FORM S-1 · REGISTRATION STATEMENT

Fatbrain COM Inc

IPO priced 1998-11-20 · $10.00 a share · CMPL



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 17, 1998

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM SB-2 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

COMPUTER LITERACY, INC. (EXACT NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

DELAWARE	5995	77-0389480
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

1308 ORLEANS DRIVE SUNNYVALE, CALIFORNIA 94089 (408) 541-2020 (ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES AND PRINCIPAL PLACE OF BUSINESS) CHRIS MACASKILL CHIEF EXECUTIVE OFFICER COMPUTER LITERACY, INC. 1308 ORLEANS DRIVE SUNNYVALE, CALIFORNIA 94089 (408) 541-2020 (NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

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

IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, PLEASE 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, PLEASE CHECK THE FOLLOWING BOX. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock, $0.001 par value per share.....	$34,500,000	$10,177.50

(1) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(O).

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

THE INFORMATION CONTAINED HEREIN IS SUBJECT TO CHANGE, COMPLETION OR AMENDMENT WITHOUT NOTICE. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAVE BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED JULY 17, 1998

SHARES

(LOGO)

COMMON STOCK

ALL OF THE SHARES OF COMMON STOCK OFFERED HEREBY ARE BEING SOLD BY COMPUTER LITERACY, INC. ("COMPUTER LITERACY" OR THE "COMPANY"). PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR THE COMMON STOCK OF THE COMPANY. IT IS CURRENTLY ESTIMATED THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $ AND $ PER SHARE. SEE "UNDERWRITING" FOR A DISCUSSION OF THE FACTORS TO BE CONSIDERED IN DETERMINING THE INITIAL PUBLIC OFFERING PRICE. THE COMPANY HAS APPLIED FOR QUOTATION OF ITS COMMON STOCK ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "CMPL."

THIS OFFERING INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 5 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount(1)	Proceeds to Company(2)
Per Share.....	$	$	$
Total(3).....	$	$	$

(1) SEE "UNDERWRITING" FOR INFORMATION CONCERNING INDEMNIFICATION OF THE UNDERWRITERS AND OTHER MATTERS.

(2) BEFORE DEDUCTING OFFERING EXPENSES PAYABLE BY THE COMPANY ESTIMATED AT $.

(3) The Company has granted to the Underwriters a 30-day option to purchase up to an additional shares of Common Stock solely to cover over-allotments, if any. If the Underwriters exercise this option in full, the Price to Public will total $, the Underwriting Discount will total $ and the Proceeds to Company will total $. See "Underwriting."

THE SHARES OF COMMON STOCK ARE OFFERED BY THE UNDERWRITERS NAMED HEREIN, SUBJECT TO RECEIPT AND ACCEPTANCE BY THEM, AND SUBJECT TO THEIR RIGHT TO REJECT ANY ORDER IN WHOLE OR IN PART. IT IS EXPECTED THAT DELIVERY OF THE CERTIFICATES REPRESENTING THE SHARES WILL BE MADE AGAINST PAYMENT THEREFOR AT THE OFFICE OF NATIONSBANC MONTGOMERY SECURITIES LLC, ON OR ABOUT , 1998.

NATIONSBANC MONTGOMERY SECURITIES LLC PIPER JAFFRAY INC. NEEDHAM & COMPANY, INC.

, 1998.

ART WORK

DIAGRAM DESCRIPTION

HEADING: COMPLETE ONLINE TECHNOLOGY INFORMATION RESOURCE ON THE LEFT SIDE OF THE PAGE: A BOX DEPICTING CERTAIN OF THE COMPANY'S PRODUCT OFFERINGS: TECHNOLOGY BASED TRAINING MATERIALS, TECHNICAL BOOKS, MANUALS AND RESEARCH REPORTS WITH ARROW POINTING TO:

CENTER OF THE PAGE: A BOX DEPICTING THE COMPANY'S ONLINE STORE, CO-BRANDED ONLINE STORES, AFFILIATE SITES AND PARTNER SITES WITH ARROW POINTING TO:

RIGHT SIDE OF THE PAGE: A BOX DEPICTING CERTAIN OF THE COMPANY'S CUSTOMERS, INCLUDING NETWORK MANAGERS, SYSTEMS ADMINISTRATORS, HARDWARE ENGINEERS, GRAPHICS DESIGNERS AND PROFESSIONAL SOFTWARE PROGRAMMERS.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK OFFERED HEREBY. SUCH TRANSACTIONS MAY INCLUDE STABILIZING, THE PURCHASE OF THE COMMON STOCK TO COVER SYNDICATE SHORT POSITIONS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING." 2

Prospectus Summary

This Prospectus contains forward-looking statements that involve risks and uncertainties. The Company's actual results and the timing of certain events could differ materially from those anticipated in such forward-looking statements as a result of certain factors discussed in this Prospectus, including those set forth in "Risk Factors." Investors should consider carefully the factors discussed in "Risk Factors." The following summary is qualified in its entirety by reference to the more detailed information and Financial Statements, including the Notes thereto, appearing elsewhere in this Prospectus. As used in this Prospectus, the "Company" and "Computer Literacy" refer to Computer Literacy, Inc., a Delaware corporation, and its California predecessor. Unless otherwise indicated, all information in this Prospectus (i) gives effect to the conversion of all outstanding shares of Preferred Stock into shares of Common Stock effective upon the closing of the offering and (ii) assumes no exercise of the Underwriters' over-allotment option.

The Company

Computer Literacy is the leading online retailer of information resources singularly focused on the technical professional. With over 300,000 information resource titles from more than 8,000 publishers, Computer Literacy offers its customers online access to a broad and comprehensive selection of technical books, technology based training solutions, product manuals, research reports and other information resources. In addition to the Company's extensive product offering, Computer Literacy's online store features authoritative and compelling content, competitive pricing, an easy-to-use navigational interface and a variety of value-added services. The Company also operates four physical retail stores that complement its online business by generating increased online traffic, building the Company's brand and creating cross-promotional opportunities, thereby providing a profitable means of customer acquisition.

Organizations increasingly seek technology solutions for competitive advantages and rely upon such solutions for mission-critical business processes. As a result, the demand for technical professionals (i.e., network managers, systems administrators, hardware engineers, graphics designers and

professional software programmers) has grown significantly. The need for such professionals is expected to increase further as technology becomes more sophisticated and organizations continue to adopt and integrate new technologies. In order to remain knowledgeable with respect to the latest technical innovations and to maximize the competitive advantages provided by these new technologies, technical professionals must have access to an extensive selection of immediately available information resources that are highly specific and contain authoritative content. Such information resources, including technical books, technology based training solutions, product manuals, research reports and other information resources, traditionally have not been available from a single or centralized source.

Computer Literacy has quickly become one of the most widely recognized online retailers of information resources for the technical professional. By offering customers an extensive product selection, as well as competitive pricing and excellent customer service, the Company believes it has achieved a leading position among retailers in its category. Computer Literacy further believes that the demographics of technical professionals overlap one-to-one with those of Internet users, providing an exceptional target market for the Company's product offerings. To enhance brand recognition and increase online traffic, the Company has established a number of strategic alliances with publishers and other suppliers of information resources for technical professionals. For example, the Company has established an alliance with CBT Group PLC ("CBT") to sell CBT's full library of technology based training materials, containing over 600 titles. In addition, the Company has established co-branded online stores with a number of technology companies, including Apple Computer ("Apple"), Cisco Systems, Inc. ("Cisco"), Hewlett-Packard Company ("Hewlett-Packard"), Microsoft Corporation ("Microsoft"), SAP America, Inc. ("SAP") and Sun Microsystems, Inc. ("Sun Microsystems"). The Company believes that these customized corporate online stores, combined with its commitment to customer service and readily available product offerings, create valuable long-term relationships and repeat purchasing patterns.

Since launching its online store in February 1996, the Company has experienced rapid online revenue growth. For the two-year period ended April 30, 1998, Computer Literacy generated total online revenue of over $4.9 million (over $1.7 million of which was generated during the three months ended April 30, 1998), representing a compound average quarterly growth rate of approximately 175%. In addition, the number of online customers has grown from approximately 1,600 as of January 31, 1997 to over 29,000 as of April 30, 1998, and repeat purchases have accounted for approximately 50% of the Company's online revenue from inception to April 30, 1998.

The Offering

Common Stock offered..... shares Common Stock to be outstanding after the offering..... shares (1) Use of proceeds..... For working capital and general corporate purposes. See "Use of Proceeds."

Proposed Nasdaq National Market symbol..... CMPL

Summary Financial and Operating Data (In Thousands Except for Selected Operating Data)

	YEAR ENDED JANUARY 31,		THREE MONTHS ENDED				
			APRIL 30,	JULY 31,	OCT. 31,	JAN. 31,	APRIL 30,
	1997	1998	1997	1997	1997	1998	1998
STATEMENT OF OPERATIONS DATA:							
Revenues:							
Online	$ 180	$ 3,021	$ 176	$ 444	$ 1,089	$ 1,312	$ 1,761
Retail and other	-	7,927	71	2,192	3,124	2,540	2,633
Total revenues	180	10,948	247	2,636	4,213	3,852	4,394
Gross profit	30	3,543	79	961	1,370	1,133	1,380
Loss from operations	(622)	(3,183)	(392)	(617)	(619)	(1,555)	(1,703)
Net loss	$(567)	$ (3,190)	$(361)	$ (625)	$ (646)	$(1,558)	$(1,671)
SELECTED OPERATING DATA:							
Total number of online customers(2)	1,614	19,979	3,445	6,741	12,796	19,979	29,115

As of April 30, 1998 Actual as Adjusted(3)

BALANCE SHEET DATA:	
Cash and equivalents	$ 2,134
Working capital	3,861
Total assets	10,898
Total stockholders' equity	8,284

(1) Excludes (i) 4,171,761 shares of Common Stock issuable upon exercise of options outstanding as of April 30, 1998 under the 1996 Stock Plan with a weighted average exercise price of $0.22 per share, (ii) 598,230 shares of Common Stock available for grant under the 1996 Stock Plan as of such date, (iii) 3,000,000 additional shares of Common Stock reserved for issuance under the Company's 1998 Omnibus Equity Incentive Plan, (iv) 300,000 additional shares of Common Stock reserved for issuance under the Company's 1998 Employee Stock Purchase Plan and (v) 62,496 additional shares of Common Stock issuable upon exercise of an outstanding warrant with an exercise price of $0.60 per share. See "Management -- Stock Plans," "Description of Capital Stock" and Note 6 of Notes to the Computer Literacy, Inc. Consolidated Financial Statements (the "Financial Statements").

(2) Reflects the cumulative total number of customers who have purchased products from the Company's online store as measured by their unique e-mail addresses as of the end of the period indicated.

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(3) As adjusted to give effect to the sale of the [             ] shares of
    Common Stock offered hereby at an assumed initial public offering price of
    $         per share and after deducting estimated underwriting discount and
    estimated offering expenses.
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The Company was incorporated in California in November 1994, and reincorporated in the State of Delaware in July 1998. The Company's principal executive offices are located at 1308 Orleans Drive, Sunnyvale, California 94089 and its telephone number is (408) 541-2020.

