 1999, Mr. Hanauer devoted part of his time to Pacific Coast Feather Company and part of his time to Avenue A. Under an arrangement with Pacific Coast Feather Company, we reimbursed Pacific Coast Feather Company for $48,700 of salary paid by that company to Mr. Hanauer in 1999, which reimbursement represented compensation for Mr. Hanauer's services as an officer and director of Avenue A in 1999.

In August 1999, Mr. Maffei was granted an option to purchase 50,000 shares of our common stock under our 1998 stock incentive compensation plan at an exercise price of $1.90 per share. In August 1999, we authorized the sale to Mr. Maffei of 50,000 shares of our common stock at $1.90 per share under this plan and in October 1999, we authorized the sale to him of an additional 50,000 shares of our common stock at $4.00 per share under this plan. Both of these sales were consummated in October 1999.

In November 1999, our board of directors adopted our stock option grant program for nonemployee directors. This program will be administered under our 1999 stock incentive compensation plan, subject to shareholder approval of that plan. Under this program, each nonemployee director will automatically receive a nonqualified stock option to purchase 50,000 shares of common stock upon

initial election or appointment to the board following this offering. One third of this option will vest on the first, second and third anniversaries of the grant date. Thereafter, beginning with the annual meeting of shareholders in 2000, each nonemployee director who continues to serve on the board will receive an additional option to purchase 15,000 shares of common stock upon reelection or reappointment to the board, which will fully vest on the first anniversary of the date of grant. The exercise price for all options granted under the program will be the fair market value of the common stock on the grant date. Options will have a 10-year term, except that options will expire three months after a nonemployee director ceases service as a director, unless cessation is due to death, in which case the options will expire one year after date of death.

Executive Compensation The following table sets forth information concerning the compensation received for services rendered to us in all capacities by our former chief executive officer and the executive officer of Avenue A who earned compensation in excess of $100,000 during the fiscal year ended December 31, 1998 (together, the "Named Executive Officers").

Summary Compensation Table Long-Term Compensation Awards Annual Compensation Securities ---------- Underlying All Other Name and Principal Position Year Salary Bonus Options Compensation

```
Nicolas J. Hanauer.............. 1998 $  --    $ --       --          $ --
 Former Chief Executive Officer
Scott E. Lipsky................. 1998 121,599    --    723,000          --
 Chief Technology Officer
```

Option Grants in Last Fiscal Year

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (3)	
Name	Number of Securities Underlying Options Granted(1)	Percent of Total Options to Employees in Fiscal Year(2)	Exercise Price Per Share	Expiration Date	5%	10%
Nicolas J. Hanauer.....	--	-- %	$ --	--	$ --	$ --
Scott E. Lipsky.....	3,000	*	.10	6/23/08	189	478
	600,000	18.9	.10	6/23/08	37,734	95,624
	120,000	3.8	.50	9/08/08	37,734	95,624

The following table sets forth information regarding stock options we granted to the Named Executive Officers during the fiscal year ended December 31, 1998.

* Less than 1%.

(1) These options are fully exercisable and the shares purchasable upon exercise of such options are subject to repurchase by Avenue A at the original exercise price paid per share if the optionee terminates employment or attempts to transfer the shares, before the shares have vested. In this context, "vested" means that the shares subject to, or issued on exercise of, options are no longer subject to repurchase by Avenue A. Shares subject to, or issued upon exercise of, options generally vest according to the vesting schedule set forth in the option letter agreement evidencing the option. For a description of the options see "Employee Benefit Plans."

(2) Based on a total of 3,180,050 options granted to employees during fiscal 1998.

(3) The dollar amounts under these columns result from calculations at the 5% and 10% rates required by SEC regulations and are not intended to forecast possible future appreciation, if any, of the common stock price. The information in this table assumes all options are exercised at the end of each of their 10-year terms. Actual gains, if any, on stock option exercises depend on the future performance of the common stock and overall stock market conditions, as well as the option holders' continued employment through the vesting period. The amounts shown in this table may not be achieved.

Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values The following table sets forth information regarding unexercised stock options held by the Named Executive Officers during the fiscal year ended December 31, 1998. Neither Mr. Hanauer nor Mr. Lipsky exercised any options during this period. The shares purchasable upon exercise of the options may be subject to repurchase by Avenue A at the original exercise price paid per share if the optionee terminates employment or attempts to transfer the shares before the vesting of those shares according to a vesting schedule.

	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End (1)	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Nicolas J. Hanauer.....	--	--	$ --	$ --
Scott E. Lipsky.....	723,000	--	241,200	--

(1) Based on an assumed fair market value of Avenue A's common stock at December 31, 1998 of $.50 per share, as determined in good faith by the board of directors, minus the per share exercise price, multiplied by the number of shares issuable upon exercise of the option.

Employment Agreements and Change of Control Arrangements Employment Agreements Brian P. McAndrews' employment offer letter provides for an initial annual salary of $300,000. We also granted Mr. McAndrews an option, to vest over a four-year period, to purchase 1,230,000 shares of our common stock under our 1998 stock incentive compensation plan. The option is immediately exercisable for unvested shares, which are subject to a right of repurchase in favor of us, which lapses in accordance with the vesting schedule applicable to the option. Upon the completion of this offering, Mr. McAndrews will be granted an additional option, also subject to a four-year vesting period, to purchase an additional 176,000 shares of common stock. The option may be exercised prior to vesting for unvested shares, which would be subject to a right of repurchase in favor of us which would lapse according to the vesting schedule applicable to the option. Mr. McAndrews' employment is for no specified length of time. Pursuant to the offer letter, if he is terminated other than for "cause" (which is defined in his agreement to mean willful misconduct or dishonesty in the performance of his duties or other knowing and material violation of Avenue A policies, the conviction of a felony involving an act of dishonesty, moral turpitude, deceit or fraud, or willful actions or omissions that materially impair our business, goodwill or reputation), Mr. McAndrews' salary will continue at its then-present rate for

12 months and the vesting schedule of the stock options will be accelerated by 12 months. The offer letter also provides that if he voluntarily terminates his employment or is terminated for cause, his salary will continue for three months.

Brian P. McAndrews' employment offer letter states that upon a change in control of Avenue A, his stock options will become fully vested immediately if he is terminated without cause or if his job title, operating duties or responsibilities materially change within one year of the change of control. If he voluntarily terminates his employment without good reason after a change of control, or if his employment continues without a material change in his duties and responsibilities, then half of his then-unvested stock options will become fully vested.

Severance Agreement

On October 8, 1999, we entered into a severance agreement and release with R. Michael Leo, our former Vice President, Sales and Marketing. Pursuant to that agreement, Mr. Leo will receive a severance payment of $200,000 payable in monthly installments over a twelve-month period from the date of the agreement. Pursuant to the agreement, we granted Mr. Leo an option to purchase 250,000 shares of our common stock, which vests one year after date of grant, subject to Mr. Leo's compliance with the Confidentiality, Inventions Assignment, Noncompetition and Nonsolicitation Agreement between him and us. In addition, we provided Mr. Leo with a loan of $75,000 which was applied to the exercise of previously granted options. Under the agreement, each party agreed to release the other from any claims arising from Mr. Leo's employment or termination.

Employee Benefit Plans 1999 Stock Incentive Compensation Plan In November 1999, our board of directors adopted our 1999 stock incentive compensation plan, subject to shareholder approval. The purpose of the plan is to enhance long-term shareholder value by offering opportunities to selected persons to participate in our growth and success, and to encourage them to remain in the service of Avenue A and its related corporations and to acquire and maintain ownership in our company. The plan permits awards of stock options, shares of common stock or units denominated in common stock, all of which may be subject to restrictions. Persons eligible to receive awards under the plan are our officers, directors, employees, consultants, advisors, agents and independent contractors and related corporations, but only employees may receive incentive stock options under the plan.

The board has reserved a total of 1,000,000 shares of common stock under the plan plus an automatic annual increase, to be added on the first day of our fiscal year beginning in 2001, equal to the least of (1) 3,000,000 shares, (2) 5.0% of the adjusted average common shares outstanding as used to calculate fully diluted earnings per share as reported in our annual report to shareholders for the preceding year and (3) a lesser amount as may be determined by the board. In addition, shares formerly available for issuance under our 1998 stock incentive compensation plan will become available for issuance under the 1999 plan, as will shares subject to options granted under the 1998 plan that expire or are otherwise cancelled without being exercised, up to an aggregate maximum of 5,349,768 shares. The board of directors or a committee appointed by the board will be the plan administrator for the plan. The plan administrator selects the individuals to receive awards under the plan. The board also may authorize one or more senior executive officers to grant awards under the plan, within limits set by the

board. Unless the plan administrator permits otherwise, no awards may be assigned or transferred by the holder other than by will or by the applicable laws of descent and distribution, and, during the holder's lifetime, awards generally may be exercised only by the holder. The board may suspend or terminate the plan at any time. Unless the board terminates the plan sooner, the plan will end on November 16, 2009.

Stock Option Grants. The plan administrator has the authority to specify the terms and conditions of each option granted, including the vesting schedule, the term and the exercise price, which, for incentive stock options, must be at least equal to the fair market value of the common stock on the grant date and, for nonqualified stock options, must not be less than 85% of the fair market value of the common stock on the grant date. For purposes of the plan, fair market value means the closing sales price as reported on the Nasdaq National Market on the date of grant. Unless the plan administrator provides otherwise, options granted under the plan will generally expire 10 years from the grant date.

Stock Awards. The plan administrator is authorized to award shares of common stock or awards denominated in units of common stock. These stock awards may be subject to terms and conditions determined by the plan administrator, including conditions on how the shares subject to restrictions must be held while restricted and the circumstances under which a holder will forfeit the shares if services with us are terminated. Holders of restricted stock are shareholders of Avenue A and have, subject to certain restrictions, all the rights of shareholders with respect to their shares.

Adjustments. The plan administrator will make proportional adjustments to the number of shares issuable under the plan and to outstanding awards in the event of stock splits or other similar capital adjustments.

Corporate Transactions. Unless individual letter agreements provide otherwise, if certain corporate transactions, such as a merger or sale of Avenue A, occur, each outstanding option under the plan will be assumed, continued or replaced with a comparable award by the successor corporation or the parent of the successor corporation; provided, however, that if a successor corporation refuses to assume, continue or replace outstanding options, each outstanding option will automatically accelerate and become 100% vested and exercisable immediately before the corporate transaction. Any option held by certain executive officers that is assumed, continued or replaced with a comparable award in the corporate transaction, other than in specified related-party transactions, will accelerate if the officer's employment or services are terminated by the successor corporation without cause or by the officer voluntarily and with good reason within two years after the corporate transaction. Acceleration of option vesting will not occur if the acceleration would prevent pooling of interests accounting treatment in a transaction for which it is available.

Stock Option Grant Program for Nonemployee Directors In November 1999, our board of directors adopted our stock option grant program for nonemployee directors. This program will be administered under the 1999 plan, subject to shareholder approval of the 1999 plan.

Under the program, each nonemployee director will automatically receive a nonqualified stock option to purchase 50,000 shares of common stock upon his or her initial election or appointment to the board following this offering. One-third of this option will vest on each of the first, second and third

anniversaries of the grant date. Beginning with the annual meeting of shareholders in 2000, each nonemployee director will receive an additional option to purchase 15,000 shares of common stock upon reelection or reappointment to the board, which will fully vest on the first anniversary of the date of grant. The exercise price for all options granted under the program will be the fair market value of the common stock on the grant date. Options will have a 10-year term, except that options will expire three months after a nonemployee director ceases service as a director, unless cessation is due to death, in which case the options will expire one year after the date of death.

Unless individual letter agreements provide otherwise, if certain corporate transactions, such as a merger or sale of Avenue A, occur, each outstanding option granted to a director under the program will automatically accelerate and become 100% vested and exercisable immediately before the corporate transaction. Acceleration of option vesting will not occur if the corporate transaction is a related-party transaction specified in the plan or if the acceleration would prevent pooling of interests accounting treatment in a transaction for which it is available.

1999 Employee Stock Purchase Plan In November 1999, our board of directors adopted our 1999 employee stock purchase plan, subject to shareholder approval. We will implement our employee stock purchase plan upon the effectiveness of this offering to assist employees in acquiring a stock ownership interest in Avenue A and to encourage employees to remain in our employ or the employ of our domestic subsidiaries. We intend for the plan to qualify under Section 423 of the Internal Revenue Code. The plan will be administered by our board of directors, a committee of the board or an executive officer appointed to administer the plan.

The board has reserved a total of 500,000 shares of common stock under the plan plus an automatic annual increase, to be added on the first day of our fiscal year beginning in 2001, equal to the least of (1) 750,000 shares, (2) 2% of the adjusted average common shares outstanding as used to calculate fully diluted earnings per share as reported in our annual report to shareholders for the preceding year and (3) a lesser amount as may be determined by the board. The plan will expire 10 years after it is adopted by our board of directors, but the board may suspend or terminate the plan at any time.

Eligibility. Employees generally will be eligible to participate in the employee stock purchase plan if they are customarily employed by Avenue A for 20 hours or more per week and are not holders of 5% or more of our common stock or our subsidiaries' common stock. The plan administrator may require for future offerings that employees work a minimum of up to five months per year and have been an employee for some minimum period of time not to exceed two years. Options granted under the plan are not transferable and are only exercisable during the employee's lifetime.

Payroll Deductions. Our employee stock purchase plan permits our eligible employees and those of our domestic subsidiaries to purchase common stock through payroll deductions of up to 20% of their compensation. Under the plan, no employee may purchase common stock with a fair market value of more than $25,000 in any calendar year or purchase more than 5,000 shares of common stock in any single purchase period.

