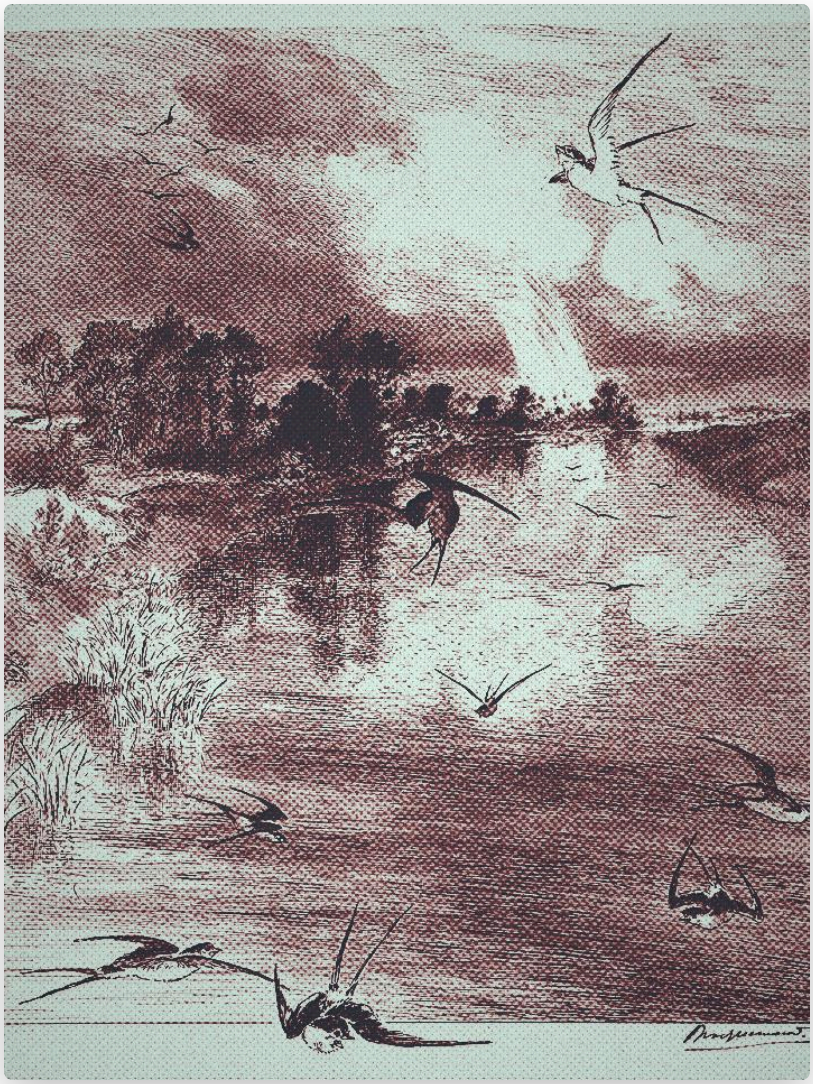
FORM S-1 · REGISTRATION STATEMENT

BE Free Inc

IPO priced 1999-11-03 · $12.00 a share



From S1 Directory · www.s1directory.com/s1/be-free-inc/ · Source: https://www.sec.gov/Archives/edgar/data/1084866/000092701699002796/0000927016-99-002796.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 5, 1999 REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION

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

Delaware	7374	04-3303188
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

154 CRANE MEADOW ROAD MARLBOROUGH, MASSACHUSETTS 01752 (508) 357-8888 (ADDRESS, INCLUDING ZIP CODE, TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) GORDON B. HOFFSTEIN PRESIDENT AND CHIEF EXECUTIVE OFFICER BE FREE, INC. 154 CRANE MEADOW ROAD MARLBOROUGH, MASSACHUSETTS 01752 (508) 357-8888 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

Copies to:

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE HEREOF.

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, 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. [X]

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.....	$59,800,000	$16,625

(1) ESTIMATED SOLELY FOR THE PURPOSE OF CALCULATING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(O) UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

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 THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

++ +WE WILL AMEND AND COMPLETE THE INFORMATION IN THIS PROSPECTUS. ALTHOUGH WE + +ARE PERMITTED BY U.S. FEDERAL SECURITIES LAWS TO OFFER THESE SECURITIES USING + +THIS PROSPECTUS, WE MAY NOT SELL THEM OR ACCEPT YOUR OFFER TO BUY THEM UNTIL + +THE DOCUMENTATION FILED WITH THE SEC RELATING TO THESE SECURITIES HAS BEEN + +DECLARED EFFECTIVE BY THE SEC. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE + +SECURITIES OR OUR SOLICITATION OF YOUR OFFER TO BUY THESE SECURITIES IN ANY + +JURISDICTION WHERE THAT WOULD NOT BE PERMITTED OR LEGAL. +

++

SUBJECT TO COMPLETION-AUGUST 5, 1999 PROSPECTUS , 1999 [BE FREE LOGO APPEARS HERE]

SHARES OF COMMON STOCK

The Company:

. We are a leading provider of services that enable electronic commerce merchants and Internet portals to market their products and services in tens of thousands of locations on the Internet and to pay for these promotions based on resulting sales or traffic.

The Offering:

. We are offering shares of our common stock.

. The underwriters have an option to purchase up to an additional shares from us to cover over-allotments.

. This is our initial public offering. We anticipate that the initial public offering price will be between $ and $ per share.

. We plan to use the proceeds from this offfering for working capital and other general corporate purposes.

Proposed Symbol & Market:

. BFRE/NASDAQ

. CLOSING: , 1999.

PER SHARE TOTAL

PUBLIC OFFERING PRICE: $ $ UNDERWRITING FEES: PROCEEDS TO BE FREE:

THIS INVESTMENT INVOLVES RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS DETERMINED WHETHER THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. NOR HAVE THEY MADE, NOR WILL THEY MAKE, ANY DETERMINATION AS TO WHETHER ANYONE SHOULD BUY THESE SECURITIES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

DONALDSON, LUFKIN & JENRETTE HAMBRECHT & QUIST DAIN RAUSCHER WESSELS A DIVISION OF DAIN RAUSCHER INCORPORATED THE UNDERSIGNED IS FACILITATING INTERNET DISTRIBUTION DLJDIRECT INC.

[BE FREE LOGO]

[INSIDE FRONT COVER ARTWORK] GRAPHIC OF TWO WEB SITE PAGES THAT CONTAIN PROMOTIONS OF BE FREE'S E-MERCHANT CUSTOMERS.

[BE FREE LOGO]

GRAPHIC OF A PROMOTION FEATURED ON THE WEB SITE OF A MARKETING AFFILIATE. THIS GRAPHIC IS BEING VIEWED BY A CROWD OF MINIATURE PEOPLE AND IS CONNECTED BY ARROWS FLOWING THROUGH A GRAPHIC OF BE FREE'S DATA INTERCHANGE TO A GRAPHIC OF AN E-MERCHANT CUSTOMER'S WEB SITE. THESE THREE GRAPHICS TOGETHER REPRESENT THE EXCHANGE OF INFORMATION BETWEEN BE FREE, ITS CUSTOMERS AND THEIR MARKETING AFFILIATES, AND ILLUSTRATE HOW PERFORMANCE MARKETING WORKS IN THE INTERNET.

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Prospectus Summary

This summary may not contain all of the information that is important to you. You should read the entire prospectus, including the financial statements and related notes, before making an investment decision. As used in this prospectus, the terms "we," "us," "our" and similar terms refer to Be Free, Inc. and not to its management or stockholders. Unless otherwise indicated, all information in this prospectus:

. reflects a for reverse stock split effected on , 1999;

. assumes that the underwriters will not exercise their over-allotment option;

. gives effect to the conversion of all outstanding shares of preferred stock into shares of common stock upon completion of this offering; and . assumes the effectiveness of our amended and restated certificate of incorporation.

Be Free

Our Business

We are a leading provider of services that enable electronic commerce merchants and Internet portals to market their products and services in tens of thousands of locations on the Internet and to pay for these promotions based on performance. Our e-merchant and portal customers use our services to establish and manage performance marketing relationships directly with these third party locations. We enable the third party marketing partners to integrate our customers' promotions into their Web sites and e-mail messages that contain content that is relevant to the products or services being

promoted. Our customers pay their marketing partners only for those promotions that generate sales or traffic. In this way, our customers create their own performance marketing sales channels. We provide a cost-effective solution for establishing, managing and rewarding these channels. We enable our customers to increase their sales and traffic and decrease their cost of customer acquisition.

Our services are critical to online performance marketing because they:

. provide the data interchange that integrates our customers' catalog, transactional and fulfillment systems with tens of thousands of Web sites and e-mail messages created by their marketing partners;

. enable our customers to generate and manage a variety of promotional links for each of their products or services;

. enable each of our customer's marketing partners to select those promotional links that are relevant to the content on its Web site or within its e-mail messages and integrate those links within that content;

. track the effectiveness of each individual promotion by recording each time a user views it on a marketing partner's site, clicks on it and is directed to our customer's site, and makes a purchase on that customer's site; and . collect, store and analyze viewing, click-through and sales data to improve the effectiveness of online marketing and to reduce the cost of customer acquisition.

Using our services, our customers pay only for those individual promotions that succeed. Our e-merchant customers typically pay their marketing partners only for the sales they generate. Our portal customers typically pay their marketing partners only for the traffic they send to the portal. Our fees are also typically based on the level of sales or traffic generated for our customers through their performance marketing channels. As a result, our economic interests are closely aligned with the economic interests of our customers and their marketing partners.

Our performance marketing services to date have focused on enabling our customers to establish and manage affiliate sales channels. These channels comprise third-party Web site publishers that include on their sites promotional links to their affiliated e-merchants and portals. We also provide performance marketing services which enhance more traditional online marketing, such as the serving of ad banners, by tracking their effectiveness through to a sale. Recently, we expanded our performance marketing services to enable the inclusion of promotions in e-mail messages sent by businesses and individuals.

The promotions we tracked for our customers were shown more than 300 million times in June 1999 through the more than one million performance marketing relationships our customers have established. Jupiter Communications, an Internet research firm, estimates that e-merchants with an affiliate sales channel generate on average 17% of their online sales from that channel. We believe that affiliate sales channels and other online performance marketing channels will constitute an increasingly significant revenue source for our customers.

Our Market Opportunity The Internet has experienced rapid growth both in terms of the number of users online and in the amount and dispersion of content available to them online. The Internet has also emerged as a significant sales channel for goods and services to consumers, with total U.S. online

consumer spending projected to increase from $7.8 billion in 1998 to $108.0 billion in 2003.

E-merchants and portals use online promotions to reach a global audience for their products and services, drive traffic to their Web sites, attract customers and facilitate transactions. Initially, these online promotions took the form of banner advertisements. Under this model an advertiser pays fees based on the number of times its ad is displayed and typically evaluates the performance of that ad based on the rate at which viewers click on it and are directed to the advertiser's Web site.

As a result of decreases in these click-through rates and a need to reach a broader audience viewing more widely dispersed content, e-merchants and portals sought to pay for their marketing programs based on the sales or traffic they generated. These affiliate sales channels have emerged as the first widely introduced type of these performance marketing programs.

E-merchants and portals face several challenges in establishing and managing performance marketing programs. These challenges include developing technologies to exchange data with thousands of marketing partners that operate disparate systems, generating and placing promotions and managing relationships with large numbers of marketing partners. In addition, marketing partners want to minimize the time and expense associated with enrolling in a performance marketing program and creating and changing promotions for a particular e- merchant or portal. We believe these challenges provide a significant opportunity for our comprehensive solutions that are designed to help e-merchants and portals establish and manage performance marketing channels and to help marketing partners enhance their revenue.

Our Strategy

Our objective is to be the leading provider of online performance marketing solutions. We are focusing on the following strategic initiatives to achieve this objective:

. continue our technology leadership and expertise to enhance and extend our comprehensive solutions for performance marketing programs;

. rapidly expand our targeted customer base, both in the U.S. and selected markets abroad;

. continue to provide customer branded and controlled solutions;

. increase the size and effectiveness of our customers' sales channels; and . expand our services to existing customers.

Our History

We were incorporated in 1996 in Delaware under the name Freedom of Information, Inc. and changed our name to Be Free, Inc. in March 1999. In August 1998 we combined with two affiliated companies under common control and management. One affiliated company was incorporated in 1985 in Pennsylvania and the other was incorporated in 1996 in Delaware. All of our financial statements and data in this prospectus are presented on a consolidated basis for all three entities.

Our principal executive office is located at 154 Crane Meadow Road, Marlborough, Massachusetts 01752, and our telephone number is (508) 357-8888. Our corporate Web sites are located at www.befree.com and www.affiliaterecruiters.com. The information contained on our Web sites is not a part of this prospectus.

Be Free, BFAST, BFIT, B-INTOUCH and e-nabled are our servicemarks. This prospectus also contains other trademarks, servicemarks and tradenames that are the property of their respective owners.

The Offering

Common stock offered by Be Free.... shares Common stock to be outstanding after this offering..... shares Use of proceeds..... Working capital and other general corporate purposes Proposed Nasdaq National Market symbol..... BFRE The common stock outstanding after the offering is based on the number of shares outstanding as of , 1999, and excludes:

- shares issuable upon the exercise of outstanding options with a weighted average exercise price of $ per share;

. shares available for issuance and grant under our 1998 Stock Incentive Plan, net of outstanding options; and

- shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of $ per share.

Summary Consolidated Financial Information (In thousands, except per share data) The financial data set forth below should be read with "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, all included elsewhere in this prospectus.

Unaudited pro forma basic and diluted net loss per share have been calculated assuming the conversion of all outstanding shares of preferred stock into shares of common stock, as if the shares had converted immediately upon issuance. Accordingly, accretion of preferred stock to redemption value has not been included in the calculation of unaudited pro forma basic and diluted net loss per share.

	Year Ended December 31,			Six Months Ended June 30,	
	1996	1997	1998	1998	1999
Statement of Operations Data:					
Revenue:					
Performance marketing services	$ --	$ 216	$ 1,319	$ 617	$ 1,396
Other	196	60	8	3	--
Total revenue	196	276	1,327	620	1,396
Total operating expenses	1,461	1,211	4,794	825	7,603
Operating loss	(1,265)	(935)	(3,467)	(205)	(6,207)
Interest expense, net	(26)	(99)	(224)	(61)	(168)
Net loss	(1,291)	(1,034)	(3,691)	(266)	(6,375)
Accretion of preferred stock to redemption value	--	--	(56)	--	(590)
Net loss attributable to common stockholders	$(1,291)	$(1,034)	$(3,747)	$(266)	$(6,965)

Basic and diluted net loss per share..... $ $ $ $ $ Shares used in computing basic and diluted net loss per share..... Unaudited pro forma basic and diluted net loss per share..... $ $ Shares used in computing unaudited pro forma basic and diluted net loss per share.....

The pro forma as adjusted balance sheet data as of June 30, 1999 give effect to the conversion of all outstanding shares of preferred stock into shares of common stock and have been adjusted to give effect to the sale of shares of common stock offered hereby at the assumed initial public offering price of $ per share, after deducting underwriting discounts and commissions and estimated offering expenses.

As of June 30, 1999 Pro Forma Actual As Adjusted

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Balance Sheet Data:
 Cash, cash equivalents and marketable securities..... $ 24,325    $
 Working capital.....                                     21,032
 Total assets.....                                        30,183
 Long-term debt, net of current portion.....               6,018     6,018
 Convertible preferred.....                               35,350       --
 Total stockholders' equity (deficit).....               (16,494)
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Risk Factors

You should consider carefully the following risks, together with all other information included in this prospectus before you decide to buy our common stock. Please keep these risks in mind when reading this prospectus, including any forward-looking statements appearing in this prospectus. If any of the following risks actually occurs, our business, financial condition or results of operations would likely suffer materially. As a result, the trading price of our common stock may decline, and you could lose all or part of the money you paid to buy our common stock.

Risks Related to Our Business Our limited operating history makes the evaluation of our business and prospects difficult We introduced our first performance marketing services and recorded our first revenue from these services in the third quarter of 1997. Accordingly, we have a limited operating history of running our current business. Our current business has never achieved profitability and our business model and profit potential are unproven. Before buying our common stock, you should consider the risks and difficulties frequently encountered by early stage companies in new and rapidly evolving markets, particularly those companies whose business depends on the Internet. We cannot assure you that our business strategy will be successful or that we will address these risks and difficulties successfully. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for detailed information on our limited operating history.

We have a history of losses and expect future losses Our accumulated deficit as of June 30, 1999 was $12.5 million. Our current business has never achieved profitability and we expect to continue to incur losses for the foreseeable future in light of the level of our planned operating and capital expenditures. To support our current and future lines of business, we plan to invest in our technology and infrastructure, including an expansion of our existing data center and the opening of new data centers. We also intend to increase our expenditures relating to sales and marketing and product development

activities. The timing of our investments and expansion could cause material fluctuations in our results of operations. We also plan to purchase additional capital equipment, which will result in additional depreciation expense. Our losses may increase in the future and we may not be able to achieve or sustain profitability. We will need to generate significant additional revenue to achieve profitability. Even if we do achieve profitability, we may not be able to 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 and cannot be adjusted accordingly, our business, results of operations and financial condition would be materially and adversely affected. We also expect to experience negative operating cash flow for the foreseeable future as we fund our operating losses and capital expenditures. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more detailed information.

The acceptance and effectiveness of Internet advertising and marketing are not yet fully established and it is uncertain whether they will receive widespread customer acceptance Our future success depends in part on a significant increase in the use of the Internet as an advertising and marketing medium. The Internet advertising and marketing market is new and rapidly evolving, and it cannot yet be compared with traditional advertising media or marketing programs to gauge its effectiveness. As a result, demand for and market acceptance of Internet advertising and marketing solutions are uncertain. Many of our current and potential customers have little or no experience with Internet advertising and marketing and have allocated only a limited portion of their advertising and marketing budgets to Internet activities. The adoption of Internet advertising and marketing, particularly by entities that have historically relied upon more traditional methods, requires the acceptance of a new way of advertising and marketing. These customers may find Internet advertising and marketing to be less effective for meeting their business needs than other methods of advertising and marketing. Furthermore, there are software programs that limit or prevent advertising from being delivered to a user's computer. Widespread adoption of this software by Web users would significantly undermine the commercial viability of Internet advertising and marketing. In addition, performance marketing on the Internet requires the collection and maintenance of sensitive marketing and consumer data by companies like us. Customers may refuse to allow this data collection and choose alternative forms of Internet advertising and marketing. If these markets fail to develop or develop more slowly than we expect, our business, financial condition and results of operations would be materially and adversely affected.

Our business model is unproven and may not be successful We do not know whether our business model and strategy will be successful. If the assumptions underlying our business model are not valid or we are unable to implement our business plan, achieve the predicted level of market penetration or obtain the desired level of pricing of our services for sustained periods, our business results will be materially and adversely affected. Substantially all of our revenue is derived from a new business model. Our revenue depends on whether the online marketing that we facilitate generates sales or traffic for our customers. In contrast, others earn fees based merely on placing online advertisements for customers. If our performance marketing business model proves to be unsuccessful, our business results will be materially and adversely affected.

We have a small number of customers from which we derive a significant portion of our revenue and the loss of these customers would adversely affect our financial condition and results of operations We derive a substantial portion of our revenue from a small number of e- merchants and other Web-based businesses. Our largest customer, barnesandnoble.com, represented 78%, 73% and 40% of our revenue in 1997, 1998 and the first six months of 1999, respectively. GeoCities, a subsidiary of Yahoo, Inc., which became a customer in 1999, accounted for 15% of our revenue in the first six months of 1999. Our business, results of operations and financial condition would be materially and adversely affected by the loss of either of these customers, any significant reduction in net revenue generated from these customers or any system or other disruptions related to these customers or their significant marketing partners. Our contracts with barnesandnoble.com and GeoCities expire in January 2001 and January 2002, respectively. GeoCities has the right to terminate its contract prior to the expiration of its term by giving us notice and paying a penalty. Both contracts provide that either party may terminate upon a material breach under certain circumstances. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note B to Notes to Consolidated Financial Statements included elsewhere in this prospectus for detailed information on our customer concentration.

System disruptions and failures could cause data loss and customer dissatisfaction or financial loss The continuing and uninterrupted performance of the computer systems used by us, our customers and their marketing partners is critical to our success. Customers may become dissatisfied by any system failure that interrupts our ability to provide our services to them. These failures could affect our ability to deliver and track promotions quickly and accurately to the targeted audience and deliver reports to our customers and their marketing partners. Sustained or repeated system failures would reduce the attractiveness of our services significantly. Our operations depend on our ability to protect our computer systems against damage from fire, power loss, water damage, telecommunications failures, vandalism and similar unexpected adverse events. In addition, interruptions in our services could result from the failure of telecommunications providers to provide the necessary data communications capacity in the time required. Our critical computer hardware and software is housed at Exodus Communications, Inc., a third party provider of Internet hosting and communication services located in the Harborside, New Jersey area. Any system failure by us or Exodus, or any of the above factors affecting the Harborside, New Jersey area specifically, would have a material adverse effect on our business. Further, despite our efforts to implement network security measures, our systems are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering. We do not carry enough business interruption insurance to compensate for any significant losses that may occur as a result of any of these events.

We have experienced systems outages in the past, during which we were unable to route transactions to our customers from their marketing partners or provide reports. During these outages our customers may have lost sales and some of their marketing partners may have failed to earn commissions. We may experience such outages in the future. The expansion of our existing data center and the opening of additional data centers may not eliminate systems outages or prevent the loss of sales when system

outages occur. Our business, results of operations and financial condition could be materially and adversely affected by any damage or failure that interrupts or delays our operations. See "Business--Technology Infrastructure."

We operate in highly competitive markets and may not be able to compete effectively We compete in markets that are new, intensely competitive, highly fragmented and rapidly changing. We do not currently compete against established companies across the range of services we provide. We do, however, compete against larger companies with respect to a portion of the services we provide and compete more broadly against similar sized, private companies. We face competition in the overall performance marketing solutions market as well as the affiliate network and banner advertising delivery segments of the Internet advertising and marketing markets. In addition, we have recently entered the online e-mail referral services market and expect to face competition in this market as well. We have experienced and expect to continue to experience increased competition from current and potential competitors. We believe our principal competitors are Commission Junction, LinkShare and Microsoft's LinkExchange.

Our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements than we can. In addition, our current and potential competitors may bundle their products with other software or hardware, including operating systems and Internet browsers, in a manner that may discourage users from purchasing products offered by us. Also, many current and potential competitors have greater name recognition and significantly greater financial, technical, marketing and other resources than we do. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share.

A breach of our security measures and release of confidential data could cause financial loss A fundamental requirement for online commerce is the secure transmission of confidential information over public networks. Third parties may attempt to breach our security. If they are successful, they could obtain our customers' or their marketing partners' confidential information, including marketing data, sales data, passwords, financial account, performance and contact information. We may be liable for any breach in our security and any breach could harm our reputation, reduce demand for our services or cause customers to terminate their relationships with us. We rely on encryption technology licensed from third parties. Our systems are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss or theft of data. We may be required to expend significant capital and other resources to license encryption technology and additional technologies to protect against security breaches or to alleviate problems caused by any breach. Our failure to prevent security breaches may have a material adverse effect on our business and operating results.

We may be exposed to potential liabilities if we supply inaccurate information to our customers Our services depend on complex software that we have internally developed or licensed from third parties. Software often contains defects, particularly when first introduced or when new versions are released, which can adversely affect performance or result in inaccurate data. We may not discover software defects that affect our new or current services or enhancements until after they are deployed. In

addition, our services depend on our customers and their marketing partners supplying us with data regarding contacts, performance and sales. They may provide us with erroneous or incomplete data. Software defects or inaccurate data may cause incorrect recording, reporting or display of information to our customers or their marketing partners, which could provide an inaccurate basis for payment of fees or the extension, termination or alteration of our customer relationships.