The Company's fiscal year ends on January 31. For purposes of the following discussion the fiscal year ended January 31, 1996 is referred to as fiscal 1996, the fiscal year ended January 31, 1997 is referred to as fiscal 1997, and the fiscal year ended January 31, 1998 is referred to as fiscal 1998.

Computer Literacy, CL, CBooks and CBooks Express are trademarks of the Company. This Prospectus also contains the trademarks of other companies which are the property of their respective owners.

Risk Factors

This offering and an investment in the Company's Common Stock involve a high degree of risk. In addition to the other information contained in this Prospectus, prospective investors should carefully consider the following risk factors before investing in the Common Stock. All statements, trend analysis and other information contained in this Prospectus relative to markets for the Company's products and trends in total revenues, gross margin and anticipated expense levels, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect" and "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements are subject to business and economic risks, and the Company's actual results of operations may differ materially from those contained in the forward-looking statements. The cautionary statements made in this Prospectus should be read as applicable to all forward-looking statements wherever they appear in this Prospectus.

Limited Operating History; Accumulated Deficit; Anticipated Losses

The Company was incorporated in November 1994 to develop an online retail strategy and began selling information resources, initially consisting of technical books, through its online store on the World Wide Web (the "Web") in February 1996. The Company expanded its product offerings to include training materials in January 1998, product manuals in May 1998 and research reports in June 1998. Accordingly, the Company has a very limited operating history on which to base an evaluation of its business and prospects. The Company's prospects must be considered in light of the risks, expenses and uncertainties frequently encountered by companies in the early stages of development, particularly

companies in new and rapidly evolving markets such as electronic commerce. Such risks for the Company include, but are not limited to, an evolving and unpredictable business model, the management of an expanding business, fluctuations in sales, seasonality, entering into new business areas, competition, personnel matters, limitations on the Company's ability to establish and expand its brand, capacity constraints, systems failures, announcements by current or potential competitors, changes in the needs of technical professionals, and the other Risk Factors discussed herein and elsewhere in this Prospectus. To address these risks, the Company must, among other things, implement and successfully execute its business and marketing strategy, maintain and increase its customer base, continue to develop and upgrade its technology and transaction-processing systems, improve its online store, provide superior customer service and order fulfillment, respond to competitive developments, and attract, retain and motivate qualified personnel. There can be no assurance that the Company will be successful in addressing such risks, and the failure to do so would have a material adverse effect on the Company's business, financial condition and results of operations.

Since inception, the Company has incurred significant net operating losses and expects to incur additional net operating losses for the foreseeable future. There can be no assurance that the Company will achieve profitability or that, if profitability is achieved, it will be sustained. As of April 30, 1998, the Company had an accumulated deficit of $5.5 million. The Company believes that its success will depend in large part on its ability to enhance its customers' online shopping experience, expand corporate relationships, build brand awareness, encourage customer loyalty, capitalize on the market for information resources, establish and leverage supplier relationships and maintain its technology focus and expertise. Accordingly, the Company intends to invest heavily in marketing and promotion, its direct sales and telesales organizations, and systems and infrastructure development. There can be no assurance that such expenditures will result in increased revenues or customer growth and, although in recent periods the Company has experienced significant growth in revenues, its customer base and repeat customer revenue, such growth rates are not sustainable, will decrease in the future and are not indicative of actual growth rates that the Company may experience. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

UNPREDICTABILITY OF FUTURE REVENUES; POTENTIAL FLUCTUATIONS IN QUARTERLY OPERATING RESULTS; SEASONALITY As a result of the Company's limited operating history and the emerging nature of the markets in which it competes, the Company is unable to accurately forecast its future revenues. Revenues and operating results generally depend on the volume of, timing of and ability to fulfill orders received, which historically has been and is likely to continue to be difficult to forecast. The Company's current and future expense levels are based 5 largely on its operating plans and estimates of future revenues and are to a large extent fixed. The Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenues in relation to the Company's planned expenditures would have an immediate material adverse effect on the Company's business, financial condition and results of operations. Further, as a strategic response to changes in the competitive environment, the Company

may from time to time make certain pricing, product, service or marketing decisions that are likely to have a material adverse effect on its business, financial condition and results of operations. See "--Competition."

The Company expects to experience significant fluctuations in its future quarterly operating results due to a variety of factors, many of which are outside the Company's control. Factors that could affect the Company's quarterly operating results include (i) the Company's ability to establish and expand brand recognition, (ii) the Company's ability to retain existing customers, attract new customers and continuously improve customer satisfaction, (iii) announcements of, and market anticipation for, new technology offerings for which information resources may be sought, (iv) the Company's ability to manage inventory and fulfillment operations, (v) the Company's ability to sustain or improve gross margins, (vi) the announcement or introduction of new online stores, services and products by the Company or competitors, (vii) price competition or higher wholesale prices in the industry, (viii) the level of usage of and commerce on the Internet and online services generally, (ix) increasing customer acceptance of the Internet for the purchase of information resources such as those offered by the Company, (x) the Company's ability to upgrade and develop its systems and infrastructure in a timely and effective manner, (xi) the level of traffic on the Company's online store, (xii) the sales mix of the Company's product offerings, (xiii) technical difficulties, system downtime or Internet brownouts, (xiv) the amount and timing of operating costs and capital expenditures relating to expansion of the Company's business, operations and infrastructure, (xv) the introduction of books, technology based training solutions, product manuals and research reports, (xvi) the level of merchandise returns experienced by the Company, (xvii) governmental regulation and (xviii) general economic conditions and economic conditions specific to the Internet, electronic commerce and the technical resource industries.

In the past, the Company has experienced seasonality in its business and the Company expects that it will continue to experience such seasonality in the future. Internet usage and the amount of purchases from individual and corporate consumers tend to decline during August, November and December, at times when many technical professionals are either absent from the workplace, on vacation or experience a holiday closure at their company. There can be no assurance that the Company's results in any future quarter will not be negatively affected by seasonal trends.

Due to the foregoing factors, the Company's quarterly revenue and operating results are difficult to forecast, and the Company believes that period-to-period comparisons of its operating results will not necessarily be meaningful and should not be relied upon as an indication of future performance. It is likely that in one or more future quarters the Company's operating results may fall below the expectations of securities analysts and investors. In such event, the trading price of the Common Stock would likely be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Associated with Entry Into New Business Areas

For the three months ended April 30, 1998 approximately 94% of the Company's total revenues were derived from sales of books. The Company recently expanded its product offerings to include technology based training materials, product manuals and research reports and future revenues from these new product offerings are difficult to forecast. The Company may choose to further expand its operations by promoting new or complementary products, expanding the breadth and depth of products and services offered, leveraging third-party relationships to extend its brand or establishing additional co-branded online stores. The Company may also pursue the acquisition of new or complementary businesses, products or technologies, although it has no present understandings, commitments or agreements with respect to any material acquisitions or investments. There can be no assurance that the Company would be able to expand its product offerings and related operations in a cost-effective or timely manner or that such efforts would increase online traffic and purchases 6 from the Company's online or physical retail stores or increase its overall market acceptance. Furthermore, any new business or online store launched by the Company that is not favorably received by individuals, corporate customers or their employees or constituents could damage the Company's reputation or the Computer Literacy brand. Expansion of the Company's operations in this manner would also require significant additional expenses and development, operations and editorial resources and would strain the Company's management, financial and operational resources. The lack of market acceptance of such efforts (including the Company's recent expansion of product offerings to include technology based training materials, manuals and research reports) or the Company's inability to generate satisfactory revenues from such expanded services or products to offset related increased costs could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition

The electronic commerce market is new, rapidly evolving and intensely competitive. The market for information resources is more mature but also intensely competitive. The Company expects competition to continue to intensify in the future. The Company currently or potentially competes with a variety of companies. These competitors include (i) a significant number of retail and online bookstores, including Amazon.com, Barnes & Noble, Inc., Borders Group, Inc. and other vendors of books, training products and product manuals, (ii) various computer super-stores that carry related information resources at retail locations, in catalogs and over the Internet, (iii) a number of indirect competitors that specialize in electronic commerce or derive a substantial portion of their revenue from electronic commerce and (iv) other companies with substantial customer bases in the computer and other technical fields. There can be no assurance that the Company can maintain a competitive position against current or future competitors as they enter the markets in which the Company competes, particularly those with greater financial, marketing, service, support, technical and other

resources than the Company. The failure by the Company to maintain a competitive position within the market could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company believes that the principal competitive factors on which it competes in its market are brand recognition, selection, personalized services, convenience, price, accessibility, customer service, quality of search tools, quality of editorial and other site content, reliability and speed of fulfillment. Many of the Company's current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than the Company. In addition, online retailers may be acquired by, receive investments from or enter into other commercial relationships with larger, well-established and well-financed companies as use of the Internet and other online services increases. Certain of the Company's competitors may be able to secure merchandise from vendors on more favorable terms, devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing or inventory availability policies and devote substantially more resources to Web site and systems development than the Company. Increased competition may result in reduced operating margins, loss of market share and a diminished brand franchise. As a strategic response to changes in the competitive environment, the Company may from time to time make certain pricing, service or marketing decisions or acquisitions that could result in reduced margins or otherwise have a material adverse effect on its business, financial condition and results of operations. New technologies and the expansion of existing technologies may increase the competitive pressures on the Company. For example, applications that select specific titles from a variety of Web sites may channel customers to online booksellers that compete with the Company. Companies that control access to transactions through a network or Web browsers could also promote the Company's competitors or charge the Company a substantial fee for inclusion. In addition, vendors of information resources such as technology based training could provide direct access to training programs online. There can be no assurance that the Company will be able to compete successfully against current and future competitors, and competitive pressures faced by the Company may have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Competition."

Management of Expanding Business; Limited Senior Management Resources

The Company has rapidly expanded its operations, and anticipates that further expansion will be required to address potential growth in its customer base and market opportunities. Specifically the Company expects to significantly increase its direct corporate and telesales organization and marketing initiatives. This expansion has placed, and future expansion is expected to place, a significant strain on the Company's management, operational and financial resources. The Company's new employees include a number of key managerial, technical and operations personnel who have not yet been fully integrated into the Company, and the Company expects to add additional key personnel in the near future. To manage the expected growth of its operations and personnel, the Company will be required

to improve existing and implement new transaction-processing, operational and financial systems, procedures and controls, and to expand, train and manage an increasing employee base. The Company also will be required to expand its finance, administrative and operations staff. Further, the Company's management will be required to maintain and expand its relationships with various suppliers, freight companies, other Web sites and other Web service providers, Internet and other online service providers and other third parties necessary to the Company's business. There can be no assurance that the Company's current and planned personnel, systems, procedures and controls will be adequate to support the Company's future operations, that management will be able to hire, train, retain, motivate and manage required personnel or that Company management will be able to successfully identify, manage and exploit existing and potential market opportunities. If the Company is unable to manage growth effectively, its business, financial condition and results of operations will be materially adversely affected. See "-- Need For Additional Personnel," "-- Dependence on Key Personnel," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business -- Technology and Product Development" and "-- Employees."