Offering and Purchase Periods. We will implement the employee stock purchase plan with one-year offering periods. Each offering period will have two consecutive six-month purchase periods. The first offering period will commence on the effectiveness of this offering and will end on January 31, 2001. Thereafter offerings will begin on each February 1 and August 1. The first purchase period under the first offering period will begin on the effectiveness of this offering and end on July 31, 2000. Subsequent purchase periods will begin on each February 1 and August 1 and end on the next July 31 and January 31, respectively. Subject to certain limitations, the plan administrator may establish differing offering and purchase periods in the future.

The price of the common stock purchased under the plan will be the lesser of 85% of the fair market value on the first day of an offering period and 85% of the fair market value on the last day of the applicable purchase period. However, the purchase price for the first offering period will be equal to the lesser of 100% of the initial public offering price of the common stock and 85% of the fair market value on the last day of the applicable purchase period. For purposes of the plan, fair market value means the closing sales price as reported on the Nasdaq National Market on the applicable day.

Adjustments. The plan administrator will make proportional adjustments to the number of shares issuable under the plan and to outstanding options in the event of stock splits or other similar capital adjustments.

Corporate Transactions. In the event of a merger, consolidation or acquisition by another corporation of all or substantially all of our assets, each outstanding option to purchase shares under the stock purchase plan will be assumed or an equivalent option substituted by the successor corporation. If the successor corporation refuses to assume or substitute for the option, the offering period during which a participant may purchase stock will be shortened to a specified date before the proposed transaction. Similarly, in the event of Avenue A's proposed liquidation or dissolution, the offering period during which a participant may purchase stock will be shortened to a specified date before the date of the proposed event.

1998 Stock Incentive Compensation Plan In 1998, our board of directors and shareholders approved our 1998 stock incentive compensation plan. The plan permits awards of stock options, shares of common stock or units denominated in common stock, all of which may be subject to restrictions. The 1998 plan authorizes the issuance of up to 9,250,000 shares. As of September 30, 1999, options to purchase 3,924,081 shares were outstanding under the plan with exercise prices ranging from $.10 to $4.00 per share, and options for 3,332,481 shares had been exercised. In addition, as of September 30, 1999, 19,140 shares had been issued as stock awards under the plan. We will not grant any further options or stock awards under the plan after this offering is effective.

The plan administrator has the discretion to issue unvested shares of our common stock upon exercise of a stock option under the plan. Any shares acquired upon exercise of an unvested portion of an option will be unvested shares. If the employment or services at Avenue A of an optionee are terminated, all shares issued on exercise of the option that are unvested on the date of termination may be repurchased by Avenue A at the exercise price paid for the shares. The terms and conditions of our repurchase right are set forth in an agreement each optionee signs when the optionee exercises an

unvested option. The plan administrator has the discretionary authority to cancel Avenue A's repurchase right for unvested shares. Avenue A's repurchase right will also terminate if the vesting of outstanding options is accelerated in a corporate transaction.

Corporate Transactions. Unless individual letter agreements provide otherwise, if certain corporate transactions, such as a merger or sale of Avenue A, occur, each outstanding option under the plan will automatically accelerate and become 100% vested and exercisable immediately before the corporate transaction, unless the option is assumed, continued or replaced with a comparable award by the successor corporation or the parent of the successor corporation. If option vesting is accelerated, any rights of repurchase held by us applicable to the stock issued on exercise of the options will lapse. Any option or stock award held by certain executive officers that is assumed, continued or replaced with a comparable award in the corporate transaction, other than in specified related-party transactions, will accelerate if the holder's employment or services are terminated by the successor corporation without cause or by the holder voluntarily and with good reason within two years after the corporate transaction. Acceleration of option vesting will not occur if the acceleration would prevent pooling of interests accounting treatment in a transaction for which it is available. In other material respects, the terms of the 1998 stock incentive compensation plan are the same as those in the 1999 stock incentive compensation plan.

401(k) Plan

We maintain a 401(k) plan that covers all our employees over the age of 18. We may make an annual contribution for the benefit of eligible employees in an amount determined by our board of directors. We have not made any contribution to date and have no current plans to do so. Eligible employees may make pre- tax elective contributions of up to 25% of their compensation, subject to maximum limits on contributions prescribed by law.

Limitations on Director and Officer Liability and Indemnification Our articles of incorporation limit the liability of directors to the fullest extent permitted by the Washington Business Corporation Act as it currently exists or as it may be amended in the future. Consequently, subject to the Washington Business Corporation Act, no director will be personally liable to us or our shareholders for monetary damages resulting from his or her conduct as one of our directors, except liability for:

. acts or omissions involving intentional misconduct or knowing violations of law or unlawful distributions; or . transactions from which the director personally receives a benefit in money, property or services to which the director is not legally entitled.

Our bylaws also provide that we will indemnify any individual made a party to a proceeding because that individual is or was a director or officer or, in certain circumstances, an employee of Avenue A, and will reimburse reasonable expenses incurred by such individual in advance of the final disposition of the proceeding to the fullest extent permitted by applicable law. Any repeal of or modification to our articles of incorporation or bylaws may not adversely affect any right of indemnification under the articles or bylaws of a director or officer of Avenue A who is or was a director or officer at the time of such repeal or modification. To the extent the provisions of our articles of incorporation or bylaws

provide for indemnification of directors or officers for liabilities arising under the Securities Act, those provisions are, in the opinion of the SEC, against public policy as expressed in the Securities Act and they are therefore unenforceable.

In addition, we intend to purchase and maintain a liability insurance policy pursuant to which our directors and officers may be indemnified against liability they may incur for serving in their capacities as our directors and officers.

We believe that the limitation of liability provision in our articles of incorporation, the indemnification provisions in our bylaws and the liability insurance policy will help us to continue to attract and retain qualified individuals to serve as our directors and officers.

Related-party Transactions

Nicolas J. Hanauer, the chairman of our board of directors, is an executive officer, director and significant shareholder of Pacific Coast Feather Company. During the period from our inception through 1998, Pacific Coast Feather Company paid for some of our operating expenses and asset purchases, including some payroll expenses, payroll taxes, travel expenses and computer purchases, totaling $3,082,000 in the aggregate. $1,794,000 of this amount was repaid to Pacific Coast Feather Company directly by us and $1,288,000 of this amount was repaid to Pacific Coast Feather Company by us through the proceeds of our sale of shares of our common stock to Pacific Coast Feather Company and affiliates of Pacific Coast Feather Company, including Mr. Hanauer, Gerard Hanauer, Lenore Hanauer, Adrian Hanauer, Roy Clothier Jr. and Eric Moen, who are shareholders of Pacific Coast Feather Company. Gerard Hanauer, Lenore Hanauer and Adrian Hanauer are Nicolas Hanauer's father, mother and brother, respectively. Mr. Gerard Hanauer, Mr. Clothier and Mr. Moen served as directors of Avenue A during 1998 and part of 1999. In addition, Pacific Coast Feather Company incurred an obligation of approximately $13,333 in 1998 and approximately $28,650 in 1999 for advertising services we provided, all of which has been paid. In 1998 and 1999, Mr. Hanauer devoted part of his time to Pacific Coast Feather Company and part of his time to Avenue A. Under an arrangement with Pacific Coast Feather Company, we reimbursed Pacific Coast Feather Company for $48,700 of salary paid by that company to Mr. Hanauer in 1999, which reimbursement represented compensation for Mr. Hanauer's services as an officer and director of Avenue A in 1999.

In 1998, Mr. Hanauer made the following purchases of our common stock: 200,000 shares on March 9, 1998 at a purchase price of $2,000; 3,300,000 shares on May 26, 1998 at a purchase price of $483,000; 152,100 shares on June 10, 1998 at a purchase price of $22,262; and 2,000,000 shares on July 2, 1998 at a purchase price of $300,000. On February 23, 1999, Mr. Hanauer purchased 446,429 shares of our Series B preferred stock for $500,000. On May 26, 1998, each of Adrian Hanauer, Gerard Hanauer and Lenore Hanauer purchased 1,100,000 shares of our common stock. The purchase price paid by each of them for the shares was $161,000. On June 10, 1998, Pacific Coast Feather Company purchased 947,900 shares of our common stock. The purchase price paid for these shares was $138,738.

In addition, Mr. Hanauer is a director of Gear.com, Inc. Gear.com incurred an obligation to us of approximately $7,733 in 1998 and $292,460 in 1999 for advertising services, all of which has been paid.

On October 25, 1999, Sumit T. Sen, our Chief Analytics Officer, purchased 125,000 shares of our common stock for $500,000.

Gregory B. Maffei, one of our directors, is an executive officer of Microsoft Corporation. Microsoft incurred an obligation to us of approximately $3,750 in 1998 and $4,428,492 to date in 1999 for advertising services, all of which has been paid. On October 26, 1999, Gregory B. Maffei purchased 100,000 shares of our common stock for $295,000.

On October 8, 1999, we made loans of $100,000 to Robert M. Littauer, our chief financial officer, vice president, finance and administration, secretary and treasurer, and $676,000 to Brian P. McAndrews, our chief executive officer and one of our directors, pursuant to promissory notes in connection with the purchase of shares of common stock and the exercise of stock options by Mr. Littauer and Mr. McAndrews, respectively. The notes bear interest at a rate equal to the greater of (1) the applicable federal rate for a demand note as of October 8, 1999 and as redetermined each year on the anniversary date of the notes, and (2) the lowest rate necessary to avoid the imputation of interest under the Internal Revenue Code.

On October 8, 1999, the following executive officers each purchased 25,000 shares of our common stock for $100,000: Robert M. Littauer, Brian P. McAndrews, Neve R. Savage, Jeffrey J. Miller, Michael T. Galgon, and Scott E. Lipsky.

On March 15, 1999, R. Michael Leo, our former Vice President, Sales and Marketing, purchased 61,428 shares of our Series B preferred stock for $68,800.

On October 8, 1999, we entered into a severance agreement and release with Mr. Leo. Pursuant to that agreement, Mr. Leo will receive a severance payment of $200,000 payable in monthly installments over a 12-month period from the date of the agreement. Pursuant to the agreement, we granted Mr. Leo an option to purchase 250,000 shares of our common stock, subject to Mr. Leo's compliance with the Confidentiality, Inventions Assignment, Noncompetition and Nonsolicitation Agreement between us and him. In addition, we provided Mr. Leo with a loan of $75,000 which was applied to the exercise of previously granted options. Under the agreement, each party agreed to release the other from any claims arising from Mr. Leo's employment or termination.

On August 5, 1998, John P. Galgon, the father of Michael T. Galgon, our Senior Vice President, Marketing and Business Development, purchased 78,313 shares of our Series A preferred stock for $65,000.

Jason Green, one of our directors, is a managing member of Presidio Management Group VI, L.L.C. Presidio Management Group VI is the general partner of each of U.S. Venture Partners VI, L.P., USVP VI Affiliates Fund, L.P., 2180 Associates Fund VI, L.P. and USVP VI Entrepreneur Partners, L.P. (collectively the "USVP Entities"). On May 4, 1999, the USVP Entities purchased 3,092,783 shares of our Series C preferred stock for $6 million. Presidio Management Group VI disclaims beneficial

interest in such shares, except as to its pecuniary interest arising as a result of its interest in each of the USVP Entities. Mr. Green disclaims beneficial ownership of such shares, except as to his pecuniary interest arising as a result of his interest in Presidio Management Group VI.

Fredric W. Harman, one of our directors, is a managing member of Oak Associates VIII, LLC, the general partner of Oak Investment Partners VIII, Limited Partnership and a managing member of Oak VIII Affiliates, L.L.C., the general partner of Oak VIII Affiliates Fund, Limited Partnership. On May 4, 1999, Oak Investment Partners VIII, Limited Partnership purchased 5,056,701 shares of our Series C preferred stock for $9.8 million and Oak VIII Affiliates Fund, Limited Partnership purchased 97,938 shares of our Series C preferred stock for $190,000. Mr. Harman disclaims beneficial ownership of such shares, except as to his pecuniary interest arising as a result of his interest in Oak Associates VIII, LLC and Oak VIII Affiliates LLC.

U.S. Venture Partners VI, L.P., Oak Investment Partners VIII, L.P. and Oak VIII Affiliates Fund, L.P. are parties to an investors rights agreement with us. Pursuant to the terms of that agreement, the holders of our Series C preferred stock have certain registration rights that obligate us, under certain circumstances, to register shares of common stock under the Securities Act. For more information see "Description of Capital Stock--Registration Rights."

Principal Shareholders

The following table sets forth certain information regarding beneficial ownership of our common stock as of October 31, 1999 by:

. each person or group known by us to own beneficially more than 5% of our common stock;

. each of our directors;

. our Named Executive Officers; and . all of our current directors and executive officers as a group As of October 31, 1999, assuming conversion of all outstanding shares of preferred stock, there were 32,802,690 shares of common stock outstanding and 290 shareholders of record of Avenue A. Beneficial ownership is determined in accordance with SEC rules. In computing the number of shares beneficially owned by a person or a group and the percentage ownership of that person or group, shares of our common stock subject to options currently exercisable or exercisable within 60 days after October 31, 1999 are deemed outstanding but are not deemed outstanding for computing the percentage ownership of any other person. Except as otherwise indicated in the footnotes below, we believe the beneficial owners of the common stock listed below, based on information furnished by them, have sole voting and investment power with respect to the number of shares listed opposite their names, subject to community property laws where applicable.