To be competitive, we must continue to develop new services, and our failure to do so may adversely affect future revenue growth Our market is characterized by rapid technological change, frequent new service introductions, changes in customer requirements and evolving industry standards. The introduction of services embodying new technologies and the emergence of new industry standards could render our existing services obsolete. Our future success will depend upon our ability to develop and introduce a variety of new services and service enhancements to address the increasingly sophisticated needs of our customers. We have experienced delays in releasing new services and service enhancements and may experience similar delays in the future. Material delays in introducing new services and enhancements may cause customers to forego purchasing or renewing our services and purchase those of our competitors.

We face risks associated with potential government regulation, both foreign and domestic, related to e-commerce Laws and regulations directly applicable to Internet communications, commerce and marketing are becoming more prevalent. The United States Congress has enacted Internet laws regarding children's privacy, copyrights and taxation. Other laws and regulations may be adopted covering issues such as user privacy, pricing, content, taxation and quality of products and services. Such legislation could hinder the growth in use of the Web generally and decrease the acceptance of the Web as a medium of communications, commerce and marketing. The governments of states and foreign countries might attempt to regulate our transmissions or levy sales or other taxes relating to our activities. The laws governing the Internet remain largely unsettled, even in areas where legislation has been enacted. It may take years to determine whether and how existing laws such as those governing intellectual property, privacy, libel and taxation apply to the Internet and Internet advertising and marketing services. In addition, the growth and development of the market for Internet commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on companies conducting business over the Internet. Our business, results of operations and financial condition could be adversely affected by the adoption or modification of laws or regulations relating to the Internet.

The Internet generates privacy concerns which could result in market perceptions or legislation which could harm our business, result in reduced sales of our services, or both We develop and maintain data related to communications, consumer behavior and marketing profiles. When a user first views or clicks on a customer's promotion managed by our system, our software creates an anonymous profile for that user and we add and change profile attributes based upon that user's behavior on our customer's Web site and its marketing partners' Web sites. Privacy concerns may cause visitors to avoid Web sites that track behavioral information and even the perception of security and privacy concerns, whether or not valid, may indirectly inhibit market acceptance of our services. In addition, legislative or regulatory requirements may heighten these concerns if businesses must notify users that the data captured after

visiting Web sites may be used to direct product promotions and advertising to that user. For example, the European Union recently enacted its own privacy regulations that may result in limits on the collection and use of some user information. The United States and other countries may adopt similar legislation or regulatory requirements. If privacy legislation is enacted or consumer privacy concerns are not adequately addressed, our business, results of operations and financial condition could be harmed.

We may not be able to protect and enforce our intellectual property rights and may be infringing upon third-party intellectual property rights Our success and ability to compete depend to a significant degree on the protection of our proprietary rights. We seek to protect our proprietary rights through a combination of patent, copyright, trade secret and trademark law and assignment of invention and confidentiality agreements. The unauthorized reproduction or other misappropriation of our proprietary rights could enable third parties to benefit from our technology without paying us for it. If this occurs, our business could be materially adversely affected. In December 1998, we were granted U.S. Patent No. 5,848,396 covering the development of profiles based on viewing history and targeting advertisements based upon such profiles. We have also filed applications to register various servicemarks. We cannot assure you that any of our servicemark registrations will be approved. We cannot assure you that our patent or any future patents or servicemark registrations we receive will not be successfully challenged by others or invalidated. In addition, we cannot assure you that we do not infringe any intellectual property rights of third parties or that we will be able to prevent misappropriation of our technologies, particularly in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States.

We may be unable to manage effectively the rapid growth in our operations We have experienced rapid growth and expansion in our operations that have placed a significant strain on our managerial, operational and financial resources. Many members of our management have only recently joined us. We have grown from 12 employees as of June 30, 1998 to 118 employees as of June 30, 1999 and expect the number of employees to increase in the future. To compete successfully, we must:

. continue to improve our financial and management controls;

. enhance our reporting systems and procedures;

. continue to scale our performance marketing systems;

. expand, train and manage our work force; and . integrate new customers effectively.

We cannot be certain that our systems, procedures or controls will be adequate to support our expanding operations, or that management will be able to respond effectively to our growth. Our future results of operations also depend on the expansion of our sales, marketing and customer support departments.

We may be adversely affected if we fail to attract and retain key personnel Our success depends upon the continued services of our key technical, sales and senior management personnel, including our President and Chief Executive Officer, Gordon B. Hoffstein. Any officer or employee can terminate his or her relationship with us at any time. Our future success will also depend on our ability to attract,

train, retain and motivate highly qualified technical, marketing, sales and management personnel. Competition for these personnel is intense, and we may not be able to attract and retain them. The loss of the services of one or more of our key employees or our failure to attract additional qualified personnel could have a material adverse effect on our business, results of operations and financial condition.

Our failure or the failure of third parties to be year 2000 compliant could negatively impact our business Beginning in the year 2000, the date fields coded in some computer systems and software products will need to accept four-digit entries in order to distinguish between 21st century and 20th century dates. There is significant uncertainty regarding the potential effects of this issue. To address these concerns, we have reviewed internally developed software included in our systems. We are also working with our external suppliers and service providers to determine if third-party systems and applications will be able to interoperate with our hardware and software infrastructure in the year 2000. Based on these efforts, we believe we have no significant Year 2000 issues within our systems or services. We have not had any independent verification of our Year 2000 readiness or assessment of potential costs associated with Year 2000 risks. We also have not procured any Year 2000 specific insurance or made any contingency plans to address Year 2000 risks. Further, we have not deferred any of our ongoing development efforts to address Year 2000 issues, and do not anticipate any material payments to vendors to remediate Year 2000 problems. However, unanticipated costs associated with any Year 2000 compliance may exceed our present expectations and have a material adverse effect on our business, results of operations and financial condition.

We depend on the uninterrupted availability of the Internet infrastructure to conduct our business. We also rely on the continued operations of our customers, in particular their e-commerce sites where commercial transactions are performed, and our customers' marketing partners, in particular the Web sites and e-mail systems that host and distribute promotions, for our revenue. We are thus dependent upon the success of the Year 2000 compliance efforts of the service providers that support the Internet, our customers and their marketing partners. Interruptions in the Internet infrastructure affecting us, our customers or their marketing partners, or the failure of the Year 2000 compliance efforts of one or more of our customers or their marketing partners, could have a material adverse effect on our business, results of operations and financial condition. Further, the marketing initiatives pursued by our prospective customers could be affected by Year 2000 issues as companies expend significant resources to correct their current systems for the year 2000. These expenditures may result in reduced funds available for Internet advertising. This could materially and adversely affect our business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000 Compliance."

We depend on hardware and software vendors for essential products We buy and lease hardware, including our servers and storage arrays from Sun Microsystems. We also license software, including our servers' operating systems, Web server technology, database technology, graphical user interface technology and encryption technology, primarily from Sun Microsystems, Oracle Corporation and PowerSoft. The market is evolving and we may need to purchase or lease additional hardware or license

additional software to remain competitive. We may not be able to purchase or lease this hardware or license this software on a timely basis, commercially reasonable terms or at all. In addition, we may not successfully integrate any additional hardware or software.

These third-party dependencies may expose us to increased risks. These risks include the integration of new technology, the diversion of resources from the development of our own proprietary technology and our inability to generate revenue from new technology sufficient to offset associated acquisition and maintenance costs. Our inability to obtain any of these leases or licenses could delay product and service development until equivalent technology can be identified, licensed and integrated. Any such delays in services could cause our business and operating results to suffer.

We may be liable for information displayed on our customers' Web sites or within their marketing partners' Web sites or e-mail messages We may face potential liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials displayed on our customers' sites and on their marketing partners' sites and e-mail messages. We may also suffer a loss of customers or reputational harm based on such information. We do not and cannot screen all of the content generated by our customers and their partners, and we could be exposed to liability with respect to this content. Furthermore, some foreign governments have enforced laws and regulations related to content distributed over the Internet that are more strict than those currently in place in the United States.

Our insurance may not cover claims of these types or may not be adequate to indemnify us for all liability that may be imposed. There is a risk that a single claim or multiple claims, if successfully asserted against us, could exceed the total of our coverage limits. There is also a risk that a single claim or multiple claims asserted against us may not qualify for coverage under our insurance policies as a result of coverage exclusions that are contained within these policies. Any imposition of liability, particularly liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on our reputation and our business and operating results, or could result in the imposition of criminal penalties.

We expect our operating results to fluctuate and the price of our common stock could fall if quarterly results are lower than the expectations of securities analysts Our revenue and operating results may vary significantly from quarter to quarter. If our quarterly results fall below the expectations of securities analysts, the price of our common stock could fall. A number of factors are likely to cause variations in our operating results, including:

. the continued acceptance of online commerce;

. demand for and the timing of sales of our services;

. changes in the rapidly evolving market for Internet performance marketing services;

. delays in introducing new services;

. the timing of when we initially integrate our services with our new customers' systems and how long it takes them to generate significant regular online sales or traffic;

. possible seasonality of the online sales of our e-merchant customers, most of whom sell goods and service at the retail level; and . increased expenses, whether related to capital expenditures, sales and marketing, product development or administration.

Accordingly, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. You should not rely on the results of one quarter as an indication of our future performance.

We may be unable to fund our debt service, operating and capital requirements satisfactorily We expect the net proceeds from this offering, our current cash and cash equivalents and borrowings to meet our debt service, operating and capital requirements for at least the next 12 months. After that, we may need to raise additional funds. We cannot be certain that we will be able to obtain additional financing on favorable terms, if at all. If we issue equity securities, stockholders may experience additional dilution or the holders of the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds when needed, on acceptable terms, we may not be able to develop or enhance our services, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. This could seriously harm our business, results of operations and financial condition.

We plan to devote substantial resources to expand our existing data center and open additional data centers in 1999 and 2000. In addition, we expect to make significant investments in sales and marketing and the development of new services as part of our business strategy. The failure to generate sufficient cash from operations or to raise sufficient funds to finance this growth could require us to delay or abandon some or all of our plans or otherwise forego market opportunities. This could make it difficult for us to respond to competitive pressures.

We face many challenges in connection with our planned international expansion We intend to expand our international operations and international sales and marketing efforts. To date, we have limited experience in developing localized versions of our services and in marketing, selling and distributing our services internationally. We have agreed to establish performance marketing programs for an existing customer in Europe and may establish additional programs in additional European countries and Japan. Our success in these markets will depend on the success of our customers in these countries.

International operations are subject to other inherent risks, including:

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

. changes in regulatory requirements;

. potentially adverse tax consequences;

. difficulties and costs of staffing and managing foreign operations;

. political and economic instability;

. fluctuations in currency exchange rates; and . seasonal reductions in business activity during the summer months in Europe and some other parts of the world.

These risks may materially and adversely affect our business, results of operations or financial condition.

Management may invest or spend the proceeds of this offering in ways with which you may not agree Our board of directors and management will have significant flexibility in applying the net proceeds of this offering. As of the date of this prospectus, we do not have plans for using most of the proceeds from this offering other than for working capital and general corporate purposes, which may include the prepayment of certain existing indebtedness.

Risks Related to the Internet Industry We depend on the continued viability of the Internet infrastructure Our success depends upon the development and maintenance of a viable Internet infrastructure. The current Internet infrastructure may be unable to support an increased number of users. The timely development of products such as high-speed modems and communications equipment will be necessary to continue reliable Internet access. Furthermore, the Internet has experienced outages and delays as a result of damage to portions of its infrastructure. Outages and delays, including those resulting from Year 2000 problems, could adversely affect Web sites, e-mail and the level of traffic on the Web sites of our customers and their marketing partners. We also depend upon Internet access providers that provide consumers with access to our services. In the past, users have occasionally experienced difficulties due to 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 have a material adverse effect on our business, results of operations and financial condition. Finally, the effectiveness of the Internet may decline due to delays in the development or adoption of new standards and protocols designed to support increased levels of activity. If new standards or protocols are developed, we may be required to incur substantial expenditures to adapt our products.

The demand for our services could be negatively affected by a reduced growth of e-commerce Our future success is dependent on an increase in the use of the Internet for business transactions with consumers. The electronic commerce market is new and rapidly evolving and the extent of consumer acceptance of the Internet is uncertain. If a sufficiently broad base of consumers do not accept the use of the Internet for transacting business, our business, results of operations and financial condition could be materially and adversely affected.

Technical change may render our services obsolete The Internet and marketing on the Internet are characterized by rapidly changing technologies, evolving industry standards, frequent new product and service introductions and changing customer demands. Our future success will depend on our ability to provide sophisticated technological services to customers who lack the expertise, technology, resources or capital to perform the services themselves. Technological developments that decrease these barriers to entry may adversely affect the market for our services. In addition, the establishment of technological developments or industry standards that make delivery of Internet advertising and marketing solutions difficult or obsolete may adversely affect our business, results of operation and financial condition.

Projections included in this prospectus relating to the growth of e-commerce and the Internet are based on assumptions that could turn out to be incorrect and actual results could be materially different from the projections This prospectus contains various third-party data and projections, including those relating to revenue generated by electronic commerce, the number of Internet users and the amount of Internet advertising. These data and projections have been included in studies prepared by independent market research firms, and the projections are based on surveys, financial reports and models used by these firms. Actual results or circumstances may be materially different from the projections. This could reduce our revenue and harm our operating results. These data and projections are inherently imprecise and investors are cautioned not to place undue reliance on them.

Risks Related to the Securities Markets Our stock price may be volatile Prior to this offering, investors could not buy or sell our common stock publicly. An active public market for our common stock may not develop or be sustained after the offering. We will negotiate the initial public offering price with the representatives of the underwriters based on several factors. The market price of the common stock after this offering may vary from the initial public offering price. Fluctuations in market price and volume are particularly common among securities of Internet and other technology companies. The market price of our common stock may fluctuate significantly in response to the following factors, some of which are beyond our control:

. variations in quarterly operating results;

. changes in market valuations of Internet and other technology companies;

. our announcements of significant contracts, acquisitions, strategic partnership, joint ventures or capital commitments;

. failure to complete significant sales;

. additions or departures of key personnel;

. future sales of common stock; and . changes in financial estimates by securities analysts.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its stock. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources.

Substantial sales of our common stock could cause our stock price to decline Sales of a substantial number of shares of common stock after this offering could adversely affect the market price of the common stock. On completion of this offering, we will have shares of common stock outstanding and shares subject to outstanding options. The shares sold in this offering will be freely tradable without restriction or further registration under the federal securities laws unless purchased by our "affiliates" as that term is defined in Rule 144. The remaining shares, or %, of common stock outstanding on completion of the offering will be "restricted securities" as that term is defined in Rule 144. Our directors, executive officers and other stockholders who collectively beneficially own approximately % of our outstanding stock have entered into lock-up agreements that limit their ability to sell common

stock. These stockholders have agreed not to sell or otherwise dispose of any shares of common stock for a period of 180 days after the date of this prospectus without the prior written approval of Donaldson, Lufkin & Jenrette Securities Corporation. When the lock-up agreements expire, most of the restricted securities will become eligible for sale.

Our existing stockholders will be able to control all matters requiring stockholder approval and could delay or prevent someone from acquiring or merging with us on terms favored by a majority of our independent stockholders On completion of this offering, our executive officers and directors and their affiliates will beneficially own approximately % of our outstanding common stock. As a result, these stockholders will be able to exercise control over the company's operations and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could delay or prevent a third party from acquiring or merging with us.

Anti-takeover provisions in our charter documents and Delaware law could prevent or delay a change in control of our company Some provisions of our certificate of incorporation and by-laws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable, which could reduce the market price of our common stock. Such provisions include:

. authorizing the issuance of blank check preferred stock or additional shares of common stock;

. providing for a classified board of directors with staggered, three-year terms;

. providing that directors may only be removed for cause by a two-thirds vote of stockholders;

. limiting the persons who may call special meetings of stockholders;

. prohibiting stockholder action by written consent; and . establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

Delaware law may also discourage, delay or prevent a third party from acquiring or merging with us.

Investors will experience immediate dilution The initial public offering price is expected to be substantially higher than the book value per share of the outstanding common stock immediately after this offering. Accordingly, if you purchase common stock in the offering, you will incur immediate dilution of approximately $ in the book value per share of the common stock from the price you pay for the common stock.

The forward-looking statements we make in this prospectus might prove inaccurate. As a result, our actual results, levels of activity, performance or achievements may differ materially from those expressed in the forward-looking statements Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus constitute forward- looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or other comparable terminology. These statements involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be

materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. These factors include, among other things, the risk factors discussed above.

We cannot guarantee any future results, levels of activity, performance or achievements. Moreover, neither we nor anyone else assumes responsibility for the accuracy and completeness of these statements. We do not intend to update any of the forward-looking statements after the date of this prospectus.

Use of Proceeds

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   We estimate that the net proceeds from our sale of      shares of common
stock at an initial public offering price of $      per share to be $
(approximately $         if the underwriters' over-allotment option is
exercised in full), after deducting estimated underwriting discounts and
offering expenses payable by us.
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Our primary purposes for this offering are to increase our equity capital, create a public market for our common stock and facilitate our future access to public equity markets. We intend to use our net proceeds of this offering for working capital and other general corporate purposes, including expansion of our existing data center and the addition of new data centers. We also intend to increase our expenditures relating to sales and marketing and product development activities. As of June 30, 1999, we had outstanding the following principal amounts under certain credit arrangements that we may repay, in whole or in part, with a portion of the proceeds of this offering:

. $5,000,000 with an interest rate of 12% per annum under a subordinated debt agreement, to be repaid in equal monthly installments of principal beginning December 1999 and ending November 2001; and . $1,824,228 with an interest rate of 6.8% per annum under a revolving capital equipment line of credit with each borrowing under the line to be repaid in equal monthly installments of principal over four years from the date of that borrowing.

These borrowings were used to provide working capital and to acquire computer equipment, furniture and fixtures.

We have not identified specific uses for a substantial portion of our net proceeds of this offering, and we will have discretion over their use and investment. Pending use of the net proceeds, we intend to invest these proceeds in short-term, investment grade, interest-bearing securities.

Dividend Policy

We currently intend to retain future earnings, if any, to finance our growth. We have not paid any cash dividends since January 1, 1996 and do not anticipate paying cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, restrictions in financing agreements and plans for expansion.

Under the terms of our existing subordinated debt agreement, we are prohibited from paying any cash dividends without the prior consent of our lenders.

Capitalization

The following table sets forth our capitalization as of June 30, 1999 on an actual basis and pro forma as adjusted basis. This information should be read in conjunction with our consolidated financial statements and related notes, all included elsewhere in this prospectus.

The pro forma as adjusted basis:

. gives effect to the automatic conversion of all outstanding shares of preferred stock into shares of common stock upon the closing of this offering; and

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. reflects our receipt and application of the estimated net proceeds from
  the sale of            shares of common stock in this offering at an
  assumed initial public offering price of $          per share after
  deducting the estimated underwriting discounts and offering expenses
  payable by us.
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Shares of common stock reflected by this table exclude:

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.     shares issuable upon the exercise of outstanding options with a
  weighted average exercise price of $     per share;
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. shares available for issuance and grant under our 1998 Stock Incentive Plan, net of outstanding options; and

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.     shares issuable upon the exercise of outstanding warrants at a
  weighted average exercise price of $     per share.
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As of June 30, 1999 Pro Forma As Actual Adjusted Cash, cash equivalents and marketable securities..... $24,324,816 $ Current portion of long-term debt..... $ 1,932,355 $1,932,355 Long-term debt, net of current portion..... $ 6,018,464 $6,018,464 Series A Convertible Participating Preferred Stock; $.01 par value; 11,300,000 shares authorized, actual: 10,600,000 shares issued and outstanding, actual; none authorized, issued and outstanding, pro forma as adjusted..... 9,899,507 -- Series A Convertible Participating Preferred Stock Warrants: 700,000 warrants, exercise price $1.00..... 540,000 -- Series B Convertible Participating Preferred Stock; $.01 par value; 13,196,522 shares authorized, actual: 13,196,522 shares issued and outstanding, actual; none authorized, issued and outstanding, pro forma as adjusted..... 25,450,975 -- Stockholders' equity (deficit): Common stock, $0.01 par value; 55,000,000 shares authorized, actual; shares authorized, pro forma as adjusted: shares issued, actual; shares issued pro forma as adjusted..... Additional paid-in capital..... Unearned compensation..... (3,522,819) Shareholders notes receivable..... (309,659) Accumulated deficit..... (12,484,321) Treasury stock, at cost (shares, actual and pro forma as adjusted)..... (1,593,239) Total stockholders' equity (deficit)..... (16,494,073) Total capitalization..... $25,414,873 $

Dilution

The pro forma net tangible book value of our common stock as of June 30, 1999 was $19,396,409, or $ per share, after giving effect to the automatic conversion of all outstanding shares of preferred stock into shares of common stock upon the closing of this offering. After giving effect to the sale of common stock pursuant to this offering at an assumed initial public offering price of $ per share, assuming the underwriters' option to purchase additional shares in this offering is not exercised, and after deducting estimated underwriting discounts and offering expenses, the adjusted pro forma net tangible book value as of June 30, 1999 would have been $ or $ per share.

Pro forma net tangible book value per share before the offering has been determined by dividing pro forma net tangible book value (total tangible assets less total liabilities) by the pro forma number of shares of common stock outstanding as of June 30, 1999. This offering will result in an increase in pro forma net tangible book value per share of $ to existing stockholders and dilution in pro forma net tangible book value per share of $ to new investors who purchase shares in this offering. Dilution is determined by subtracting pro forma net tangible book value per share from the assumed initial public offering price of $ per share. The following table illustrates this dilution:

Assumed initial public offering price per share	$
Pro forma net tangible book value per share as of June 30, 1999	$
Increase attributable to sale of common stock in this offering	
Pro forma net tangible book value per share after this offering	
Dilution of net tangible book value per share to new investors	$

If the underwriters exercise their option to purchase additional shares in this offering, the pro forma net tangible book value per share after the offering would be $ per share, the increase in net tangible book value per share to existing stockholders would be $ per share and the dilution to new investors would be $ per share.

The following table summarizes, on a pro forma basis as of June 30, 1999, the differences between the total consideration paid and the average price per share paid by the existing stockholders and the new investors with respect to the number of shares of common stock purchased from us based upon an assumed initial public offering price of $ per share:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders		%		%	$
New investors					
Total		100%		100%	

These tables assume no exercise of stock options or warrants outstanding as of , 1999. At , 1999, there were shares of common stock issuable upon exercise of outstanding stock options at a weighted average exercise price of $ per share. Upon completion of this offering, there will be outstanding warrants to purchase shares of common stock at a weighted-average exercise price of $ per share. To the extent that outstanding options or warrants are exercised in the future, there will be further dilution to new investors.

Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus. The consolidated statement of operations data for the fiscal years ended December 31, 1996, 1997 and 1998 and the consolidated balance sheet data as of December 31, 1997 and 1998 are derived from our consolidated financial statements audited by PricewaterhouseCoopers LLP, independent accountants. The consolidated statement of operations data for the six-month periods ended June 30, 1998 and 1999 and the consolidated balance sheet data as of June 30, 1999 are derived from our unaudited consolidated financial statements included elsewhere in this Prospectus. The consolidated statement of operations data for the years ended December 31, 1994 and 1995 and the consolidated balance sheet data as of December 31, 1994, 1995 and 1996 are derived from our unaudited consolidated financial statements not included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and, in our opinion, include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of our results of operations and financial position for these periods. These historical results are not necessarily indicative of results to be expected for any future period.

In the third quarter of 1997 we began providing performance marketing services. Prior to that time, we provided customers certain software development services which are reflected as other revenue.

Unaudited pro forma basic and diluted net loss per share have been calculated assuming the conversion of all outstanding shares of preferred stock into shares of common stock, as if the shares had converted immediately upon issuance. Accordingly, accretion of preferred stock to redemption value has not been included in the calculation of unaudited pro forma basic and diluted net loss per share.