Risks Associated with Branding

The Company believes that establishing, maintaining and enhancing the Computer Literacy brand is critical to attracting online customers. To do so, the Company expects to expand its marketing initiatives and build upon its brand by providing a high-quality online experience supported by a high level of customer service. To promote and maintain the Computer Literacy brand, the Company expects to increase substantially its financial expenditures, including marketing initiatives. If the Company is unable to provide high-quality online services or customer support, or otherwise fails to promote and maintain its brand, or if the Company incurs excessive expenses in an attempt to promote and maintain its brand, the Company's business, operating results and financial condition would be materially adversely affected. See "Business -- Competition" and "-- Competition."

The Company is evaluating changing the Computer Literacy brand name. There can be no assurance that such a name change, if effected, will enhance the Company's efforts to attract new customers and retain existing customers, will not result in confusion to current and potential customers, or will not disrupt the Company's business, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, any name change effected after this offering, could result in confusion to investors which could adversely affect the market price of the Common Stock.

RISK OF CAPACITY CONSTRAINTS; RELIANCE ON INTERNALLY DEVELOPED SYSTEMS; SYSTEM DEVELOPMENT RISKS A key element of the Company's strategy is to generate a high volume of traffic on, and use of, its online store. Accordingly, the satisfactory performance, reliability and availability of the Company's online store, transaction-processing systems and network infrastructure are critical to the Company's reputation and its ability to attract and retain customers and maintain adequate service and customer support levels. The Company's revenues depend on the number of visitors who shop on its online store and the volume of orders it fulfills. Any system

interruptions that result in the unavailability of the Company's online store or reduced order fulfillment performance would reduce the volume of goods sold and the attractiveness of the Company's product and service offerings. The Company has experienced periodic system interruptions, which it believes will continue to occur from time to time. Any substantial increase in the volume of traffic on the Company's online store or the number of orders placed by customers will require the Company to expand and upgrade 8 further its technology, transaction-processing systems and network infrastructure. There can be no assurance that the Company will be able to accurately project the rate or timing of increases, if any, in the use of its online store or timely expand and upgrade its systems and infrastructure to accommodate such increases.

The Company uses an internally developed system, which is supplemented by commercially available licensed technology, for its online store, search engine and substantially all aspects of transaction processing, including order management, cash and credit card processing, purchasing, inventory management and shipping. The Company intends to upgrade and expand its transaction-processing systems and to integrate newly developed and/or purchased modules with its existing systems in order to improve its accounting, control and reporting methods and support increased transaction volume. The Company's inability to add additional software and hardware or to develop and upgrade further its existing technology, transaction-processing systems or network infrastructure to accommodate increased traffic through its online store or increased sales volume through its transaction-processing systems may cause unanticipated system disruptions, slower response times, degradation in levels of customer service, impaired quality and speed of order fulfillment, and delays in reporting accurate financial information. There can be no assurance that the Company will be able in a timely manner to effectively upgrade and expand its transaction-processing system or to integrate smoothly any newly developed or purchased modules with its existing systems. Any inability to do so would have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Technology and Product Development."

Need for Additional Personnel

The Company's future success depends on its ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, editorial, merchandising, marketing and customer service personnel. Competition for such personnel is intense, particularly in the San Francisco Bay Area, where the Company's headquarters are located, and there can be no assurance that the Company will be able to successfully attract, assimilate or retain qualified personnel. The Company has encountered difficulties in attracting a sufficient number of qualified software developers for its online store and transaction-processing systems, and there can be no assurance that the Company will be able to retain those developers which it currently employs or attract additional developers. The failure to retain and attract the necessary technical, managerial, editorial, merchandising, marketing and customer service personnel could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Employees" and "Management."

Fulfillment Center Relocation

The Company currently maintains a warehouse and distribution center in Sunnyvale, California. The Company is considering outsourcing the warehousing and fulfillment of orders to a service provider located in closer proximity to certain publishers, wholesalers, distributors and delivery services. There can be no assurance that outsourcing such services will result in operating efficiencies or will not cause a significant disruption in the fulfillment of orders, the distraction of management and other key personnel and the expenditure of significant financial and other resources. Any such disruption, distraction or expenditure could materially adversely affect the Company's business, results of operations and financial condition. See "Business -- Warehousing and Fulfillment."

Sales and Other Tax Collection

The Company does not currently collect sales or other similar taxes in respect of shipments of goods into states other than California and Virginia. However, one or more states or foreign countries may seek to impose sales tax collection obligations on out-of-state or foreign companies such as the Company which engage in electronic commerce. In addition, any new operations established by the Company in states outside California and Virginia could subject shipments into such states to state sales taxes. A successful assertion by one or more states or any foreign country that the Company should collect sales or other similar taxes on the sale of merchandise could have a material adverse effect on the Company's business, financial condition and results of operations. 9

Risk of System Failure; Single Site and Order Interface

The Company's success, in particular its ability to successfully receive and fulfill online orders and provide high-quality customer service, largely depends on the efficient and uninterrupted operation of its computer and communications hardware systems. Substantially all of the Company's computer and communications hardware is located at a single leased facility in Sunnyvale, California. The Company's systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, break-ins, earthquake and similar events and the Company has experienced minor and infrequent system interruptions in the past. The Company does not presently have a formal disaster recovery plan and does not carry sufficient business interruption insurance to compensate it for losses that may occur. Despite the implementation of network security measures by the Company, its servers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays, loss of data or the inability to accept and fulfill customer orders. The occurrence of any of the foregoing risks could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Technology and Product Development" and "-- Facilities."

Reliance on Certain Suppliers

For fiscal 1998 and the three months ended April 30, 1998, the Company purchased approximately 30% and 38%, respectively, of its books from Ingram Book Company ("Ingram"). The Company relies to a large extent on rapid fulfillment from Ingram and other vendors. The Company generally has no commitments to or arrangements with any of its vendors that guarantee the availability of merchandise, the continuation of particular payment terms or the extension of credit limits. There can be no assurance that the Company's current vendors will continue to sell merchandise to the Company on current terms or that the Company will be able to establish new or extend current vendor relationships to ensure acquisition of merchandise in a timely and efficient manner and on acceptable commercial terms. If the Company were unable to develop and maintain relationships with vendors that would allow it to obtain sufficient quantities of merchandise on acceptable commercial terms, its business, financial condition and results of operations would be materially adversely affected.

Dependence on Key Personnel

The Company's performance is substantially dependent on the continued services and on the performance of its senior management and other key personnel. The Company's performance also depends on the Company's ability to retain and motivate its senior management and other key employees. The loss of the services of any of its executive officers or other key employees could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Employees" and "Management."

Dependence on Continued Growth of Electronic Commerce

The Company's future revenues and profits, if any, are substantially dependent upon the acceptance and use of the Internet and other online services as an effective medium of commerce by its target customers. Rapid growth in the use of and interest in the Internet, the Web and online services is a recent phenomenon, and there can be no assurance that acceptance and use will continue to develop at historical rates or that a sufficiently broad base of consumers will adopt, and continue to use, the Internet and other online services as a medium of commerce. Demand and market acceptance for recently introduced services and products over the Internet are subject to a high level of uncertainty and there exist few proven services and products. The Company's target customer has historically used traditional means of commerce to purchase information resources. For the Company to be successful, these customers must accept and utilize the Company's online store to satisfy their information resource needs.

In addition, the Internet may not be accepted as a viable long-term commercial marketplace for a number of reasons, including potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies and performance improvements. To the extent that the Internet continues to experience significant expansion in the number of users,

frequency of use or bandwidth requirements, there can be no assurance that the infrastructure for the Internet will be able to support the demands placed upon it. In addition, the Internet could lose its viability due to delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity, or due to increased governmental regulation. Changes in or insufficient availability of telecommunications services to support the Internet also could result in slower response times and adversely affect usage of the Internet generally and the Company in particular. If use of the Internet and other online services does not continue to increase or increases more slowly than expected, if the infrastructure for the Internet and other online services does not effectively support expansion that may occur, or if the Internet and other online services do not become a viable commercial marketplace, the Company's business, financial condition and results of operations would be materially adversely affected.

Rapid Technological Change

To remain competitive, the Company must continue to enhance and improve the responsiveness, functionality and features of its online operations. The Internet and the electronic commerce industry are characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render the Company's existing online store and proprietary technology and systems obsolete. The Company's success will depend, in part, on its ability to license leading technologies useful in its business, enhance its existing services, develop new services and technology that address the increasingly sophisticated and varied needs of its prospective customers, and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. The development of Web site and other proprietary technology entails significant technical and business risks. There can be no assurance that the Company will successfully use new technologies effectively or adapt its online store, proprietary technology and transaction-processing systems to customer requirements or emerging industry standards. If the Company is unable, for technical, legal, financial or other reasons, to adapt in a timely manner in response to changing market conditions or customer requirements, its business, financial condition and results of operations would be materially adversely affected. See "Business -- Technology and Product Development."

Electronic Commerce Security Risks

A significant barrier to electronic commerce and communications is the secure transmission of confidential information over public networks. The Company relies on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information, such as customer credit card numbers. There can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments will not result in a compromise or breach of the algorithms used by the Company to protect customer transaction data. If any such compromise of the Company's security

were to occur, it could have a material adverse effect on the Company's reputation, business, financial condition and results of operations. A party who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in the Company's operations. The Company may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. Concerns over the security of the Internet and other online transactions and the privacy of users may also inhibit the growth of the Internet and other online services generally, and the Web in particular, especially as a means of conducting commercial transactions. To the extent that activities of the Company or third-party contractors involve the storage and transmission of proprietary information, such as credit card numbers, security breaches could damage the Company's reputation and expose the Company to a risk of loss or litigation and possible liability. There can be no assurance that the Company's security measures will prevent security breaches or that failure to prevent such security breaches will not have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Technology and Product Development."

Risks Associated with International Sales

For fiscal 1998 and the three months ended April 30, 1998, international sales accounted for approximately 21% and 19%, respectively, of the Company's online revenue. The Company expects that its percentage of online revenue from international markets will continue to represent a significant portion of its online revenue. The Company's international business activities are subject to a variety of potential risks, including the adoption of laws, political and economic conditions and actions by third parties that would restrict or eliminate the Company's ability to do business in certain jurisdictions. See "-- Government Regulation and Legal Uncertainties." Although the Company currently transacts business in U.S. dollars, to the extent that it determines to transact business in foreign currencies, the Company will become subject to the risks attendant to transacting in foreign currencies, including potential adverse effects of exchange rate fluctuations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field and cannot distinguish 21st century dates from 20th century dates. These date code fields will need to distinguish 21st century dates from 20th century dates. This could result in system failures or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities. As a result, many companies' software and computer systems may need to be upgraded or replaced in order to comply with such "Year 2000" requirements. Although the Company believes that its products and internal systems are Year 2000 compliant, the Company utilizes third-party equipment and software that may not be Year 2000 compliant. Failure of such third-party equipment or software to operate properly with regard to the Year 2000 and thereafter could require the Company

to incur unanticipated expenses to remedy any problems, which could have a material adverse effect on the Company's business, operating results and financial condition. Furthermore, the purchasing patterns of customers or potential customers may be affected by Year 2000 issues as companies expend significant resources to correct their current systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase products and services such as those offered by the Company, which could have a material adverse effect on the Company's business, operating results and financial condition.