		Percentage of Shares Beneficially Owned	
Name of Beneficial Owner	Number of Shares Beneficially Owned	Prior to Offering	After Offering

Entities affiliated with Oak Investment Partners(1) 525 University Avenue, Ste. 1300 Palo Alto, CA 94301	5,154,639	15.7%	%
Nicolas J. Hanauer 506 Second Avenue, 9th Floor Seattle, WA 98104	4,327,101	13.2	
Entities affiliated with U.S. Venture Partners(2) 2180 Sand Hill Road, Ste. 300 Menlo Park, CA 94025	3,092,783	9.4	
Fredric W. Harman(1)	5,154,639	15.7	
Jason Green(2)	3,092,783	9.4	
Gregory B. Maffei(3)	150,000	*	
Brian P. McAndrews(4)	1,255,000	3.7	
Scott E. Lipsky(5)	1,023,000	3.1	
Directors and executive officers as a group (14 persons)(6)	17,485,521	50.1	

* less than 1% (1) Consists of 5,056,701 shares held by Oak Investment Partners VIII, Limited Partnership and 97,938 shares held by Oak VIII Affiliates Fund, Limited Partnership. Fredric W. Harman, a director of Avenue A, is a managing member of Oak Associates VIII, LLC, the general partner of Oak Investment Partners VIII, Limited Partnership, and a managing member of Oak VIII Affiliates LLC, the general partner of Oak VIII Affiliates Fund, Limited Partnership and thus may be deemed to share voting and dispository power with each of the above entities. Mr. Harman disclaims beneficial ownership of shares held by these entities except to the extent of his pecuniary interest in Oak Associates VIII, LLC and Oak VIII Affiliates LLC. (2) Consists of 2,876,288 shares held by U.S. Venture Partners VI, LP, 80,412 shares held by USVP VI Affiliates Fund, LP, 89,691 shares held by USVP VI Entrepreneur Partners, LP, and 46,392 shares held by 2180 Associates Fund VI, LP. Jason Green, a director of Avenue A, is a managing member of Presidio Management Group VI LLC, the general partner of each of the above entities and thus may be deemed to share voting and dispository power with each of the above entities. Mr. Green disclaims beneficial ownership of shares held by these entities except to the extent of his pecuniary interest in Presidio Management Group VI LLC.

(3) Represents (a) 100,000 shares held by Mr. Maffei and (b) 50,000 shares subject to options exercisable within 60 days of October 31, 1999, all of which are subject to repurchase by Avenue A at the original exercise price in the event of termination of services of holder, which right lapses over time in accordance with a vesting schedule. (4) Represents (a) 25,000 shares held by Mr. McAndrews, (b) 355,789 shares held by Mr. McAndrews that are subject to repurchase by Avenue A at the original exercise price paid for such shares in the event of termination of services of holder, which right lapses over time in accordance with a vesting schedule, and (c) 874,211 shares subject to options exercisable within 60 days of October 31, 1999, which are subject to repurchase by Avenue A at the original exercise price in the event of termination of services of holder, which right lapses over time in accordance with a vesting schedule. (5) Represents (a) 577,000 shares held by Mr. Lipsky, (b) 116,000 shares held by Mr. Lipsky that are subject to repurchase by Avenue A at the original exercise price paid for such shares in the event of termination of services of holder, which right lapses over time in accordance with a vesting schedule, and (c) 330,000 shares subject to options exercisable within 60 days of October 31, 1999, which are subject to repurchase by Avenue A at the original exercise price in the event of termination of services of holder, which right lapses over time in accordance with a vesting

schedule. (6) Includes 931,664 shares subject to repurchase by Avenue A at the original exercise price paid for such shares, which right lapses over time in accordance with a vesting schedule. Also includes 2,112,336 shares subject to options exercisable within 60 days of October 31, 1999, of which 2,009,336 are subject to repurchase by Avenue A at the original exercise price in the event of termination of services of holder, which right lapses over time in accordance with a vesting schedule. Also includes 187,950 shares held in trusts for the benefit of the descendants of one of the executive officers.

Description of Capital Stock

The description of capital stock below assumes approval by our shareholders, and filing with the state of Washington, of amended and restated articles of incorporation, which were approved by our board of directors in November 1999. We are authorized to issue up to 200,000,000 shares of common stock, $.01 par value per share, and 37,500,000 shares of preferred stock, $.01 par value per share. The following summary of certain provisions of the common stock and preferred stock is not complete and may not contain all the information you should consider before investing in the common stock. You should read carefully our articles of incorporation, which are included as an exhibit to the Registration Statement, of which this prospectus is a part.

Common Stock

As of October 31, 1999, assuming conversion of all outstanding shares of preferred stock, there were 32,802,690 shares of common stock outstanding held of record by 290 shareholders. Following this offering, there will be shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options. The holders of common stock are entitled to one vote per share on all matters to be voted on by the shareholders. Subject to preferences of any outstanding shares of preferred stock, the holders of common stock are entitled to receive ratably any dividends the board of directors declares out of funds legally available for the payment of dividends. If Avenue A is liquidated, dissolved or wound up, the holders of common stock are entitled to share pro rata all assets remaining after paying liabilities and liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no preemptive rights or rights to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock to be issued following this offering will be fully paid and nonassessable.

Preferred Stock

Upon the closing of this offering, each outstanding share of Series A, Series B and Series C preferred stock automatically will be converted into one share of common stock. After that, pursuant to our articles of incorporation, the board of directors will have the authority, without further action by the shareholders, to issue up to 21,083,902 shares of preferred stock in one or more series. The board also has the authority to fix the designations, powers, preferences, privileges and relative, participating,

optional or special rights and the qualifications, limitations or restrictions of any preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the common stock. The board of directors, without shareholder approval, can issue preferred stock with voting, conversion or other rights that could adversely affect the voting power and other rights of the holders of common stock. Preferred stock could thus be issued quickly with terms that could delay or prevent a change in control of Avenue A or make removal of management more difficult. Additionally, the issuance of preferred stock may decrease the market price of the common stock and may adversely affect the voting and other rights of the holders of common stock. We have no plans at this time to issue any preferred stock.

Warrant

At October 31, 1999 we had one warrant outstanding to purchase 451,807 shares of common stock at $.83 per share. The warrant expires in August, 2003.

Registration Rights

After this offering, the holders of 10,337,624 shares of common stock will be entitled to certain rights with respect to the registration of such shares under the Securities Act, pursuant to the terms of an Investors Rights Agreement between Avenue A and the holders of Avenue A's Series C preferred stock and a Registration Rights Agreement between Avenue A and the members of iballs LLC, a New York limited liability company acquired by Avenue A in September 1999.

Antitakeover Effects of Certain Provisions of Articles of Incorporation, Bylaws and Washington Law Issuance of Preferred Stock. As noted above, our board of directors, without shareholder approval, has the authority under our articles of incorporation to issue preferred stock with rights superior to the rights of the holders of common stock. As a result, preferred stock could be issued quickly and easily, could adversely affect the rights of holders of common stock and could be issued with terms calculated to delay or prevent a change in control of Avenue A or make removal of management more difficult.

Election and Removal of Directors. Upon the closing of this offering and effective at the first annual meeting of shareholders following this offering, our articles of incorporation will provide for the division of our board of directors into three classes, as nearly as equal in number as possible, with the directors in each class serving for a three-year term, and one class being elected each year by our shareholders. Directors serve until their successors are elected and qualified or until their death, resignation or removal from office. Our directors can be removed from office only for cause and only by a two-thirds vote of the shareholders. Because this system of electing and removing directors generally makes it more difficult for shareholders to replace a majority of the board of directors, it may discourage a third party from making a tender offer or otherwise attempting to gain control of Avenue A and may maintain the incumbency of the board of directors.

Approval for Certain Business Combinations. Upon closing of this offering, our articles will require that certain business combinations (including a merger, share exchange and the sale, lease, exchange, mortgage, pledge, transfer or other disposition or encumbrance of a substantial part of assets other

than in the usual and regular course of business) be approved by the holders of not less than two-thirds of the outstanding shares, unless such business combination has been approved by the board of directors, in which case the affirmative vote required shall be a majority of the outstanding shares.

Shareholder Meetings. Upon closing of this offering, our articles and bylaws will provide that our shareholders may call a special meeting only upon the written request of holders of at least 25% of the outstanding shares delivered to us at least 20 days prior to the date of the meeting. Additionally, the board of directors, the chairman of the board, the chief executive officer and the president may call special meetings of shareholders.

Requirements for Advance Notification of Shareholder Nominations and Proposals. Upon the closing of this offering, our bylaws will establish advance notice procedures with respect to shareholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee thereof.

Washington Law. Washington law imposes restrictions on some transactions between a corporation and significant shareholders. With some exceptions, Chapter 23B.19 of the Washington Business Corporation Act prohibits a "target corporation," from engaging in specified "significant business transactions" with an "acquiring person." An acquiring person is defined as a person or group of persons that beneficially owns 10% or more of the voting securities of the target corporation. "Significant business transactions," as defined in Chapter 23B.19, may not occur for a period of five years after the acquiring person acquires the securities, unless the transaction or acquisition of shares is approved by a majority of the members of the target corporation's board of directors prior to the time of acquisition. "Significant business transactions" include, among other things, . a merger or consolidation with, disposition of assets to, or issuance or redemption of stock to or from, the acquiring person;

. termination of 5% or more of the employees of the target corporation as a result of the acquiring person's acquisition of 10% or more of the shares; or . allowing the acquiring person to receive any disproportionate benefit as a shareholder.

After the five-year period, a "significant business transaction" may occur, as long as it complies with certain "fair price" provisions of the statute. A corporation may not "opt out" of this statute. This provision may have the effect of delaying, deterring or preventing a change in control of Avenue A.

Transfer Agent and Registrar The transfer agent and registrar for our common stock is ChaseMellon Shareholder Services, L.L.C.

Shares Eligible for Future Sale

Prior to this offering, there has been no market for Avenue A common stock. Future sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices. Furthermore, since only a limited number of shares will be available for sale shortly after this offering

because of contractual and legal restrictions on resale, sales of substantial amounts of our common stock in the public market after the restrictions lapse could adversely affect prevailing market prices and our ability to raise equity capital in the future.

Upon completion of this offering, we will have shares of common stock outstanding, assuming no exercise of options after January , 2000, the conversion of all shares of outstanding preferred stock into common stock and the exercise of an outstanding warrant. Of these shares, the shares sold in this offering, plus any shares issued upon exercise of the underwriters' over-allotment option, will be freely transferable without restriction or registration under the Securities Act, except for shares purchased by any of our existing "affiliates," which generally includes officers, directors or 10% shareholders, as that term is defined in Rule 144 under the Securities Act. The remaining shares of common stock held by existing shareholders outstanding are "restricted securities" within the meaning of Rule 144 under the Securities Act. These shares may be sold in the public market only if registered, or if they qualify for an exemption from registration under Rules 144, 144(k) or 701 promulgated under the Securities Act, which are summarized below.

Including our directors and officers, holders of a total of approximately shares of common stock (including shares issuable upon automatic conversion of the outstanding preferred stock and shares issuable upon exercise of an outstanding warrant) have entered into lock-up agreements generally providing that they will not, without the prior written consent of Morgan Stanley & Co. Incorporated, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock for a period of 180 days after the date of this prospectus. Avenue A has entered into a similar agreement with Morgan Stanley. See "Underwriters." As a result of these contractual restrictions, notwithstanding possible earlier eligibility for sale under the provisions of Rules 144, 144(k) and 701, shares subject to lock-up agreements will not be eligible for sale until these agreements expire or are waived by Morgan Stanley. Taking into account the lock-up agreements, and assuming Morgan Stanley does not release the parties from these agreements, the following shares will be eligible for sale in the public market at the following times:

. Beginning on the effective date of this offering, only the shares sold in this offering will be immediately available for sale in the public market.

. Beginning 180 days after the effective date of this offering, the expiration date of the lock-up agreements, approximately shares will be eligible for sale pursuant to Rules 144, 144(k) and 701.

. An additional shares will become eligible for sale pursuant to Rule 144 beginning approximately one year after the date of this prospectus. Shares eligible to be sold by affiliates pursuant to Rule 144 are subject to the volume restrictions as described below.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned restricted securities for at least one year is entitled to sell within any three-month period a number of shares that does not exceed the greater of: (1) one percent of our then outstanding shares of common stock (approximately shares immediately after this offering); or (2) the

average weekly trading volume of our common stock on the Nasdaq Stock Market during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC. Sales under Rule 144 also are subject to manner of sale provisions, notice requirements and the availability of current public information about us. Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, may sell such shares without complying with the manner of sale, public information, volume limitation, or notice provisions of Rule 144.

The holders of approximately 10,337,624 shares of common stock or their transferees are also entitled to various rights with respect to the registration of their shares of common stock for offer or sale to the public. If these holders, by exercising their registration rights, cause a large number of shares to be registered and freely transferable in the public market, the sales could have a material adverse effect on the market price of our common stock. See "Description of Capital Stock--Registration Rights."

Beginning 90 days after the effective date of this prospectus, subject to contractual restrictions, any of our employees, consultants or advisors who purchased shares from us prior to the closing of this offering pursuant to a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that persons other than affiliates may sell shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation, or notice provisions of Rule 144.

As of September 30, 1999, options to purchase 3,924,081 shares of common stock pursuant to our 1998 stock incentive compensation plan were outstanding and exercisable, and options to purchase 875,000 shares of common stock outside of our 1998 stock incentive compensation plan were outstanding and exercisable. Subject to shareholder approval, an additional 1,493,438 shares of common stock were available for future grants under the 1998 stock incentive compensation plan and, in November 1999, an additional 500,000 shares were reserved for issuances under that plan. In addition, we have reserved 1,000,000 shares of common stock for future issuance under our 1999 stock incentive compensation plan and 500,000 shares of common stock for future issuance under our 1999 employee stock purchase plan. No shares have been issued to date under this plan.

After the closing of this offering, we intend to file registration statements under the Securities Act to register shares to be issued pursuant to our stock plans. Such registration statements are expected to become effective immediately upon filing, and shares covered by such registration statements will then become eligible for sale in the public markets. As a result, shares issued pursuant to our 1998 stock incentive compensation plan, our 1999 stock incentive compensation plan and our 1999 employee stock purchase plan, after the effectiveness of such registration statements also will be freely transferable in the public market, subject to Rule 144 limitations applicable to affiliates, vesting restrictions and expiration of lock-up agreements.