Selected Consolidated Financial Data (In thousands, except per share data)

	Year Ended December 31,					Six Months Ended June 30,	
	1994	1995	1996	1997	1998	1998	1999
Statement of Operations Data:							
Revenue:							
Performance marketing services	$--	$--	$ --	$ 216	$ 1,319	$ 617	$ 1,396
Other	662	463	196	60	8	3	--
Total revenue	662	463	196	276	1,327	620	1,396
Operating expenses:							
Cost of revenue	--	--	--	273	424	156	238
Sales and marketing	83	49	398	180	1,454	146	4,496
Development and engineering	210	274	505	426	729	292	1,482
General and administrative	192	125	558	332	875	231	854
Equity related compensation	--	--	--	--	1,312	--	533
Total operating expenses	485	448	1,461	1,211	4,794	825	7,603

Operating income (loss)..	177	15	(1,265)	(935)	(3,467)	(205)	(6,207)
Interest income (expense), net.....	30	(5)	(26)	(99)	(224)	(61)	(168)
Net income (loss).....	207	10	(1,291)	(1,034)	(3,691)	(266)	(6,375)

Accretion of preferred stock to redemption value..... -- -- -- -- (56) -- (590) Net income (loss) attributable to common stockholders..... $207 $ 10 $(1,291) $(1,034) $(3,747) $(266) $(6,965) Basic and diluted net income (loss) per share. $ $ $ $ $ $ $ Shares used in computing basic and diluted net income (loss) per share.

Unaudited pro forma basic and diluted net loss per share..... $ $ Shares used in computing pro forma basic and diluted net loss per share.....

	As of December 31,					As of June 30,
	1994	1995	1996	1997	1998	1999
Balance Sheet Data:						
Cash, cash equivalents and marketable securities.....	$ 30	$ 90	$ 25	$ 76	$ 4,327	$24,325
Working capital (deficit).....	156	169	(443)	(502)	3,422	21,032
Total assets.....	257	294	140	254	5,971	30,183
Long-term debt, net of current portion.....	48	62	751	333	4,949	6,018
Convertible preferred....	--	--	--	--	9,815	35,350
Total stockholders' equity (deficit).....	158	168	(1,104)	(1,897)	(10,526)	(16,494)

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

This prospectus contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in the forward-looking statements.

Overview

We are a leading provider of services that enable e-merchants and Internet portals to promote their products and services in tens of thousands of locations on the Internet and to pay for these promotions based on performance. Our solutions-BFAST affiliate marketing services, B-INTOUCH e-mail referral services and BFIT advertising services-are designed to increase our customers' online sales or traffic and to decrease their cost of customer acquisition.

Be Free was originally incorporated in January 1996 as Freedom of Information, Inc. We changed our name to Be Free in March 1999. In August 1998, we combined with two affiliated companies under common control and management in a share exchange and these affiliated companies became our subsidiaries. Initially we provided customized software development and support services for automating marketing programs. In 1996 we began to change our focus to performance marketing solutions, although we continued to provide customized software and support services on a limited

basis through the third quarter of 1998. The financial statements and data for us and these two affiliated companies, including the description of our financial condition and results of operations, are set forth on a consolidated basis for all periods presented.

To date, we have generated our performance marketing services revenue primarily from our BFAST affiliate marketing services. In general, we enter into a standard service agreement that requires our BFAST customers to pay us a one-time integration fee and monthly performance fees, subject to minimum monthly or annual fees, for the use of our data interchange. For our e-merchant customers, the performance fees are generally based on either a percentage of the sales generated or on the number of transactions or orders generated by their marketing partners. For our portal customers, the performance fees are generally based on the volume of click-throughs generated by their marketing partners. In addition to the core BFAST service, we also offer related service options, such as affiliate commission payment services, which customers may select on an item-by-item basis for set fees. We also generate revenue through our other performance marketing services-BFIT, a service that tracks the effectiveness of customers' banner ads, launched in the second quarter of 1998, and B-INTOUCH, an e-mail referral service, launched in the third quarter of 1999. Our BFIT customers pay us based on the number of impressions served. Our B-INTOUCH customers typically pay us based on the sales or traffic generated by these promotions. We are seeking to develop additional performance marketing services.

We have incurred significant net losses and negative cash flows from operations since the commencement of our performance marketing business, and as of June 30, 1999, had an accumulated deficit of approximately $12.5 million. We had net losses of approximately $3.7 million in 1998 and $6.4 million in the first six months of 1999. These losses have been funded primarily through the issuance of preferred stock. We intend to continue to invest in our technology and infrastructure, including investment in our existing data center and new data centers. We intend to increase our expenditures relating to sales and marketing and product development activities. As a result, we believe that we will continue to incur operating losses and negative cash flow from operations for the foreseeable future and that the rate at which such losses will be incurred may increase from current levels.

Results of Operations The following table sets forth consolidated statement of operations data as a percentage of total revenue for the periods indicated. The historical results are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31,			Six Months Ended June 30,	
	1996	1997	1998	1998	1999
Revenue:					
Performance marketing services	-- %	78 %	99 %	100 %	100 %
Other	100	22	1	--	--
Total revenue	100	100	100	100	100
Operating expenses:					
Cost of revenue	--	99	32	25	17
Sales and marketing	203	65	109	24	322
Development and engineering	258	154	55	47	106

General and administrative	284	120	66	37	61
Equity related compensation	--	--	99	--	38
Total operating expenses	745	438	361	133	544
Operating loss	(645)	(338)	(261)	(33)	(444)
Interest expense (net)	(13)	(36)	(17)	(10)	(12)
Net loss	(658)%	(374)%	(278)%	(43)%	(456)%

Revenue

To date, performance marketing services revenue has included BFAST integration fees and monthly service fees as well as BFIT monthly service fees. Integration fees are recognized when a customer begins accepting applications from potential marketing partners for their affiliate sales channel. BFAST and BFIT service fees are recognized monthly. Other revenue reflects customized software development and support services. We no longer offered these services after September 30, 1998.

Revenue from performance marketing services was first recognized in 1997 and increased to $1.3 million in 1998 from $216,000 in 1997 as a result of increases in our BFAST customer base and the introduction of BFIT. Other revenue declined to $60,000 in 1997 from $196,000 in 1996 as a result of the continued reduction of customized software development and support services. Other revenue declined to $8,000 in 1998 when the final support contract for customized software expired.

Revenue from performance marketing services increased to $1.4 million for the six months ended June 30, 1999, from $617,000 for the six months ended June 30, 1998, as a result of increases in our BFAST customer base and as the level of transactions tracked by our services grew on average for each customer. Other revenue declined to zero for the six months ended June 30, 1999 from $3,000 for the six months ended June 30, 1998 when the last support contract for customized software expired.

Cost of Revenue

Cost of revenue consists of expenses related to the operation of our data interchange. These expenses primarily include depreciation for systems and storage equipment, costs for a third-party data center facility and costs for Internet connectivity to our customers and their marketing partners.

Cost of revenue was $273,000 in 1997 as a result of the introduction of BFAST. Cost of revenue increased to $424,000 in 1998 as we expanded our server and storage equipment and moved this equipment to a third-party facility. However, cost of revenue decreased to 32% of total revenue in 1998 from 99% of total revenue in 1997, primarily from the increased utilization of our server and storage equipment resulting from an increased customer base and usage of our services.

Cost of revenue increased to $238,000 for the six months ended June 30, 1999, from $156,000 for the six months ended June 30, 1998, as a result of increased depreciation and amortization reflecting higher equipment levels. As a percentage of total revenue, cost of revenue decreased to 17% of total revenue from 25% of total revenue over these periods as a result of higher utilization of our server and storage equipment. In order to maintain targeted service levels, we will be required to add equipment in advance of anticipated future growth and this growth may not materialize as expected. Cost of revenue as a percentage of total revenue may increase in the future as we add additional equipment to support anticipated future growth.

Sales and Marketing Expenses Sales and marketing expenses consist of payroll and related costs for our sales, customer service, marketing and business development groups. Also included are the costs for marketing programs to promote our services to our current and prospective customers, as well as programs to recruit marketing partners for our current customers.

Sales and marketing expenses decreased to $180,000 in 1997 from $398,000 in 1996 primarily as a result of approximately $250,000 in marketing-related license fees incurred in 1996. Sales and marketing expenses increased to $1.5 million in 1998 as the result of the establishment of direct sales and internal telesales groups and the use of third party public relations services.

Sales and marketing expenses increased to $4.5 million for the six months ended June 30, 1999, from $146,000 for the six months ended June 30, 1998, as a result of the continued increase in our direct sales and internal telesales forces, as well as an increase in our general marketing efforts and the establishment of a recruitment program to assist customers in attracting marketing partners. We expect that sales and marketing expenses will continue to increase in amount in future periods to support expected growth.

Development and Engineering Expenses Development and engineering expenses primarily include payroll and related costs for our product development and engineering groups and depreciation related to equipment used for development purposes. The product development group designs and develops the underlying technologies for our BFAST, B-INTOUCH and BFIT services and the engineering group develops and manages the infrastructure necessary to support our services. Prior to 1998, development and engineering expenses also included the expenses related to customized software development and support services.

Development and engineering expenses decreased to $426,000 in 1997 from $505,000 in 1996 primarily as a result of certain engineering start-up expenses that were incurred in 1996 with the initial development of our performance marketing technologies. Development and engineering expenses increased to $729,000 in 1998 as a result of an increase in product development and engineering personnel.

Development and engineering expenses increased to $1.5 million for the six months ended June 30, 1999, from $292,000 for the six months ended June 30, 1998, primarily as a result of further personnel growth and additional depreciation and amortization charges related to the purchase of additional development and engineering hardware and software.

General and Administrative Expenses General and administrative expenses principally consist of payroll and related costs and professional fees related to our general management, finance and human resource functions. Facility and related costs are allocated to sales and marketing, development and engineering and general and administrative expenses based upon the relative number of employees in each area.

General and administrative expenses decreased to $332,000 in 1997 from $558,000 in 1996 primarily as a result of a higher level of professional fees incurred in 1996 in connection with a contemplated financing. General and administrative expenses increased to $875,000 in 1998 as a result of increased

professional fees related to financing efforts and increased personnel and related costs resulting from the addition of a new executive management team.

General and administrative expenses increased to $854,000 for the six months ended June 30, 1999, from $231,000 for the six months ended June 30, 1998, as a result of increased personnel and related costs.

Equity Related Compensation Expenses Equity related compensation expenses are non-cash charges representing the difference between the exercise price of options to purchase common stock granted to our employees and the price paid for restricted stock sold to our employees and the fair value of these shares as of the date of grant, as subsequently determined for financial reporting purposes. These expenses also include the fair value of options granted to our consultants as of the date of grant, as subsequently determined for financial reporting purposes. These fair values were determined in accordance with Accounting Principles Board Opinion 25 and Statement of Financial Accounting Standards 123. We did not incur any equity related compensation expenses in 1996 or in 1997. Equity related compensation expenses were $1.3 million in 1998 and $533,000 for the six months ended June 30, 1999.We expect to recognize additional equity related compensation expenses of at least $250,000 per quarter through the end of 2002 as a result of the issuance of stock and stock options to employees and others with exercise prices per share subsequently determined to be below the fair market values per share of our common stock for financial reporting purposes at the dates of grant. The stock compensation is being expensed over the vesting period of the applicable stock awards or options.

Interest Expense (net) Interest expense (net) is comprised of interest expense on our borrowings, partially offset by interest income earned on our cash balances.

As a result of increased borrowings used to finance the growth of our business, interest expense (net) increased from $26,000 in 1996 to $99,000 in 1997 and to $224,000 in 1998. Interest expense (net) increased from $61,000 for the six months ended June 30, 1998 to $168,000 for the six months ended June 30, 1999.

Consolidated Quarterly Results of Operations The following table sets forth unaudited consolidated quarterly statement of operations data for the eight quarters ended June 30, 1999. This unaudited consolidated quarterly information has been derived from our unaudited consolidated financial statements and, in the opinion of management, have been prepared on a basis consistent with the financial statements contained elsewhere in this prospectus and includes all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the information for the periods covered when read in conjunction with our financial statements and related notes. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

Quarter Ended Sep. 30, Dec. 31, Mar. 31, Jun. 30, Sep. 30, Dec. 31 Mar. 31, Jun. 30, 1997 1997 1998 1998 1998 1998 1999 1999 (in thousands)

Revenue:								
Performance marketing services	$ 48	$ 169	$ 237	$383	$ 313	$ 386	$ 533	$ 863
Other	19	11	--	--	8	--	--	--
Total revenue	67	180	237	383	321	386	533	863

Operating expenses:								
Cost of revenue.....	84	96	89	67	70	198	101	137
Sales and marketing...	36	33	125	147	267	915	1,734	2,762
Development and engineering.....	72	94	116	177	106	330	562	920
General and administrative.....	168	154	47	59	327	442	351	503
Equity related compensation.....	--	--	--	--	1,252	60	216	317
Total operating expenses.....	360	377	377	450	2,022	1,945	2,964	4,639
Operating loss.....	(293)	(197)	(140)	(67)	(1,701)	(1,559)	(2,431)	(3,776)
Interest income (expense), net.....	(26)	(32)	(33)	(28)	(25)	(138)	(216)	48
Net loss.....	$(319)	$(229)	$(173)	$(95)	$(1,726)	$(1,697)	$(2,647)	$(3,728)

Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future due to a variety of factors, including:

. the continued acceptance of online commerce;

. demand for and the timing of sales of our services;

. changes in the rapidly evolving market for Internet performance marketing services;

. delays in introducing new services;

. the timing of when we initially integrate our services with our new customers' systems and how long it takes them to generate significant regular online sales or traffic;

. possible seasonality of the online sales of our e-merchant customers, most of whom sell goods and service at the retail level; and . increased expenses, whether related to capital expenditures, sales and marketing, product development or administration.

Liquidity and Capital Resources We have financed our operations to date primarily through the private sale of equity securities and borrowings. Net proceeds from financing activities from January 1, 1998 through June 30, 1999 included:

. approximately $10.4 million received upon the sale of Series A preferred stock and common stock purchase warrants in August and September 1998;

. approximately $24.9 million received upon the sale of Series B preferred stock in March 1999; and . approximately $8.0 million in borrowings under various credit facilities and capital lease agreements.

Cash used in operating activities was $2.4 million and $4.7 million in 1998 and 1999, respectively. Cash used in operating activities during 1998, resulted from net losses and deposits of $384,000 required primarily for our new offices and related expenditures. These amounts were partially offset by an increase of $345,000 of accounts payable and accrued expenses. In the six months ended June 30, 1999, cash used in operating activities resulted from net losses and from an increase of $534,000 in prepaid expenses primarily relating to sales commissions paid for revenue to be recognized in future periods and payments under annual hardware and software maintenance contracts. These amounts

were partially offset during the first six months ended June 30, 1999 by an increase of $1.1 million in deferred revenue for payments received from certain customers for future services, and by an increase of $779,000 of accounts payable and accrued expenses.

Through June 30, 1999, our investing activities for our business have consisted primarily of capital expenditures totaling $610,000 and $598,000 in 1998 and the six months ended June 30, 1999, respectively. These capital expenditures were incurred primarily to acquire computer hardware and software for our operations and our internal use. We expect that as our customer base and employee base grow, we will require additional computer hardware and software and our related capital expenditures will increase significantly. We currently have no material commitments to make future capital expenditures.

At June 30, 1999 we had $24.3 million in cash, cash equivalents and marketable securities and $21.0 million in working capital. In addition we have agreements for a $5.0 million line of credit that bears interest at 12% per annum and a $2.0 million equipment line of credit that bears interest at 6.8% per annum. The $5.0 million line of credit provides for principal payments in equal monthly installments commencing in December 1999 and ending November 2001. The $2.0 million equipment line of credit provides for principal payments in monthly installments over a period of four years from the date of each borrowing. At June 30, 1999 we had borrowed substantially all of the amounts available under these lines of credit. During the first six months ended June 30, 1999, we prepaid $305,000 of indebtedness.

We believe that the net proceeds of this offering, together with cash on hand, cash equivalents and borrowings, will be sufficient to meet our debt service, operating and capital requirements for at least the next 12 months. After that, we may need to raise additional funds. We may seek to raise such additional funds through additional borrowings, public or private equity financings or from other sources. There can be no assurance that additional financing will be available at all or, if available, will be on terms acceptable to us.

We have not entered into any financial derivative instruments that expose us to material market risk.

Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field. In order to distinguish 21st century dates from 20th century dates, the date code field needs to be expanded to 4 digits. As a result, many companies' software and computer systems may need to be upgraded or replaced in order to function properly with dates after December 31, 1999. The use of software and computer systems that are not Year 2000 compliant could result in system failures or miscalculations resulting in disruptions of operations, including among other things, a temporary inability to process transactions, send invoices, or engage in normal business activities.

Our services rely on technology-such as Oracle-based databases, Sun Microsystems servers, proprietary programming and high-capacity Internet connections through Exodus Communications- that is relatively new and, therefore, was developed at a time when the Year 2000 issue was visible. We believe this also applies to the servers and their operating systems commonly used by our customers and with

respect to which we must integrate our technology. Based solely on the foregoing and written statements of our critical vendors regarding their Year 2000 compliance status, we have no reason to believe that the hardware and software used in the provision of our services are not currently Year 2000 compliant. We have not reviewed our non- information technology systems for Year 2000 issues relating to embedded microprocessors. Failure of our current service offerings to operate properly with regard to the Year 2000 and thereafter could require us to incur significant unanticipated expenses to remedy any problems or replace affected vendors and could have a material adverse effect on our business, operating results and financial condition.

We depend on the uninterrupted availability of the Internet infrastructure to conduct our business. We also rely on the continued operations of our customers, in particular their e-commerce sites where commercial transactions are performed, and our customers' marketing partners, in particular the affiliate sites and e-mail systems that host and distribute promotions, for our revenue. We are thus dependent upon the success of the Year 2000 compliance efforts of the service providers that support the Internet and the Year 2000 compliance efforts of our customers. We have not contacted our customers to inquire of their Year 2000 compliance status. Interruptions in the Internet infrastructure affecting us, our customers or their marketing partners, or the failure of the Year 2000 compliance efforts of one or more of our customers or their marketing partners, could have a material adverse effect on our business, results of operations and financial condition. Further, the marketing initiatives pursued by our prospective customers could be affected by Year 2000 issues as companies expend significant resources to correct their current systems for the year 2000. These expenditures may result in reduced funds available for Internet advertising. This could materially and adversely affect our business, results of operations and financial condition.

Because our internal information systems, such as our payroll and accounting systems, utilize relatively new equipment and mostly new standard software applications, we believe that such internal information systems are currently Year 2000 compliant, or will be timely made Year 2000 compliant with commercially available patches or upgrades in the ordinary course of business.

We do not separately account for Year 2000 related expenses but estimate that the expenses we have incurred to date to address Year 2000 issues have not been material and we do not expect to incur material expenses in connection with any required future remediation efforts.

At this time, we anticipate that the worst case scenario related to Year 2000 issues would involve a major shutdown of the Internet, which would result in a total loss of revenue to us, or the significant online business interruption of one or more of our larger customers, which could result in a severe loss of revenue, until it were resolved. The most reasonably likely worst case scenario would be that we would have a problem with our data interchange with our customers that would reduce the flow of tracking information or cause such information to be incorrect. This could result in substantial delays or inaccuracies in reporting information to our customers, billing our customer, paying marketing partner commissions and preparing our financial statements.

We have not developed a Year 2000 contingency plan. We expect to develop such a plan prior to December 31, 1999 to the extent that we discover Year 2000 issues that we can address with such a plan.

The information set forth above and elsewhere in this prospectus relating to Year 2000 issues constitute "Year 2000 Readiness Disclosures," as such term is defined by the Year 2000 Information and Readiness Disclosure Act of 1998, enacted October 19, 1998 (Public Law 105-271, 112 State. 2386).

Recent Accounting Pronouncements In June 1998, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. To date, we have not engaged in derivative and hedging activities, and accordingly do not believe that the adoption of the SFAS No. 133 will have a material impact on our financial reporting and related disclosures. We will adopt SFAS No. 133 as required by SFAS No. 137, "Deferral of the effective date of FASB Statement No. 133," in fiscal year 2000.

Business

We are a leading provider of services that enable e-merchants and Internet portals to market their products and services in tens of thousands of locations on the Internet and to pay for these promotions based on performance. Our e- merchant and portal customers use our services to establish and manage performance marketing relationships directly with these third party locations. We enable the third party marketing partners to integrate our customers' promotions into their Web sites and e-mail messages that contain content that is relevant to the products or services being promoted. Our e-merchant customers typically pay fees to their marketing partners based on the sales they generate. Our portal customers typically pay fees to their marketing partners based on the traffic sent to the portal. We are typically paid fees based upon the level of sales or traffic generated for our customers from these pay-for-performance efforts. We provide a cost-effective solution for establishing, managing and rewarding these performance marketing sales channels. We enable our customers to increase their sales and traffic and decrease their cost of customer acquisition.

Industry Background

The Internet has emerged as a significant communications and commerce medium. Nua Internet Surveys estimates that the number of Internet users worldwide has increased from 26 million in December 1995 to 179 million in June 1999 and expects this growth to continue with the number of online users reaching 350 million by 2005. In addition, as users gain online experience, they tend to increase the amount of time they spend on the Internet and spend their time online conducting a greater variety of activities.

Expansion and Dispersion of Content; Evolution of Internet User Habits The content available to Internet users has increased dramatically and become more widely dispersed. Increased ease and lower cost of Web publishing has permitted smaller businesses, organizations and individuals to create and host their own Web sites. The NEC Research Institute estimated that the number of pages available on the Web grew from 320 million pages in December 1997 to approximately 800 million pages in February 1999.

More experienced Internet users tend to rely increasingly on their own lists or bookmarks of Web sites, rather than on search engines and directories to access content that is of specific interest to them. While visits to high traffic Web sites such as portals have grown in absolute numbers, they represent a limited amount of all online traffic. Neilsen//NetRatings reports that the top ten portals made up 20% of the average monthly page views as measured in their home Internet user sample in June 1999.

Growth of E-commerce

The Internet has emerged as a significant sales channel for goods and services to consumers. The Internet provides a cost-effective means for e- merchants to reach a global audience, and provides consumers with increased information, broad selection and greater convenience.

In November 1998, Forrester Research projected that total online U.S. consumer spending will grow to $108 billion in 2003, accounting for about 6% of the $1.8 trillion in expected overall consumer spending that year:

1998 1999 2000 2001 2002 2003 Total U.S. online consumer spending (billions)..... $ 7.8 $ 18.1 $ 33.0 $ 52.2 $ 76.3 $108.0 U.S. households online (millions)..... 28.6 33.5 38.3 43.5 48.6 52.8 U.S. households shopping online (millions)..... 8.7 13.1 17.7 23.1 30.3 40.3 Average online expenditures per U.S. household..... $ 899 $1,385 $1,864 $2,259 $2,518 $2,678 Experienced Internet users are more likely to purchase goods or services online than new Internet users. Forrester Research also reported in September 1998 that 15% of users with less than 18 months of Internet experience purchase online, but that percentage increases to 39% for users with more than 42 months of experience.

The Evolution of Internet Marketing In response to increasing demand for online products and services, and as the Internet and electronic commerce expand, e-merchants and portals are increasingly adopting online promotions to reach a global audience for their products and services, drive traffic to their Web sites, attract customers and facilitate transactions.

Initially, Internet advertising took the form of banner ads, similar to advertising billboards, typically placed on portals and other high-traffic Web sites. Advertising networks then emerged to allow banner ads to be placed across multiple sites that did not have sufficient traffic individually to appeal to larger advertisers. In order to allow different advertisements to appear on the same space on a Web page, portals and advertising networks require banner ads of specific size and format, generally in a rectangular shape. Under this model, advertisers generally pay a fee each time an ad is displayed on a cost-per-thousand-impressions basis. These pay-for-display campaigns are typically evaluated based on the number of times a user clicks on the banner ad and is directed to the e-merchant site.