Trademarks and Proprietary Rights; Unlicensed Arrangements and Materials

The Company regards its copyrights, service marks, trademarks, trade dress, trade secrets and similar intellectual property as critical to its success, and relies on trademark and copyright law, trade secret protection and confidentiality and/or license agreements with its employees, customers, partners and others to protect its proprietary rights. The Company pursues the registration of its trademarks and service marks in the U.S. and internationally, and has applied for the registration of certain of its trademarks and service marks. Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which the Company's products and services are made available online. While the Company attempts to ensure that the quality of its brand is maintained by such licensees, there can be no assurance that such licensees will not take actions that might materially adversely affect the value of the Company's proprietary rights or reputation, which could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate or that third parties will not infringe or misappropriate the Company's copyrights, trademarks, trade dress and similar proprietary rights. In addition, there can be no assurance that other parties will not assert infringement claims against the Company. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources. The Company is not currently aware of any legal proceedings pending or threatened against it.

In addition, the Company displays reviews and articles on technical subjects in its online store. Some reviews and articles may be copyrighted and the Company may not have explicit permission from the author for use of such intellectual property. There can be no assurance that the authors will not assert infringement claims against the Company. If a claim is asserted alleging that the Company has infringed the proprietary 12 rights of a third party, the Company may be required to seek licenses to continue to use such intellectual property. The failure to obtain the necessary licenses or other rights at a reasonable cost could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Intellectual Property and Other Proprietary Rights."

Governmental Regulation and Legal Uncertainties

The Company is not currently subject to direct regulation by any domestic or foreign governmental agency, other than regulations applicable to businesses generally, and laws or regulations directly applicable to access to electronic commerce. However, due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations may be adopted with respect to the Internet covering issues such as user privacy, pricing, content, copyrights, distribution and characteristics and quality of products and services. Furthermore, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on those companies conducting business online. The adoption of any additional laws or regulations may decrease the expansion of the Internet, which could, in turn, decrease the demand for the Company's products and services and increase the Company's cost of doing business, or otherwise have an adverse effect on the Company's business, financial condition and results of operations. Moreover, the applicability to the Internet of existing laws in various jurisdictions governing issues such as property ownership, sales tax, libel and personal privacy is uncertain and may take years to resolve. Any such new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to the Company's business, or the application of existing laws and regulations to the Internet and other online services could have a material adverse effect on the Company's business, financial condition and results of operations.

As the Company's service is offered over the Internet in multiple states and foreign countries, such jurisdictions may claim that the Company is required to qualify to do business as a foreign corporation in each such state and foreign country. The failure by the Company to qualify as a foreign corporation in a jurisdiction where it is required to do so could subject the Company to taxes and penalties for the failure to qualify. It is possible that the governments of other states and foreign countries also might attempt to regulate the content of the Company's online store or prosecute the Company for violations of their laws. There can be no assurance that violations of local laws will not be alleged or charged by state or foreign governments, that the Company might not unintentionally violate such law or that such laws will not be modified, or new laws enacted in the future.

In addition, several telecommunications carriers are seeking to have telecommunications over the Internet regulated by the Federal Communications Commission (the "FCC") in the same manner as other telecommunications services. Because the growing popularity and use of the Internet has burdened the existing telecommunications infrastructure and many areas with high Internet use have begun to experience interruptions in phone service, local exchange carriers have petitioned the FCC to regulate Internet Service Providers ("ISPs") in a manner similar to long distance telephone carriers and to impose access fees on the ISPs. If any effort to increase regulation of ISPs is successful, the expense of communicating on the Internet could increase substantially, potentially slowing the growth in the use of the Internet. Any such new legislation or regulation or application or interpretation of existing laws could have a material adverse effect on the Company's business, financial condition and results of operations.

Control of the Company

Upon completion of this offering, the Company's executive officers, directors and greater than 5% stockholders (and their affiliates) will, in the aggregate, beneficially own approximately % of the Company's outstanding Common Stock (% if the Underwriters' over-allotment option is exercised in full). As a result, such persons, acting together, will have the ability to control all matters submitted to stockholders of the Company for approval (including the election and removal of directors and any merger, consolidation or sale of all or substantially all of the Company's assets) and to control the management and affairs of the Company. Accordingly, such concentration of ownership may have the effect of delaying, deferring or preventing a change in control of the Company, impede a merger, consolidation, takeover or other 13 business combination involving the Company or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which in turn could have an adverse effect on the market price of the Company's Common Stock. See "Management," "Certain Transactions" and "Principal Stockholders."

No Prior Public Market; Possible Volatility of Stock Price

Prior to this offering, there has been no public market for the Common Stock of the Company and there can be no assurance that an active trading market will develop or be sustained upon completion of this offering. The initial public offering price, which will be established by negotiations between the Company and the representatives of the Underwriters based upon a number of factors, may not be indicative of prices that will prevail in the trading market. See "Underwriting" for a discussion of the factors considered in determining the initial public offering price.

The trading price of the Common Stock is likely to be highly volatile and could be subject to wide fluctuations in price in response to factors such as actual or anticipated variations in quarterly operating results, announcements of technological innovations, new sales formats or new products or services by the Company or its competitors, changes in financial estimates by securities analysts, conditions or trends in the Internet and electronic commerce industries, changes in the market valuations of other Internet, online service or retail companies, announcements by the Company of significant acquisitions, strategic partnerships, joint ventures or capital commitments, additions or departures of key personnel, sales of Common Stock and other events or factors, many of which are beyond the Company's control. In addition, the stock market in general, and the Nasdaq National Market and the market for Internet-related and technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. The trading prices of many technology companies' stocks are at or near historical highs and reflect price earnings ratios substantially above historical levels. There can be no assurance that these trading prices and price earnings ratios will be sustained. These broad market and industry factors may materially adversely affect the market price of the Common Stock, regardless of the Company's operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted

against such company. Such litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources, which would have a material adverse effect on the Company's business, financial condition and results of operations.

Shares Eligible for Future Sale

Sales of substantial amounts of the Company's Common Stock in the public market after this offering could adversely affect prevailing market prices for the Common Stock. The shares of Common Stock offered hereby will be freely tradable without restriction in the public market. Taking into account restrictions imposed by the Securities Act of 1933, as amended (the "Securities Act"), rules promulgated by the Securities and Exchange Commission (the "Commission") thereunder and lock-up agreements between certain stockholders and the Company or NationsBanc Montgomery Securities LLC, the number of additional shares that will be available for sale in the public market, subject in some cases to the volume and other restrictions of Rule 144 under the Securities Act, will be as follows: (i) approximately 27,004,573 additional shares will be eligible for sale beginning 181 days after the date of this Prospectus and (ii) approximately 3,394,143 remaining shares will be eligible for sale pursuant to Rule 144 upon the expiration of one-year holding periods expiring on May 22, 1999. NationsBanc Montgomery Securities LLC may, in its sole discretion and at any time without notice, release all or any portion of the shares subject to such lock-up agreements. Upon the closing of this offering, holders of 24,316,708 shares of Common Stock are entitled to certain rights with respect to the registration of such shares under the Securities Act. In addition, the Company intends to file a registration statement on Form S-8 under the Securities Act approximately 180 days after the date of this Prospectus to register approximately 7,993,991 shares of Common Stock reserved for issuance under the 1996 Stock Plan, the 1998 Omnibus Equity Incentive Plan and the 1998 Employee Stock Purchase Plan. See "Description of Capital Stock -- Registration Rights" and "Shares Eligible for Future Sale."

Anti-takeover Effect of Certain Charter Provisions and Delaware Law

Upon the closing of this offering, the Company's Board of Directors will have the authority to issue up to 5,000,000 shares of Preferred Stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of Common Stock. The Company has no present plans to issue shares of Preferred Stock. Further, certain provisions of the Company's Second Amended and Restated Certificate of Incorporation and Delaware law could delay or make more difficult a merger, tender offer or proxy contest involving the Company. See "Description of Capital Stock."

Broad Discretion of Use of Proceeds

The Company expects to use the net proceeds to expand its direct sales, telesales and marketing operations and systems and infrastructure development activities with the balance to be used for working capital and general corporate purposes. A portion of net proceeds may also be used to acquire or invest in complementary businesses, products and technologies. From time to time, in the ordinary course of business, the Company expects to evaluate potential acquisitions of such businesses, products or technologies. However, the Company has no present understandings, commitments or agreements with respect to any material acquisition or investment. Accordingly, management will have significant flexibility in applying the net proceeds of this offering. The failure of management to apply such funds effectively could have a material adverse effect on the Company's business, financial condition and results of operations. Pending such uses, the net proceeds of this offering will be invested in short-term, interest-bearing, investment grade securities. See "Use of Proceeds."

Immediate and Substantial Dilution

The initial public offering price is substantially higher than the book value per outstanding share of Common Stock. Accordingly, purchasers in this offering will suffer an immediate and substantial dilution in the net tangible book value of the Common Stock from the initial public offering price of $ per share based upon an assumed public offering price of $ per share. Additional dilution will occur upon exercise of outstanding options and a warrant granted by the Company. See "Dilution."

Use of Proceeds

The net proceeds to the Company from the sale of the shares of Common Stock offered hereby are estimated to be approximately $ million (approximately $ million if the Underwriters' over-allotment option is exercised in full), at an assumed initial public offering price of $ per share and after deducting estimated underwriting discount and estimated offering expenses payable by the Company. The primary purposes of this offering are to obtain additional working capital, create a public market for the Company's Common Stock and facilitate future access by the Company to public equity markets.

The Company currently expects to use a significant portion of the net proceeds from this offering to expand its direct sales, telesales and marketing operations and systems and infrastructure development activities. The balance of net proceeds will be used for working capital and general corporate purposes. The amounts actually expended by the Company for such purposes may vary significantly and will depend on a number of factors, including the amount of the Company's future revenues and cash generated by operations and the other factors described under "Risk Factors." Accordingly, the Company's management will retain broad discretion in the allocation of the net proceeds of this offering. A portion of the net proceeds may also be used to acquire or invest in complementary businesses. The Company has no current agreements or commitments with respect to any such acquisition or investment, and the Company is not currently engaged in any negotiations with respect

to any such transaction. Pending such uses, the net proceeds of this offering will be invested in short-term, interest bearing, investment grade securities. See "Risk Factors -- Broad Discretion of Use of Proceeds."

The Company estimates the net proceeds of this offering, together with existing capital resources, will be sufficient to fund the Company's requirements for at least twelve months from the date of this Prospectus.

Dividend Policy

The Company has never declared or paid any cash dividends on its capital stock and does not expect to do so in the foreseeable future. The Company's line of credit arrangement prohibits the payment of dividends by the Company without the lender's prior consent. The Company anticipates that all future earnings, if any, generated from operations will be retained by the Company to develop and expand its business.

Capitalization

The following table sets forth the capitalization of the Company as of April 30, 1998 (i) on an actual basis and (ii) on an as adjusted basis to give effect to the conversion of each outstanding share of Preferred Stock into one share of Common Stock upon the closing of this offering, and the sale of the shares of Common Stock offered hereby, at an assumed initial public offering price of $ per share and after deducting estimated underwriting discount and estimated offering expenses payable by the Company.