Underwriters

Under the terms and subject to the conditions contained in the underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. Incorporated, Salomon Smith Barney Inc. and Thomas Weisel Partners LLC are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them the respective number of shares of common stock set forth opposite the names of the underwriters below:

Number of Name Shares Morgan Stanley & Co. Incorporated..... Salomon Smith Barney Inc..... Thomas Weisel Partners LLC.....
Total.....

The underwriters are offering the shares subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by us in this offering are subject to the approval of certain legal matters by their counsel and to other conditions.

The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus, other than those covered by the over- allotment option described below, if any of these shares are taken. Discover Brokerage Direct, Inc., an affiliate of Morgan Stanley & Co. Incorporated, is acting as a selected dealer in connection with this offering and will be a distributor of shares of common stock over the Internet to its eligible account holders.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price set forth on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $ per share under the public offering price. Any underwriters may allow, and any of these dealers may reallow, a concession not in excess of $ per share to other underwriters or to certain other dealers. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives of the underwriters.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of additional shares of common stock at the public offering price set forth on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with this offering of common stock. To the extent this over-allotment option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of additional shares of common stock as the number set forth next to that underwriter's name in the preceding table bears to the total number of shares of common stock set forth next to the names of all underwriters in the preceding table.

The following table summarizes the underwriting compensation that we will pay to the underwriters in connection with this offering:

Total Without With Per Share Over-allotment Over-allotment Underwriting discounts and commissions paid by us..... $ $ $ At our request, the underwriters have reserved up to shares of common stock to be issued by us and offered hereby for sale, at the initial public offering price, to employees, business associates and related persons of us. The number of shares of common stock available for sale to the general public will be reduced to the extent these individuals purchase such reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered by this prospectus.

Avenue A, our directors and officers, and certain other shareholders of Avenue A have each agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, during the period ending 180 days after the date of this prospectus, they will not:

. offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock, or . enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of common stock.

The restrictions described above do not apply to:

. the sale to the underwriters of the shares of common stock under the underwriting agreement;

. the issuance by Avenue A of shares of common stock upon exercise of any options or warrants or the conversion of any securities outstanding on the date of this prospectus which is described in this prospectus;

. transactions by any person other than Avenue A relating to shares of common stock or other securities acquired in open market transactions after the completion of this offering; or . issuances of shares of common stock or options to purchase shares of common stock pursuant to our employee benefit plans as in existence on the date of this prospectus.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed five percent of the total number of shares of common stock offered by them.

We have filed an application for our common stock to be quoted on the Nasdaq National Market under the symbol "AVEA."

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may over-allot in connection with this offering, creating a short position in the common stock for their own account. In addition, to cover over-allotments or to stabilize the price of the common stock, the underwriters may bid for, and purchase, shares of common stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in this offering if the syndicate repurchases previously distributed shares of common stock in transactions to cover syndicate short positions, in stabilization

transactions or otherwise. Any of these activities may stabilize or maintain the market price of the common stock above independent market levels. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We estimate that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $1,550,000.

We and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

Due to the fact that one of the representatives of the underwriters was organized within the last three years, we are providing you the following information. Thomas Weisel Partners LLC, one of the representatives of the underwriters, was organized and registered as a broker-dealer in December 1998. Since December 1998, Thomas Weisel Partners LLC has been named as a lead or co-manager of, or as a syndicate member in, numerous public offerings of equity securities. Thomas Weisel Partners LLC does not have any material relationship with us or any of our officers, directors or other controlling persons.

Pricing of the Offering Prior to this offering, there has been no public market for the shares of common stock. The initial public offering price will be determined by negotiations between us and the representatives. Among the factors to be considered in determining the initial public offering price are:

. our future prospects and those of our industry in general;

. our sales, earnings and certain other financial and operating information in recent periods; and . the price-earnings ratios, price-sales ratios, market prices of securities and financial and operating information of companies engaged in activities similar to ours.

Legal Matters

Certain legal matters will be passed on for Avenue A, Inc. by Perkins Coie LLP, Seattle, Washington. The underwriters are being represented by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Kirkland, Washington.

Experts

The consolidated financial statements and schedules of Avenue A, Inc. and its subsidiaries included in this prospectus and elsewhere in the registration statement, to the extent and for the periods indicated in their reports, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of Arthur Andersen LLP as experts in accounting and auditing in giving said reports.

Where You Can Find More Information

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered in this prospectus. This prospectus, which forms a part of the registration statement, does not contain all of the information included in the registration statement. Certain information is omitted and you should refer to the registration statement and its exhibits. With respect to references made in this prospectus to any contract or other document of Avenue A, such references are not necessarily complete and you should refer to the exhibits attached to the registration statement for copies of the actual contract or document. You may review a copy of the registration statement, including exhibits and the schedule filed therewith, at the SEC's public reference facilities in Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the SEC located at 7 World Trade Center, Suite 1300, New York, New York 10048, and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also obtain copies of such materials from the Public Reference Room of the SEC, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a Web site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants, such as Avenue A, that file electronically with the SEC.

Avenue A, Inc.

Index to Financial Statements

AVENUE A, INC. Report of Independent Public Accountants..... F-2 Consolidated Balance Sheets..... F-3 Consolidated Statements of Operations..... F-4 Consolidated Statements of Stockholders' Equity (Deficit)..... F-5 Consolidated Statements of Cash Flows..... F-6 Notes to Consolidated Financial Statements..... F-7 I-BALLS L.L.C. Report of Independent Public Accountants..... F-18 Balance Sheets..... F-19 Statements of Operations..... F-20 Statements of Members' Equity..... F-21 Statements of Cash Flows..... F-22 Notes to Financial Statements..... F-23 Unaudited Pro Forma Combined Financial Statements of Avenue A, Inc. and I-Balls L.L.C. F-26

Report of Independent Public Accountants

To the Board of Directors and Stockholders of Avenue A, Inc.:

We have audited the accompanying consolidated balance sheets of Avenue A, Inc. and subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the period from inception (July 1, 1997) to December 31, 1997 and

for the year ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Avenue A, Inc. and subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for the period from inception to December 31, 1997 and for the year ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen Llp

Seattle, Washington, December 7, 1999

Avenue A, Inc.

CONSOLIDATED BALANCE SHEETS (in thousands except share and per share amounts)

December 31,			Pro Forma Stockholders' Equity at
1997	1998	September 30, 1999 (unaudited)	September 30, 1999 (unaudited)

Assets Current assets: Cash and cash equivalents..... $ 3 $ 847 $ 6,292 Short-term investments..... -- -- 11,539 Accounts receivable, net of allowance of $1, $70 and $752 in 1997, 1998 and 1999, respectively..... 8 1,545 18,353 Other receivable..... -- -- 180 Prepaid expenses and other current assets..... 10 9 245 Total current assets..... 21 2,401 36,609 Property and equipment, net..... 50 1,027 3,582 Goodwill, net..... -- -- 5,691 Other assets..... 4 13 41 Total assets..... $ 75 $ 3,441 $ 45,923 Liabilities and Stockholders' Equity (Deficit) Current liabilities: Accounts payable..... $ 5 $ 2,078 $ 21,686 Accrued expenses..... 19 187 716 Due to affiliates..... 335 75 1 Deferred revenue..... -- 91 1,255 Total current liabilities..... 359 2,431 23,658 Commitments and contingencies (Note 7) Stockholders' equity (deficit): Convertible preferred stock, $0.01 par value, aggregate liquidation preferences of $25,293 at September 30,1999 Authorized 17,500,000 Outstanding 3,998,474 and 16,416,098 at December 31,1998 and September 30, 1999..... -- 40 164 $ -- Common stock, $0.01 par value Authorized 50,000,000 Outstanding 12,039,800 and 15,887,992 at December 31,1998 and September 30, 1999;

32,304,090 shares outstanding pro forma..... -- 121 159 323 Paid-in-capital..... -- 4,216 47,586 47,586 Deferred stock compensation..... -- -- (16,062) (16,062) Subscriptions receivable..... -- -- (965) (965) Accumulated deficit prior to incorporation..... (284) -- -- -- Accumulated deficit..... -- (3,367) (8,617) (8,617) Total stockholders' equity (deficit)..... (284) 1,010 22,265 $ 22,265 Total liabilities and stockholders' equity..... $ 75 $ 3,441 $ 45,923 The accompanying notes are an integral part of these consolidated balance sheets.

Avenue A, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands except share and per share amounts)

	Period from Inception (July 1, 1997) to December 31, 1997	Year Ended December 31, 1998	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1999
			(unaudited)	
Revenue:				
Advertising services..	$ --	$ --	$ --	$ 33,425
Advertising service fees.....	18	599	276	673
Total revenue.....	18	599	276	34,098

Expenses: Cost of advertising services..... 20 125 93 28,007 Client services..... 19 382 117 2,585 Technology and operations..... -- 1,493 973 1,796 Selling, general and administrative..... 263 2,257 1,189 6,435 Amortization of deferred stock compensation..... -- -- -- 860 Total expenses..... 302 4,257 2,372 39,683 Loss from operations.... (284) (3,658) (2,096) (5,585) Interest income (expense)..... -- 12 (10) 335 Loss before provision for income taxes..... (284) (3,646) (2,106) (5,250) Provision for income taxes..... -- -- -- -- Net loss..... $ (284) $ (3,646) $ (2,106) $ (5,250) Basic and diluted net loss per share..... $ -- $ (.50) $ (.37) $ (.42) Shares used in computing basic and diluted net loss per share..... -- 7,240,455 5,632,664 12,394,634 Pro forma basic and diluted net loss per share..... $ -- $ (.41) $ (.32) $ (.22) Shares used in computing pro forma basic and diluted net loss per share..... -- 8,924,992 6,535,418 23,832,031 The accompanying notes are an integral part of these consolidated financial statements.

Avenue A, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (in thousands, except share data)

	Convertible Preferred Stock		Common Stock		Paid-In Capital	Deferred Stock Compensation	Subscriptions Receivable	Accumulated Deficit Prior to Incorporation	Accumulated Deficit
	Shares	Amount	Shares	Amount					

BALANCES, July 1, 1997..... -- $ -- -- $ -- $ -- $ -- $ -- $ -- $ -- Net loss..... -- -- -- -- -- -- -- (284) -- BALANCES, December 31, 1997..... -- -- -- -- -- -- -- (284) -- Net loss prior to incorporation on February 27, 1998..... -- -- -- -- -- -- -- (279) -- Issuance of common stock to affiliates for cash, conversion of payable and satisfaction of payable..... -- -- 12,000,000 121 916 -- -- 563 -- Exercise of common stock options..... -- -- 39,800 -- 4 -- -- -- -- Issuance of convertible preferred stock and issuance of common stock warrants for cash, net of offering costs of approximately $165..... 3,998,474 40 -- -- 3,271 -- -- -- -- Compensation expense associated with stock option grants..... -- -- -- -- 25 -- -- -- -- Net loss from February 27, 1998 to December 31, 1998..... -- -- -- -- -- -- -- -- (3,367) BALANCES, December 31, 1998..... 3,998,474 40 12,039,800 121 4,216 -- -- -- (3,367) Issuance of preferred stock, net of offering costs of approximately $95..... 12,417,624 124 -- -- 21,755 -- -- -- -- Deferred stock compensation related to stock options..... -- -- -- -- 16,922 (16,922) -- -- -- Amortization of deferred stock compensation.... -- -- -- -- -- 860 -- -- -- Issuance of common stock in connection with the I-Balls acquisition..... -- -- 500,000 5 2,495 -- -- -- -- Issuance of common stock.... -- -- 55,511 1 319 -- -- -- -- Exercise of common stock options..... -- -- 3,292,681 32 1,879 -- (965) -- -- Net loss..... -- -- -- -- -- -- -- -- (5,250) BALANCES, September 30, 1999 (unaudited)..... 16,416,098 $ 164 15,887,992 $ 159 $47,586 $(16,062) $(965) $ -- $(8,617) Total Stockholders' Equity (Deficit) BALANCES, July 1, 1997..... $ -- Net loss..... (284) BALANCES, December 31, 1997..... (284) Net loss prior to incorporation on February 27, 1998..... (279) Issuance of common stock to affiliates for cash, conversion of payable and satisfaction of payable..... 1,600 Exercise of common stock options..... 4 Issuance of convertible preferred stock and issuance of common stock warrants for cash, net of offering costs of approximately $165..... 3,311 Compensation expense associated with stock option grants..... 25 Net loss from February 27, 1998 to December 31, 1998..... (3,367) BALANCES, December 31, 1998..... 1,010 Issuance of preferred stock, net of offering costs of approximately $95..... 21,879 Deferred stock compensation related to stock options..... -- Amortization of deferred stock compensation.... 860 Issuance of common stock in connection with the I-Balls acquisition..... 2,500 Issuance of common stock.... 320 Exercise of common stock options..... 946 Net loss..... (5,250) BALANCES, September 30, 1999 (unaudited)..... $22,265 The accompanying notes are an integral part of these consolidated financial statements.