E-merchants face an increasingly difficult and expensive task in converting viewers of banner ads into shoppers and eventually buyers. Banner ad click- through rates have decreased significantly from 2.11%, as reported by I/Pro in October 1996, to 0.37%, as reported by Nielsen//NetRatings for the week ended June 30, 1999. Forrester Research reported in September 1998 that 38% of people online for more than 42 months have indicated that they have never clicked on a banner ad and that they are less likely to click on a banner ad than users online less than six months. We believe that decreasing click-through rates result from the lack of integration and relevance of the banner ads with the content of the site where they are displayed.

E-merchants also face an increasing challenge in reaching their audience. More experienced Internet users who are more likely to buy online spend a smaller percentage of their time on portals, and instead focus on content sites that match their interests. With millions of sites displaying hundreds of millions of pages of content, e-merchants must identify and form partnerships with an increasing number of Web sites that might appeal to their buying audience. The decreased effectiveness of banner ads together with the e- merchant's desire to expand promotional reach have led to the development of online promotions targeted to specific Web sites with relevant content and consumers, with the marketing partners rewarded according to the actual results they generate.

The Emergence of Affiliate Sales Channels By the end of 1996, a few leading e-merchants began to develop new sales channels consisting of affiliated third-party Web site publishers hosting a variety of promotions for the e-merchant's goods and services. In establishing these new affiliate sales channels, e-merchants generally paid commissions to the Web site publishers based on the sales generated by the ads or promotions. These affiliate sales channels were the first widely introduced type of performance marketing program.

These affiliate sales channels had benefits for both the e-merchants and their affiliated Web site publishers. E-merchants could pay for their marketing based upon the performance of the promotions, making it more cost-effective to partner with a broader array of third parties than under pay-for-display methods. Web site publishers could generate revenue from their Web pages at little or no cost and use ad space that might otherwise go unsold, since there was no limit to the number of promotions they could run. The Web site publishers could choose the location and type of promotions, leading to better merchandising and increased effectiveness of the promotions which would benefit both the e-merchant and the Web site publisher.

Initially, e-merchants built their own systems for developing, managing and tracking affiliate sales channels. Most of these internally developed systems track activity only on the e-merchant's site. Using internal techniques for tracking users to point of sale, the e-merchant could then determine the sales generated by promotions hosted by each partner and pay commissions accordingly.

The Challenges of Internally Developing and Managing Affiliate Sales Channels E-merchants face many challenges in building an affiliate sales channel or other performance marketing program on a broad scale. Tracking individual transactions through to point of sale requires that e-merchants and their marketing partners exchange data, usually by creating special links that are specific to the marketing partner and the product or service to which the marketing partner is linking. Recording

orders, order cancellations, sales and returns requires that these systems be integrated with both the e-merchant's transactional and fulfillment systems, which are often separate. Following this integration, the process of transmitting data between disparate systems must be monitored for success and accuracy. Developing the necessary technology, which may involve tracking promotions viewed millions of times on thousands of separate affiliate sites, is time consuming and expensive. An e-merchant faces additional expense to acquire and maintain the equipment needed to track, store and analyze this data once collected.

E-merchants also face challenges in managing their relationships, often with tens of thousands of marketing partners, including:

. creating a wide variety of promotional links for each of its various products or services;

. generating, placing and replacing the promotions selected by individual marketing partners within the context of that marketing partner's site or e-mail messages;

. measuring and managing the productivity and effectiveness of marketing partners;

. analyzing and reporting on the data collected from thousands of sources to permit better merchandising by both the e-merchant and the marketing partner;

. communicating with and making payments to thousands of marketing partners; and . enhancing their systems to reflect changes in business models and payment methods to influence the behavior of marketing partners.

Marketing partners also face challenges in realizing the potential benefits offered by performance marketing programs. They want to minimize the time and expense associated with enrolling in a performance marketing program and creating and changing promotions for a particular e-merchant. In addition, marketing partners are looking for easy, cost-effective solutions for the delivery, targeting and tracking of the promotional efforts that they run to enhance their revenue.

The Be Free Solution

We provide a comprehensive solution specifically designed to enable our e- merchant and portal customers to increase sales and decrease the cost of customer acquisition by establishing and managing their own performance marketing channels. We have developed, and continue to enhance, a broad set of technologies and services that provide a data interchange between disparate systems utilized by our customers and their thousands of performance marketing partners. Through this data interchange, we compile, store and analyze data about our customers and their marketing partners.

Merchant Connection

We integrate our systems with each customer's often disparate catalog, transactional and fulfillment systems. Through this connection, we receive and store information about available products and services and the customer's Web site. This information enables our customer's marketing partners to generate and place a variety of promotions for each of our customer's products or services. We also receive order, order cancellation, sales and return data from our customer.

Our data interchange also tracks each time a user views and clicks on a specific promotion run by any one of our customers' thousands of marketing partners. We link individual viewings and clicks to unique transactions with our customers. Promotions we tracked for our customers were shown more than 300 million times in June 1999 through more than one million performance marketing relationships our customers have established. This combination of customer and marketing partner data is stored at our central processing facilities and allows us to measure the sales or traffic performance of each specific promotion.

Management Solutions

We have significant resources and expertise dedicated to the successful implementation, development, management and control of online performance marketing programs. These solutions include:

. Establishment of sales channels. We provide online, automated application and approval processes for Web site publishers joining a customer's sales channel. We also help customers identify and recruit potential affiliates.

. Customer control of sales channel. All of our services are designed to enable a customer to maximize the efficiency of a broadly distributed sales channel. Each of our customers selects its marketing partners and determines the terms of its relationships with these marketing partners. We brand reports, communications and payments with our customer's name.

. Development and placement of promotions. We store and deliver promotions for our customers on our systems. Our customers' marketing partners can access our systems, choose among these promotions, and incorporate them into their Web sites or e-mail messages through simple procedures.

. Replacement of promotions. Since all promotions are routed through our systems before being directed to a customer's Web site, changes in that customer's Web site only require programming changes on our systems rather than the replacement of promotions by all of its marketing partners.

. Data collection and reporting. We collect and store data both from our customers and their marketing partners, tracking specific promotions through sales and returns. We provide extensive analyses online, both to our customers and to their marketing partners. Analyses can be configured to examine the performance of the entire sales channel, a specific promotion or a specific marketing partner.

. Communication and payment services. We can generate e-mail communications and payments to widely dispersed marketing partners on behalf of customers. Communications can be automatically generated and broadcast based upon e-merchant selected criteria.

. Merchandising assistance. Our reporting and communication services permit both our customers and their marketing partners to make and implement more effective merchandising decisions. Our best practices group monitors industry and competitive trends, as well as results achieved by customers generally, and shares this expertise with customers and their marketing partners. E-merchants can use our system to identify promotions or sites that are leading to high sales or return rates, manage product demand, and rank marketing partners by effectiveness.

Our solutions enable customers to pay their online marketing partners based upon performance. Our customers also pay us for our services based upon the level of activity generated from these promotional activities, typically as a percentage of the resulting sales or traffic. As a result, our economic interest is aligned with the economic interest of our customers and their marketing partners.

Strategy

Our objective is to be the leading provider of online performance marketing solutions. To achieve this objective we are focused on the following strategic initiatives:

Leverage Technology Leadership to Provide Comprehensive Solutions We intend to continue our focus on performance marketing solutions. We plan to both enhance our existing, as well as develop new, performance marketing technologies, expertise and services.

We have made significant investments in technology and personnel to develop a comprehensive set of online services specifically designed for the development of performance marketing programs, including affiliate sales channels. We believe that customers will continue to seek cost-effective solutions to establish and manage performance marketing programs.

Rapidly Expand Our Targeted Customer Base We seek continued expansion of our customer base nationally and internationally, primarily through our direct sales force. Because our revenue is tied to our customers' performance, we are currently targeting large e- merchants and portals in the U.S. as customers. We have recently begun to expand our sales efforts to the emerging online markets in Europe.

Continue to Provide Customer Branded and Controlled Solutions We enable each customer to extend its merchandising techniques to its marketing partners, with which they contract directly. Services we provide to our customers' marketing partners, including analyses, communications and payments, are customer branded. We believe customers will find our merchant branded solutions more appealing and will invest more heavily in the development and growth of these sales channels and in performance marketing solutions provided by us.

Increase the Size of Our Customers' Sales Channels We will continue to identify and recruit potential affiliates on behalf of our customers. Increasing our customers' marketing reach and revenue increases our revenue. We have launched an online affiliate recruiters program, located at www.affiliaterecruiters.com, that allows Web site publishers to promote our customers' affiliate sales channels. We are extending our Web site outreach for customers by entering into strategic partnerships with companies that provide Web site creation tools and hosting services. In addition, we are continuing to develop relationships with syndicated content providers that permit them to incorporate links to our customers in syndicated content.

Increase Our Services to Existing Customers We intend to continue to develop additional services to support new online performance marketing programs and new revenue sources for our customers and us, such as our recently developed e-mail referral services, B-INTOUCH. We are working with ad serving companies to utilize our technology to track the banner ads they deliver to point of sale on our customer sites.

Increase the Effectiveness of Our Customers' Sales Channels We intend to continue and enhance services designed to help our customers increase their sales. Our best practices research and consulting group helps our customers generate better response rates by providing industry analysis, benchmarks and merchandising expertise. We assist our customers' marketing partners to increase their traffic through various tools and techniques, such as search engine registration. We are also developing technologies to build and analyze anonymous, individual user profiles based on browsing, clicking and buying behavior, and to target promotions to a given user based on these profiles.

Expand Internationally We intend to be an early entrant and a leader in the development of performance marketing programs outside the U.S. We have expanded our services to Europe with our initial integration with Bertelsmann's online subsidiary, BOL International. We have developed German, French and Dutch interfaces for marketing partners in Europe. We will continue to develop foreign language interfaces and may establish physical operations in Europe. We may also expand our services to Japan. We will begin to target other large customers in Europe during 2000.

Services

Our data interchange provides the communications link, technologies and services for performance marketing generally and Web-based affiliate sales channels in particular. Our customers adopt a core transactional service and may then select from a number of additional services. Our core services enable the collection and tracking of data that resides on our systems in Oracle databases. Reports analyzing the data are accessible to our customers and their marketing partners from desktop computers using standard Internet protocols and standard Web browser protocols. Specifically, our systems provide:

Workflow Automation

. Automated sign-up of potential marketing partners through an online application;

. Definition and selection of marketing partners, compensation rules and methods;

. Rapid review and approval of marketing partner applications by customers;

. Generation of individualized messages from our customers to selected marketing partners; and . Payment of fees due to marketing partners.

Serving and Tracking Promotions, Routing of Users . Tracking of selected links each time a link is displayed or delivery of dynamic, rotating promotions and tracking of display of these promotions each time a dynamic link is displayed;

. Directing users clicking on any promotions to the correct location on our customer's site; and . Collection of order, order cancellation, sales and return information from our customer's systems and matching that information with marketing partner data collected by our systems.

Reporting and Decision Support . Online generation of daily customer-specific reports, including detail on orders and order cancellations, sales and returns, traffic, promotional success and payments due to marketing partners. A complete decision support system allows our customers to filter and sort these

reports and to export this data for use in a spreadsheet or word processing program;

. Modification of the available promotions and addition of new promotions instantly; and . Online generation of daily marketing partner reports including detail on orders and order cancellations, sales and returns, traffic, promotions used and success of each promotion, products purchased by the site's audience and commissions due to the marketing partner. Marketing partners may download these reports for use in a spreadsheet or word processing program.

Our services, any one or more of which may be selected, are offered as follows:

BFAST Affiliate Marketing Service BFAST allows our customers to build and maintain their own, branded affiliate sales channels. Our customers use BFAST to create and build these sales channels and to evaluate their affiliates using more than 80 online analyses. BFAST enables customers to create and offer promotions, including individual product links, search links, product category links, coupons and other incentives appearing in a variety of formats including text, graphics, search boxes, regularly updated "top 10" lists and streaming video. Each affiliated Web site publisher can select the promotions that are most likely to appeal to its audience and use BFAST to generate the code it needs to add those promotions to its site. These affiliates can check the performance of each promotional initiative they implement with daily reporting.

We also provide optional services to help recruit affiliates for our customers' affiliate sales channels and provide merchandising advice directly to affiliates. Our affiliate outreach services include recruitment by affiliate recruiters, direct mail to Web site managers who have requested this information, sponsorship of newsletters, and banner advertising. We also offer affiliate application review and approval services, where we accept affiliate applications on behalf of our customers based upon their established criteria. We can provide customer-branded support by telephone and e-mail to affiliated Web site publishers to assist with applications, link generation, merchandising and analysis. We can also provide performance analysis and promotional and merchandising recommendations for the largest 250 sites in our customers' affiliate sales channels. We have a best practices group that has developed expertise by monitoring industry and customer specific trends and provides strategic advice designed to improve the performance of these sales channels.

In general, we enter into a standard service agreement that requires our BFAST customer to pay us a one-time integration fee and monthly performance fees, subject to minimum monthly or annual fees, for use of our data interchange. For our e-merchant customers, the performance fees are generally based on either a percentage of the sales generated or a fee based on the number of transactions or orders. For our portal customers, the performance fees are generally based on the volume of click-throughs generated by their marketing partners' Web sites. We currently derive most of our revenue from BFAST services.

B-INTOUCH E-mail Referral Services Our recently introduced B-INTOUCH services allow our customers to partner with individuals and corporations that send e-mail messages. B-INTOUCH lets an approved sender of e-mail messages include our customers' promotions in e-mail messages and receive fees for the sales or traffic that result from these promotions. B-INTOUCH offers a simple user

interface for link placement and reporting, designed for the less technologically sophisticated e-mail user. B-INTOUCH pricing is based on the volume of sales or traffic that results from a customer's e-mail referral program.

BFIT Advertising Services BFIT is an enhanced banner ad delivery service that tracks our customers' banner advertising through to point of sale and determines the performance for a specific banner placed in a specific location. This may include ad trafficking services through which we place and manage our customers' advertising campaigns on their behalf. By integrating our BFIT and BFAST services, our customers marketing partners can dedicate space on their Web sites within which a customer may determine the promotional initiative displayed and modify it at any time or upon the occurrence of specified criteria. BFIT is priced based on the number of impressions served.

Customers

Our principal customers are large e-merchants and high-traffic portal sites that use the Internet as a central or sole business channel. We have successfully targeted as customers leading e-merchants and portals in a wide variety of markets. The following is a partial list of e-merchants and portals that have contracted for our services:

American Greetings	Furniture.com
Ameritech	Lycos
Babbages, Etc.	Micro Warehouse
BabyCenter	MotherNature.com
barnesandnoble.com	Multiple Zones International
Bertelsmann (bol.com)	Network Solutions
CNET	OneCore
Compaq	Pets.com
Digital Chef	priceline.com
eBags.com	Reel.com
egghead.com	SEND.com
Enews.com	The SABRE Group (Travelocity.com)
eToys(R)	toysmart.com
Franklin Covey	Value America
Fogdog Sports	Yahoo!

Our customers typically enter into a written agreement with us that runs for one year from program launch and renews automatically for successive one-year periods unless either party gives notice not to extend. We generally provide representations concerning our system performance and discount our fees if we fail to meet specified performance levels. We also agree to provide customers certain indemnities for infringement of third party intellectual property rights. Our customers agree to provide certain information regarding merchandise or services they make available over the Internet and transactional information.

For 1997 and 1998 and six months ended June 30, 1999, barnesandnoble.com accounted for more than 10% of our revenue. For the six months ended June 30, 1999, GeoCities, a subsidiary of Yahoo!, accounted for more than 10% of our revenue. Our contracts with barnesandnoble.com and GeoCities expire in January 2001 and January 2002, respectively. GeoCities has the right to terminate its contract prior to the expiration of its term by giving notice and paying a penalty. Both contracts

provide that either party may terminate upon a material breach under certain circumstances. In addition, in 1997, Duquesne Light and Power, to whom we provided customized software development and support, accounted for more than 10% of our revenue.

Sales and Marketing

We have a direct sales force that targets large e-merchants and portals. The direct sales force is assigned to different geographical regions and is supported by sales engineers. We maintain direct sales personnel in seven major metropolitan areas throughout the United States. We also have a telesales group, located in our Marlborough, Massachusetts headquarters, that targets mid-sized e-merchants.

In order to achieve broader distribution of our services, we engage marketing partners that are authorized to resell our services. These resellers typically receive a percentage of our revenue derived from the e-merchant accounts they generate during specified periods.

We target potential customers through our public relations program, our Web sites, conferences, trade shows and customer referrals. While we have primarily focused on marketing efforts in the United States, we intend to extend these efforts into Europe and may extend these efforts into Japan.

Customer Service

We provide comprehensive integration, training, consulting and support services. We provide our customers with individualized customer services designed to increase the performance of their marketing channels and their overall satisfaction with our services. We assign dedicated, knowledgeable customer development managers to each customer.

Our best practices consulting team gathers and analyzes data from industry sources, our database and customer initiatives to provide our customers with industry-wide performance results against which they can measure their own success. This team formulates strategies for how our customers might more effectively promote their products or services. We present our best practices solutions through seminars, customer bulletins, case studies and one-on-one dialogues with customers.

We provide integration services, both by telephone and in person, to new customers. We work with new customers to create a reliable, automated data transfer between their systems and our systems.

We teach our customers to use our technology effectively and efficiently. We provide business training to customers, which helps them better understand the business decisions that they face in launching their affiliate sales channel and other performance marketing programs. We also offer regular refresher and update training.

Our customer development managers assist our individual customers in managing their affiliate sales channel and other performance marketing programs, developing and interpreting their analyses, and testing new promotional methods. These customer development managers also convey emerging customer strategies, communicate customer feature requests, manage data requests and provide ongoing project management services for special customer initiatives.

Technology Infrastructure Our technologies are designed to provide the following advantages:

Performance, Scalability, Availability and Reliability Our system infrastructure has been designed as a layered architecture to yield significant benefits to our customers in performance, scalability, availability and reliability. Our products run on multiple high-speed servers that are connected by high-capacity connections and are organized into multiple tiers. Each tier functions to address specific data storage and data traffic considerations to enhance reporting and real-time transactional performance. We have recently upgraded this system by adding additional servers or storage devices to each tier.

Scalability is a term used to describe the ability of an application to handle greater traffic when additional servers are added to a system. Scalability is particularly important for growth-stage Internet applications where demand can grow rapidly and unpredictably. Our servers are connected not only within a given tier but also between tiers. This multi-tiered server design enables us to add, extend, duplicate or exchange the specific servers requiring the enhancement within the system as needed, without recompiling the rest of the system or interrupting services.

The multi-tiered server design better enables us to provide our customers with highly-available and reliable uninterrupted service. Each tier is comprised of multiple connected servers performing similar tasks, each of which has its own power supply. If a server fails, that server's tasks are automatically reassigned to another running computer. In addition, identical data is also stored in various locations. This redundant design enhances the ability of the system to tolerate the failure of an individual server or failures in system storage without the loss of data or the ability of the computers to give our customers' real-time operating capability.

The connections from the network data center into the multi-tiered servers are also designed to provide customers with reliable, uninterrupted service. We regularly test and maintain the multiple connections between our servers, and regularly test the connections between the network data center and the Internet. Our engineering and hosting center personnel monitor traffic patterns and congestion points and reroute traffic flows in an effort to reduce end-user response times. We provide monitoring and support services required to maintain transaction availability 24 hours a day, 365 days a year.

Although our systems are designed to enhance reliability, system and communication failures have caused both delays and cessation of services. We recently experienced an 11-hour systems outage during which we were unable to redirect Internet users to our customers from their marketing partners or provide reports.

We have taken and are taking additional steps to decrease the likelihood of future outages. These steps include installing additional server and storage hardware, and adding an additional level of redundancy to all tiers of our system architecture. Our development team is modifying our software to make it more functional upon hardware failure. Even with these improvements, there can be no assurance that our services will not be interrupted in the future.

Flexibility

Our system infrastructure uses platform systems with UNIX, a non-proprietary open operating system, and is also compatible with Microsoft's proprietary operating system, Windows NT. We currently use servers manufactured by Sun Microsystems. While we are not dependent on any single server hardware system or vendor, any change could be costly and time consuming.

Internet Access

Our systems are developed entirely for use over the Internet. Our customers are able to access marketing, sales and merchandising data from our Oracle- based databases using their desktop computers and their standard Internet connection. Our reporting systems use standard Internet and Web protocols.

Central Operations Facility Our network data center is designed to optimize performance and maintain reliability. Our network data center is housed at Exodus Communications in Harborside, New Jersey. This center has multiple, physically distinct, high- capacity connections to the Internet designed to reduce the likelihood that outages within the network will materially impact customer use. The center also has duplicate systems for power, climate-control, fire protection, seismic reinforcement and continuous security surveillance. The facility utilizes manual and automated intrusion detection techniques to monitor the security of the center and its hardware. We regularly use outside security professionals to evaluate our physical and electronic security measures. We currently plan to open a data center in Europe before December 31, 1999.

Development

Development of new services begins with our product marketing group. Based upon customer, competitive and market analyses, our product marketing group determines functions and specifications for future services and enhancements to current services. Our development group develops new services and enhances existing services based on specifications provided by the product marketing group. Our development group is divided into strategic and tactical teams. Our strategic team develops new performance marketing services and new generations of current services. Our tactical development team focuses on extending existing functions or developing additional functions within any given release.

We have developed a managed release process to assist customers in the adoption of new releases. This process includes testing and evaluating revisions, updating online and paper documentation to include new features, training customer support personnel and notifying and training customers.

Our development group consists of 16 full-time employees as of June 30, 1999. For the year ended December 31, 1998 and the six months ended June 30, 1999, we spent $304,100 and $719,800, respectively, on research and development activities.

Competition

The market for online performance marketing solutions is new, rapidly evolving and highly competitive. We do not currently compete against established companies across the range of services we provide. We do, however, compete against larger companies with respect to a portion of the services

we provide and compete more broadly against similar sized, private companies. We expect to face future competition across a broad range of our services from larger companies currently providing products or services that compete only with respect to a portion of the services we provide.

For the provision of e-merchant branded affiliate sales channel solutions, we compete against internally-developed performance marketing solutions and against enterprise software solution providers. We also compete against multi- merchant, shared affiliate program providers, including Commission Junction, Linkshare and Microsoft's LinkExchange. Finally, we compete with ad server companies that provide banner ad services that might be considered an alternative marketing solution.

We believe that the principal competitive factors in our market are:

. the provision of comprehensive, reliable services;

. the ability to offer a customer ownership of and control over a significant sales channel; . the provision of extensive online reports and analyses; and . price.

We seek to compete against internally developed efforts and enterprise software solutions by providing more comprehensive, cost-effective services that are more easily managed. We seek to compete against multi-merchant, shared affiliate program providers on the basis of our technology, by permitting our customers greater control over their affiliate sales channel and providing individualized customer service. We seek to compete against ad serving companies by offering broader services and the ability to track promotional efforts through to the point of sale.

Employees

As of June 30, 1999, we had a total of 118 employees, 74 of whom were in sales and marketing, 30 in development and engineering and 14 in finance and administration. Sales and marketing employees include salespeople, sales administration personnel, customer service personnel, product marketing and marketing communications personnel. From time to time we also employ independent contractors to supplement our development staff. Our employees are not represented by a labor union and we have never experienced a work stoppage. We believe our relations with our employees are good.

Facilities

Our headquarters are located in Marlborough, Massachusetts, where we occupy approximately 23,000 square feet under a lease that expires in March 2004. Our development and engineering departments are located in Pittsburgh, Pennsylvania, where we occupy approximately 12,000 square feet of office space under a lease that expires in January 2004. In the future, we may lease additional space as needed.