AS OF APRIL 30, 1998 ACTUAL AS ADJUSTED (IN THOUSANDS) Stockholders' equity: Preferred Stock, no par value, 22,000,000 shares authorized, 20,886,229 shares issued and outstanding, actual; no par value, 5,000,000 shares authorized, no shares issued and outstanding, as adjusted(1)..... $13,769 Common Stock, no par value, 35,000,000 shares authorized, 6,108,342 shares issued and outstanding, actual; no par value, 50,000,000 shares authorized, shares issued and outstanding, as adjusted(2)..... 32 Additional paid-in capital..... -- Warrants(3)..... 12 Accumulated deficit..... (5,529) Total stockholders' equity..... 8,284 Total capitalization..... $ 8,284 (1) Actual Preferred Stock excludes 3,430,479 shares of Series E Preferred Stock issued by the Company at $1.61 per share in May 1998. See "Certain Transactions."

(2) Excludes (i) 4,171,761 shares of Common Stock issuable upon exercise of options outstanding as of April 30, 1998 under the 1996 Stock Plan with a weighted average exercise price of $0.22 per share, (ii) 598,230 shares of Common Stock available for grant under the 1996 Stock Plan as of such date, (iii) 3,000,000 additional shares of Common Stock reserved for issuance under the Company's 1998 Omnibus Equity Incentive Plan, (iv) 300,000 additional shares of Common Stock reserved for issuance under the Company's 1998 Employee Stock Purchase Plan and (v) 62,496 additional shares of

Common Stock issuable upon exercise of an outstanding warrant with an exercise price of $0.60 per share. See "Management -- Stock Plans," "Description of Capital Stock" and Note 6 of Notes to Financial Statements.

(3) Represents an expense relating to the issuance of a warrant to a lender of the Company. See Note 5 of Notes to Financial Statements.

Dilution

The pro forma net tangible book value of the Company as of April 30, 1998 was approximately $8.3 million or $0.31 per share of Common Stock. Pro forma net tangible book value per share represents the amount of total tangible assets of the Company less its total liabilities, divided by the total number of shares of Common Stock outstanding as of April 30, 1998, after giving effect to the conversion of the outstanding shares of Preferred Stock into Common Stock. After giving effect to the sale of shares of Common Stock offered hereby (at an assumed initial public offering price of $ per share and after deducting estimated underwriting discount and estimated offering expenses payable by the Company), the pro forma net tangible book value of the Company as of April 30, 1998 would have been $ million or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution in pro forma net tangible book value of $ per share to purchasers of Common Stock in the offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share as of April 30, 1998..... $ Increase in pro forma net tangible book value per share attributable to new investors..... Pro forma net tangible book value per share after the offering..... Dilution per share to new investors..... $ The following table summarizes, on a pro forma basis as of April 30, 1998, the number of shares of Common Stock purchased from the Company, the total consideration paid to the Company and the average price per share paid by existing stockholders and by new investors purchasing shares in this offering (at an assumed initial public offering price of $ per share and before deducting estimated underwriting discount and estimated offering expenses payable by the Company):

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders.....	26,994,571	%	$13,866,611	%	$ 0.51
New investors.....					
Total.....		%		%	

The foregoing discussion and table excludes (i) 3,430,479 shares of Series E Preferred Stock issued by the Company at $1.61 per share in May 1998, (ii) 4,171,761 shares of Common Stock issuable upon exercise of options outstanding as of April 30, 1998 under the 1996 Stock Plan with a weighted average exercise price of $0.22 per share, (iii) 598,230 shares of Common Stock available for grant under the 1996 Stock Plan as of such date, (iv) 3,000,000 additional shares of Common Stock reserved for issuance under the Company's 1998 Omnibus Equity Incentive Plan, (v) 300,000 additional shares

of Common Stock reserved for issuance under the Company's 1998 Employee Stock Purchase Plan and (vi) 62,496 additional shares of Common Stock issuable upon exercise of an outstanding warrant with an exercise price of $0.60 per share. See "Management -- Stock Plans," "Description of Capital Stock" and Note 6 of Notes to Financial Statements.

Selected Financial Data (In Thousands, Except Per Share Data)

The following selected financial data is qualified by reference to and should be read in conjunction with the Financial Statements and related Notes thereto appearing elsewhere in this Prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected statement of operations data for the years ended January 31, 1997 and 1998 and the balance sheet data as of January 31, 1998 are derived from the Financial Statements of the Company which have been audited by Deloitte & Touche LLP, independent auditors, and included herein. The balance sheet data as of January 31, 1997 is derived from the Financial Statements of the Company which have been audited by Deloitte & Touche LLP, independent auditors, and are not included herein. The selected statement of operations data for the year ended January 31, 1996 and the balance sheet data as of January 31, 1996 are derived from unaudited consolidated financial statements not included herein. The selected statement of operations data for the three months ended April 30, 1997 and 1998 and the selected balance sheet data as of April 30, 1998 are derived from unaudited financial statements of the Company included elsewhere in this Prospectus. The unaudited financial statements include all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of the Company's financial position and results of operations for these periods. The financial data for the three months ended April 30, 1998 are not necessarily indicative of the results that may be expected for the year ending January 31, 1999 or any other future period.

	YEAR ENDED JANUARY 31,			THREE MONTHS ENDED APRIL 30,	
	1996	1997	1998	1997	1998
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Online	$ --	$ 180	$ 3,021	$ 176	$ 1,761
Retail and other	--	--	7,927	71	2,633
Total revenues	--	180	10,948	247	4,394
Cost of revenues:					
Online	--	150	2,189	115	1,326
Retail and other	--	--	5,216	53	1,688
Total cost of revenues	--	150	7,405	168	3,014
Gross profit	--	30	3,543	79	1,380
Operating expenses:					
Sales and marketing	3	130	4,192	272	1,986
Development and engineering	65	110	860	76	554
General and administrative	26	412	1,674	123	543
Total operating expenses	94	652	6,726	471	3,083
Loss from operations	(94)	(622)	(3,183)	(392)	(1,703)
Interest, net	--	55	(7)	31	32
Net loss	$ (94)	$ (567)	$(3,190)	$ (361)	$(1,671)

Basic and diluted net loss per share(1).....	$(0.02)	$(0.09)	$ (0.53)	$(0.06)	$ (0.27)
Shares used in computing net loss per share(1)....	3,840	6,016	6,035	6,016	6,108

	AS OF JANUARY 31,			AS OF APRIL 30,
	1996	1997	1998	1998
BALANCE SHEET DATA:				
Cash and equivalents.....	$ 29	$3,228	$ 4,974	$ 2,134
Working capital.....	29	3,242	5,630	3,861
Total assets.....	101	3,583	13,598	10,898
Total liabilities.....	49	182	3,673	2,614
Stockholders' equity.....	52	3,401	9,925	8,284

(1) See Note 1 of Notes to Financial Statements for an explanation of shares used in computing basic and diluted net loss per share.

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

The following discussion and analysis of financial condition and results of operations of the Company should be read in conjunction with "Selected Financial Data" and the Company's Financial Statements and the related Notes thereto included elsewhere in this Prospectus. This Prospectus contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ significantly from those discussed in the forward-looking statements as a result of certain factors, including those set forth in "Risk Factors" and elsewhere in this Prospectus.

Overview

Computer Literacy is the leading online retailer of information resources singularly focused on the technical professional. With over 300,000 information resource titles from more than 8,000 publishers, Computer Literacy offers its customers online access to a broad and comprehensive selection of technical books, technology based training solutions, product manuals, research reports and other information resources. In addition to the Company's extensive product offering, Computer Literacy's online store features authoritative and compelling content, competitive pricing, an easy-to-use navigational interface and a variety of value-added services. The Company also operates four physical retail stores that complement its online business by generating increased online traffic, building the Company's brand and creating cross-promotional opportunities, thereby providing a profitable means of customer acquisition.

Incorporated in November 1994, the Company (formerly CBooks Express, Inc.) began selling technical books through its online store in February 1996, technology based training solutions in January 1998, product manuals in May 1998 and research reports in June 1998. From inception through January 1996, the Company's operating activities consisted primarily of developing the infrastructure necessary to conduct online sales of information resources, establishing vendor relationships, recruiting personnel, and purchasing and leasing operating assets, including warehousing, fulfillment

and customer service capabilities. The Company's four physical retail stores were acquired in May 1997 in connection with its $5.1 million acquisition of Computer Literacy Bookshops, Inc. ("CLBI"), which was accounted for as a purchase. Accordingly, the Company's results of operations include those of CLBI for all periods subsequent to the acquisition date.

Computer Literacy generates revenues from sales of books, technology based training materials, product manuals and research reports through its online store, certain co-branded corporate online stores and in its four retail locations. The Company recognizes revenue from its online store upon shipment and, from its physical retail stores, at the time of sale.

Cost of revenues includes costs of products and inbound and outbound freight. These costs may vary as a percentage of total revenues in any given period due to a number of factors, including increased price competition, varied levels of cooperative advertising dollars received from certain publishers of books and changes in the size and timing of discounts and other promotional activities. In addition, as sales of higher gross margin products, such as technology based training materials, manuals and research reports increase as a percentage of total revenues, gross margins may increase accordingly. For fiscal 1998 and for the three months ended April 30, 1998, the Company purchased approximately 30% and 38%, respectively, of its books from Ingram, an indirect reseller. Although the primary advantage associated with purchasing from Ingram is just in time inventory management, the Company believes it will make a larger number of its purchases directly from publishers as its sales volume increases, thereby enabling the Company to take advantage of favorable volume discounts.

Since inception, the Company has incurred significant net operating losses and expects to incur additional net operating losses for the foreseeable future. There can be no assurance that the Company will achieve profitability or that, if profitability is achieved, it will be sustained. As of April 30, 1998, the Company had an accumulated deficit of $5.5 million. The Company believes that its success will depend in large part on its ability to enhance its customers' online shopping experience, expand corporate relationships, build brand awareness, encourage customer loyalty, capitalize on the market for information resources, establish and leverage supplier relationships and maintain its technology focus and expertise. Accordingly, the Company 20 intends to invest heavily in marketing and promotion, its direct sales and telesales organizations, and systems and infrastructure development. There can be no assurance that such expenditures will result in increased revenues or customer growth and, although in recent periods the Company has experienced significant growth in revenues, its customer base and repeat customer revenue, such growth rates are not sustainable, will decrease in the future and are not indicative of actual growth rates that the Company may experience. In view of the rapidly evolving nature of the Company's business and its limited operating history, the Company believes that period-to-period comparisons of its operating results, including the Company's operating expenses as a percentage of total revenues, are not necessarily meaningful and should not be relied upon as an indication of future performance. See "Risk Factors -- Limited Operating History; Accumulated Deficit; Anticipated Losses."

The Company currently maintains a warehouse and distribution center in Sunnyvale, California. The Company is considering outsourcing the warehousing and fulfillment of orders to a service provider located in closer proximity to certain publishers, wholesalers, distributors and delivery services. There can be no assurance that outsourcing such services will result in operating efficiencies or will not cause a significant disruption in the fulfillment of orders, the distraction of management and other key personnel and the expenditure of significant financial and other resources. Any such disruption, distraction or expenditure could materially adversely affect the Company's business, results of operations and financial condition. See "Risk Factors -- Fulfillment Center Relocation."