Avenue A, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

Period from Inception (July 1, 1997) to December 31, 1997	Year Ended December 31, 1998	Nine Months Ended September 30,	
		1998	1999
		(Unaudited)	

Cash flows from operating activities: Net loss..... $(284) $(3,646) $(2,106) $ (5,250) Adjustments to reconcile net loss to net cash used in operating activities-- Depreciation and amortization..... 2 155 68 649 Amortization of deferred compensation..... -- -- -- 860 Non

cash compensation expense..... -- 25 25 320 Changes in assets and liabilities, net of acquisition: Accounts receivable..... (8) (1,537) (860) (15,426) Other receivables and other current assets..... (10) 1 -- (415) Other assets..... (4) (9) (9) 9 Accounts payable..... 5 2,073 971 17,752 Accrued expenses..... 19 168 (9) 390 Deferred revenue..... -- 91 85 1,118 Net cash (used in) provided by operating activities..... (280) (2,679) (1,835) 7 Cash flows from investing activities: Purchases of property and equipment..... (52) (1,132) (721) (3,002) Purchase of I-Balls, LLC..... -- -- -- (3,584) Cash acquired in I-Balls acquisition..... -- -- -- 812 Net cash used in investing activities..... (52) (1,132) (721) (5,774) Cash flows from financing activities: Proceeds from issuance of common stock, net..... -- 1,471 1,471 -- Proceeds from issuance of convertible preferred stock... -- 3,311 3,311 21,879 Proceeds from the exercise of common stock options..... -- 4 1 946 Advances from (payments to) affiliate, net..... 335 (131) 28 (74) Net cash provided by financing activities..... 335 4,655 4,811 22,751 Net increase in cash and cash equivalents..... 3 844 2,255 16,984 Cash and cash equivalents, beginning of period..... -- 3 3 847 Cash and cash equivalents, end of period..... $ 3 $ 847 $ 2,258 $ 17,831 Supplemental disclosure of noncash activities: Affiliate payable converted to common stock..... $ -- $ 139 $ 139 $ -- Conversion of accumulated deficit prior to incorporation to contributed capital..... $ -- $ (563) $ (563) $ -- Common stock issued in I-Balls acquisition..... $ -- $ -- $ -- $ 2,500 Subscriptions receivable..... $ -- $ -- $ -- $ 965 Deferred stock compensation.... $ -- $ -- $ -- $ 16,922 The accompanying notes are an integral part of these consolidated financial statements.

Avenue A, Inc.

Notes to Consolidated Financial Statements

DECEMBER 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) 1. Organization and Operations of the Company Avenue A, Inc. (the Company) is an Internet advertising services company that was founded on July 1, 1997. During the early stages of the Company, Pacific Coast Feather Company (PCF) provided loans to fund operations and provided certain accounting services. As of September 30, 1999, all of the loans were either repaid or converted to common stock in the Company and all services provided by PCF were paid for. On February 27, 1998, the Company was incorporated.

On September 2, 1999, the Company completed the acquisition of I-Balls LLC (I-Balls) a full service interactive media planner and buyer. The acquisition was recorded under the purchase method of accounting and, therefore, the results of operations of I-Balls and the fair value of the acquired assets and liabilities were included in the Company's consolidated financial statements beginning on the acquisition date (Note 3).

The Company is subject to a number of risks similar to other companies in a comparable stage of development including reliance on key personnel, competition from other companies with greater financial, technical and marketing resources, and the risk relating to the ability to secure adequate

financing.

2. Summary of Significant Accounting Policies Principles of Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

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

Unaudited Interim Financial Data The unaudited interim financial statements as of September 30, 1999 and for the nine months ended September 30, 1998 and 1999, have been prepared on the same basis as the audited financial statements and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial information set forth therein, in accordance with generally accepted accounting principles. The Company believes that the results of operations for the nine months ended September 30, 1999 are not necessarily indicative of the results to be expected for any future period.

Cash and Cash Equivalents Cash and cash equivalents include demand deposits, money market accounts and all highly liquid debt instruments with an original maturity date of three months or less.

Avenue A, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) DECEMBER 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) Short-Term Investments The Company's short-term investments consist primarily of investment-grade marketable securities, which are classified as available for sale and recorded at fair value.

At December 31, 1998, all short-term investments had a contractual maturity of one year or less.

Financial Instruments and Concentrations of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. Fair values of cash and cash equivalents and short-term investments approximate cost due to the short period of time to maturity. The fair values of financial instruments that are short-term and/or that have little or no market risk are considered to have a fair value equal to book value. Assets and liabilities that are included in this category are accounts receivable and accounts payable.

The Company performs initial and ongoing evaluations of its customers' financial position, and generally extends credit on open account, requiring collateral as deemed necessary. The Company maintains allowances for potential credit losses.

Property and Equipment Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, of three to five years. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful lives of the improvements using the straight-line method.

Subscriptions Receivable In conjunction with the exercise of certain stock options by several executives of the Company, the Company received full recourse promissory notes in the amount of approximately $965. The notes are due on demand and bear interest at a rate equal to the greater of the applicable federal rate for a demand note or the lowest rate allowable by the Internal Revenue Code of 1986.

Revenue Recognition

Revenue consists of both advertising services revenue and advertising service fee revenue. Advertising services revenue consists of the gross value of the Company's billings to the Company's clients, which includes the price of the advertising space that the Company purchases from Web sites to resell to its clients. Under advertising services contracts, the Company purchases advertising space from publisher Web sites and sells the purchased space to the Company's clients. Under advertising services arrangements, the Company is ultimately responsible for payment to Web sites for the cost of space the Company purchases. Advertising service fees revenue consists of commissions earned on services the Company provides to its clients. To generate revenue from advertising service fees, the Company buys advertising space from publisher Web sites on behalf of its clients and earns fees based on the dollar amount of advertising space the Company purchases. Under the advertising service fee arrangements, the Company's clients are ultimately responsible for payment to the publisher Web sites for the cost of the advertising space purchased. Revenue under both advertising services and advertising service fees is recognized over the period that the related advertising is delivered.

Avenue A, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) DECEMBER 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) Revenue is deferred in cases where the Company has not yet earned advertising revenue due to billing the customer or receiving payment from the customer prior to providing the services.

The percentage of sales to significant customers is as follows:

	December 31,		Nine months ended September 30,
	1997	1998	1999
Customer A	*	*	19%
Customer B	*	*	18%
Customer C	*	*	13%
Customer D	*	19%	*
Customer E	*	17%	*
Customer F	*	14%	*
Customer G	*	10%	*
Customer H	100%	*	*

* Less than 10%

Computation of Basic Net Loss Per Share and Pro Forma Basic Net Loss Per Share Historical net loss per share has been calculated under Statement of Financial Accounting Standards No. 128 "Earnings per Share." Basic net loss per share on a historical basis is computed using the weighted average number of shares of common stock outstanding. No diluted loss per share information has been presented in the accompanying consolidated statements of operations since potential common shares from conversion of preferred stock, stock options, and warrants are antidilutive.

Pro forma basic net loss per share has been calculated assuming the conversion of preferred stock into an equivalent number of common shares, as if the shares had converted on the dates of their issuance.

Income Taxes

The Company recognizes deferred income tax assets and liabilities for the expected future income tax consequences of temporary differences between the financial reporting and tax bases of assets, liabilities and tax carryforwards. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized (see Note 5).

Costs of Advertising Services, Costs of Advertising Service Fees, Client Services, and Technology and Operations Cost of advertising services consist of the costs of advertising space that the Company purchases from publisher's Web sites and the costs of delivering the advertisements over the Internet.

Cost of advertising service fees revenue consists only of the costs of delivering advertisements over the Internet.

Client services expenses consist primarily of salaries and related expenses for client service personnel. Also included in client services costs are the salaries and related expenses of personnel in the Company's data analysis group.

Avenue A, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) DECEMBER 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) Technology and operations expenses consist of salaries and related costs for information technology and software development personnel. In addition, these expenses include the cost of housing the Company's ad serving equipment at third-party co-location facilities.

Stock-Based Compensation The Company has elected to apply the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock- Based Compensation" (SFAS 123). In accordance with the provisions of SFAS 123, the Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations in accounting for its stock option plan.

Unaudited Pro Forma Stockholders' Equity If the offering contemplated by this prospectus is consummated, all of the preferred stock outstanding as of the closing date will automatically be converted into shares of common stock. Unaudited pro forma stockholders' equity at September 30, 1999, as adjusted for the conversion of preferred stock, is presented in the accompanying consolidated balance sheet.

Comprehensive Income

In 1999, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income (SFAS 130)." SFAS 130 requires companies to report a new, additional measure of income on the income statement or to create a new financial statement that shows the new measure of income. Comprehensive income includes foreign currency translation gains and losses and unrealized gains and losses on equity securities that have been previously excluded from net income and reflected instead in equity. SFAS 130 did not have a material impact on the Company's results of operations.

Segment Reporting

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 changes the way companies report selected segment information in annual financial statements and requires companies to report selected segment information in interim financial reports to stockholders. SFAS 131 is effective for Avenue A's year ending December 31, 1999. Avenue A operates solely in one segment, providing Internet advertising services. As of December 31, 1997 and 1998, and September 30, 1999, the Company's assets are located solely in the United States. The Company has no sales to international customers and therefore the Company has no international revenue.

Recent Accounting Pronouncements In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 (SOP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 was effective for financial statements for years beginning after December 15, 1998. SOP 98-1 provides guidance over accounting for computer software developed or obtained for internal use including the requirement to capitalize specific costs and amortization of such costs. The Company implemented SOP 98- 1 and capitalized approximately $242 of internally developed software costs. Accumulated depreciation related to the capitalized costs was approximately $37 at September 30, 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) DECEMBER 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-Up Activities." SOP 98-5, which is effective for fiscal years beginning after December 15, 1998, provides guidance on the financial reporting of

start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. The implementation of SOP 98-5 did not have a material impact on the Company's financial position or results of operations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. Acquisitions

Effective September 2, 1999, the Company acquired I-Balls. I-Balls is a New York based, full service interactive media planning and buying company. In connection with the acquisition, the Company issued 500,000 shares of common stock and paid $3.5 million in cash in exchange for all of the outstanding members' equity. The deemed fair value of the common stock issued in the acquisition, for accounting purposes, was approximately $2.5 million. The Company also incurred $84 in acquisition costs, for a total purchase price of $6,084. At the date of closing, $500 of the cash payment was deposited in an escrow account. The acquisition was accounted for as a purchase and, accordingly, the results of operations of I-Balls have been included in the consolidated financial statements commencing on the date of acquisition. The excess purchase price of approximately $5,854 was allocated to goodwill, which is being amortized on a straight-line basis over a useful life of three years. Accumulated amortization was approximately $163 at September 30, 1999.

In connection with the acquisition, net assets acquired were as follows:

Cash, receivables and other current assets..... $2,194 Property and equipment, and other noncurrent assets..... 74 Current liabilities..... (2,039) $ 229 The following table presents the unaudited pro forma results assuming that the Company had acquired I-Balls at the beginning of fiscal year 1998. This information may not necessarily be indicative of the future combined results of operations of the Company.

	Year Ended December 31, 1998	Nine Months Ended September 30, 1999
Total revenue.....	$ 1,607	$35,600
Net loss.....	$(5,244)	$(5,815)
Basic net loss per share.....	$ (.68)	$ (.45)

Avenue A, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) December 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) 4. Property and Equipment December 31, ---------- September 30, 1997 1998 1999

Computer equipment.....	$ 39	$ 1,161	$3,425
Furniture and fixtures.....	13	23	287
Software costs.....	--	--	242
Leasehold improvements.....	--	--	269
	52	1,184	4,223
Less: Accumulated depreciation and			

amortization.....	(2)	(157)	(641)
	$ 50	$ 1,027	$3,582

5. Federal Income Taxes The Company did not provide any current or deferred United States federal or state income tax provision or benefit for any of the periods presented because it has experienced operating losses since inception, and has provided full valuation allowances on deferred tax assets because of uncertainty regarding their realizability.

The difference between the statutory federal tax rate of 34% and the tax provision of zero recorded by the Company is primarily due to the Company's full valuation allowance against its deferred tax assets.

At September 30, 1999, the Company had net operating loss carryforwards of approximately $7.7 million related to U.S federal and state jurisdictions. Utilization of net operating loss carryforwards are subject to certain limitations under Section 382 of the Internal Revenue Code of 1986, as amended, as a result of the Series C Preferred financing transaction. The Company's use of reporting losses is limited to approximately $1.8 million per year on net operating losses incurred prior to May 1999. These carryforwards will begin to expire at various times commencing in 2018.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes were as follows:

	Year Ended December 31, 1998	Nine Months Ended September 30, 1999
Net operating loss carryforwards.....	$ 1,032	$ 2,617
Other.....	46	296
Total deferred assets...	1,078	2,913
Deferred tax liabilities property and equipment.....	(30)	(156)
Valuation allowance for deferred tax assets....	(1,048)	(2,757)
Net deferred taxes.....	$ --	$ --

Avenue A, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) December 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) 6. Stockholders' Equity Convertible Preferred Stock As of September 30, 1999, the Company was authorized to issue 17.5 million shares of preferred stock. Shares of preferred stock may be issued from time to time in one or more series, with designations, rights, preferences and limitations established by the Company's Board of Directors.

As of September 30, 1999, the Company had designated three series of convertible preferred stock (Series A through C).

The rights and privileges of the Preferred Stock are as follows:

Dividends--Holders of Series A, B and C are entitled to receive dividends of $0.05, $0.05 and $0.10, respectively, per share per annum, when and if declared by the Board of Directors. Such dividends are not cumulative. As of September 30, 1999, no dividends have been declared.

Conversion--Each share of Series A and B is convertible, at the option of the holders or upon the vote of two-thirds of the Series A and B stockholders, respectively, into one share of common stock. Each share of Series C is convertible at the option of the shareholders into one share of common stock. Each share of Series A and B automatically converts into common stock upon the closing of a public offering that meets certain conditions. Each share of Series C automatically converts into common stock upon the closing of a public offering with an aggregate offering price of not less than $20 million (the "Proceeds Target"). In the event the Company closes a public offering which meets the Proceeds Target but is at a per share price to the public which is less than $3.88, each share of Series C preferred stock shall, upon the closing of such offering, be converted into the number of shares of common stock which equals $3.88 divided by the per share price to the public in such offering.

Liquidation Preferences--The Series A, B and C shares have liquidation preferences of $.83, $1.12 and $1.94 per share, respectively, plus all declared but unpaid dividends.

If the value of the Company on liquidation is insufficient to pay the entire preferential amount, distribution shall be made pro rata to all preferred shareholders in proportion to the preferential amount the preferred shareholder is otherwise entitled to receive.