Legal Proceedings

From time to time, we may be involved in litigation incidental to the conduct of our business. We are not currently a party to any legal proceedings.

Management

Directors and Executive Officers Our executive officers and directors, and their respective ages and positions as of June 30, 1999, are set forth below:

Name Age Position

Gordon B. Hoffstein.....	47	President, Chief Executive Officer and Director
Samuel P. Gerace, Jr....	36	Executive Vice President, Research & Technology and Director
Thomas A. Gerace.....	28	Executive Vice President, Business Development
Stephen M. Joseph.....	40	Chief Financial Officer and Treasurer
Ellen M. Brezniak.....	40	Vice President, Product Marketing
W. Blair Heavey.....	37	Vice President, Sales
Steven D. Pike.....	46	Vice President, Client Services
Patricia L. Travaline...	43	Vice President, Marketing Communications
Ted R. Dintersmith(1)(2).....	47	Director
W. Michael Humphreys(2).	47	Director
Daniel J. Nova(1)(2)....	37	Director
Jeffrey Rayport(1).....	39	Director

(1) Member of the Audit Committee. (2) Member of the Compensation Committee.

Gordon B. Hoffstein has been our Chief Executive Officer and a director since August 1998. From October 1991 to April 1997, he was a co-founder and the Chief Executive Officer of PCs Compleat, Inc., a direct marketer of PCs and related products now known as CompUSA Direct. From February 1991 to June 1991, he was Chief Executive Officer of Edsun Laboratories, a semiconductor designer. He was a co-founder and the Chief Executive Officer of Microamerica, Inc., a distributor of computer hardware and software products, from November 1979 to May 1990. He currently serves as a director of various private companies. Mr. Hoffstein earned a B.S. from the University of Massachusetts and an M.B.A. from Babson College.

Samuel P. Gerace, Jr. has been our Executive Vice President, Research & Technology and a director since August 1998. He was a founder of and has been involved in managing our business since the inception of one of our affiliated companies in September 1985. Mr. Gerace holds an A.B. from Harvard College. Samuel P. Gerace, Jr. is the brother of Thomas A. Gerace.

Thomas A. Gerace has been our Executive Vice President, Business Development since August 1998. He was a founder of and has been involved in managing our business since inception. Previously, he served as a research analyst for Harvard Business School. During his time at Harvard Business School, he also served as a consultant for the Technology for Effective Cooperation Network, a non-profit organization, and Welty-Leger Corporation, a distribution and warehouse software provider. Mr. Gerace received an A.B. from Harvard College. Thomas A. Gerace is the brother of Samuel P. Gerace, Jr.

Stephen M. Joseph has been our Chief Financial Officer since August 1998. From October 1991 to December 1997, he served as Chief Financial Officer of PCs Compleat, Inc. From March 1991 to June 1991, he was Chief Financial Officer of Edsun Laboratories. Prior to that time, he held various financial positions in private companies and Ingersoll- Rand Company, a machinery and equipment manufacturer. Mr. Joseph earned a B.S. from Bentley College.

W. Blair Heavey has been our Vice President, Sales since October 1998. From April 1995 until joining us, he held sales positions at Open Market, Inc., an Internet software developer, including Director of Sales and Director, Strategic Channel Sales. From March 1989 until March 1995, he held several sales and marketing positions at Hewlett-Packard Corporation, a manufacturer of measurement, computation and communications systems and equipment. Mr. Heavey received a B.A. from Boston College and an M.B.A. from Babson College.

Ellen M. Brezniak has been our Vice President, Product Marketing since November 1998. From October 1996 until joining us, she was Vice President, Business-To-Business Operating Unit at Open Market, Inc. From March 1994 until September 1996, she was Director, Product Marketing and Planning with Progress Software Corporation, a supplier of application development and management technology. Prior to that time, she held various marketing positions at Cognos, Inc., which offers application development software and EIS tools, and software database companies such as Sybase, Inc. and Oracle Corporation. Ms. Brezniak holds a B.S. from Rensselaer Polytechnic Institute.

Patricia L. Travaline has been our Vice President, Marketing Communications since October 1998. From January 1992 to February 1998, she served in positions at PCs Compleat, Inc. including Director of Marketing Communications and Director, Extended Services Development. From December 1985 to September 1991, she held positions at the public relations firm of Sharon Merrill Associates, including Vice President, Investor Relations. Ms. Travaline earned a B.A. from the University of Denver and an M.B.A. from Simmons College.

Steven D. Pike has been our Vice President, Client Services since April 1999. From July 1998 until joining us, he served as Vice President, Customer Services at Internet Commerce Services, Inc., a commerce service provider. From September 1995 to June 1998, he held the position of Director of Technical Services at Open Market, Inc. From January 1995 to September 1995, he held the position of Manager, Product & Program Management at Progress Software Corporation and from September 1992 to January 1995 he was Manager, Product Support and Business Management at Bay Networks, a manufacturer of data networking products. Mr. Pike holds a B.S. from Franklin Pierce College.

Ted R. Dintersmith has been a director since August 1998. Since February 1996, he has been a General Partner of Charles River Partnership VIII, a private venture capital firm. Prior to his association with Charles River, he was a General Partner of Aegis Management Corporation, a venture capital firm. Mr. Dintersmith is a director of Flycast Communications Corporation, an Internet advertising company. Mr. Dintersmith holds a B.A. degree in Physics and English from the College of William and Mary and a Ph.D. in Engineering from Stanford University.

W. Michael Humphreys has been a director since August 1998. Mr. Humphreys has been a partner of Matrix Partners, a private venture capital firm, since 1979. He received a B.S. from the University of Oregon and an M.B.A. from Harvard Business School.

Daniel J. Nova has been a director since March 1999. Since August 1996, Mr. Nova has served as a general partner of Highland Capital Partners, a venture capital firm. Previously, he was a general partner of CMG@Ventures from January 1995 to August 1996 and a Senior Associate at Summit Partners from June 1991 to January 1995. Mr. Nova is a director of eToys, Inc., an online retailer of

toys, Lycos, Inc., an online portal, MapQuest.com, Inc., an online mapping company, and Ask Jeeves, Inc., an Internet question answering service company. Mr. Nova received a B.S. in Computer Science and Marketing with honors from Boston College and an M.B.A. from Harvard Business School.

Jeffrey Rayport has been a director since December 1998. He has been a faculty member at Harvard Business School in the Service Management Unit since 1991. He is currently on leave from Harvard and is working at Monitor Company, a management consulting firm, as the founder and executive director of Monitor Marketplace Center, an e-commerce research and media unit established in 1998. Dr. Rayport is a director of Global Sports, Inc., a sporting goods company. Dr. Rayport earned an A.B., A.M. and Ph.D. from Harvard University and an M. Phil. from the University of Cambridge (U.K.).

Our board of directors is divided into three classes, with the members of each class serving for a staggered three-year term. Our board currently consists of two Class I directors, two Class II directors and two Class III directors. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the directors of the same class whose terms are then expiring. The term of the Class I directors ( ) expires at the annual meeting of stockholders to be held in 2000. The term of the Class II directors ( ) expires at the annual meeting of stockholders to be held in 2001. The term of the Class III directors ( ) expires at the annual meeting of stockholders to be held in 2002.

Each officer serves at the discretion of our board of directors and holds office until his or her successor is elected and qualified or until his or her earlier resignation or removal.

Messrs. Dintersmith, S. Gerace, Humphreys and Nova were elected to the board of directors pursuant to an agreement among us and some of our stockholders. The agreement obligating the stockholders to vote in favor of them as directors will terminate upon the closing of this offering.

Committees of the Board of Directors Our board of directors has established a compensation committee and an audit committee. The compensation committee makes recommendations concerning salaries and incentive compensation for our employees and consultants and administers our employee incentive plans. The current members of the compensation committee are Messrs. Dintersmith, Humphreys and Nova. The audit committee reviews the results and scope of the audit and other services provided by our independent public accountants. The current members of the audit committee are Messrs. Dintersmith, Nova and Rayport.

Director Compensation We have no present plans to pay cash compensation to directors but intend to reimburse directors for certain out-of-pocket expenses incurred in connection with attendance at meetings of the board of directors or committees of the board. We have granted Mr. Rayport an option under the Stock Incentive Plan to purchase 75,000 shares of common stock that vests over four years. In addition, we may issue additional options to directors under our 1998 Stock Incentive Plan, which options would vest and become exercisable over time.

Compensation Committee Interlocks and Insider Participation Prior to the appointment of the compensation committee in July 1999, Be Free's full board of directors (which includes executive officers Gordon B. Hoffstein and Samuel P. Gerace, Jr.) and Thomas A. Gerace (who previously was a director and Chief Executive Officer of Be Free) were responsible for the functions of a compensation

committee. During 1998, none of our executive officers served as a member of the compensation committee, or a committee serving an equivalent function, of any entity whose executive officers served as a director of Be Free or otherwise had compensation committee responsibilities.

Executive Compensation The following table sets forth the total compensation paid or accrued for the year ended December 31, 1998 to our chief executive officer and to Mr. Thomas A. Gerace, an Executive Vice President, Business Development, who served as our Chief Executive Officer from January 1998 through August 1998. No other executive officers received compensation in excess of $100,000 in 1998.

Summary Compensation Table Annual Compensation Name and Principal Position Salary Bonus Gordon B. Hoffstein(1)..... $49,573 $16,589 President and Chief Executive Officer Thomas A. Gerace(2)..... $77,916 -- Executive Vice President, Business Development (1) Mr. Hoffstein's current annual salary is $175,000. (2) Mr. Thomas Gerace was Chief Executive Officer until August, 1998. His current annual salary is $120,000.

We have never granted any stock options to Mr. Hoffstein or Mr. Thomas A. Gerace. Mr. Hoffstein purchased shares of restricted stock for a purchase price of $ per share under the 1998 Stock Incentive Plan on December 31, 1998. See "Transactions with Related Parties."

Employment Agreements On August 28, 1998 we entered into employment agreements with Samuel P. Gerace, Jr. and Thomas A. Gerace that provide for an annual base salary of not less than $110,000 and annual merit bonuses as may be determined by the board of directors. These agreements contain customary noncompetition and nonsolicitation provisions, and have an initial term of two years with a one year renewal subject to the parties' agreement.

Change of Control Arrangements Shares subject to options or restricted stock awards granted under our 1998 Stock Incentive Plan generally vest over four years, with 25% of the shares vesting after one year and the remaining shares vesting in equal monthly installments over the next 36 months. This plan provides accelerated vesting of 25% of the shares subject to each option upon a change of control, and full acceleration upon the termination of employment after a change of control in certain instances. In general terms, change of control would occur where any person acquires ownership of more than 50% of our voting shares or upon any merger or acquisition where our stockholders before the transaction hold less than a majority of the voting stock of the surviving entity outstanding after the transaction. We have issued shares of restricted stock to Gordon Hoffstein that provide for accelerated vesting of 50% of these shares of restricted stock upon a change in control, and full acceleration upon the termination of employment after a change of control in certain instances.

1998 Stock Incentive Plan

Our 1998 Stock Incentive Plan was adopted by our board of directors and stockholders in November 1998. The plan authorizes the issuance of up to shares of our common stock. As of June 30, 1999, shares of restricted stock and options to purchase an aggregate of shares of common stock at a weighted average restricted stock purchase price of $ per share and a weighted average exercise price of $ per share were outstanding under the plan.

The stock incentive plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code and nonstatutory stock options.

Our officers, employees, directors, consultants and advisors are eligible to receive awards under the stock incentive plan. Under present law, however, incentive stock options may only be granted to employees. No employee may receive any award for more than shares in any calendar year.

Optionees receive the right to purchase a specified number of shares of common stock at a specified option price and subject to such other terms and conditions as are specified in connection with the option grant. We may grant options at an exercise price less than, equal to or greater than the fair market value of our common stock on the date of grant. Under present law, incentive stock options and options intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code may not be granted at an exercise price less than the fair market value of the common stock on the date of grant or less than 110% of the fair market value in the case of incentive stock options granted to optionees holding more than 10% of the voting power of the company. The stock incentive plan permits our board of directors to determine how optionees may pay the exercise price of their options, including by cash, check or in connection with a "cashless exercise" through a broker, by surrender to us of shares of common stock, by delivery to us of a promissory note, or by any combination of the permitted forms of payment.

As of June 30, 1999, approximately 124 persons were eligible to receive awards under the stock incentive plan, including eight executive officers and four non-employee directors.

Our board of directors administers the stock incentive plan. Our board of directors has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the plan and to interpret its provisions. It may delegate authority under the stock incentive plan to one or more executive officers or committees of the board of directors. Our board of directors has authorized the compensation committee to administer the stock incentive plan, including the granting of options to our executive officers. Subject to any applicable limitations contained in the stock incentive plan, our board of directors, our compensation committee or any other committee to whom our board of directors delegates authority, as the case may be, selects the recipients of awards and determines:

. the number of shares of common stock covered by options and the dates upon which such options become exercisable;

. the exercise price of options; and . the duration of options.

In the event of a merger, liquidation or other acquisition event, our board of directors is authorized to take one or more of the following actions:

. provide that outstanding options be assumed or substituted for by the acquirer;

. in the event of an acquisition in which the holders of common stock would receive a cash payment for each share surrendered, provide for a cash payment to each option holder equal to the amount by which the amount paid to common stock holders exceeds the option's exercise price, multiplied by the total number of shares of common stock subject to the option;

. provide that any or all outstanding options become fully exercisable as of a specified time prior to the event; and . provide that all unexercised options terminate immediately prior to the event unless exercised before such time.

No award may be granted under the stock incentive plan after November 2008, but the vesting and effectiveness of awards previously granted may extend beyond that date. Our board of directors may at any time amend, suspend or terminate the stock incentive plan.

401(k) Plan

We have adopted an employee savings and retirement plan qualified under Section 401 of the Internal Revenue Code and covering employees who are at least 21 years of age and who have completed three months of service. Employees may elect to reduce their current compensation by up to the statutorily prescribed annual limit and have the amount of such reduction contributed to the 401(k) plan. Although not required, we may make matching or additional contributions to the 401(k) plan in amounts to be determined annually by our board of directors. To date we have not made any such contributions.

Transactions with Related Parties

Preferred Stock and Related Transactions Sale of Preferred Stock. We sold preferred stock pursuant to the following transactions:

. On August 28, 1998, we sold an aggregate of 10,500,000 shares of Series A preferred stock at a price of $1.00 per share and issued warrants to purchase shares of common stock at an exercise price of $ per share.

. On September 29, 1998, we sold 100,000 shares of Series A preferred stock at a price of $1.00 per share and issued a warrant to purchase shares of common stock at an exercise price of $ and warrants to purchase up to 700,000 shares of Series A preferred stock at an exercise price of $1.00 per share; and . On March 31, 1999, we sold an aggregate of 13,196,522 shares of Series B preferred stock at a price of $1.89443 per share.

The following directors, executive officers, holders of more than 5% of a class of voting securities and members of such person's immediate family purchased these shares or received these warrants to purchase common stock or Series A preferred stock. Upon consummation of the offering, each share of Series A preferred stock will be converted into shares of common stock and each share of Series B preferred stock will be converted into shares of common stock.

Purchaser(1)	Shares of Series A Preferred Stock	Warrants to Purchase Common Stock	Warrants to Purchase Series A Preferred Stock	Shares of Series B Preferred Stock
Gordon B. Hoffstein(2).....	500,000		--	--
Charles River Partnership(2)(3).....	5,000,000		--	2,322,598
Highland Capital(2)(4).....	--	--	--	5,070,139
Matrix Partners(2)(5).....	5,000,000		--	2,322,598

(1) See Notes to Table of Beneficial Ownership in "Principal Stockholders" for information relating of the beneficial ownership of such shares. (2) A holder of more than 5% of Be Free's Common Stock. (3) Of the securities listed, Charles River Partnership VIII owns 4,909,475 shares of Series A preferred stock, warrants to purchase shares of common stock and 2,280,547 shares of Series B preferred stock, and Charles River VIII-A owns 90,525 shares of Series A preferred stock, warrants to purchase shares of common stock and 42,051 shares of Series B preferred stock. Mr. Dintersmith, a director of Be Free, is a general partner of Charles River Partnership VIII, the general partner of Charles River Partnership VIII, L.P. and an officer of Charles River VII Friends, Inc., the manager of Charles River VIII-A, LLC. (4) Of the securities listed, Highland Capital Partners IV owns 4,867,333 shares of Series B preferred stock and Highland Entrepreneurs' Fund IV owns 202,806 shares of Series B preferred stock. Mr. Nova, a director of Be Free, is a General Partner of Highland Capital Partners, the general partner of Highland Capital Partners IV, LP and Highland Entrepreneurs' Fund IV, LP. (5) Of the securities listed above, Matrix Partners V, L.P. owns 4,500,000 shares of Series A preferred stock, warrants to purchase shares of common stock and 2,090,338 shares of Series B preferred stock, and Matrix V Entrepreneurs Fund, L.P. owns 500,000 shares of Series A Preferred Stock, warrants to purchase shares of common stock and 232,260 shares of Series B preferred stock. Mr. Humphreys, a director of Be Free, is a general partner of Matrix V Management Co., LLC, the general partner of both Matrix Partners V, L.P. and Matrix V Entrepreneurs' Fund.

In connection with the sale of Series A preferred stock, the following transactions also occurred which involved executive officers, directors and/or holders of more than 5% of a class of voting securities (or persons or entities related to the foregoing):

Contribution Transactions. Samuel P. Gerace, Jr., a director and executive officer, Thomas A. Gerace, an executive officer, their father Samuel P. Gerace, Sr. and a limited partnership for the benefit of members of the Gerace family, contributed to us shares of affiliated companies under common control and management, in exchange for shares of our common stock, as follows:

Shares Contributor Received Samuel P. Gerace, Jr..... Samuel P. Gerace, Sr..... Gerace Family L.P..... Thomas A. Gerace.....

Redemption of Shares of Freedom of Information. On August 28, 1998, Be Free redeemed for a price of $ per share a portion of the outstanding common stock, including the following shares of its common stock from executive officers of Be Free (or related persons or entities), as well as other stockholders of Be Free:

Seller	Number of Shares	Purchases Price
Samuel P. Gerace, Jr.....		$1,002,202
Samuel P. Gerace, Sr.....		189,047
Gerace Family L.P.....		3,703,528
Thomas A. Gerace.....		1,002,202

Be Free paid the purchase price for the redeemed shares by issuing a promissory note, which was paid in full on August 28, 1998 with a portion of the proceeds from the sale of the Series A preferred stock.

Transfer Agreement. On August 28, 1998, the following executive officers (or related persons or entities) of Be Free transferred shares of common stock to a group of employees and advisors, including shares to Kristin L. Gerace (sister of Samuel P. Gerace, Jr. and Thomas A. Gerace) and shares to Jeffrey Rayport (one of our directors), in consideration for services rendered to us.

Number of Shares Transferor Transferred Gerace Family L.P..... Samuel P. Gerace, Jr..... Thomas A. Gerace..... Samuel P. Gerace, Sr.....

Upon the consummation of this offering, all outstanding shares of Series A preferred stock, Series B preferred stock and warrants to purchase Series A preferred stock will automatically convert into shares or warrants to purchase shares of common stock on a one-for- basis.

Restricted Stock Awards On December 30, 1998 Gordon B. Hoffstein, President and Chief Executive Officer, and Stephen M. Joseph, Chief Financial Officer, purchased restricted stock under the 1998 Stock Incentive Plan. Mr. Hoffstein purchased shares of common stock and Mr. Joseph purchased shares of common stock each at a purchase price of $ per share. See "Compensation Committee Interlocks and Insider Participation."

Mr. Joseph paid for such restricted stock awards by providing a cash payment for 25% of the award and by executing a promissory note in favor of Be Free for the remaining 75% of the award. The note is due on June 30, 2003 and accrues interest at 7% per annum. The terms of the note provide that interest accrues beginning on January 1, 1999, and payments of interest commence on July 15, 1999. As of June 30, 1999, $78,360 in principal was outstanding with respect to Mr. Joseph's promissory note.

Other

On August 28, 1998 Be Free entered into employment agreements with Samuel P. Gerace, Jr. and Thomas A. Gerace that provide for an annual base salary of not less than $110,000 and annual merit bonuses as may be determined by the board of directors. These agreements contain customary noncompetition, confidentiality and nonsolicitation provisions, and have an initial term of two years with a one year renewal subject to the parties' agreement.

Be Free is a party to indemnification agreements with Ted R. Dintersmith, Samuel P. Gerace, Jr., W. Michael Humphreys and Daniel J. Nova pursuant to which it has agreed to indemnify these directors to the fullest extent possible under Delaware Law from liabilities arising out of their respective service as a director of Be Free.

All future transactions between us and our officers, directors, principal stockholders and their affiliates will be approved by a majority of the board of directors, including a majority of the disinterested directors, and will be on terms no less favorable to us than could be obtained from unaffiliated third parties.

Principal Stockholders

The following table sets forth information regarding the beneficial ownership of our common stock as of June 30, 1999 and as adjusted to reflect the sale of the shares of common stock in this offering, by:

. each person we know to own beneficially more than 5% of our common stock;

. each of our directors;

. the Named Executive Officers; and . all directors and executive officers as a group.

Unless otherwise indicated, each person named in the table has sole voting power and investment power, or shares such power with his or her spouse, with respect to all shares of capital stock listed as owned by such person. The address of each of our executive officers and directors is c/o Be Free, Inc., 154 Crane Meadow Road, Marlborough, Massachusetts 01752.

The number of shares beneficially owned by each stockholder is determined under rules promulgated by the Securities and Exchange Commission. The information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and any shares as to which the individual has the right to acquire beneficial ownership within 60 days after June 30, 1999 through the exercise of any stock option or other right. The inclusion herein of such shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of such shares. Percentage of beneficial ownership is based on shares of common stock (on an as converted basis) outstanding as of June 30, 1999 and shares of common stock outstanding after completion of this offering, assuming no exercise of the over-allotment option.

Name of Beneficial Owner	Voting Shares Beneficially Owned	Percent of Ownership Prior to the Offering	Percent of Ownership After the Offering
Five Percent Stockholders:			
Charles River Partnership VIII, LP (1)(5)		20.85%	
Matrix Partners V, LP (2)(6)		20.85%	
Highland Capital Partners IV, LP (3)(7)		12.25%	
Directors and Named Executive Officers:			
Thomas A. Gerace		8.23%	
Samuel P. Gerace, Jr		8.23%	
Gordon B. Hoffstein (4)		9.05%	
Ted R. Dintersmith (5)		20.85%	
W. Michael Humphreys (6)		20.85%	
Daniel Nova (7)		12.25%	
Jeffrey Rayport		*	
All directors and executive officers as a group (12 persons).		77.97%	

* Less than 1%

(1) Includes shares owned by Charles River VIII-A, LLC, an affiliate of Charles River Partnership VIII, LP, shares issuable upon exercise of a warrant in the name of Charles River VIII-A, LLC and shares

issuable upon exercise of a warrant in the name of Charles River Partnership VIII, LP. The address of Charles River Partnership VIII, LP is 1000 Winter Street, Suite 3300, Waltham, MA 02451. (2) Includes shares owned by Matrix V Entrepreneurs' Fund IV, LP, an affiliate of Matrix Partners V, LP, shares issuable upon exercise of a warrant in the name of Matrix V Entrepreneurs' Fund IV, LP and shares issuable upon exercise of a warrant in the name of Matrix Partners V, LP. Matrix Partners V, LP is located at 1000 Winter Street, Suite 4500, Waltham, MA 02451. (3) Includes shares owned by Highland Entrepreneurs' Fund IV, LP, an affiliate of Highland Capital Partners IV, LP. Highland Capital Partners IV, LP is located at Two International Place, Boston, MA 02110. (4) Includes shares issuable upon exercise of a warrant. (5) Mr. Dintersmith, a member of the board of directors, is a general partner of Charles River VIII GP, the general partner of Charles River Partnership VIII, LP, and an officer of Charles River VII Friends, Inc., the manager of Charles River VIII-A, LLC, and may be deemed to have beneficial ownership of shares. Mr. Dintersmith has shared voting power with respect to such shares and disclaims beneficial ownership of any such shares, except to the extent of his pecuniary interest in such shares. (6) Mr. Humphreys, a member of the board of directors, is a general partner of Matrix V Management Co., LLC, the general partner of both Matrix Partners V, L.P. and Matrix V Entrepreneurs' Fund and may be deemed to have beneficial ownership of shares. Mr. Humphreys has shared voting and investment power over such shares and disclaims beneficial ownership of any such shares, except to the extent of his pecuniary interest therein. (7) Mr. Nova, a member of the board of directors, is a general partner of Highland Capital Partners, the general partner of Highland Capital Partners IV, LP and Highland Entrepreneurs' Fund IV, LP and may be deemed to have beneficial ownership of shares. Mr. Nova has shared voting and investment power over such shares and disclaims beneficial ownership of any such shares, except to the extent of his pecuniary interest therein.