Results of Operations

The following table presents the Company's results of operations as a percentage of total revenues for the periods indicated. This table does not include data for fiscal 1996 as such data is not considered to be meaningful.

	YEAR ENDED JANUARY 31,		THREE MONTHS ENDED APRIL 30,	
	1997	1998	1997	1998
			(UNAUDITED)	
Revenues:				
Online	100.0%	27.6%	71.3%	40.1%
Retail and other	--	72.4	28.7	59.9
Total revenues	100.0	100.0	100.0	100.0
Cost of revenues(1):				
Online	83.3	72.5	65.3	75.3
Retail and other	--	65.8	74.6	64.1
Total cost of revenues	83.3	67.6	68.0	68.6
Gross margin	16.7	32.4	32.0	31.4
Operating expenses:				
Sales and marketing	72.2	38.3	110.1	45.2
Development and engineering	61.1	7.8	30.8	12.6
General and administrative	228.9	15.3	49.8	12.4
Total operating expenses	362.2	61.4	190.7	70.2
Loss from operations	(345.6)	(29.1)	(158.7)	(38.8)
Interest, net	30.6	(0.1)	12.6	0.7
Net loss	(315.0)%	(29.1)%	(146.2)%	(38.0)%

(1) Cost of online revenue and cost of retail and other revenue are shown as a percentage of related online revenue and retail and other revenue, respectively.

Three Months Ended April 30, 1997 Compared to Three Months Ended April 30, 1998

Online Revenue. Online revenue is comprised of revenue from online sales of information resources and associated outbound shipping charges, net of returns. Online revenue increased from $176,000, or 71.3% of total revenues, to $1.8 million, or 40.1% of total revenues, for the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively, as a result of significant increases in the customer base (from 3,445 to 29,115) and repeat purchases from the Company's existing

customers. Online revenue decreased as a percentage of total revenues due to the acquisition of CLBI in May 1997. The Company expects online revenue to increase both in absolute dollars and as a percentage of total revenues as the Company continues to invest significantly in its online store, related operating infrastructure, corporate and telesales organization, and marketing programs. There can be no assurance, however, that online revenue will increase as a result of these investments and any such failure would materially adversely affect the Company's business, operating results and financial condition. See "Risk Factors -- Limited Operating History; Accumulated Deficit; Anticipated Losses" and "-- Unpredictability of Future Revenues; Potential Fluctuations in Quarterly Operating Results; Seasonality."

International sales represented approximately 29.3% and 18.8% of online revenue for the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively. The Company believes that the international market for its products is large and expanding, and that the Internet offers a unique opportunity for it to expand its international presence quickly and cost-effectively. The Company expects international sales to increase as the Company begins to direct corporate sales, telesales and marketing resources towards international markets.

Retail and Other Revenue. Retail and other revenue is comprised primarily of revenue generated by the Company's physical retail stores and, to a lesser extent, by trade shows and book fairs. Retail and other revenue increased from $71,000, or 28.7% of total revenues, to $2.6 million, or 59.9% of total revenues, for the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively, primarily as a result of the acquisition of CLBI in May 1997. The Company expects retail and other revenue to remain relatively flat in absolute dollars and decrease as a percentage of total revenues in the foreseeable future as the Company continues to invest in its online store, related operating infrastructure, corporate and telesales organization and marketing programs. In addition, the Company periodically evaluates the location and productivity of its retail stores and may close, consolidate or relocate stores as conditions warrant. Any closure, consolidation or relocation of a retail store is likely to decrease retail and other revenue.

Cost of Online Revenue. Cost of online revenue is comprised primarily of the cost of merchandise sold through the Company's online store and associated inbound and outbound shipping costs. Cost of online revenue increased from $115,000, or 65.3% of online revenue, to $1.3 million, or 75.3% of online revenue, for the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively. The increase in absolute dollars was attributable to increased online sales volume.

Cost of Retail and Other Revenue. Cost of retail and other revenue is comprised of the cost of merchandise sold through the Company's retail stores and at trade shows and book fairs and includes associated inbound and outbound shipping costs. Cost of retail and other revenue increased from $53,000, or 74.6% of retail and other revenue, to $1.7 million, or 64.1% of retail and other revenue, in the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively, primarily as a result of sales from the retail stores acquired.

Gross Margin. Gross margin as a percentage of total revenues decreased from 32.0% to 31.4% for the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively. The percentage decrease was a result of the implementation by the Company of an online competitive pricing policy and was partially offset by the inclusion of higher margin retail sales as a result of the acquisition of CLBI in May 1997. The Company has offered, and expects to continue to offer in the foreseeable future, discounts on various product offerings to encourage new customers and online traffic. Such pricing pressure is likely to reduce gross margins in the future but may be partially offset by the change in mix of products sold towards higher margin technology based training materials, product manuals and research reports.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of direct expenses associated with the Company's retail stores and also include advertising, promotional and public relations expenditures, payroll and related expenses for personnel engaged in corporate sales, marketing and fulfillment. Sales and marketing expense increased from $272,000, or 110.1% of total revenues, to $2.0 million, or 45.2% of total revenues, for the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively. The increase in absolute dollars was primarily attributable to sales and marketing expenses related to operating the Company's four retail stores following the acquisition of CLBI in May 1997, the expansion of the Company's online store and its direct sales force, the increase in advertising, public relations and other promotional expenditures, and the increased personnel and related expenses required to implement the Company's marketing strategy and fulfill customer demand. The decrease in sales and marketing expenses as a percentage of total revenues was primarily the result of an increased revenue base. The Company intends to pursue aggressive branding, marketing and telesales campaigns to generate increased online traffic and acquire customers. Accordingly, the Company expects sales and marketing expenses to increase in absolute dollars for the foreseeable future, but decrease as a percentage of total revenues as total revenues increase.

Development and Engineering Expenses. Development and engineering expenses primarily consist of costs associated with systems and telecommunications infrastructure, editorial operations and content acquisition. Development and engineering expenses increased from $76,000, or 30.8% of total revenues, to $554,000, or 12.6% of total revenues, for the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively. The increase in absolute dollars was primarily attributable to increased staffing and associated costs related to enhancing the features, content and functionality of the Company's online store and transaction-processing systems, as well as increased investments in systems and telecommunications infrastructure. The decrease in development and engineering expenses as a percentage of total revenues was primarily the result of an increased revenue base. To date, all development and engineering costs have been expensed as incurred. The Company believes that continued investment in systems and infrastructure development is critical to attaining its strategic objectives and, as a result, expects development and engineering expenses to increase significantly in absolute dollars for the foreseeable future, but decrease as a percentage of total revenues as total revenues increase.

General and Administrative Expenses. General and administrative expenses consist of payroll and related costs associated with executive, accounting and administrative personnel, recruiting, professional service fees and other general corporate expenses. General and administrative expenses increased from $123,000, or 49.8% of total revenues, to $543,000, or 12.4% of total revenues, for the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively. This increase in absolute dollars was primarily due to increased salaries and related expenses associated with the hiring of additional personnel and increases in professional fees. The decrease in general and administrative expenses as a percentage of total revenues was primarily the result of an increased revenue base. The Company expects general and administrative expenses to increase in absolute dollars as the Company expands its staff and incurs additional costs related to the expansion of its business and the costs resulting from being a public company but decrease as a percentage of total revenues as total revenues increase.

Interest, Net. Interest, net is comprised primarily of interest income from the investment of cash proceeds from financing activities, less interest expense on short-term borrowings. Net interest income was $31,000 as compared with $32,000 for the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively.

Fiscal 1997 Compared to Fiscal 1998

Online Revenue. Online revenue increased from $180,000 in fiscal 1997, to $3.0 million in fiscal 1998. This increase was primarily attributable to increased awareness of the Company's online product offerings and the resulting increase in new customers (from 1,614 to 19,979), and repeat purchases. The decrease in online revenue as a percentage of total revenues from 100% in fiscal 1997 to 27.6% in fiscal 1998 was primarily attributable to the Company's acquisition of CLBI in May 1997. Online revenue derived from international sales accounted for approximately 33.4% and 21.4% of online revenue in fiscal 1997 and fiscal 1998, respectively.

Retail and Other Revenue. Although the Company had no significant retail and other revenue in fiscal 1997, it generated $7.9 million in retail and other revenue during fiscal 1998 representing 72.4% of total revenues. Substantially all of fiscal 1998 retail and other revenue was attributable to the inclusion of CLBI results of operations after the acquisition of CLBI in May 1997.

Cost of Online Revenue. Cost of online revenue increased from $150,000, or 83.3% of online revenue, in fiscal 1997, to $2.2 million, or 72.5% of online revenue, in fiscal 1998, primarily as a result of increased online sales.

Cost of Retail and Other Revenue. In fiscal 1997, there was no cost of retail and other revenue. Cost of retail and other revenue was $5.2 million, or 65.8% of retail and other revenue, in fiscal 1998.

Gross Margin. Gross margin as a percentage of total revenues increased from 16.7% in fiscal 1997 to 32.4% in fiscal 1998 as the Company began to achieve economies of scale from the operation of its online store and inclusion of higher margin retail and other revenue resulting from the acquisition of CLBI in May 1997.

Sales and Marketing Expenses. Sales and marketing expenses increased from $130,000, or 72.2% of total revenues, in fiscal 1997 to $4.2 million, or 38.3% of total revenues, in fiscal 1998. The increase in absolute dollars was primarily attributable to sales and marketing expenses related to operating the Company's four retail stores following the acquisition of CLBI in May 1997, the expansion of the Company's online store and its direct sales force, the increase in advertising, public relations and other promotional expenditures, and the increased personnel and related expenses required to implement the Company's marketing strategy and fulfill customer demand. The decrease as a percentage of total revenues was primarily attributable to an increased revenue base.

Development and Engineering Expenses. Development and engineering expenses increased from $110,000, or 61.1% of total revenues, in fiscal 1997 to $860,000, or 7.8% of total revenues, in fiscal 1998. This increase in absolute dollars was primarily attributable to increased staffing and costs related to enhancing the features, content and functionality of the Company's online store and transaction-processing systems, as well as increased investments in systems and telecommunications infrastructure. Such expenses decreased significantly as a percentage of total revenues in fiscal 1998 due to the substantial increase in fiscal 1998 total revenues.

General and Administrative Expenses. General and administrative expenses increased from $412,000 in fiscal 1997 to $1.7 million, or 15.3% of total revenues, in fiscal 1998. This increase in absolute dollars was primarily attributable to increased salaries and related expenses associated with the hiring of additional personnel, increases in professional fees and travel. Such expenses decreased as a percentage of total revenues in fiscal 1998 due to the increase in fiscal 1998 total revenues.

Interest, Net. Net interest income in fiscal 1997 was $55,000 compared to net interest expense of $7,000 in fiscal 1998. Net interest income in fiscal 1997 resulted from the investment of cash proceeds from financing activities. Interest expense during fiscal 1998 was primarily attributable to borrowings on the Company's bank line of credit.