Any assets remaining after the preferential distribution will be paid to holders of common stock in proportion to shares held by each.

Voting Rights--The holders of each share of Series A, B and C shall be entitled to the number of votes equal to the number of shares of common stock into which such shares could be converted, and have voting rights equal to holders of common stock.

Stock Option Plan

As of September 30, 1999, the Company has reserved 8.75 million shares of common stock for issuance under its 1998 Stock Incentive Compensation Plan (the Plan) to employees and consultants of the Company. Under the Plan, either incentive or nonqualified options to purchase the Company's common stock may be granted to full-time employees and consultants at prices determined by the Board of Directors. Options granted under the Plan are exercisable at such times and under such conditions as determined by the Board of Directors,

Avenue A, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) December 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) but the term of the options and the right of exercise may not exceed 10 years from the date of grant. The stock options typically vest 20% in the first year and ratably over the following twelve quarters. The Plan permits the exercise of unvested options. Unvested common stock purchased under

the Plan may be subject to repurchase by the Company at the option exercise price in the event of termination of employment. At September 30, 1999, 1,931,304 of the shares acquired under the Plan were subject to the Company's repurchase rights. The Company accounts for the Plan under APB 25 for which approximately $25 and $320 has been recognized as compensation expense for the issuance of non- qualified stock options for the year ending December 31, 1998 and for the nine months ended September 30, 1999, respectively. Had compensation expense for the Plan been determined consistent with SFAS 123, the Company's net loss would have been increased as follows:

December 31, ---------- September 30, 1997 1998 1999

Net Loss:			
As reported	$(284)	$(3,646)	$(5,250)
Pro forma	$ --	$(3,649)	$(5,275)
Basic and Diluted Net Loss Per Share:			
As reported	$ --	$ (.50)	$ (.42)
Pro forma	$ --	$ (.50)	$ (.43)

To determine compensation expense under SFAS 123, the Company used the following assumptions:

December 31, September 30, 1998 1999

. Weighted average risk-free interest rate	5.26	5.69
. Expected lives	1 year	1-4 years
. Expected dividend yields	--	--
. Expected volatility	--	--

Option activity under the Plan was as follows:

	Options Available for Grant	Options Outstanding	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Balances, December 31, 1997	--	--	--	
Authorized	3,500,000	--	--	
Granted	(3,183,050)	3,183,050	$ .21	$ .05
Exercised	--	(39,800)	.11	
Cancelled	24,000	(24,000)	.20	
Balances, December 31, 1998	340,950	3,119,250	$ .21	
Authorized	5,250,000			
Granted	(4,256,050)	4,256,050	$2.10	$2.10
Exercised	--	(3,292,681)	.58	
Cancelled	158,538	(158,538)	.62	
Balances, September 30, 1999	1,493,438	3,924,081	$1.94	

Avenue A, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) December 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) The following information is provided for options outstanding and exercisable at September 30, 1999:

Outstanding			Exercisable	
	Weighted Average Remaining			

Exercise Price	Number of Options	Contractual Life (Years)	Number of Options
$ .10	507,116	8.73	507,116
.50	343,054	9.01	343,054
.78	396,060	9.41	396,060
1.55	180,140	9.72	180,140
1.90	1,522,211	9.93	1,522,211
4.00	975,500	7.76	975,500

The options outstanding at September 30, 1999 have a weighted average remaining contractual life of approximately 9.11 years. 1,382,666 of these options are fully vested and 3,924,081 are exercisable as of September 30, 1999 with exercise prices ranging from $.10 to $4.00. In addition to the shares noted above, the Company has granted 875,000 options outside of the Plan at exercise prices ranging from $1.90 to $2.50 to employees of I-Balls. Additionally, on November 16, 1999, the Board of Directors authorized an additional 500,000 shares of common stock for issuance under the Plan.

On November 16, 1999, the Board of Directors approved the adoption of the Company's 1999 Stock Incentive Compensation Plan (the 1999 Plan), subject to stockholder approval. The Company has reserved 1.0 million shares of common stock for issuance under the 1999 Plan. No issuances have been made under the 1999 Plan as of November 30, 1999. The shares under the 1999 Plan will increase annually on the first day of the Company's fiscal year beginning in 2001 by an amount equal to the lessor of (i) 3.0 million shares, (ii) 5% of the adjusted average common shares outstanding of the Company used to calculate fully diluted earnings per share for the preceding year or (iii) a lesser amount determined by the Board of Directors. Any shares not yet issued under the Company's 1998 Stock Incentive Compensation Plan as of the date of the Company's proposed initial public offering, as well as shares subject to options under the 1998 Plan that expire or are cancelled without being exercised, will be available for grant under the 1999 Plan. The exercise price for incentive stock options may not be less than 100% of the fair value of the Company's common stock on the date of grant (85% for nonstatutory options). The 1999 Plan terms and conditions are substantially the same as the 1998 Stock Incentive Compensation Plan.

Employee Stock Purchase Plan On November 16, 1999, the Board of Directors approved the adoption of the Company's 1999 Employee Stock Purchase Plan (the 1999 Purchase Plan), subject to shareholder approval. A total of 500,000 shares of common stock has been reserved for issuance under the 1999 Purchase Plan. The shares under the 1999 Purchase Plan will increase annually on the first day of the Company's fiscal year beginning in 2001 equal to the lessor of (i) 750,000 shares of common stock, (ii) 2% of the adjusted average common shares outstanding of the Company used to calculate fully diluted earnings per share for the preceding year or (iii) a lesser amount determined by the Board of Directors. The 1999 Purchase Plan permits eligible employees to acquire shares of the Company's common stock through periodic payroll deductions of up to 20% of base cash compensation. Each offering period will have a maximum duration of 12 months. The price at which the common stock may be purchased is 85% of the lesser of the fair market value of the Company's common stock on the first day of the applicable offering

Avenue A, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) December 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) period or on the last day of the respective purchase period. The initial offering period will commence on the effectiveness of the initial public offering and will end on January 31, 2001.

Deferred Stock Compensation In connection with the grant of certain stock options to employees and consultants during the nine months ended September 30, 1999, the Company recorded deferred stock compensation of approximately $16.9 million representing the difference between the deemed fair value of the common stock for accounting purposes and the option exercise price of such options at the date of grant. Such amount is presented as a reduction of shareholders' equity and amortized, in accordance with Financial Accounting Standards Board Interpretation No. 28, on an accelerated basis over the vesting period of the applicable options (generally 4 years). During the nine months ended September 30, 1999, the Company amortized approximately $860. Compensation expense is decreased in the period of forfeiture for any accrued but unvested compensation arising from the early termination of an option holder's services.

Warrant

In connection with the sale of Series A preferred stock, the Company issued a warrant to purchase 451,807 shares of common stock at an exercise price of $.83 per share. The warrant had a grant date fair value of $.35 per share and expires in August 2003. To determine the grant date fair value, the Company used a risk free interest rate of 5.6%, expected life of five years, expected dividend yields of 0%, and expected volatility of 105%. The Company expensed $157 during the year ended December 31, 1998 related to the warrant.

Reserved for Future Issuance The following shares of common stock have been reserved for future issuance as of September 30, 1999:

Employee stock options	1,493,438
Stock options issued outside of the Plan	875,000
Convertible Preferred Stock	16,416,098
Warrants	451,807
	19,236,343

7. Commitments and Contingencies Operating Leases The Company has various operating leases, including building and equipment, that expire at various times through 2004. Future minimum lease payments as of September 30, 1999 are as follows:

1999 (3 months)	$ 334	2000	1,456		
2001	1,383	2002	1,180		
2003	1,195	2004	915	$6,463	

Avenue A, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) December 31, 1998 (in thousands except share and per share data) (Information as of September 30, 1998 and 1999 is unaudited) Rent expense under operating leases totaled approximately $0, $182 and $229 for the year ended December 31, 1997 and 1998 and for the nine month period ended September 30, 1999, respectively.

The above future minimum lease payments include a commitment of approximately $21 per month expiring on June 30, 2001, which has been subleased at a loss. The loss of approximately $54 has been recognized in the statement of operations.

The Company has multiple agreements with third-parties to house the Company's ad serving equipment. One of the agreements is on a month-to-month basis and the other agreement is on year-to-year basis. As of nine months ended September 30, 1999, total expense under these agreements approximated $81.

8. Related Party Transactions:

Prior to incorporation on February 27, 1998, the Company relied on non- interest bearing loans from PCF to fund operations. During 1998, PCF converted approximately $139 of the debt to 947,900 shares of the Company's common stock. Subsequent to year-end, the Company repaid all loans to PCF. The accompanying statement of operations includes allocations from PCF for certain accounting services. These allocations totaled approximately $32 and $1 in 1997 and 1998, respectively, and were based on estimates of time and effort spent by PCF personnel on behalf of the Company. Additionally, PCF paid the Company approximately $36 and $33 during 1998 and 1999, respectively, for advertising services. At December 31, 1997 and 1998, amounts due to PCF were approximately $335 and $75, respectively.

Report of Independent Public Accountants

To the Members of I-Balls L.L.C.:

We have audited the accompanying balance sheets of I-Balls L.L.C. as of December 31, 1997 and 1998, and the related statements of operations, members' equity and cash flows for the period January 28, 1997 to December 31, 1997 and the year ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing

the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of I-Balls L.L.C. as of December 31, 1997 and 1998, and the results of its operations and its cash flows for the period January 28, 1997 to December 31, 1997 and the year ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen Llp

New York, New York October 29, 1999 I-BALLS L.L.C. (a limited liability company)

Balance Sheets

December 31, ---------- September 2, 1997 1998 1999 (Unaudited)

Assets			
Current Assets:			
Cash and cash equivalents	$ 49,730	$ 494,505	$ 811,610
Accounts receivable, net of allowance for doubtful accounts of $4,100, $59,900 and $123,600, respectively	438,395	992,172	1,151,264
Unbilled receivables	--	181,572	230,087
Prepaids and other current assets	4,070	8,054	1,000
Total current assets	492,195	1,676,303	2,193,961
Equipment and leasehold improvements, net	14,607	16,958	36,672
Other assets	6,208	6,167	37,500
Total assets	$513,010	$1,699,428	$2,268,133
Liabilities and Members' Equity			
Current liabilities:			
Accounts payable and accrued expenses	$412,098	$1,276,354	$1,886,149
Capital lease obligation current portion	6,365	9,436	9,136
Employee loan	38,345	--	--
Deferred revenue	38,228	54,992	137,723
Total current liabilities	495,036	1,340,782	2,033,008
Long-term debt:			
Capital lease obligation long-term portion	7,997	1,715	5,625
Commitments and contingencies (Note 5)			
Members' equity:			
Members' interest	1,000	1,000	1,000
Retained earnings	8,977	355,931	228,500
Total members' equity	9,977	356,931	229,500
Total liabilities and members' equity	$513,010	$1,699,428	$2,268,133

See accompanying notes are an integral part of these balance sheets.

I-BALLS L.L.C. (a limited liability company)

Statements of Operations

	For the Periods Ended		
	January 28,	Year	January 1

	Through December 31, 1997	Ended December 31, 1998	Through September 2, 1999 (Unaudited)
Advertising service fees.....	$115,854	$1,008,022	$1,501,943
Expenses:			
Sales and marketing.....	66,687	409,100	581,586
General and administrative.....	40,190	256,137	162,575
Total expenses.....	106,877	665,237	744,161
Income from operations.....	8,977	342,785	757,782
Interest income.....	--	10,435	19,693
Income taxes.....	--	--	35,062
Net income.....	$ 8,977	$ 353,220	$ 742,413

The accompanying notes are an integral part of these statements.

I-BALLS L.L.C. (a limited liability company)

Statements of Members' Equity

Total Members' Retained Members' Interest Earnings Equity

Initial Capital Contribution, January 28, 1997....	$1,000	$ --	$ 1,000
Net income.....	--	8,977	8,977
Balance, December 31, 1997.....	1,000	8,977	9,977
Distributions.....	--	(6,266)	(6,266)
Net income.....	--	353,220	353,220
Balance, December 31, 1998.....	1,000	355,931	356,931
Distributions (unaudited).....	--	869,844	869,844
Net income (unaudited).....	--	742,413	742,413
Balance, September 2, 1999 (unaudited).....	$1,000	$228,500	$229,500

The accompanying notes are an integral part of these statements.

I-BALLS L.L.C. (a limited liability company)

Statements of Cash Flows

	January 28, Through December 31, 1997	Year Ended December 31, 1998	January 1, Through September 2, 1999 (Unaudited)

Cash flows from operating activities: Net income..... $ 8,977 $ 353,220 $ 742,413 Adjustments to reconcile net income to net cash provided by operating activities- Depreciation..... 3,652 6,979 6,720 Amortization of intangible assets.... 292 541 1,667 Changes in assets and liabilities- Accounts receivable..... (438,395) (553,777) (159,092) Unbilled receivables..... -- (181,572) (48,515) Prepaid expenses and other current assets..... (2,070) (4,984) 8,054 Other assets..... (6,500) (500) (33,000) Accounts payable and accrued expenses... 412,098 864,256 609,795 Deferred revenue.... 38,228 16,764 82,731 Net cash provided by operating activities... 16,282 500,927 1,210,773 Cash flows from investing activities: Capital expenditures.... -- (2,572) (22,824) Cash flows from financing activities: Proceeds (repayment) of member loans..... 38,345 (38,345) -- Repayment of capital lease obligation..... (3,897) (9,969) -- Employee (loan) receivable/payment..... (1,000) 1,000 (1,000) Member

distributions.... -- (6,266) (869,844) Net cash provided by (used in) financing activities..... 33,448 (53,580) (870,844) Net increase in cash and cash equivalents..... 49,730 444,775 317,105 Cash and cash equivalents, beginning of period..... -- 49,730 494,505 Cash and cash equivalents, end of period..... $ 49,730 $ 494,505 $ 811,610 The accompanying notes are an integral part of these statements.