Description of Capital Stock

General

Be Free's amended and restated certificate of incorporation, the filing of which will occur at the closing of this offering, authorizes the issuance of up to million shares of common stock, par value $0.01 per share, and million shares of preferred stock, par value $0.01 per share, the rights and preferences of which may be established from time to time by Be Free's board of directors. As of July , 1999, giving effect to the conversion of all preferred stock into common stock, shares of common stock were outstanding. As of July , 1999, Be Free had stockholders.

Common Stock

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of common stock are entitled to receive proportionately any dividends as may be declared by our board of directors, subject to any preferential dividend rights of outstanding preferred stock. Upon our liquidation, dissolution or winding up, the holders of common stock are entitled to receive proportionately our net assets available after the payment of all debts and other

liabilities and subject to the prior rights of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. Our outstanding shares of common stock are, and the shares offered by us in this offering will be, when issued and paid for, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate and issue in the future.

Preferred Stock

Under the terms of our certificate of incorporation, our board of directors is authorized to issue shares of preferred stock in one or more series without stockholder approval. Our board of directors has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

The purpose of authorizing our board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or could discourage a third party from acquiring, a majority of our outstanding voting stock. We have no present plans to issue any shares of preferred stock.

Warrants

As of July , 1999, Be Free had outstanding warrants to purchase shares of common stock at an exercise price of $ and, giving effect to the conversion of all preferred stock into common stock, additional warrants to purchase shares at an exercise price of $. The warrants have a net exercise provision under which the holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares, based on the fair market value of Be Free's stock at the time of the exercise of the warrant, after deducting the aggregate exercise price. Of the warrants to purchase shares of common stock, warrants to purchase shares of common stock will expire on September 29, 2008 and the balance will expire on August 28, 2008. The additional warrants to purchase shares of common stock will expire on the fifth anniversary of the initial public offering of the common stock of Be Free.

Registration Rights

Pursuant to a Registration Rights Agreement, dated as of March 31, 1999, the holders of approximately shares of common stock, warrants to purchase shares of common stock and options to purchase shares of common stock have the right to register those shares under the Securities Act of 1933. Subject to limitations in the Rights Agreement, some of the holders, whose shares total at least 33 1/3% of all shares of common stock then-held by the holders, or any lesser percentage with a price to the public reasonably expected to exceed $5,000,000, may require, at any time 180 days after this offering, that Be Free register such shares for public resale; furthermore, the holders of shares with sale proceeds of at least $1,000,000 may require Be Free to register all or a portion of their registrable securities on Form S-3 after this offering. Be Free shall not be required to effect more than two such

demand registrations. In addition, if Be Free registers any of its common stock for its own account or for the account of other security holders, the parties to the Rights Agreement are entitled to include their shares of common stock in the registration, subject to the ability of the underwriters to limit the number of shares included in the offering.

Pursuant to a Stock Purchase and Shareholders Agreement dated as of August 28, 1998, the holders of approximately shares of common stock and warrants to purchase shares, have the right to demand that Be Free register those shares under the Securities Act of 1933. All of these shares and warrants, other than shares of common stock and warrants to purchase shares, are also entitled to be registered under the Rights Agreement subject to limitations in the Stock Purchase Agreement, at any time 180 days after this offering, any of these holders holding 33 1/3% of the common stock then-held by the such holders may require Be Free to register at least 33 1/3% of the shares on Form S-1. In addition, at any time after the closing of this offering, any of these holders may require Be Free to register any such shares with proceeds of at least $1,000,000 on Form S-3. Be Free shall not be required to effect more than two such demand registrations. In addition, if Be Free registers any of its common stock for its own account or for the account of other securityholders, the holders of approximately shares of common stock, of which all but shares are entitled to be registered under the Rights Agreement, are entitled to include their shares of common stock in the registration, subject to the ability of the underwriters to limit the number of shares included in the offering.

Finally, pursuant to a Stock Purchase Agreement dated as of September 29, 1998, if Be Free registers any of its common stock for its own account or for the account of other securityholders, a holder of shares of common stock and warrants to purchase shares has the right to include those shares in the registration, subject to the ability of the underwriters to limit the number of shares issued in the offering. All of these shares are entitled to be registered under the Registration Rights Agreement.

Be Free will bear all fees, costs and expenses of such registrations, other than underwriting discounts and commissions. Upon the effectiveness of any registration statement filed to register our common stock, such shares would become freely tradable, without any restrictions imposed by the Securities Act.

Delaware Law and Our Charter and By-Law Provisions We are subject to the provisions of Section 203 of the General Corporation Law of Delaware. Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an interested stockholder is a person who, together with affiliates and associates, owns, or within the prior three years did own, 15% or more of the corporation's voting stock.

Our certificate of incorporation divides our board of directors into three classes with staggered three-year terms. In addition, our certificate of incorporation provides that directors may be removed only for cause by the affirmative vote of the holders of two-thirds of our shares of capital stock entitled to vote. Under our certificate of incorporation, any vacancy on our board of directors, including a vacancy

resulting from an enlargement of our board of directors, may only be filled by vote of a majority of our directors then in office. The classification of our board of directors and the limitations on the removal of directors and filling of vacancies could make it more difficult for a third party to acquire, or discourage a third party from acquiring, control of the company.

Our certificate of incorporation also provides that any action required or permitted to be taken by our stockholders at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting and may not be taken by written action in lieu of a meeting. Our certificate of incorporation further provides that special meetings of the stockholders may only be called by our Chairman of the Board, President or board of directors. Under our by-laws, in order for any matter to be considered properly brought before a meeting, a stockholder must comply with advance notice requirements. These provisions could have the effect of delaying until the next stockholders' meeting stockholder actions which are favored by the holders of a majority of our outstanding voting securities. These provisions may also discourage a third party from making a tender offer for our common stock, because even if it acquired a majority of our outstanding voting securities, the third party would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders' meeting, and not by written consent.

The General Corporation Law of Delaware provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or by-laws, unless a corporation's certificate of incorporation or by-laws, as the case may be, requires a greater percentage. Our certificate of incorporation and by-laws require the affirmative vote of the holders of at least 75% of the shares of our capital stock issued and outstanding and entitled to vote to amend or repeal any of the provisions described in the prior two paragraphs.

Our amended and restated certificate of incorporation contains provisions permitted under the General Corporation Law of Delaware relating to the liability of directors. The provisions eliminate a director's liability for monetary damages for a breach of fiduciary duty, except in circumstances involving wrongful acts, such as the breach of a director's duty of loyalty or acts or omissions that involve intentional misconduct or a knowing violation of law. Further, our amended and restated certificate of incorporation contains provisions to indemnify our directors and officers to the fullest extent permitted by the General Corporation Law of Delaware. We believe that these provisions will assist us in attracting and retaining qualified individuals to serve as directors.

Transfer Agent and Registrar The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust.

Shares Eligible for Future Sale

Immediately prior to this offering, there was no public market for our common stock. Future sales of substantial amounts of common stock in the public market could adversely affect the market price of our common stock.

Upon completion of this offering, we will have outstanding an aggregate of shares of common stock, assuming the issuance of shares of common stock offered hereby and no exercise of options after , 1999. Of these shares, the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by Affiliates of Be Free as that term is defined in Rule 144 under the Securities Act (whose sales would be subject to certain limitations and restrictions described below).

The remaining shares of common stock held by existing stockholders were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. Of these shares, shares will be subject to lock-up agreements described below on the effective date of this offering. Upon expiration of the lock-up agreements 180 days after the effective date of this offering, shares will become eligible for sale pursuant to Rule 144(k), and the remaining shares will become eligible for sale subject in most cases to the limitations of either Rule 144 or Rule 701. In addition, holders of stock options could exercise such options and sell certain of the shares issued upon exercise as described below.

Number of Shares Date After the date of this prospectus After 180 days from the date of this prospectus (subject, in some cases, to volume limitations) At various times after 180 days from the date of this prospectus As of , 1999 there were a total of shares of common stock subject to outstanding options under our 1998 Stock Incentive Plan, approximately of which were vested and exercisable. However, all of these shares are subject to lock-up agreements. All options held by officers and directors of Be Free are subject to 180 day lock-up agreements described below. Immediately after the completion of this offering, we intend to file registration statements on Form S-8 under the Securities Act to register all of the shares of common stock issued or reserved for future issuance under the 1998 Stock Incentive Plan. Based on the options outstanding as of , 1999, within 180 days after the effective date of this offering, a total of approximately shares of common stock subject to outstanding options will be vested and exercisable. After the effective dates of the registration statements on Form S-8, shares purchased upon exercise of options granted pursuant to the 1998 Stock Incentive Plan generally would be available for resale in the public market.

All officers and directors and substantially all of our existing stockholders agreed not to sell or otherwise dispose of any of their shares for a period of 180 days after the date of this offering. Donaldson, Lufkin & Jenrette Securities Corporation, however, may in its sole discretion, at any time without notice, release all or any portion of the shares subject to lock- up agreements.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned shares of our common stock for at least one year would be entitled to sell in broker's transactions or to market makers, within any three-month period, a number of shares that does not exceed the greater of:

. 1% of the number of shares of common stock then outstanding (which will equal approximately shares immediately after this offering); or . the average weekly trading volume in the common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form

144 with respect to such sale.

Sales under Rule 144 are generally subject to the availability of current public information about Be Free.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been an affiliate of Be Free at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell such shares without having to comply with the manner of sale, public information, volume limitation or notice filing provisions of Rule 144. Therefore, unless otherwise restricted, 144(k) shares may be sold immediately upon the completion of this offering.

Rule 701

In general, under Rule 701, any of our employees, directors, officers, consultants or advisors who purchase shares from us in connection with a compensatory stock or option plan or other written agreement before the effective date of this offering is entitled to sell such shares 90 days after the effective date of this offering in reliance on Rule 144, without having to comply with the holding period and notice filing requirements of Rule 144 and, in the case of non-affiliates, without having to comply with the public information, volume limitation or notice filing provisions of Rule 144.

The SEC has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Securities Exchange Act of 1934, along with the shares acquired upon exercise of such options (including exercises after the date of this prospectus). Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, beginning 90 days after the date of this prospectus, may be sold by persons other than affiliates (as defined in Rule 144) subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its one year minimum holding period requirements.

Underwriting

Subject to the terms and conditions contained in an underwriting agreement, dated , 1999, the underwriters named below, who are represented by Donaldson, Lufkin & Jenrette Securities Corporation, Hambrecht & Quist LLC and Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, have severally agreed to purchase from us the number of shares opposite their names below:

Number of Underwriters Shares Donaldson, Lufkin & Jenrette Securities Corporation..... Hambrecht & Quist LLC..... Dain Rauscher Wessels..... Total.....

The underwriting agreement provides that the obligations of the several underwriters to purchase and accept delivery of the shares included in this offering are subject to approval of certain legal matters and to certain other conditions. The underwriters are obligated to purchase and accept delivery of all the shares, other than those shares covered by the over-allotment option described below, if they purchase any of the shares.

The underwriters propose to offer initially some of the shares directly to the public at the initial public offering price on the cover page of this prospectus and some of the shares to certain dealers at the initial public offering price less a concession not in excess of $ per share. The underwriters may allow, and such dealers may re-allow, a concession not in excess of $ per share on sales to other dealers. After the initial offering of the shares to the public, the representatives may change the public offering price and such concessions. The underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

The following table shows the underwriting fees to be paid to the underwriters by us in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of our common stock.

No Full Exercise Exercise Per share..... $ $
Total.....

We will pay the offering expenses, estimated to be $ million.

DLJdirect Inc., an affiliate of Donaldson, Lufkin & Jenrette Securities Corporation and a member of the selling group, is facilitating the distribution of the shares sold in the offering over the Internet. The underwriters have agreed to allocate a limited number of shares to DLJdirect Inc. for sale to its brokerage account holders.

We have granted to the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to additional shares at the initial public offering price minus the underwriting fees. The underwriters may exercise this option solely to cover over-allotments, if any, made in connection with this offering. To the extent that the underwriters exercise this option, each underwriter will become obligated, subject to certain conditions, to purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitments.

We have agreed to indemnify the underwriters against certain civil liabilities, including liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in respect of any of those liabilities.

We, our executive officers and directors, and certain of our stockholders have agreed, for a period of 180 days from the date of this prospectus, not to, without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation:

. 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 or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable

or exchangeable for our common stock; or . enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any common stock, regardless of whether any of these transactions is to be settled by the delivery of common stock, or such other securities, in cash or otherwise.

However, we may:

. grant stock options under the 1998 Stock Incentive Plan; and . issue shares of our stock upon the exercise of options, warrants or rights or the conversion of currently outstanding securities.

In addition, during this period, we have agreed not to file any registration statement with respect to, and each of our executive officers, directors and certain stockholders have agreed not to make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation.

At the request of Be Free, the underwriters have reserved at the initial public offering price up to additional shares of common stock for sale to directors, employees and associates of Be Free. There can be no assurance that any of the served shares will be so purchased. The number of shares available for sale to the general public in the offering will be reduced by the number of reserved shares sold. Any reserved shares not so purchased will be offered to the general public on the same basis as the other shares offered hereby.

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the shares of our common stock included in this offering in any jurisdiction where action for that purpose is required. The shares included in this offering may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisement in connection with the offer and sale of any of these shares be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of such jurisdiction. Persons who receive this prospectus are advised to inform themselves about and to observe any restrictions relating to the offering of our common stock and the distribution of this prospectus. This prospectus is not an offer to sell or a solicitation of an offer to buy any shares of our common stock included in this offering in any jurisdiction where that would not be permitted or legal.

In connection with this offering, certain underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of our common stock. Specifically, the underwriters may overallot this offering, creating a syndicate short position. In addition, the underwriters may bid for and purchase shares of our common stock in the open market to cover syndicate short positions or to stabilize the price of our common stock. These activities may stabilize or maintain the market price of our 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.

Prior to this offering, there has been no established public market for our common stock. The initial public offering price for the shares of our common stock offered by this prospectus will be determined by negotiation between us and the representatives of the underwriters. The factors to be considered in

determining the initial public offering price include:

. our history and the prospects for the industry in which we compete;

. our past and present operations;

. our historical results of operations;

. our prospects for future earnings;

. the recent market prices of securities of generally comparable companies; and . the general conditions of the securities market at the time of the offering.

We have applied for quotation of our common stock on the Nasdaq National Market under the symbol BFRE.

Legal Matters

The validity of the shares of common stock offered by us hereby will be passed upon for us by Hale and Dorr LLP, Boston, Massachusetts. Legal matters will be passed upon for the underwriters by Testa, Hurwitz & Thibeault, LLP, Boston, Massachusetts.

Experts

The consolidated financial statements as of December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998 included in this prospectus and the registration statement relating to this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

Where You Can Find More Information

We have filed a registration statement on Form S-1 with the SEC for the stock we are offering by this prospectus. This prospectus does not include all of the information contained in the registration statement. You should refer to the registration statement and its exhibits for additional information. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document. When we complete this offering, we will also be required to file annual, quarterly and special reports, proxy statements and other information with the SEC.

You can read our SEC filings, including the registration statement, over the Internet at the SEC's Web site at http://www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facilities at 450 Fifth Street, N.W., Washington, D.C. 20549; Seven World Trade Center, Suite

1300, New York, New York 10048; and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. Our SEC filings are also available at the office of the Nasdaq National Market. For further information on obtaining copies of our public filings at the Nasdaq National Market, you should call (212) 656-5060.

Be Free, Inc.

Consolidated Financial Statements

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Report of Independent Accountants

To the Board of Directors and Stockholders of Be Free, Inc. and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Be Free, Inc. and its subsidiaries (the "Company") at December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, which require that we plan and

perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP Boston, Massachusetts July 2, 1999

Be Free, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31,		June 30,	Pro Forma (Note B) June 30,
	1997	1998	1999	1999
ASSETS			(Unaudited)	

Current assets: Cash and cash equiva- lents..... $ 75,843 $ 4,327,090 $ 21,374,504 $21,374,504 Marketable securities... -- -- 2,950,312 2,950,312 Accounts receivable, net of allowance for doubtful accounts of $0, $14,000, $27,700 and $27,700 at December 31, 1997, 1998, June 30, 1999, and June 30, 1999 pro forma, respectively.... 80,390 118,955 647,916 647,916 Prepaid expenses..... -- 144,517 826,856 826,856 Other current assets.... 343 23,222 -- -- Total current assets. 156,576 4,613,784 25,799,588 25,799,588 Property and equipment, net (Note D)..... 96,902 961,702 3,869,859 3,869,859 Deposits..... 550 384,991 423,932 423,932 Other assets..... -- 10,359 89,231 89,231 Total assets..... $ 254,028 $ 5,970,836 $ 30,182,610 $30,182,610 LIABILITIES, CONVERTIBLE PARTICIPATING PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT) Current liabilities: Accounts payable..... 431,756 533,524 583,013 583,013 Accrued expenses..... 106,360 349,725 1,078,798 1,078,798 Deferred revenue..... -- 121,667 1,173,571 1,173,571 Current portion of long-term debt..... 120,226 187,139 1,932,355 1,932,355 Total current liabil- ities..... 658,342 1,192,055 4,767,737 4,767,737 Notes payable to related parties..... 1,159,938 -- -- -- Long-term debt, net of current portion..... 333,040 4,949,198 6,018,464 6,018,464 Total liabilities.... 2,151,320 6,141,253 10,786,201 10,786,201 Commitments and contin- gencies (Note G) Series A Convertible Participating Preferred Stock; $0.01 par value; 11,300,000 shares authorized, 10,600,000 shares issued and outstanding at December 31, 1998, and June 30,1999; none issued and outstanding on a pro forma basis (liquidation preference $10,600,000 at December 31, 1998 and June 30, 1999), net of issuance costs of $152,592..... -- 9,815,447 9,899,507 -- Series A Convertible Participating Preferred Stock Warrants..... -- 540,000 540,000 -- Series B Convertible Participating Preferred Stock; $0.01 par value; 13,196,522 shares au- thorized, issued, and outstanding at June 30, 1999; none issued and outstanding on a pro forma basis (liquidation preference $25,503,465 at June 30, 1999), net of issuance costs of $55,253..... -- -- 25,450,975 -- Stockholders' equity (deficit) (Note H): Common stock, $0.01 par value; 55,000,000 shares authorized; 17,613,013 shares issued and outstanding at December 31, 1997; 19,500,000 shares issued at

December 31, 1998 and June 30, 1999; 43,296,522 issued on a pro forma basis..... 176,130 195,000 195,000 432,965 Additional paid-in cap- ital..... 345,678 31,356 1,220,965 36,873,482 Unearned compensation... -- (2,177,843) (3,522,819) (3,522,819) Stockholders' notes receivable..... -- (779,558) (309,659) (309,659) Accumulated deficit..... (2,419,100) (6,109,624) (12,484,321) (12,484,321) (1,897,292) (8,840,669) (14,900,834) 20,989,648 Treasury stock, at cost (1,685,195 shares at December 31, 1998; 1,922,157 shares at June 30, 1999 and on a pro forma basis)..... -- (1,685,195) (1,593,239) (1,593,239) Total stockholders' equity (deficit).... (1,897,292) (10,525,864) (16,494,073) 19,396,409 Total liabilities, convertible participating preferred stock and stockholders' equity (deficit)... $ 254,028 $ 5,970,836 $ 30,182,610 $30,182,610 The accompanying notes are an integral part of the financial statements.

Be Free, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended December 31,			Six Months Ended June 30,	
	1996	1997	1998	1998	1999
				(Unaudited)	
Revenue:					
Performance marketing services	$ --	$ 216,286	$ 1,319,183	$ 617,413	$ 1,396,149
Other	196,069	60,424	7,580	2,697	--
Total revenue	196,069	276,710	1,326,763	620,110	1,396,149
Operating expenses:					
Cost of revenue	--	272,585	423,811	155,711	238,033
Sales and marketing	397,819	180,108	1,453,706	146,310	4,496,110
Development and engineering	505,509	426,329	728,538	292,143	1,481,817
General and administrative	557,760	332,376	875,153	230,785	854,160
Equity related compensation	--	--	1,312,236	--	532,534
Total operating expenses	1,461,088	1,211,398	4,793,444	824,949	7,602,654
Operating loss	(1,265,019)	(934,688)	(3,466,681)	(204,839)	(6,206,505)
Interest income	1,324	6,293	34,577	6,139	276,946
Interest expense	(27,566)	(105,215)	(258,420)	(67,014)	(445,138)
Net loss	(1,291,261)	(1,033,610)	(3,690,524)	(265,714)	(6,374,697)
Accretion of preferred stock to redemption value	--	--	(56,039)	--	(590,401)
Net loss attributable to common stockholders	$(1,291,261)	$(1,033,610)	$(3,746,563)	$ (265,714)	$(6,965,098)
Basic and diluted net loss per share	$ (0.07)	$ (0.04)	$ (0.23)	$ (0.02)	$ (0.55)
Shares used in computing basic and diluted net loss per share	19,543,204	27,138,512	16,018,258	17,613,013	12,695,148
Unaudited pro forma basic and diluted net loss per share			$ (0.19)		$ (0.21)
Shares used in computing					

pro forma basic and diluted net loss per share.....	19,639,628	29,878,553

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

Be Free, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity (Deficit)

for the years ended December 31, 1996, 1997 and 1998 and for the six months ended June 30, 1999 (unaudited)

	Common Stock						Treasury Stock	
	Shares	$0.01 Par Value	Additional Paid-in Capital	Unearned Compensation	Stockholders' Notes Receivable	Retained Earnings (Accumulated Deficit)	Shares	Value
Balance at January 1, 1996.....	3,522,601	$ 35,226	$ 15,774	$ --	$ --	$ 116,578	--	$ --
Issuance of Common Stock....	24,658,215	246,582	(15,774)	--	--	(210,807)	--	--
Net loss.....	--	--	--	--	--	(1,291,261)	--	--
Balance at December 31, 1996.	28,180,816	281,808	--	--	--	(1,385,490)		
Contribution of capital by stockholders....	--	--	250,000	--	--	--	--	--
Acquisition and retirement of treasury stock..	(10,567,803)	(105,678)	95,678	--	--	--	--	--
Net loss.....	--	--	--	--	--	(1,033,610)	--	--
Balance at December 31, 1997.	17,613,013	176,130	345,678	--	--	(2,419,100)	--	--
Stock issuance in connection with warrant exercise.....	1,886,987	18,870	356,130	--	--	--	--	--
Acquisition of treasury stock..	--	--	--	--	--	--	(6,176,881)	(6,176,881)
Issuance of restricted stock to employees by controlling stockholders....	--	--	1,029,600	(152,909)	--	--	--	--
Issuance of warrants to purchase Common Stock in connection with Series A Convertible Participating Preferred Stock financing.....	--	--	688,000	--	--	--	--	--
Exercise of call option on Common Stock.....	--	--	--	--	--	--	(705,364)	(705,364)
Forfeiture of unvested shares of restricted stock.....	--	--	(86,550)	86,550	--	--	--	--
Issuance of restricted stock.....	--	--	(2,702,466)	(1,715,026)	(779,558)	--	5,197,050	5,197,050
Unearned compensation related to option grants.....	--	--	457,003	(457,003)	--	--	--	--
Amortization of unearned compensation....	--	--	--	60,545	--	--	--	--
Net loss.....	--	--	--	--	--	(3,690,524)	--	--
Accretion to redemption value of Series A Preferred Stock.	--	--	(56,039)	--	--	--	--	--
Balance at December 31, 1998.	19,500,000	195,000	31,356	(2,177,843)	(779,558)	(6,109,624)	(1,685,195)	(1,685,195)
Acquisition of treasury stock..	--	--	(130,890)	130,890	58,044	--	(386,962)	(58,044)
Acceleration of vesting of restricted stock.....	--	--	112,320	--	--	--	--	--
Issuance of restricted stock.....	--	--	--	(97,500)	(52,500)	--	150,000	150,000
Repayment of receivable from stockholder.....	--	--	--	--	464,355	--	--	--
Unearned compensation related to option grants...	--	--	1,798,580	(1,798,580)	--	--	--	--
Amortization of unearned compensation....	--	--	--	420,214	--	--	--	--
Net loss.....	--	--	--	--	--	(6,374,697)	--	--
Series B Preferred Stock dividend.....	--	--	(503,578)	--	--	--	--	--
Accretion to redemption value of Series A and B Preferred Stock.....	--	--	(86,823)	--	--	--	--	--
Balance at June 30, 1999 (unaudited).....	19,500,000	$195,000	$1,220,965	$ (3,522,819)	$ (309,659)			

$(12,484,321) (1,922,157) $ (1,593,239) Total Balance at January 1, 1996..... $ 167,578 Issuance of Common Stock.... 20,001 Net loss..... (1,291,261) Balance at December 31, 1996. (1,103,682) Contribution of capital by stockholders.... 250,000 Acquisition and retirement of treasury stock.. (10,000) Net loss..... (1,033,610) Balance at December 31, 1997. (1,897,292) Stock issuance in connection with warrant exercise..... 375,000 Acquisition of treasury stock.. (6,176,881) Issuance of restricted stock to employees by controlling stockholders.... 876,691 Issuance of warrants to purchase Common Stock in connection with Series A Convertible Participating Preferred Stock financing..... 688,000 Exercise of call option on Common Stock..... (705,364) Forfeiture of unvested shares of restricted stock..... -- Issuance of restricted stock..... -- Unearned compensation related to option grants..... -- Amortization of unearned compensation.... 60,545 Net loss..... (3,690,524) Accretion to redemption value of Series A Preferred Stock. (56,039) Balance at December 31, 1998. (10,525,864) Acquisition of treasury stock.. -- Acceleration of vesting of restricted stock..... 112,320 Issuance of restricted stock..... -- Repayment of receivable from stockholder..... 464,355 Unearned compensation related to option grants... -- Amortization of unearned compensation.... 420,214 Net loss..... (6,374,697) Series B Preferred Stock dividend..... (503,578) Accretion to redemption value of Series A and B Preferred Stock..... (86,823) Balance at June 30, 1999 (unaudited)..... $(16,494,073) The accompanying notes are an integral part of the financial statements.