Provision for Income Taxes. The Company recorded no provision for income taxes in fiscal 1997 and fiscal 1998, as it incurred losses during such periods. As of September 30, 1997, the Company's year end for tax reporting purposes, the Company had net operating loss carryforwards of approximately $3.0 million for federal and state income tax purposes. If not utilized, the net operating loss carryforwards will expire through 2004 and 2013 for state and federal income tax purposes, respectively. Under the Tax Reform Act of 1986 and the California Conformity Act of 1987, the amount of and the benefit from net operating losses that can be carried forward may be impaired in certain circumstances, including, for example, a cumulative ownership change of more than 50% over a three-year period. To date, the Company has not performed an analysis to determine whether or not this offering or certain other transactions have triggered a change in ownership for tax purposes. Should it be determined that a change in ownership occurred, the Company's ability to utilize its operating loss carryforwards could be limited. See Note 7 of Notes to Financial Statements.

Selected Quarterly Results of Operations

The following table sets forth certain unaudited selected quarterly results of operations data for the five quarters ended April 30, 1998 as well as such data expressed as a percentage of total revenue. In the opinion of management, this information has been prepared substantially on the same basis as the audited Financial Statements appearing elsewhere in this Prospectus, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the Financial Statements of the Company and related Notes thereto appearing elsewhere in this Prospectus. The operating results for any quarter are not necessarily indicative of results for any future period.

	THREE MONTHS ENDED				
	APRIL 30, 1997	JULY 31, 1997	OCT. 31, 1997	JAN. 31, 1998	APRIL 30, 1998
	(IN THOUSANDS)				
Revenues:					
Online	$ 176	$ 444	$1,089	$ 1,312	$ 1,761
Retail and other	71	2,192	3,124	2,540	2,633
Total revenues	247	2,636	4,213	3,852	4,394
Cost of revenues:					
Online	115	303	802	969	1,326
Retail and other	53	1,372	2,041	1,750	1,688
Total cost of revenues	168	1,675	2,843	2,719	3,014
Gross profit	79	961	1,370	1,133	1,380
Operating expenses:					
Sales and marketing	272	968	1,126	1,826	1,986
Development and engineering	76	137	311	336	554
General and administrative	123	473	552	526	543
Total operating expenses	471	1,578	1,989	2,688	3,083
Loss from operations	(392)	(617)	(619)	(1,555)	(1,703)
Interest, net	31	(8)	(27)	(3)	32
Net loss	$(361)	$ (625)	$ (646)	$(1,558)	$(1,671)

	THREE MONTHS ENDED				
	APRIL 30, 1997	JULY 31, 1997	OCT. 31, 1997	JAN. 31, 1998	APRIL 30, 1998
AS A PERCENTAGE OF TOTAL REVENUES:					
Revenues:					
Online	71.3%	16.8%	25.8%	34.1%	40.1%
Retail and other	28.7	83.2	74.2	65.9	

59.9				
Total revenues	100.0	100.0	100.0	100.0
100.0				
Cost of revenues(1):				
Online	65.3	68.2	73.6	73.9
75.3				
Retail and other	74.6	62.6	65.3	68.9
64.1				
Total cost of revenues	68.0	63.5	67.5	70.6
68.6				
Gross profit	32.0	36.5	32.5	29.4
31.4				
Operating expenses:				
Sales and marketing	110.1	36.7	26.7	47.4
45.2				
Development and engineering	30.8	5.2	7.4	8.7
12.6				
General and administrative	49.8	17.9	13.1	13.7
12.4				
Total operating expenses	190.7	59.9	47.2	69.8
70.2				
Loss from operations	(158.7)	(23.4)	(14.7)	(40.4)
(38.8)				
Interest, net	12.6	(0.3)	(0.6)	(0.1)
0.7				
Net loss	(146.2)%	(23.7)%	(15.3)%	(40.4)%
(38.0)%				

(1) Cost of online revenue and cost of retail and other revenue are shown as a percentage of related online revenue and retail and other revenue, respectively.

The Company expects to experience significant fluctuations in its future quarterly operating results due to a variety of factors, many of which are outside the Company's control. Factors that could affect the Company's quarterly operating results include: (i) the Company's ability to establish and expand brand recognition, (ii) the Company's ability to retain existing customers, attract new customers and continuously improve customer satisfaction, (iii) announcements of, and market anticipation for, new technology offerings for which information resources may be sought, (iv) the Company's ability to manage inventory and fulfillment operations, (v) the Company's ability to sustain or improve gross margins, (vi) the announcement or introduction of new online stores, services and products by the Company or competitors, (vii) price competition or higher wholesale prices in the industry, (viii) the level of usage of and commerce on the Internet and online services generally, (ix) increasing customer acceptance of the Internet for the purchase of information resources such as those offered by the Company, (x) the Company's ability to upgrade and develop its systems and infrastructure in a timely and effective manner, (xi) the level of traffic on the Company's online store, (xii) the sales mix of the Company's product offerings, (xiii) technical difficulties, system downtime or Internet brownouts, (xiv) the amount and timing of operating costs and capital expenditures relating to expansion of the Company's business, operations and infrastructure, (xv) the introduction of books, technology based training solutions, product manuals and research reports, (xvi) the level of merchandise returns experienced by the Company, (xvii) governmental regulation and (xviii) general economic conditions and economic conditions specific to the Internet, electronic commerce and the technical resource industries.

In the past, the Company has experienced seasonality in its business and the Company expects that it will continue to experience such seasonality in the future. Internet usage and the amount of purchases from individual and corporate consumers tend to decline during August, November and December, times when many technical professionals are either absent from the workplace, on vacation or experience a holiday closure at their company. There can be no assurance that the Company's results in any future quarter will not be negatively affected by seasonal trends.

Due to the foregoing factors, the Company's quarterly revenue and operating results are difficult to forecast, and the Company believes that period-to-period comparisons of its operating results will not necessarily be meaningful and should not be relied upon as an indication of future performance. It is likely that in one or more future quarters the Company's operating results may fall below the expectations of securities analysts and investors. In such event, the trading price of the Common Stock would likely be materially adversely affected. See "Risk Factors -- Unpredictability of Future Revenues; Potential Fluctuations in Quarterly Operating Results; Seasonality."

Liquidity and Capital Resources

Since inception, the Company has financed its operations primarily through private sales of Preferred Stock which totaled approximately $19.3 million through May 1998.

Net cash used in operating activities was $574,000 in fiscal 1997 and $2.7 million in fiscal 1998. Cash used in operating activities in fiscal 1997 was primarily attributable to a net loss of $567,000 and increases in inventories, prepaid expenses and other assets, partially offset by an increase in accounts payable and accrued expenses, as well as depreciation and amortization. For fiscal 1998, cash used in operating activities primarily resulted from a net loss of $3.2 million plus increases of $1.1 million in inventories, $173,000 in prepaid expenses and other assets, offset by net increases of $1.6 million in accounts payable and accrued expenses and $297,000 in depreciation and amortization.

Net cash used in operating activities was $524,000 and $2.6 million in the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively. Cash used in operating activities in the three months ended April 30, 1997 was primarily attributable to a net loss of $361,000, and an increase in inventory of $207,000. For the three months ended April 30, 1998, cash used in operating activities primarily resulted from a net loss of $1.7 million, an increase in accounts receivable of $393,000 and net decreases in accounts payable and accrued expenses of $1.0 million, partially offset by decreases in inventory of $326,000 and depreciation and amortization.

Net cash used in investing activities was $140,000 and $5.3 million in fiscal 1997 and fiscal 1998, respectively. Investments in fiscal 1998 are related primarily to the acquisition of CLBI in May 1997 for $4.3 million (net of cash acquired) and purchases of property and equipment of $941,000. Net cash used in investing activities was $43,000 and $243,000 for the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively. These increases were primarily attributable to purchases of property and equipment.

Cash provided by financing activities was $3.9 million and $9.7 million in fiscal 1997 and fiscal 1998, respectively, consisted primarily of proceeds from the issuance of Preferred Stock. Cash provided by financing activities of $7,000 and $21,000 in the three months ended April 30, 1997 and the three months ended April 30, 1998, respectively, consisted primarily of net proceeds from capital account transactions. The Company has a $3.0 million line of credit which expires on August 28, 1998. As of April 30, 1998, the Company has no borrowings outstanding under its line of credit.

As of April 30, 1998, the Company had $2.1 million of cash and equivalents. As of that date, the Company's principal commitments consisted of obligations outstanding under operating and capital leases. Although the Company has no material long-term commitments for capital expenditures, it anticipates a substantial increase in its capital expenditures and lease commitments consistent with anticipated growth in operations, infrastructure and personnel.

The Company believes that the net proceeds from this offering, combined with its current cash and equivalents and its available bank line of credit, will be sufficient to meet its anticipated cash needs for working capital and capital expenditures for at least twelve months from the date of this Prospectus. The Company's future liquidity and capital requirements will depend upon numerous factors discussed under the section entitled "Risk Factors." The Company's forecast of the period of time through which its financial resources will be adequate to support its operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary. The factors described in "Risk Factors" will impact the Company's future capital requirements and the adequacy of its available funds. If cash generated from operations is insufficient to satisfy the Company's liquidity requirements, the Company may seek to sell additional equity or debt securities or to increase its bank line of credit. The sale of additional equity or convertible debt securities could result in additional dilution to the Company's stockholders. There can be no assurance that financing will be available in amounts or on terms acceptable to the Company, if at all.

Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field and cannot distinguish 21st century dates from 20th century dates. These date code fields will need to distinguish 21st century dates from 20th century dates. This could result in system failures or miscalculations causing disruptions of operations including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities. As a result, many companies' software and computer systems may need to be upgraded or replaced in order to comply with such "Year 2000" requirements. Although the Company believes that its products and internal systems are Year 2000 compliant, the Company utilizes third-party equipment and software that may not be Year 2000 compliant. Failure of such third-party equipment or software to operate properly with regard to the Year 2000 and thereafter could require the Company to incur unanticipated expenses to remedy any problems, which could have a material adverse effect on the Company's business, operating results and financial condition. Furthermore, the purchasing patterns of customers or potential customers may be affected by Year 2000 issues as companies expend

significant resources to correct their current systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase products and services such as those offered by the Company, which could have a material adverse effect on the Company's business, operating results and financial condition. See "Risk Factors -- Year 2000 Compliance."

Recent Accounting Pronouncement

In June 1997, the FASB issued SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information ("Statement 131"). Statement 131 establishes standards for the way that public business enterprises report information about operating segments. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Statement 131 is effective for fiscal years beginning after December 15, 1997. In the initial year of application, comparative information for earlier years must be restated. The Company has not determined the manner in which it will present the information required by Statement 131.

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which defines derivatives, requires that all derivatives be carried at fair value, and provides for hedging accounting when certain conditions are met. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Although the Company has not fully assessed the implications of this new statement, the Company does not believe adoption of this statement will have a material impact on the Company's financial statements.

Business

Overview

Computer Literacy is the leading online retailer of information resources singularly focused on the technical professional. With over 300,000 information resource titles from more than 8,000 publishers, Computer Literacy offers its customers online access to a broad and comprehensive selection of technical books, technology based training solutions, product manuals, research reports and other information resources. In addition to the Company's extensive product offering, Computer Literacy's online store features authoritative and compelling content, competitive pricing, an easy-to-use navigational interface and a variety of value-added services. The Company also operates four physical retail stores that complement its online business by generating increased online traffic, building the Company's brand and creating cross-promotional opportunities, thereby providing a profitable means of customer acquisition.