I-BALLS L.L.C. (a limited liability company)

Notes to Financial Statements

1. Business and Summary of Significant Accounting Policies Business I-Balls L.L.C. (the "Company"), a New York limited liability company, was incorporated on January 28, 1997. The Company is a full-service interactive media planner and buyer.

Use of Estimates

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

Revenue Recognition

Revenue consists of fees charged to customers. The Company acts as an agent for clients and purchases space from publisher websites on their behalf. Advertising service fees earned under fee based contracts reflect the amount of the commission earned. Revenue is recognized over the period the advertising is delivered. Deferred revenue represents billings issued in advance of the service period. Unbilled receivables represents fees earned but not billed. All contracts in process are expected to be billed and collected within one year.

Cash and Cash Equivalents The Company considers all highly liquid investments with an original maturity from the date of purchase of three months or less to be cash equivalents.

Equipment and Leasehold Improvements Equipment and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Equipment is depreciated on the double- declining method over estimated useful lives ranging from five to seven years. Leasehold improvements are amortized over the life of the current office lease. The lease expires on August 14, 2001.

Income Taxes

The Company is a limited liability company taxed as a partnership for federal and state income tax purposes and, as a result, the earnings of the Company are taxable directly to the members. The Company remains liable for the New York City Unincorporated Business Tax.

Fair Value of Financial Instruments The carrying amounts of cash and cash equivalents, accounts receivable, due from members, due to members, and accounts payable approximate fair value due to the short-term maturity of these instruments.

New Accounting Pronouncements In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), I-BALLS L.L.C. (a limited liability company) NOTES TO FINANCIAL STATEMENTS--(Continued) which provides guidance for determining whether computer software is internal- use software and on accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. It also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. SOP 98- 1 is effective for fiscal years beginning after December 31, 1998. The Company does not expect the adoption of SOP 98-1 to have a material effect on its financial statements.

2. Equipment and Leasehold Improvements Equipment consisted of the following:

December 31, ---------- September 2, 1997 1998 1999 (Unaudited)

Computer equipment	$18,259	$27,589	$44,073
Leasehold improvements	--	--	9,950
Total equipment	18,259	27,589	54,023
Less--Accumulated depreciation	3,652	10,631	17,351
Equipment and leaseholds, net	$14,607	$16,958	$36,672

Depreciation expense aggregated $3,652, $6,979 and $6,720 (unaudited) for the period January 28, 1997 to December 31, 1997 and the year ended December 31, 1998 and for the period from January 1, 1999 through September 2, 1999, respectively.

3. Accounts Payable and Accrued Expenses Accounts payable and accrued expenses consist of the following:

December 31, ---------- September 2, 1997 1998 1999 (Unaudited)

Accounts payable	$393,906	$1,269,930	$1,643,805
Accrued bonuses	11,500	--	211,838
Accrued payroll	6,692	6,424	--
Accrued tax payable	--	--	30,506
Total accounts payable and accrued expenses	$412,098	$1,276,354	$1,886,149

4. Members' Equity

Initial Capital Contribution On June 1, 1997, the founding members entered into a Limited Liability Company Operating Agreement by which they pledged a total capital contribution of $1,000.

Distributions

The Company distributes earnings to its members based upon a formula in the members' agreement, which takes into consideration, among other things, ownership percentages, and other subjective allocations.

I-BALLS L.L.C. (a limited liability company) NOTES TO FINANCIAL STATEMENTS--(Continued) 5. Commitments and Contingencies Leases The Company is committed under operating leases for office space and fixed assets. Rent expense was $10,325, $27,275 and $24,750 (unaudited) for the period January 28, 1997 to December 31, 1997 and the year ended December 31, 1998 and for the period from January 1, 1999 through September 2, 1999, respectively. Operating lease expense related to fixed assets was $3,010, $8,408 and $6,870 (unaudited) for the period January 28, 1997 to December 31, 1997 and the year ended December 31, 1998 and for the period from January 1, 1999 through September 2, 1999, respectively. Future minimum lease payments under the terms of noncancelable operating lease are as follows:

Lease Payments

Years ending December 31: 1999..... $ 81,377
2000..... 161,867 2001..... 82,290
2002..... 1,180 $326,714 6. Business Concentrations and Credit Risk Financial instruments, which subject the Company to concentrations of credit risk, consisted primarily of cash and cash equivalents and trade accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. The Company performs periodic evaluations of the relative credit standing of these institutions. The Company's clients are primarily concentrated in the United States. The Company performs ongoing credit evaluations, generally does not require collateral, and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information. To date, such losses have been within management's expectations.

For the period January 28, 1997 to December 31, 1997, three clients accounted for 52%, 23% and 16%, respectively, of total revenue.

For the year ended December 31, 1998, three clients accounted for 28%, 20% and 18%, respectively, of total revenue.

For the period from January 1, 1999 through September 2, 1999 (unaudited), three clients accounted for 34%, 17% and 11%, respectively, of total revenue.

As of December 31 1997 four clients accounted for 37%, 26%, 17% and 11%, respectively, of total accounts receivable.

As of December 31, 1998, two clients accounted for 49% and 15%, respectively, of total accounts receivable.

As of September 2, 1999 (unaudited), one client accounted for 53% of total accounts receivable.

7. Sale of Members' Interest On September 2, 1999, the members of the Company sold 100% of their interest in the Company to Avenue A, Inc. ("Avenue A"). As a result of this transaction, the Company became a wholly owned subsidiary of Avenue A.

Avenue A, Inc.

Unaudited Pro Forma Combined Financial Statements

On September 2, 1999, Avenue A, Inc. (the "Company" or "Avenue A") completed the acquisition of I-Balls L.L.C. ("I-Balls"), a full service interactive media planner and buyer. The acquisition of I-Balls has been accounted for as a purchase. Accordingly, the results of operations of I-Balls have been included in the consolidated statement of operations of Avenue A commencing on the date of acquisition.

The accompanying unaudited pro forma combined statement of operations of Avenue A, Inc. for the year ended December 31, 1998 and the nine months ended September 30, 1999 assumes that the acquisition took place as of January 1, 1998.

The unaudited pro forma combined statements of operations are presented for informational purposes only and do not purport to represent what the Company's results of operations for the year ended December 31, 1998 or for the nine months ended September 30, 1999 would actually have been had the acquisitions, in fact, occurred on January 1, 1998, or the Company's results of operations for any future period. The unaudited pro forma combined statements of operations should be read in conjunction with the financial statements and related notes thereto included elsewhere in this prospectus and the information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Avenue A, Inc.

UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS (in thousands, except share and per share amounts)

	January 1-September 2, 1999	Pro Forma Adjustments	
September 30, 1999 Avenue A	I-Balls		Pro Forma Combined

Revenue: Advertising services.. $ 33,425 $ -- $ -- $ 33,425 Advertising service fees..... 673 1,502 -- 2,175 Total revenue..... 34,098 1,502 -- 35,600 Expenses: Cost of advertising services revenue..... 28,007 -- -- 28,007 Client services..... 2,585 -- -- 2,585 Technology and operations..... 1,796 -- -- 1,796 Selling, general and administration..... 6,272 745 -- 7,017 Amortization of goodwill..... 163 -- 1,304 (b) 1,467 Amortization of deferred stock compensation..... 860 -- -- 860 Total expenses..... 39,683 745 1,304 41,732 Income (loss) from operations..... (5,585) 757 (1,304) (6,132) Interest income..... 335 20 -- 355 Income (loss) before provision for income taxes..... (5,250) 777 (1,304) (5,777) Provision for income tax..... -- 35 -- 35 Net income (loss)..... $ (5,250) $ 742 $(1,304) $ (5,812) Basic and diluted net loss per share..... $ (.42) $ (.45)(c) Shares used in computing basic and diluted net loss per share..... 12,394,634 12,843,352 (c) Pro forma basic and diluted net

loss per share..... $ (.22) $ (.24)(c) Shares used in computing pro forma basic and diluted net loss per share..... 23,832,031 24,280,749 (c) The accompanying notes are an integral part of this combined financial statement.

Avenue A, Inc.

UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS (in thousands, except share and per share amounts)

	Years Ended December 31, 1998			
	Avenue A	I-Balls	Pro Forma Adjustments	Pro Forma Combined
Revenue:				
Advertising services.....	$ --	$ --	$ --	$ --
Advertising service fees.....	599	1,008	--	1,607
Total revenue.....	599	1,008	--	1,607
Expenses:				
Cost of advertising services revenue.....	125	--	--	125
Client services.....	382	--	--	382
Technology and operations.....	1,493	--	--	1,493
Selling, general and administration.....	2,257	665	--	2,922
Amortization of goodwill.....	--	--	1,951(a)	1,951
Amortization of deferred stock compensation.....	--	--	--	--
Total expenses.....	4,257	665	1,951	6,873
Income (loss) from operations...	(3,658)	343	(1,951)	(5,266)
Interest income.....	12	10	--	22
Income (loss) before provision for income taxes.....	(3,646)	353	(1,951)	(5,244)
Provision for income taxes.....	--	--	--	--
Net income (loss).....	$ (3,646)	$ 353	$(1,951)	$ (5,244)
Basic and diluted net loss per share.....	$ (.50)			$ (.68)(c)
Shares used in computing basic and diluted net loss per share.....	7,240,455			7,740,455 (c)
Pro forma basic and diluted net loss per share.....	$ (.41)			$ (.56)(c)
Shares used in computing pro forma basic and diluted net loss per share.....	8,924,992			9,424,992 (c)

The accompanying notes are an integral part of this combined financial statement.

Avenue A, Inc.

Notes to Unaudited Pro Forma Combined Financial Statements

1. Basis of Presentation The unaudited pro forma combined statement of operations for the year ended December 31, 1998 and for the nine months ended September 30, 1999 gives effect to the acquisition of I-BALLS, LLC as if this transaction had occurred January 1, 1998.

The pro forma combined financial statements are presented for illustrative purposes only and should not be construed to be indicative of the actual combined results of operations as may exist in the future. The pro forma adjustments are based on the cash and common stock consideration exchanged by Avenue A for the fair value of the assets acquired and liabilities assumed.

2. Pro Forma Adjustments Certain pro forma adjustments have been made to the accompanying unaudited pro forma combined statements of operations as described below:

(a) Reflects 12 months amortization of the excess of the purchase price over the fair value of net assets acquired, which is being amortized over three years.

(b) Reflects eight months amortization of the excess of the purchase price over the fair value of net assets acquired, which is being amortized over three years.

(c) Basic and diluted net loss per share is computed by dividing net loss by the weighted average number of shares outstanding during the period assuming that shares issued for the acquisition were outstanding for the entire period. Pro forma basic and diluted net loss per share has been computed assuming the conversion of preferred stock into an equivalent number of common shares, as if the shares had converted on the dates of their issuance, and based on the weighted average number of shares outstanding giving effect to shares issued in the acquisition as if they were outstanding for the entire period.

3. Purchase Price Allocation:

In connection with the acquisition, the Company issued 500,000 shares of common stock and paid $3.5 million in cash in exchange for all of the outstanding member's equity for a total purchase price of $6.1 million. The acquisition was accounted for as a purchase and, accordingly, the results of operations of I-Balls have been included in the consolidated financial statements commencing on the date of acquisition. The excess purchase price of approximately $5.9 million was recorded as goodwill and is being amortized on a straight-line basis over a useful life of three years.

[Logo of Avenue A]

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution The following table sets forth the costs and expenses, other than the underwriting discounts and commissions, payable by the registrant in connection with the sale of the common stock being registered hereby. All amounts shown are estimates, except the Securities and Exchange Commission registration fee, the NASD filing fee and the Nasdaq National Market listing fee.

Securities and Exchange Commission registration fee	$ 15,840
NASD filing fee	6,500
Nasdaq National Market listing fee	95,000
Blue Sky fees and expenses	10,000
Printing and engraving expenses	150,000
Legal fees and expenses	500,000
Accounting fees and expenses	400,000
Directors' and officers' insurance	350,000
Transfer Agent and Registrar fees	10,000
Miscellaneous expenses	12,660
Total	$1,550,000

Item 14. Indemnification of Directors and Officers Sections 23B.08.500 through 23B.08.600 of the Washington Business Corporation Act (the "WBCA") authorize a court to award, or a corporation's board of directors to grant, indemnification to directors and officers on terms sufficiently broad to permit indemnification under certain circumstances for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"). Section 10 of the registrant's Bylaws (Exhibit 3.2 hereto) provides for indemnification of the registrant's directors, officers (and, in certain instances, employees and agents) to the maximum extent permitted by Washington law.

Section 23B.08.320 of the WBCA authorizes a corporation to limit a director's liability to the corporation or its shareholders for monetary damages for acts or omissions as a director, except in certain circumstances involving intentional misconduct, knowing violations of law or illegal corporate loans or distributions, or any transaction from which the director personally receives a benefit in money, property or services to which the director is not legally entitled. Article 10 of the registrant's Restated Articles of Incorporation (Exhibit 3.1 hereto) and Section 10 of the registrant's Bylaws contain provisions implementing, to the fullest extent permitted by Washington law, such limitations on a director's liability to the registrant and its shareholders. The directors and officers of the registrant also may be indemnified against liability they may incur for serving in that capacity pursuant to a liability insurance policy maintained by the registrant for such purpose.

The Underwriting Agreement (Exhibit 1.1 hereto) provides for indemnification by the underwriters of the registrant and its executive officers and directors, and by the registrant of the underwriters, for certain liabilities, including liabilities arising under the Securities Act, in connection with matters

specifically provided in writing by the underwriters for inclusion in this Registration Statement.