Be Free, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,			Six Months Ended June 30,	
1996	1997	1998	1998	1999
			(Unaudited)	

Cash flows for operating activities: Net loss..... $(1,291,261) $(1,033,610) $(3,690,524) $(265,714) $(6,374,697) Adjustments to reconcile net loss to net cash used in operating activities: Depreciation and amortization..... 42,067 56,999 285,794 45,139 482,387 Compensation charge and amortization of unearned compensation..... -- -- 1,312,236 -- 532,534 Loss on disposal on fixed assets..... -- 3,304 -- -- -- Acquisition of fixed assets in exchange for services..... -- -- (202,688) (202,688) -- Provisions for doubtful accounts.... -- -- 14,000 -- 13,700 Changes in operating assets and liabilities: Accounts receivable... 118,072 (54,717) (52,565) (156,201) (542,661) Prepaid expenses..... -- -- (75,991) -- (533,625) Deposits..... -- -- (384,441) (2,231) (38,941) Accounts payable..... 329,044 94,570 101,768 186,848 49,489 Accrued expenses..... 25,261 46,085 243,365 (23,095) 729,073 Deferred revenue..... 24,508 (24,508) 121,667 466,667 1,051,904 Other, net..... (123) (343) (33,238) (1,534) (55,650) Net cash provided by (used in) operating activities..... (752,432) (912,220) (2,360,617) 47,191 (4,686,487) Cash flows for investing activities: Purchases of property and equipment..... (71,232) (67,726) (610,064) (32,235) (597,636) Purchases of marketable securities..... -- -- -- -- (2,932,150) Net cash used in investing activities... (71,232) (67,726) (610,064) (32,235) (3,529,786) Cash flows from financing activities: Proceeds from issuance of Series

A Convertible Participating Preferred Stock, net of issuance costs..... -- -- 9,759,408 -- -- Issuance of warrants for Common Stock in connection with Series A Preferred Stock..... -- -- 688,000 -- -- Proceeds from issuance of Series B Convertible Participating Preferred Stock, net of issuance costs..... -- -- -- -- 24,944,635 Proceeds from issuance of Common Stock..... 20,001 250,000 -- -- -- Acquisition of common stock and treasury shares..... -- (10,000) (6,882,245) -- -- Payments on notes payable to related parties..... -- -- (1,159,938) (3,880) -- Proceeds from notes receivable from stockholders..... -- -- -- -- 464,355 Proceeds from sales/leaseback..... -- -- -- -- 240,818 Proceeds from long-term debt..... 738,795 791,080 5,000,000 -- -- Payments on long-term debt..... -- -- (183,297) (61,588) (386,121) Net cash provided by (used in) financing activities..... 758,796 1,031,080 7,221,928 (65,468) 25,263,687 Net increase (decrease) in cash and cash equivalents..... (64,868) 51,134 4,251,247 (50,512) 17,047,414 Cash and cash equivalents at beginning of period.... 89,577 24,709 75,843 75,843 4,327,090 Cash and cash equivalents at end of period..... $ 24,709 $ 75,843 $ 4,327,090 $ 25,331 $21,374,504 Supplemental disclosure of cash flow information: Cash paid during the period for interest... $ 22,823 $ 53,819 $ 284,561 $ 121,589 $ 305,139 Supplemental disclosures of noncash transactions: Notes receivable for Common Stock sold..... -- -- $ 779,558 -- $ 52,500 Elimination of note receivable for restricted stock..... -- -- -- -- $ 58,044 Issuance of warrants in connection with subordinated debt agreement..... -- -- $ 540,000 -- -- Purchases of property and equipment under capital lease obligations and equipment financing... -- -- $ 285,000 -- $ 2,675,386 The accompanying notes are an integral part of the financial statements.

Be Free, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) A. The Company and Basis of Presentation:

Be Free, Inc. (the "Company") is a provider of services that enable electronic commerce merchants and Internet portals to promote their products and services on the Internet. As such, the Company is subject to a number of risks similar to other companies in the Internet industry, including rapid technological change, uncertainty of market acceptance of services, competition from substitute services and larger companies, protection of proprietary technology and dependence on key individuals.

The Company has a single operating segment, performance marketing services. The Company has no organizational structure dictated by product lines, geography or customer type. Revenue has been primarily derived from services provided through the Company's BFAST technology, which have been provided to domestic companies to date.

The Company was incorporated on January 25, 1996 as "Freedom of Information, Inc." On March 31, 1999, the Company changed its name to Be Free, Inc.

Prior to August 28, 1998, the Company and two affiliated companies, PCX Information Systems, Inc. ("PCX") and FOI, Inc. ("FOI"), were under common ownership and management by members of the same immediate family. On August 28, 1998, stockholders of the affiliated companies exchanged their shares of capital stock of the affiliated companies for shares of the Company's common stock which resulted in the affiliated companies becoming wholly owned subsidiaries of the Company (Note H). This combination was accounted for at historical cost due to the common control of the entities.

B. Summary of Significant Accounting Policies:

Cash and Cash Equivalents The Company considers all highly liquid investments with remaining maturities of three months or less at the time of acquisition to be cash equivalents. Cash equivalents, which consist of money market accounts and commercial paper, are stated at cost, which approximates market value.

Marketable Securities The Company's marketable securities are comprised entirely of commercial paper which are classified as available for sale at the date of purchase. Marketable securities with remaining maturities of less than twelve months from the balance sheet date are classified as short-term. Marketable securities with remaining maturities of more than twelve months from the balance sheet date are classified as long-term. These securities are carried at amortized cost, which approximates fair value.

Concentrations of Credit Risk Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, marketable securities and accounts receivable. At

Be Free, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) December 31, 1998, June 30, 1999, substantially all of the Company's cash was invested in money market accounts and commercial paper at one and four financial institutions, respectively, which the Company believes to be of high credit quality. The Company had one customer in 1996 totaling 74% of revenue, two customers in 1997 totaling 78% and 12% of revenue, respectively, one customer in 1998 totaling 73% of revenue and two customers in the six-month period ended June 30, 1999 totaling 40% and 15% of revenue, respectively. The Company had two customers that accounted for 40% and 11%, respectively, of accounts receivable at December 31, 1998.

Property and Equipment Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are five years for furniture and office equipment and three to five years for computer equipment and software. Leasehold improvements are depreciated over the shorter of related lease terms or the estimated useful lives. The cost of maintenance and repairs is charged to expense as incurred. When assets are retired or disposed, the assets and related accumulated depreciation are eliminated from accounts and any related gains or losses are reflected in income or loss for the period.

Revenue Recognition

The Company derives revenue primarily from providing performance marketing services to customers. Customer contracts generally provide for fees on a per transaction basis with a monthly or annual minimum. Revenue under service contracts is recognized monthly over the contract period up to the contractual monthly or annual minimum payments. Revenue from transactions in excess of minimums are recognized when the service is provided. The Company also charges a one time integration fee for certain services. Revenue for integration fees is recognized when the integration is complete and the service is available to the customer up to the cost of providing such service. Revenue for integration fees in excess of the cost are deferred and recognized ratably over the initial term of the service contract. Costs related to performing integration services are expensed as incurred. Other revenue consists of customized software development and support services which were recognized when the services were provided.

Revenue under arrangements where multiple services are sold together under one contract is allocated to each element based on the relative fair value of each element, with fair value being determined using the price charged when the element is sold separately.

Cost of Revenue

Cost of Revenue represents direct expenses relating to delivering performance marketing services to customers. Expenses included primarily represent depreciation for servers and storage equipment, costs for a third- party data center facility and costs for Internet connectivity.

Be Free, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) Development and Engineering Development and Engineering costs are expensed as incurred and include labor and related costs for product development and maintenance and support of system infrastructure.

On January 1, 1999, the Company adopted American Institute of Certified Public Accountants Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). Accordingly, the Company capitalizes costs associated with the design and implementation of its operating systems, including internally and externally developed software. To date, internal costs eligible for capitalization under SOP 98-1 have been immaterial.

During the years ended December 31, 1996, 1997 and 1998, certain engineering and development personnel performed software development services for third parties. The cost of those services were approximately $221,000, $40,000 and $0 for the years ended December 31, 1996, 1997 and 1998, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense of approximately $265,100, $3,100, $34,900, $2,200 and $927,100 were charged to sales and marketing expenses for the years ended December 31, 1996, 1997, 1998 and the six-month period ended June 30, 1998 and 1999, respectively.

Income Taxes

The Company provides for income taxes using the liability method whereby deferred tax liabilities and assets are recognized based on temporary differences between the amounts presented in the financial statements and the tax bases of assets and liabilities using current statutory tax rates. A valuation allowance is established against net deferred tax assets, if based on the weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Accounting for Stock-Based Compensation Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," encourages but does not require companies to record compensation cost for stock-based employee compensation at fair value. The Company has chosen to account for stock-based compensation granted to employees using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation cost for stock options granted to employees is measured as the excess, if any, of the fair value of the Company's stock at the date of the grant over the amount that must be paid to acquire the stock. Stock-based compensation issued to nonemployees is measured and recorded using the fair value method prescribed in SFAS No. 123.

Be Free, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) Treasury Stock The Company has delivered treasury shares upon issuance of restricted stock and may deliver treasury shares upon the exercise of stock options. The difference between the cost of the treasury shares, on a first-in, first-out basis, and the exercise price of the options or purchase price of restricted stock is reflected in additional paid in capital. Repurchase of treasury stock is accounted for by using the cost method of accounting.

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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates include accrued expenses and the valuation allowance for deferred tax assets. Actual results could differ from those estimates.

Recent Accounting Pronouncements In June 1998, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company, to date, has not engaged in derivative and hedging activities, and accordingly does not believe that the adoption of SFAS No. 133 will have a material impact on the financial reporting and related disclosures of the Company. The Company will adopt SFAS No. 133 as required by SFAS No. 137, "Deferral of the effective date of FASB Statement No. 133," in fiscal year 2000.

Interim Financial Information The consolidated financial statements of the Company as of June 30, 1999 and for the six months ended June 30, 1998 and 1999 are unaudited. All adjustments (consisting only of normal recurring adjustments) have been made, which in the opinion of management, are necessary for a fair presentation. Results of operations for the six months ended June 30, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999 or for any other future period.

Pro Forma Balance Sheet (Unaudited) Upon the closing of the Company's initial public offering, all of the outstanding shares of Series A and B convertible participating preferred stock will automatically convert to an equivalent number

Be Free, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) of shares (approximately 23,796,522 shares) of the Company's common stock assuming an offering price of greater than $3.98 per share. Upon the closing of the Company's initial public offering, warrants for the purchase of 700,000 shares of preferred stock will become exercisable for an equivalent number of shares of common stock. The unaudited pro forma presentation of the balance sheet has been prepared assuming the conversion of the convertible preferred stock into common stock at June 30, 1999.

C. Net Loss Per Share and Pro Forma Loss Per Share:

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the weighted average number of common shares outstanding during the period, plus the effect of any dilutive potential common shares. Dilutive potential common shares consist of stock options, preferred stock and warrants. Potential common shares were excluded from the calculation of net loss per share for the periods presented since their inclusion would be antidilutive. During the year ended December 31, 1996, there were no dilutive potential common shares. During the year ended December 31, 1997, there were no options to purchase common shares, no shares of preferred stock convertible into shares of common stock and 1,886,987 warrants to purchase shares of common stock. During the year ended December 31, 1998, there were 1,402,407 options to purchase common stock, 10,600,000 shares of preferred stock

convertible into common stock and warrants to purchase 4,198,000 shares of common stock. During the six-month period ended June 30, 1999, there were 2,638,791 options to purchase common stock, 23,796,522 shares of preferred stock convertible into common stock and warrants to purchase 4,198,000 shares of common stock.

Pro forma basic and diluted loss per share have been calculated assuming the conversion of all outstanding shares of preferred stock into common stock, as if the shares had converted immediately upon their issuance. Accordingly, net loss has not been adjusted for the accrued dividends for preferred stock in the calculation of pro forma loss per share.

Be Free, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) The following is a calculation of pro forma net loss per share (unaudited):

	Year Ended December 31, 1998	For the Six Months Ended June 30, 1999
Pro forma net loss: Net loss attributable to common stockholders.....	$(3,746,563)	$(6,965,098)
Accretion of preferred stock to redemption value...	56,039	590,401
Pro forma net loss.....	$(3,690,524)	$(6,374,697)
Shares used in computing pro forma basic and diluted net loss per share: Weighted average number of common shares outstanding.....	16,018,258	12,695,148
Weighted average impact of assumed conversion of preferred stock on issuance.....	3,621,370	17,183,405
Shares used in computing pro forma basic and diluted net loss per share.....	19,639,628	29,878,553
Basic and diluted pro forma net loss per common share.....	$ (0.19)	$ (0.21)

D. Property and Equipment:

Property and equipment consist of the following:

	December 31, 1997	December 31, 1998	June 30, 1999
Furniture and office equipment.....	$ 1,803	$ 27,778	$ 402,589
Computer equipment and software.....	213,906	1,285,683	3,994,002
Leasehold improvements.....	--	--	189,892
	215,709	1,313,461	4,586,483
Accumulated depreciation.....	(118,807)	(351,759)	(716,624)
Property and equipment, net.....	$ 96,902	$ 961,702	$3,869,859

At December 31, 1998, cost and accumulated depreciation relating to computer equipment under a long-term financing arrangement totaled $285,000 and $47,500, respectively. At June 30, 1999, cost and accumulated depreciation relating to furniture and office equipment under long-term financing arrangements totaled $416,593 and $36,855, respectively. At June 30, 1999, cost and accumulated depreciation relating to computer equipment and software under long-term financing arrangements

totaled $2,676,312 and $190,188, respectively. At June 30, 1999, cost and accumulated depreciation relating to leasehold improvements totaled $108,299 and $4,961, respectively. Depreciation expense totaled $42,067, $56,999 and $232,952 for the years ended December 31, 1996, 1997 and 1998, respectively, and for the six months ended June 30, 1998 and 1999 was $45,139 and $364,865, respectively.

Be Free, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) E. Accrued Expenses:

Accrued expenses include the following:

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

Accrued interest	$ 56,140	$ 50,000	$ 50,000
Professional fees	42,500	135,395	420,683
Commissions	--	--	175,780
Salaries and benefits	--	27,876	208,924
Rent	--	67,644	42,143
Other	7,720	68,810	181,268
Accrued expenses	$106,360	$349,725	$1,078,798

F. Long-Term Debt:

The following table summarizes the Company's long-term borrowings:

	December 31,		June 30,
	1997	1998	1999
Subordinated debt, net	$ --	$4,490,000	$ 4,580,000
Obligations under capital leases and equipment financing	--	332,510	3,370,819
Term loans	453,266	313,827	--
	453,266	5,136,337	7,950,819
Less current portion	(120,226)	(187,139)	(1,932,355)
Long-term debt	$ 333,040	$4,949,198	$ 6,018,464

The Company entered into term loans during 1996 and 1997 that accrued interest based on the lender's published prime rate, which was 9% and 8.5% at December 31, 1997 and 1998, respectively. These loans were paid in full in March 1999.

On August 25, 1998, the Company entered a software and support financing arrangement with a lender totaling $376,368. Borrowings under this arrangement have an implied interest rate of 13%. The repayment period for borrowings outstanding under this arrangement concludes in September 2001.

On September 29, 1998, the Company entered into a subordinated debt agreement totaling $5,000,000 which bears interest at 12% per annum. The Company borrowed the full amount available under this agreement on October 23, 1998. The repayment period on this agreement

Be Free, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) concludes in November 2001. In connection with the subordinated debt financing, the Company also granted warrants to purchase 700,000 shares of the Company's Series A Preferred Stock at $1.00 per share. The fair value of the warrants, estimated to be approximately $540,000 at issuance, has been recorded as a discount on the carrying value of the debt to be amortized to interest expense over the term of the debt. The value of the warrants was estimated assuming a weighted average risk free interest rate of 4.51%, an expected life from date of grant of four years, a volatility of 100% and no expected dividends. The amount of expense recognized for the year ended December 31, 1998 and the six- month period ended June 30, 1999 totaled $30,000 and $90,000, respectively.

On September 29, 1998, the Company established a capital equipment line of credit totaling $2,000,000 which is available through September 29, 1999 and is collateralized by the asset purchases made under the line. At December 31, 1998, no amounts had been borrowed under this line. At June 30, 1999, the Company borrowed $1,824,228 under this line which bears interest at 6.8%. Purchases under this line are financed as capital leases with terms of four years.

During 1999, the Company entered into a sale/leaseback agreement with a vendor for $240,818 in fixed assets. There was no gain or loss on the transaction and the equipment has been accounted for as a capital lease.

The weighted average interest rate of outstanding long-term debt at December 31, 1997, 1998 and June 30, 1999 was 9%, 11.9% and 11.0%, respectively.

Principal payments on long-term debt are as follows:

Long-Term Debt Year ended December 31, Payments

1999	$ 367,139
2000	2,563,314
2001	2,582,551
2002	57,143
2003	57,143
2004 and thereafter	19,047
Total minimum debt payments	$5,646,337

G. Commitments and Contingencies:

The Company leases facilities and computer equipment under operating lease agreements that expire on various dates through January 31, 2004. The Company pays all insurance and pro-rated portions of certain operating expenses for certain leases. Rent expense was $72,687, $113,025 and $307,575 for the years ended December 31, 1996, 1997 and 1998, respectively, and $101,905 and $207,298 for the six months ended June 30, 1998 and 1999, respectively.

Be Free, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) The future minimum lease payments at December 31, 1998 are as follows:

Operating Year ended December 31, Leases

1999	$ 449,944
2000	605,377
2001	662,361
2002	694,545
2003	706,421
2004 and thereafter	142,202
Total minimum lease payments	$3,260,850

H. Capital Structure:

The authorized capital stock of the Company consists of (i) 55,000,000 shares of voting common stock ("Common Stock") authorized for issuance with a par value of $0.01 and (ii) 24,496,522 shares of preferred stock with a par value of $0.01, of which 11,300,000 shares are designated as Series A Convertible Participating Preferred Stock ("Series A Preferred Stock") and 13,196,522 shares are designated as Series B Convertible Participating Preferred Stock ("Series B Preferred Stock").

Common Stock

Prior to August 28, 1998, the Company and its affiliated companies, FOI, Inc. and PCX were under common control and management by immediate members of one family. On August 28, 1998, stockholders of the affiliated companies exchanged their shares of capital stock of the affiliated companies for shares of the Company's Common Stock which resulted in the affiliated companies becoming wholly owned subsidiaries of the Company. The financial statements for the Company, FOI and PCX are presented on a consolidated basis for all periods presented.

On August 28, 1998, the holders of warrants to purchase shares of Common Stock exercised their warrants for 1,886,987 shares of Common Stock. Of these shares, 705,364 shares were subject to a call option at the discretion of the Company for $1.00 per share. On October 27, 1998, the Company exercised its call option in full for $705,364.

On August 28, 1998, the Company repurchased 6,176,881 shares of Common Stock from founders and employees of the Company in exchange for notes payable issued by the Company for $6,176,881. These notes were paid in full on August 31, 1998.

On August 28, 1998, certain controlling stockholders of the Company transferred 2,145,000 shares of Common Stock to employees in consideration of past performance and as an incentive for continuing employment with the Company. The stock was transferred subject to certain vesting

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) restrictions and for no cash consideration. The fair value of these restricted stock awards at the date of transfer totaled $1,029,600, which the Company is recognizing as compensation expense over the defined vesting period. Upon the transfer of these shares, the Company recorded a charge of $876,691 representing fully vested shares. In addition, the Company recorded unearned compensation related to unvested shares totaling $152,909. The Company recorded amortization of the unearned compensation totaling $12,694 and $11,900 for the year ended December 31, 1998 and for the six months ended June 30, 1999, respectively.

On August 28, 1998, the Company's Board of Directors authorized a 35,226.01- for-1 Common Stock split effected in the form of a stock dividend. Stockholders' equity (deficit) has been restated for all periods presented to give retroactive recognition to the split in prior periods by reclassifying from additional paid-in capital to Common Stock the par value of the additional shares arising from the split. In addition, all references in the consolidated financial statements to the number of Common Stock shares and per share amounts have been adjusted to reflect this split.

Preferred Stock

On August 28, 1998, the Company issued 10,500,000 shares of Series A Preferred Stock for cash proceeds of $10,355,408, net of issuance costs of $144,592. On September 29, 1998, the Company issued 100,000 shares of Series A Preferred Stock for cash proceeds of $92,000, net of issuance costs of $8,000.