Item 15. Recent Sales of Unregistered Securities Since its inception in July 1997, the registrant has issued and sold unregistered securities as follows:

1. On February 27, 1998 and March 9, 1998, the registrant issued an aggregate of 1,200,000 shares of common stock to its six founders for a consideration of $.01 per share, or an aggregate of $12,000.

2. On May 26, 1998, the registrant issued an aggregate of 7,700,000 shares of common stock to five founders. The consideration was $.1463636 per share, or an aggregate of $1,127,000.

. On June 10, 1998, the registrant issued an aggregate of 1,100,000 shares of common stock to one of its founders and one investor. The consideration was $.1463636 per share, or an aggregate of $161,000.

4. On July 2, 1998, the registrant issued an aggregate of 2,000,000 shares of common stock to one of its founders for a consideration of $.15 per share, or an aggregate of $300,000.

5. In July and August 1998, the registrant issued 3,998,474 shares of Series A preferred stock, which are convertible into 3,998,474 shares of common stock, to forty-two investors for a consideration of $.83 per share, or an aggregate of $3,318,733.

6. On August 7, 1998, the registrant issued a warrant for the purchase of 451,807 shares of common stock, with an exercise price of $.83 per share, to an investor.

7. In February and March 1999, the registrant issued 2,580,000 shares of Series B preferred stock, which are convertible into 2,580,000 shares of common stock, to thirty-six investors for a consideration of $1.12 per share, or an aggregate of $2,889,600.

8. On May 4, 1999, the registrant issued 9,837,624 shares of Series C preferred stock, which are convertible into 9,837,624 shares of common stock, to eleven investors for a consideration of $1.94 per share, or an aggregate of $19,084,991.

9. On June 10, 1999, the registrant issued an aggregate of 35,511 shares of common stock to seven employees in lieu of sales commissions under the registrant's 1998 stock incentive compensation plan.

10. On July 1, 1999 and August 16, 1999, the registrant issued an aggregate of 20,000 shares of common stock to two consultants in exchange for services under the registrant's 1998 stock incentive compensation plan.

11. On September 2, 1999, pursuant to a purchase agreement among the registrant and the members of I-Balls LLC, the registrant issued an aggregate of 500,000 shares of common stock, to the six members of I-Balls LLC as partial consideration for the registrant's acquisition of all the membership interests I-Balls LLC.

12. On September 2, 1999 and September 22, 1999, in connection with the registrant's acquisition of all the membership interests of I-Balls LLC, the registrant granted stock options to purchase 875,000 shares of common stock, with exercise prices ranging from $1.90 to $2.50 per share, to two employees

who were former members of I-Balls LLC, outside of the registrant's 1998 stock incentive compensation plan. Of these options, no shares have been exercised or canceled without being exercised and 875,000 shares remain outstanding.

13. From June 23, 1998 through September 30, 1999, the registrant granted stock options to purchase 7,439,100 shares of common stock, with exercise prices ranging from $.10 to $4.00 per share, under the registrant's 1998 stock incentive compensation plan. Of these, options for 182,538 shares have been canceled without being exercised, options for 3,332,481 shares have been exercised and options for 3,924,081 shares remain outstanding.

14. On October 8, 1999, the registrant issued an aggregate of 170,000 shares of common stock to eight of its executive officers for a consideration of $4.00 per share, or an aggregate of $680,000, under the registrant's 1998 stock incentive compensation plan.

15. On October 25, 1999, the registrant issued 125,000 shares of common stock to one of its executive officers for a consideration of $4.00 per share, or an aggregate of $500,000, under the registrant's 1998 stock incentive compensation plan.

16. On October 26, 1999, the registrant issued 50,000 shares of common stock to one of its directors for a consideration of $1.90 per share, or an aggregate of $95,000, and 50,000 shares of common stock to that same director for a consideration of $4.00 per share, or an aggregate of $200,000. Both issuances were made under the registrant's 1998 stock incentive compensation plan.

The sales and issuances of these securities were exempt from registration under the Securities Act pursuant to Rule 701 promulgated thereunder on the basis that these securities were sold or issued either pursuant to a written compensatory benefit plan or pursuant to written contracts relating to consideration, as provided by Rule 701, or pursuant to Section 4(2) thereof on the basis that the transactions did not involve a public offering.

No underwriter was used in connection with any of the foregoing sales and issuances.

Item 16. Exhibits and Financial Statement Schedules (a)Exhibits Number Description 1.1* Form of Underwriting Agreement 3.1* Amended and Restated Articles of Incorporation of the registrant 3.2* Amended and Restated Bylaws of the registrant 4.1 Form of Warrant to purchase common stock 5.1* Opinion of Perkins Coie LLP 10.1 Form of Series A Purchase Agreement between the registrant and the investors listed on Schedule A thereto 10.2 Warrant Agreement dated August 7, 1998 10.3 Form of Series B Purchase Agreement between the registrant and the investors listed on Schedule A thereto 10.4 Share Purchase Agreement between the registrant and Nicolas J. Hanauer dated July 2, 1998 10.5 Share Purchase Agreement between the registrant and Nicolas J. Hanauer dated June 10, 1998 10.6 Share Purchase Agreement between the registrant and Nicolas J. Hanauer dated May 26, 1998 10.7 Share Purchase Agreement between the registrant and Nicolas J. Hanauer dated March 9, 1998 10.8 Series C Preferred Stock Purchase Agreement between the registrant and Voyager Capital Fund I, L.P., Voyager Capital Founders Fund, L.P., Oak Investment Partners VI, L.P., Kirlan Venture Partners II, L.P., Norman H. Nie, Trustee, Norman H. Nie Revocable Trust dated 3/15/91, Media partners, the Phoenix Partners IV Limited Partnership, R. Michael Leo and Insight Venture Associates LLC dated May 4,

1999 10.9 Investors Rights Agreement between the registrant and Voyager Capital Fund I, L.P., Voyager Capital Founders Fund, L.P., Oak Investment Partners VI, L.P., Kirlan Venture Partners II, L.P., Norman H. Nie, Trustee, Norman H. Nie Revocable Trust dated 3/15/91, Media partners, the Phoenix Partners IV Limited Partnership, R. Michael Leo and Insight Venture Associates LLC dated May 4, 1999 10.10 Form of Promissory Note between the registrant and the executive officers listed on Schedule A thereto dated October 8, 1999 10.11 Form of Stock Purchase Agreement dated October 8, 1999 between the registrant and the executive officers listed on Schedule A thereto 10.12 Stock Purchase Agreement between the registrant and Gregory B. Maffei dated October 26, 1999 10.13 Stock Purchase Agreement between the registrant and Gregory B. Maffei dated October 26, 1999 10.14 Stock Purchase Agreement between the registrant and Sumit T. Sen dated October 25, 1999 10.15 Purchase Agreement among the registrant and Stephen D. Klein, Michael Cohen, Jonathan Bond, Richard Kirshenbaum, Margaret Boyer and Daniel DeWolf dated September 2, 1999 10.16 Employment Agreement between the registrant and Michael Cohen dated September 2, 1999 10.17 Employment Agreement between the registrant and Stephen D. Klein dated September 2, 1999 10.18 Registration Rights Agreement between the registrant and Stephen D. Klein, Michael Cohen, Jonathan Bond, Richard Kirshenbaum, Margaret Boyer and Daniel DeWolf dated September 2, 1999 10.19 Severance Agreement between the registrant and R. Michael Leo dated October 8, 1999 10.20 1999 Stock Incentive Compensation Plan 10.21 Stock Option Grant Program for Nonemployee Directors under the 1999 Stock Incentive Compensation Plan Number Description 10.22 1999 Employee Stock Purchase Plan 10.23 1998 Stock Incentive Compensation Plan 10.24 Loan and Security Agreement between the registrant and Silicon Valley Bank dated May 25, 1999 10.25 Lease Agreement between the registrant and Samis Foundation dated July 16, 1999 21.1 Subsidiaries of the registrant 23.1 Consent of Arthur Andersen LLP, independent public accountants 23.2* Consent of Perkins Coie LLP (contained in the opinion filed as Exhibit 5.1) 24.1 Power of Attorney (contained on signature page) 27.1 Financial Data Schedule * To be filed by amendment.

(b)Financial Statement Schedules Schedule II--Valuations and Qualifying Accounts All other schedules are omitted because they are inapplicable or the requested information is shown in the consolidated financial statements of the registrant or related notes thereto.

Item 17. Undertakings Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes to provide to the underwriters, at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on the 8th day of December, 1999.

Avenue A, Inc.

/s/ Brian P. McAndrews By: _____ Brian P. McAndrews Chief Executive Officer

Power of Attorney

Each person whose individual signature appears below hereby authorizes and appoints Brian P. McAndrews and Robert M. Littauer, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his true and lawful attorney-in-fact and agent to act in his name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this Registration Statement, including any and all post- effective amendments and amendments thereto, and any registration statement relating to the same offering as this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power

and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities indicated below on the 8th day of December, 1999.

/s/ Nicolas J. Hanauer Chairman of the Board Nicolas J. Hanauer

/s/ Brian P. McAndrews _____ Brian P. McAndrews	Chief Executive Officer and Director (Principal Executive Officer)
/s/ Robert M. Littauer _____ Robert M. Littauer	Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)

/s/ Jason Green Director Jason Green /s/ Fredric W. Harman Director Fredric W. Harman /s/ Gregory B. Maffei Director Gregory B. Maffei

Report of Independent Public Accountants on Schedule

To the Board of Directors and Stockholders of Avenue A, Inc.:

We have audited in accordance with generally accepted auditing standards, the financial statements of Avenue A, Inc. and subsidiaries included in this registration statement and have issued our report thereon dated December 7, 1999. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule listed in the index of financial statements is presented for purposes of complying with the Securities and Exchanges Commissions rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP Seattle, Washington December 7, 1999

Avenue A, Inc.

Schedule II--Valuation and Qualifying Accounts (in thousands)

Description	Balance at Beginning of Year	Additions- Provisions	Deductions, Returns and Write-offs	Balance at End of Year
Allowance for doubtful accounts Year ending December 31, 1998.....	$ 1	$69	$--	$70
Year ending December 31, 1997.....	$--	$ 1	$--	$ 1

Exhibit Index

Number Description

1.1* Form of Underwriting Agreement 3.1* Amended and Restated Articles of Incorporation of the registrant 3.2* Amended and Restated Bylaws of the registrant 4.1 Form of Warrant to purchase common stock 5.1* Opinion of Perkins Coie LLP 10.1 Form of Series A Purchase Agreement between the registrant and the investors listed on Schedule A thereto 10.2 Warrant Agreement dated August 7, 1998 10.3 Form of Series B Purchase Agreement between the registrant and the investors listed on Schedule A thereto 10.4 Share Purchase Agreement between the registrant and Nicolas J. Hanauer dated July 2, 1998 10.5 Share Purchase Agreement between the registrant and Nicolas J. Hanauer dated June 10, 1998 10.6 Share Purchase Agreement between the registrant and Nicolas J. Hanauer dated May 26, 1998 10.7 Share Purchase Agreement between the registrant and Nicolas J. Hanauer dated March 9, 1998 10.8 Series C Preferred Stock Purchase Agreement between the registrant and Voyager Capital Fund I, L.P., Voyager Capital Founders Fund, L.P., Oak Investment Partners VI, L.P., Kirlan Venture Partners II, L.P., Norman H. Nie, Trustee, Norman H. Nie Revocable Trust dated 3/15/91, Media partners, the Phoenix Partners IV Limited Partnership, R. Michael Leo and Insight Venture Associates LLC dated May 4, 1999 10.9 Investors Rights Agreement between the registrant and Voyager Capital Fund I, L.P., Voyager Capital Founders Fund, L.P., Oak Investment Partners VI, L.P., Kirlan Venture Partners II, L.P., Norman H. Nie, Trustee, Norman H. Nie Revocable Trust dated 3/15/91, Media partners, the Phoenix Partners IV Limited Partnership, R. Michael Leo and Insight Venture Associates LLC dated May 4, 1999 10.10 Form of Promissory Note between the registrant and the executive officers listed on Schedule A thereto dated October 8, 1999 10.11 Form of Stock Purchase Agreement dated October 8, 1999 between the registrant and the executive officers listed on Schedule A thereto 10.12 Stock Purchase Agreement between the registrant and Gregory B. Maffei dated October 26, 1999 10.13 Stock Purchase Agreement between the registrant and Gregory B. Maffei dated October 26, 1999 10.14 Stock Purchase Agreement between the registrant and Sumit T. Sen dated October 25, 1999 10.15 Purchase Agreement among the registrant and Stephen D. Klein, Michael Cohen, Jonathan Bond, Richard Kirshenbaum, Margaret Boyer and Daniel DeWolf dated September 2, 1999 10.16 Employment Agreement between the registrant and Michael Cohen dated September 2, 1999 10.17 Employment Agreement between the registrant and Stephen D. Klein dated September 2, 1999 10.18 Registration Rights Agreement between the registrant and Stephen D. Klein, Michael Cohen, Jonathan Bond, Richard Kirshenbaum, Margaret Boyer and Daniel DeWolf dated September 2, 1999 10.19 Severance Agreement between the registrant and R. Michael Leo dated October 8, 1999 10.20 1999 Stock Incentive Compensation Plan 10.21 Stock Option Grant Program for Nonemployee Directors under the 1999 Stock Incentive Compensation Plan 10.22 1999 Employee Stock Purchase Plan 10.23 1998 Stock Incentive Compensation Plan 10.24 Loan and Security Agreement between the registrant and Silicon Valley Bank dated May 25, 1999 10.25 Lease Agreement between the registrant and Samis Foundation dated July 16, 1999 21.1 Subsidiaries of the registrant 23.1 Consent of Arthur Andersen LLP, independent public accountants 23.2* Consent of Perkins Coie LLP (contained in the opinion filed as Exhibit 5.1) 24.1 Power of Attorney (contained on signature page) 27.1 Financial Data Schedule * To be filed by amendment. </TEXT>