Each share of Series A Preferred Stock is convertible, at the option of the holder, into one share of Common Stock, adjusted for certain events. The Series A Preferred Stock automatically converts to Common Stock upon the closing of a public offering raising an amount greater than $10,000,000 at a price per share of at least $3.98. In addition, the Company can elect to convert the Series A Preferred Stock to Common Stock if less than 25% of the original shares are outstanding. The Company has reserved 11,300,000 shares of Common Stock for the conversion of Series A Preferred Stock.

The holders of the Series A Preferred Stock are entitled to voting rights equal to the number of shares of Common Stock into which the Series A Preferred Stock could be converted at the time. Two of the holders of Series A Preferred Stock have the right to elect one member each to the Board of Directors.

On or after March 31, 2004, the Company shall, at the written election of the holders of at least a majority of the then outstanding shares of Series A Preferred Stock, (i) redeem on the date specified by such holders one-third of all the shares of Series A Preferred Stock outstanding on the date of such election and (ii) redeem on the first anniversary of such date up to an additional one-third of the shares of the Series A Preferred Stock outstanding on such date (and not previously called for redemption) and (iii) redeem on the second anniversary of such date all remaining shares of Series A Preferred Stock outstanding on such date (and not previously called for redemption). The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) redemption price is equal to the sum of the original purchase price (adjusted appropriately for any stock dividend, stock split or similar event affecting the Series A Preferred Stock) plus the amount of any declared but unpaid dividends.

In the event of liquidation of the Company, the holders of the Series A Preferred Stock are entitled to be paid a liquidation amount equal to $1.00 (adjusted appropriately for any stock dividend, stock split or similar event affecting the Series A Preferred Stock) plus any declared but unpaid dividends. In addition, after the liquidation preferences of the Series A and Series B Preferred Stock have been paid, the holders of Series A Preferred Stock are entitled to share in the remaining proceeds, if any, as if their shares had been converted into shares of Common Stock.

In connection with the issuance of Series A Preferred Stock, the Company issued warrants to the holders of the Series A Preferred Stock, for the purchase of up to 3,498,000 shares of Common Stock at $1.50 per share. Of these warrants, 3,465,000 are exercisable from the date of issuance through August 28, 2008 and 33,000 are exercisable from the date of issuance through September 29, 2008. The fair value of these warrants at the date of issue was $688,000. This amount has been recorded as a reduction of Series A Preferred Stock and an increase to paid-in-capital. The value of the warrants was estimated assuming a weighted average risk free interest rate of 4.51%, an expected life from date of grant of four years, a volatility of 100% and no expected dividends.

On March 31, 1999, the Company issued 13,196,522 shares of Series B Preferred Stock for cash proceeds of $24,944,635, net of issuance costs of $55,253.

Each share of Series B Preferred Stock is convertible, at the option of the holder, into one share of Common Stock, adjusted for certain events. The Series B Preferred Stock automatically converts to Common Stock upon the closing of a public offering raising an amount greater than $10,000,000 at a price per share of at least $3.98. In addition, the Company can elect to convert the Series B Preferred Stock to Common Stock if less than 25% of the original shares of Series B Preferred Stock are outstanding. The Company has and will continue to reserve a sufficient number of its Common Stock to satisfy the conversion rights of the holders of the Series B Preferred Stock. The holders of the Series B Preferred Stock are entitled to receive cumulative dividends at a rate of 8% per annum.

The holders of the Series B Preferred Stock are entitled to voting rights equal to the number of shares of Common Stock into which the Series B Preferred Stock could be converted at the time. One of the holders of Series B Preferred Stock has the right to elect one member to the Board of Directors.

On or after March 31, 2004, the Company shall, at the written election of the holders of at least majority of the then outstanding shares of Series B Preferred Stock, (i) redeem on the date specified by such holders one-third of all the shares of Series B Preferred Stock outstanding on the date of such election (the "Election Date") and (ii) redeem on March 31, 2005 one-third of the shares of the Series B Preferred Stock outstanding on the Election Date (and not previously called for redemption)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) and (iii) redeem on March 31, 2006 all remaining shares of Series B Preferred Stock outstanding on such date (and not previously called for redemption). The redemption price is equal to the sum of the original purchase price (adjusted appropriately for any stock dividend, stock split or similar event affecting the Series B Preferred Stock) plus the amount of any declared or accrued but unpaid dividends.

In the event of liquidation of the Company, the holders of the Series B Preferred Stock are entitled to be paid a liquidation amount equal to $1.89 (adjusted appropriately for any stock dividend, stock split or similar event affecting the Series B Preferred Stock) per share plus any declared or accrued but unpaid dividends. In addition, after the liquidation preference of the Series A and B Preferred Stock has been paid, the holders of Series B Preferred Stock are entitled to share in the remaining proceeds, if any, as if their shares had been converted into Common Stock.

I. Stock Options and Restricted Stock Awards:

On November 19, 1998, the Company adopted its 1998 Stock Incentive Plan (the "Option Plan"). The Option Plan is administered by the Company's Board of Directors (the "Board"), and allows for the granting of awards in the form of incentive stock options to employees and nonqualified options and restricted stock to officers, employees, consultants, directors and advisors. The exercise prices for awards and options granted were determined by the Board of Directors of the Company to be equal to the fair value of the Common Stock on the date of grant. In reaching this determination at the time of each such grant, the Board considered a broad range of factors including the illiquid nature of an investment in the Common Stock, the Company's historical financial performance and financial position and the Company's future prospects and opportunity for liquidity events. The option plan allows for the Company to grant up to 9,534,506 options for common shares and restricted stock. Stock options may not be exercised after ten years from the date of grant. Options and restricted stock awards normally vest over 48 months as follows: 25% after 12 months from the date of grant, thereafter, an additional 2.0833% of shares vest at the end of each month until all shares are fully vested. In the event of a change of control of the Company (as defined by the Option Plan), the vesting for each option and restricted stock award will automatically be accelerated with respect to 25% of the shares subject to such options or restricted stock awards.

During the year ended December 31, 1998, the Company granted incentive stock options for the purchase of 1,402,407 shares with an exercise price of $0.15 per share. During 1998, the Company sold 5,197,050 shares of restricted stock to certain employees for $0.15 per share. There were 17,550 stock option cancellations during the year ended December 31, 1998.

During the six months ended June 30, 1999, the Company granted incentive stock options for the purchase of 1,184,934 shares and nonqualified stock options for the purchase of 75,000 shares at a weighted average exercise price of $0.71. There were 6,000 stock option cancellations during the

Be Free, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) six months ended June 30, 1999. During the six months ended June 30, 1999, the Company issued 150,000 shares of restricted stock for $0.35 per share in exchange for a note receivable totaling $52,500.

The following table summarized information about stock options outstanding at June 30, 1999:

Exercise Price	Shares	Weighted Average Remaining Contractual Life (Years)	Shares Exercisable
$0.15	1,384,857	9.3	--
$0.35	427,106	9.5	75,000
$0.60	219,914	9.7	--
$0.95	541,914	9.9	--
$1.40	65,000	10.0	--
	2,638,791	9.5	--

No options were exercisable at December 31, 1998. The weighted average remaining contractual life of the options at December 31, 1998 was 9.8 years.

During the year ended December 31, 1998 and the six months ended June 30, 1999 the Company recorded deferred compensation for restricted stock and options granted to employees below fair value of $2,172,029 and $1,896,080, respectively. The Company is recognizing the compensation expense over the vesting period. The Company recorded equity compensation expense including amortization expense relating to deferred compensation of $1,312,236 and $532,534 for the year ended December 31, 1998 and the six months ended June 30, 1999, respectively.

On April 30, 1999, the Company also accelerated the vesting with respect to 77,393 shares of restricted stock held by a former employee. The Company has recorded a charge of $112,320 in connection with this acceleration.

Had compensation cost for the stock option grants been calculated based on the fair value at the date of grant for options granted in 1998 consistent with SFAS 123, the Company's net loss for the year ended December 31, 1998 would have been increased to the pro forma amounts indicated below:

Net loss--as reported..... $(3,690,524) Net loss--pro forma under SFAS 123..... $(3,704,181) The following table presents the significant assumptions used to estimate the fair values of the options:

Weighted average risk free interest rate.....	4.85%
Expected life from the date of grant.....	7 years
Volatility.....	None
Expected dividends.....	None

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) The weighted average fair value of options on the date of grant for the options granted in 1998 was $0.37.

The pro forma effects of applying SFAS 123 are not indicative of future impacts. Additional grants in future years are anticipated.

J. Income Taxes:

Deferred income taxes include 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.

The components of the Company's deferred tax assets (liabilities) are as follows:

Net deferred tax assets	December 31, 1997	December 31, 1998	June 30, 1999
Temporary differences	$ 656,576	$ 692,802	$ 1,179,906
Net operating losses	261,896	1,473,754	3,545,513
Total net deferred tax asset	918,472	2,166,556	4,725,419
Valuation allowance	(918,472)	(2,166,556)	(4,725,419)
Net deferred taxes	$ --	$ --	$ --

A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. Accordingly, a valuation allowance has been established for the full amount of the deferred tax asset due to the uncertainty of realization.

The Company had net operating loss carryforwards of approximately $650,000, $3,660,000 and $8,804,000 at December 31, 1997, 1998 and June 30, 1999, respectively. These net operating loss carryforwards begin to expire in 2010.

Under the provisions of the Internal Revenue Code, certain substantial changes in the Company's ownership may have limited, or may limit in the future, the amount of net operating loss carryforwards which could be utilized annually to offset future taxable income and income tax liabilities. The amount of any annual limitation is determined based upon the Company's value prior to an ownership change.

K. Employee Benefit Plan:

In January 1999, the Company established a savings plan for its employees which it designed to be qualified under Section 401(k) of the Internal Revenue Code. Eligible employees are permitted to contribute to the 401(k) plan through payroll deduction within statutory and plan limits. The Company may make contributions to the 401(k) plan in its discretion. No Company contributions have been made to the savings plan to date.

Be Free, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (the information presented relating to the six months ended June 30, 1998 and 1999 is unaudited) L. Related Party Transactions:

The Company had amounts due from related parties totaling $343, $813,139 and $398,890 at December 31, 1997, 1998 and June 30, 1999, respectively. Amounts due from related parties at December 31, 1997 related to employee advances. Amounts due from related parties at December 31, 1998 was composed of $779,558 related to notes receivable from stockholders for restricted stock and $33,581 related to employee advances. The notes receivable from stockholders for restricted stock are due in June 2003 and accrue interest monthly at 7% per annum. The terms of the notes provide that interest accrues beginning January 1, 1999 and payments of interest commence on July 15, 1999. Amounts due from related parties at June 30, 1999 was composed of $309,659 related to notes receivable from stockholders executed in connection with the issuance of restricted stock and $89,231 related to employee advances.

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution The following table sets forth the various expenses, all of which will be borne by the Registrant, in connection with the sale and distribution of the securities being registered, other than the underwriting discounts. All amounts shown are estimates except for the Securities and Exchange Commission registration fee and the NASD filing fee.

SEC registration fee	$ 16,625
NASD filing fee	6,480
Nasdaq National Market listing fee	*
Blue Sky fees and expenses	*
Transfer Agent and Registrar fees	*
Accounting fees and expenses	*
Legal fees and expenses	*
Printing and mailing expenses	*
Miscellaneous	*
Total	$ *

* to be filed by amendment Item 14. Indemnification of Directors and Officers Article Seventh of the Registrant's Amended and Restated Certificate of Incorporation provides that no director of the Registrant shall be personally liable for any monetary damages for any breach of fiduciary duty as a director, except to the extent that the Delaware General Corporation Law prohibits the elimination or limitation of liability of directors for breach of fiduciary duty.

Article Eighth of the Registrant's Amended and Restated Certificate of Incorporation provides that a director or officer of the Registrant (a) shall be indemnified by the Registrant against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement incurred in connection with any litigation or other legal proceeding (other than an action by or in the right of the Registrant)

brought against him by virtue of his position as a director or officer of the Registrant if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Registrant, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful and (b) shall be indemnified by the Registrant against all expenses (including attorneys' fees) and amounts paid in settlement incurred in connection with any action by or in the right of the Registrant brought against him by virtue of his position as a director or officer of the Registrant if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Registrant, except that no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the Registrant, unless a court determines that, despite such adjudication but in view of all of the circumstances, he is entitled to indemnification of such expenses. Notwithstanding the foregoing, to the extent that a director or officer has been successful, on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, he is required to be indemnified by the Registrant against all expenses (including attorneys' fees) incurred in connection therewith. Expenses shall be advanced to a director or officer at his request, provided that he undertakes to repay the amount advanced if it is ultimately determined that he is not entitled to indemnification for such expenses.

Indemnification is required to be made unless the Registrant determines that the applicable standard of conduct required for indemnification has not been met. In the event of a determination by the Registrant that the director or officer did not meet the applicable standard of conduct required for indemnification, or if the Registrant fails to make an indemnification payment within 60 days after such payment is claimed by such person, such person is permitted to petition the court to make an independent determination as to whether such person is entitled to indemnification. As a condition precedent to the right of indemnification, the director or officer must give the Registrant notice of the action for which indemnity is sought and the Registrant has the right to participate in such action or assume the defense thereof.

Article Eighth of the Registrant's Amended and Restated Certificate of Incorporation further provides that the indemnification provided therein is not exclusive, and provides that in the event that the Delaware General Corporation Law is amended to expand the indemnification permitted to directors or officers the Registrant must indemnify those persons to the fullest extent permitted by such law as so amended.

Section 145 of the Delaware General Corporation Law provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which he is or is threatened to be made a party by reason of such position, if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceeding, if such person had no reasonable cause to believe his conduct was unlawful; provided that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to

any matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances.

Under Section of the Underwriting Agreement, the underwriters are obligated, under circumstances, to indemnify directors and officers of the Registrant against liabilities, including liabilities under the Securities Act. Reference is made to the form of Underwriting Agreement to be filed as Exhibit 1 hereto.

The Registrant carries Directors and Officers liability insurance. Through an agreement dated as of March 31, 1999 with Daniel J. Nova, and agreements with Ted R. Dintersmith, W. Michael Humphreys and Samuel P. Gerace, Jr. dated as of August 28, 1999 the Registrant has agreed to indemnify each director against litigation risks and expenses arising out of his service to the Registrant.

Finally, Ted Dintersmith, a director of the Registrant, is indemnified by Charles River Partnership VIII for actions he takes on its behalf.

Item 15. Recent Sales of Unregistered Securities Set forth is information regarding shares of common stock and preferred stock issued, and warrants issued and options granted by the Company since January 1, 1996 (without giving effect to the Company's -for- reverse stock split to be effected prior to the closing of this offering). Further included is the consideration, if any, received by the Company for such shares, warrants and options and information relating to the section of the Securities Act of 1933, as amended (the "Securities Act"), or rule of the Securities and Exchange Commission under which exemption was claimed.

On August 28, 1998, we issued 399 shares of Freedom of Information, Inc. ("FOI") (the immediate predecessor of Be Free) common stock and $6,176,881 in promissory notes (the "Redemption Notes") of FOI in consideration for the exchange of all of the shares of Be Free, Inc. (an unrelated corporation, "Old Be Free") and PCX Systems, Inc. by shareholders of such entities.

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   On August 28, 1998 we issued a total of 10,500,000 shares of Series A
Preferred Stock to five private investors (including three venture capitalist
firms, a bank and an individual investor) for an aggregate capital contribution
of $10,500,000 and warrants to purchase a total of      shares of common stock
at a purchase price of $   per share.

   On September 29, 1998, we issued 100,000 shares of Series A Convertible
Preferred Stock to Comdisco, Inc. for an aggregate capital contribution of
$100,000 and a warrant to purchase      shares of common stock at a purchase
price of $   per share.
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On September 29, 1998, we issued to Comdisco two warrants, one to purchase 100,000 shares of Series A Preferred Stock at a purchase price of $1.00 and the other to purchase up to 600,000 shares of Series A Convertible Preferred Stock at a purchase price of $1.00 per share. We issued these warrants as partial consideration for certain financing transactions between Comdisco and the Company.

On March 31, 1999, we issued a total of 13,196,522 shares of Series B Convertible Preferred Stock to sixteen private investors for an aggregate capital contribution of $24,999,888.06.

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   At various times since November 1998, we issued      shares of restricted
common stock, at a purchase price of $  , and options to purchase    shares of
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common stock to employees, consultants, advisors and a director pursuant to our 1998 Stock Incentive Plan.

No underwriters were involved in the foregoing sale of securities. Such sales were made in reliance upon an exemption from the registration provisions of the Securities Act set forth in Section 4(2) thereof relative to sales by an issuer not involving any public offering or the rules and regulations thereunder, or, in the case of restricted common stock or options to purchase common stock, Rule 701 under the Securities Act. All foregoing securities are deemed restricted securities for the purpose of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules (a) Exhibits Exhibit No. Description

1	Form of Underwriting Agreement.
*3.1	Restated Certificate of Incorporation of the Registrant, as amended and as currently in effect.
*3.2	Form of Amended and Restated Certificate of Incorporation of the Registrant to be filed on or immediately subsequent to the date of the closing of the Offering contemplated by this Registration Statement.
3.3	By-Laws of the Registrant, as amended to date
*3.4	Amended and Restated By-Laws of the Registrant to be effective on the date of the closing of the Offering.
*4	Specimen certificate for shares of Common Stock, $.01 par value per share, of the Registrant.
5	Form of Opinion of Hale and Dorr LLP.
10.1	1998 Stock Incentive Plan
10.2	Stock Purchase and Shareholders Agreement, as amended, dated as of August 28, 1998
10.3	Form of Warrant dated as of August 28, 1998
10.4	Stock Purchase Agreement, as amended, dated as of September 29, 1998
10.5	Warrant Certificate for the purchase of shares of common stock issued to Comdisco, Inc.
10.6	Warrant Certificate A-1 for the purchase of shares of Series A Preferred Stock issued to Comdisco, Inc.
10.7	Warrant Certificate A-2 for the purchase of shares of Series A Preferred Stock issued to Comdisco, Inc.
10.8	Subordinated Loan and Security Agreement dated as of September 29, 1998
10.9	Registration Rights Agreement dated as of March 31, 1999
10.10	Employment Agreement with Samuel P. Gerace, Jr., dated August 28, 1998
10.11	Employment Agreement with Thomas A. Gerace dated August 28, 1998
10.12	Lease dated as of November 9, 1998 with Southwestern Pennsylvania Corporation
10.13	Lease dated October 20, 1998 with LSOF Pooled Equity L.P.
+10.14	License and Services Agreement, effective January 13, 1999, with GeoCites
+10.15	BFAST Service Order Form, as amended, with barnesandnoble.com, Inc. dated January 31, 1998
10.16	Director Indemnification Agreement dated as of March 31, 1999 with Dan Nova
10.17	Form of Indemnification Agreement dated August 28, 1998
21	List of Subsidiaries
23.1	Consent of Independent Accountants.
23.2	Consent of Hale and Dorr LLP (included in Exhibit 5).
24	Power of Attorney (see page II-5)
27	Financial Data Schedule

* To be filed by amendment + Confidential Treatment Requested Item 17. Undertakings Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, 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 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 of 1933, 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.

Signature

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in Boston, Massachusetts, on this 5th day of August, 1999.

Be Free, Inc.

/s/ Gordon B. Hoffstein By:_____ Gordon B. Hoffstein President and Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Gordon B. Hoffstein, Stephen M. Joseph, Thomas A. Gerace and Samuel P. Gerace, Jr. each of them, their true and lawful attorneys and agents, with full power of substitution, each with power to act alone, to sign and execute on behalf of the undersigned any

amendment or amendments to this Registration Statement on Form S-1, and any subsequent Registration Statement for the same offering which may be filed under Rule 462(b), and to perform any acts necessary to enable Be Free, Inc. to comply with the provisions of the Securities Act of 1933, as amended, and all requirements of the Securities and Exchange Commission, and each of the undersigned does hereby ratify and confirm that said attorneys and agents, or their or his or her substitutes, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature Title Date

/s/ Gordon B. Hoffstein - ---------- Gordon B. Hoffstein	President and Chief Executive Officer (Principal Executive Officer) and Director	August 5, 1999
/s/ Samuel P. Gerace, Jr. - ---------- Samuel P. Gerace, Jr.	Executive Vice President, Research & Technology and Director	August 5, 1999
/s/ Stephen M. Joseph - ---------- Stephen M. Joseph	Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	August 5, 1999

/s/ Ted R. Dintersmith Director August 5, 1999 Ted R. Dintersmith /s/ W. Michael Humphreys Director August 5, 1999 W. Michael Humphreys /s/ Jeffrey Rayport Director August 5, 1999 Jeffrey Rayport Director Daniel Nova [Inside Back Cover] [Be Free logo] This page contains the logos of several of Be Free's e-merchant and portal customers.

, 1999

[Be Free logo appears here] Shares of Common Stock

Prospectus

Donaldson, Lufkin & Jenrette Hambrecht & Quist Dain Rauscher Wessels a division of Dain Rauscher Incorporated DLJdirect Inc.

We have not authorized any dealer, salesperson or other person to give you written information other than this prospectus or to make representations as to matters not stated in this prospectus. You must not rely on unauthorized information. This prospectus is not an offer to sell these securities or our solicitation of your offer to buy the securities in any jurisdiction where that would not be permitted or legal. Neither the delivery of this prospectus nor any sales made hereunder after the date of this prospectus shall create an implication that the information contained herein or the affairs of the company have not changed since the date hereof.

Until , 1999 (25 days after the date of this prospectus), all dealers that affect transactions in these securities may be required to deliver a prospectus when acting as an underwriter in this offering and when selling previously unsold allotments or subscriptions.

Exhibit Index

Exhibit No. Description

1	Form of Underwriting Agreement.
*3.1	Restated Certificate of Incorporation of the Registrant, as amended and as currently in effect.
*3.2	Form of Amended and Restated Certificate of Incorporation of the Registrant to be filed on or immediately subsequent to the date of the closing of the Offering contemplated by this Registration Statement.
3.3	By-Laws of the Registrant, as amended to date
*3.4	Amended and Restated By-Laws of the Registrant to be effective on the date of the closing of the Offering.
*4	Specimen certificate for shares of Common Stock, $.01 par value per share, of the Registrant.
5	Form of Opinion of Hale and Dorr LLP.
10.1	1998 Stock Incentive Plan
10.2	Stock Purchase and Shareholders Agreement, as amended, dated as of August 28, 1998
10.3	Form of Warrant dated as of August 28, 1998
10.4	Stock Purchase Agreement, as amended, dated as of September 29, 1998
10.5	Warrant Certificate for the purchase of shares of common stock issued to Comdisco, Inc.
10.6	Warrant Certificate A-1 for the purchase of shares of Series A Preferred Stock issued to Comdisco, Inc.
10.7	Warrant Certificate A-2 for the purchase of shares of Series A Preferred Stock issued to Comdisco, Inc.
10.8	Subordinated Loan and Security Agreement dated as of September 29, 1998
10.9	Registration Rights Agreement dated as of March 31, 1999
10.10	Employment Agreement with Samuel P. Gerace, Jr., dated August 28, 1998
10.11	Employment Agreement with Thomas A. Gerace dated August 28, 1998
10.12	Lease dated as of November 9, 1998 with Southwestern Pennsylvania Corporation
10.13	Lease dated October 20, 1998 with LSOF Pooled Equity L.P.
+10.14	License and Services Agreement, effective January 13, 1999, with GeoCites
+10.15	BFAST Service Order Form, as amended, with barnesandnoble.com, Inc. dated January 31, 1998
10.16	Director Indemnification Agreement dated as of March 31, 1999 with Dan Nova
10.17	Form of Indemnification Agreement dated August 28, 1998
21	List of Subsidiaries
23.1	Consent of Independent Accountants.
23.2	Consent of Hale and Dorr LLP (included in Exhibit 5).
24	Power of Attorney (see page II-5)
27	Financial Data Schedule

* To be filed by amendment + Confidential Treatment Requested

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