Computer Literacy has quickly become one of the most widely recognized online retailers of information resources for the technical professional. To enhance brand recognition and increase online traffic, the Company has established a number of strategic alliances with publishers and other suppliers of information resources for technical professionals. For example, the Company has established an

alliance with CBT to sell CBT's full library of technology based training materials, containing over 600 titles. In addition, the Company has established co-branded online stores with a number of technology companies, including Apple, Cisco, Hewlett-Packard, Microsoft, SAP and Sun Microsystems. The Company believes that these customized corporate online stores, combined with its commitment to customer service and readily available product offerings, create valuable long-term relationships and repeat purchasing patterns.

Since launching its online store in February 1996, the Company has experienced rapid online revenue growth. For the two-year period ended April 30, 1998, Computer Literacy generated total online revenues of over $4.9 million (over $1.7 million of which was generated during the three months ended April 30, 1998), representing a compound average quarterly growth rate of approximately 175%. In addition, the number of online customers has grown from approximately 1,600 as of January 31, 1997 to over 29,000 as of April 30, 1998, and repeat purchases have accounted for approximately 50% of the Company's online revenue from inception to April 30, 1998. See "Risk Factors -- Limited Operating History; Accumulated Deficit; Anticipated Losses."

Industry Background

The Growth of the Internet and Electronic Commerce The Internet is an increasingly significant global medium for communications, content and commerce. According to International Data Corporation ("IDC"), there were an estimated 69 million domestic and international Web users at the end of 1997, and it is anticipated that there will be approximately 320 million Web users by the end of 2002. Growth in Internet usage has been fueled by a number of factors, including: (i) a large and increasing installed base of personal computers at home and in the workplace, (ii) advances in the performance of personal computers and modems, (iii) improvements in network systems and infrastructure, (iv) more readily available access to the Internet, (v) increased awareness of the Internet among businesses and consumers, (vi) growing availability of information and services on the Web and (vii) reduced security risks in conducting transactions online.

The increasing functionality, availability and overall usage of the Internet enables online retailers to access customers in a manner unprecedented by traditional retailers or mail-order catalogs. The reduced cost of selling and marketing on the Web, the ability to serve a large and global group of customers electronically from a central location and the potential for personalized low-cost customer interaction provide significant economic benefits for online retailers. Unlike traditional retailers, online retailers do not have the costs of managing and maintaining a significant retail store infrastructure or the printing and mailing costs of catalog marketing. Because of these advantages, online retailers have the potential to build large, global customer bases quickly and to achieve economies of scale over the long term. IDC estimates that the amount of commerce conducted over the Web will grow from over $12 billion at the end of 1997 to more than $425 billion by the end of 2002.

Technical Professionals and Their Information Resource Requirements Organizations increasingly seek technology solutions for competitive advantages and rely upon such solutions for mission-critical business processes. As a result, the demand for technical professionals has grown significantly.

According to Dataquest, there were 6.1 million professional programmers worldwide as of 1995, and based on information derived from the U.S. Bureau of Labor Statistics, the Company believes that there were over 2 million other technical professionals in the U.S. as of 1996. In addition, according to the U.S. Bureau of Labor Statistics, computer scientists, computer engineers, and systems analysts are expected to be the three fastest growing occupations in the U.S. through the year 2006. In order to remain knowledgeable with respect to the latest technical innovations and to maximize the competitive advantages provided by these new technologies, technical professionals must have access to immediately available information resources that are highly specific and contain authoritative content. These information resources, including technical books, technology based training solutions, product manuals and research reports, traditionally have been available only from disparate sources.

Technical Books. The market for technical books is large and relatively fragmented. Based on industry data the Company believes that the wholesale market for technical books was approximately $1 billion in 1996. Traditionally, technical books have been sold through small, local and independent technical bookstores and, to a lesser extent, through computer or book superstores. These traditional retail channels typically require customers to travel to physical retail locations and are further limited by their product selection, inconvenient hours of operation and degree of authoritative content.

Technology Based Training Solutions. To address training requirements for an increasing number of products and technologies, technical professionals and their managers are increasingly seeking current technical training covering a broad range of topics and skill levels that can be delivered on multiple formats. According to IDC, revenue from all technology based training solutions in the United States is expected to grow from $1.5 billion in 1997 to $7.7 billion in 2002. Courseware from vendors, including interactive CD-ROMs, network resident programs and video tapes, allows employees to tailor training to their work schedules, to begin training at a level that is suitable to their needs, to integrate training with on-the-job practice, to train in only those topics that are relevant to their needs and to access training materials on an ongoing basis as reference tools. Much of the technology based training is interactive, allowing users to practice and test skills as they learn. To date, the market for technology based training solutions has been highly fragmented with many publishers primarily selling directly to end users. As a result, technology based training solutions are typically difficult to locate and undeliverable within tight time constraints.

Product Manuals, Research Reports and Other Technical Information. In addition to technical books and technology based training, the Company believes there is a sizeable and growing market for product manuals, research reports and other information resources that technical professionals rely on for maintaining existing technology or evaluating new technology. Although the market for product manuals is driven by the increasing sales of hardware and software, vendors are seeking alternatives to the production of such materials, including outsourcing, printing and distribution in an effort to focus employee resources on the core competencies of the organization. Very few product manuals and research reports are distributed through third party resellers and, when available from such sources, may be undeliverable within tight time constraints or in sufficient quantity.

Technical professionals must stay abreast of technology developments and respond quickly to changes or updates to such technology. Delays or unanswered questions often result in missed deadlines, lost customer communications, inaccessibility to mission-critical information and lost business opportunities. Technical professionals therefore demand an extensive selection of information resources, authoritative and compelling content to assist purchasing decisions, customer convenience and value-added service, none of which have traditionally been available from a single or centralized source.

The Computer Literacy Solution

Since opening its online store in February 1996, Computer Literacy has become one of the most widely recognized online retailers of information resources for technical professionals. By offering customers a 30 selection of more than 300,000 titles, as well as competitive pricing and a strong commitment to customer service, the Company believes it has achieved a leading position among retailers in its category. Computer Literacy further believes that the demographics of technical professionals overlap one-to-one with those of Internet users, providing an exceptional target market for the Company's product offerings. The Company's solution consists of the following key attributes:

Extensive Product Selection. Computer Literacy offers the most extensive selection of information resources for the technical professional, including technical books, technology based training solutions, product manuals and research reports from more than 8,000 publishers. The Company believes that its online platform is particularly suited to offer a comprehensive selection of information resources that would be impractical for physical retail stores to provide. This extensive selection enables technical professionals to obtain the information resources they need in a timely and efficient manner.

Corporate Programs. Computer Literacy has corporate sales personnel whose focus is to fulfill the information resource needs of organizations and their employees and constituents. The Company sells primarily to purchasing agents and corporate librarians as well as to individual employees within these organizations and to their customers or constituents. The Company has also established customized co-branded online stores focused on specific product offerings for certain corporate customers, including Apple, Cisco, Hewlett-Packard, Microsoft, SAP and Sun Microsystems. These co-branded online stores minimize time and travel expenditures, simplify payment and reimbursement processes and improve access to relevant information resources.

Highly Authoritative and Compelling Content. Computer Literacy offers technical professionals authoritative and compelling content to facilitate informed purchasing decisions. Computer Literacy's knowledgeable editorial staff delivers relevant, informative and insightful commentary through synopses, reviews and recommendations. In addition, reviews and recommendations by authors, other technical professionals, publishers and recognized industry experts provide diverse and stimulating points of view. The availability of this content at the Company's online store allows technical professionals to quickly identify the resources that specifically address their needs.

Customer Convenience. Purchasing from Computer Literacy's online store is easy, quick and convenient. Computer Literacy's online store is available 24 hours a day, seven days a week, and customer service may be accessed via e-mail or through the Company's toll-free helpline. Because the Computer Literacy online store has a global reach, it can deliver a broad selection of technical resources to customers in rural, international or other locations who would not otherwise have access to such resources. Computer Literacy accepts credit cards, checks, money orders and, for approved corporate customers, extends trade credit through purchase orders. To maximize the availability of information resources, Computer Literacy strives to ship 90% of all orders received weekdays by 4:00 p.m. Pacific Time on the same day.

Value-added Services. Computer Literacy has designed its online store to incorporate certain value-added services that enhance the customer experience and promote repeat purchasing. Computer Literacy's online store offers several notification services allowing customers to subscribe to preference lists that notify them with e-mails of weekly specials, new books and upcoming events. For books not yet in print, customers can order in advance of the release date ensuring access to the most current information as soon as it becomes available. Orders are confirmed by e-mail notifications and customers are able to check the status of their orders online. In addition to notification services, the Company obtains certain preference and behavioral information, enabling it to offer other value-added customized services to its customers. The Company has also established several special interest group reading rooms covering specific technical topics. These reading rooms provide customized, in-depth technical resources, recommendations and content to facilitate purchasing decisions.

Substantial Benefits to Publishers. Computer Literacy offers a sales and marketing channel not previously available for certain publishers and suppliers. The Company believes that by focusing on technical professionals, it is able to increase sales of specialized and unique titles not typically available in physical stores or on other Web sites, while helping publishers target customers for particular product offerings. With its centralized distribution and online store, Computer Literacy is able to order more accurately based upon 31 aggregated customer demand, which the Company believes results in reduced return rates to publishers and more efficient inventory management.

Strategy

Computer Literacy's objective is to maintain and extend its leadership position as an online retailer of information resources singularly focused on the technical professional. Key elements of the Company's strategy to achieve this objective include:

Enhance the Customer Experience. Computer Literacy seeks to provide its customers with a superior online shopping experience by offering an extensive selection, authoritative and compelling content, convenience, value-added service, a strong commitment to customer service, competitive pricing and an easy-to-use interface. The Company believes that enhancements to its online product offering will enable it to capture an increasing share of the worldwide market for information resources. The

Company expects to continue investing in its technology and product development to maintain a state-of-the-art, simple to use and content-rich online store, while broadening and expanding its product offerings.

Expand Corporate Relationships. Computer Literacy believes that there is a significant opportunity to increase its sales by expanding its corporate sales force and adding telesales capacity to focus on small and midsized businesses, educational institutions and government agencies. Such corporate relationships provide a cost-effective means of acquiring a large number of loyal customers quickly and efficiently. In addition, by building customized co-branded online stores for many of these corporate customers, the Company is able to secure and leverage its position with the customer as the preferred provider of information resources for technical professionals.

Build Brand Awareness. Computer Literacy believes it is the first online retailer to singularly focus on providing information resources to the technical professional. To leverage its first-mover advantage, the Company seeks to expand awareness of its brand with targeted online marketing campaigns, a direct sales force and other marketing initiatives, thereby reducing customer acquisition costs. The Company's strategy is to promote, advertise and increase brand equity through excellent customer service, effective marketing and promotion, and with strategic alliances and partnerships.

Encourage Customer Loyalty. Computer Literacy believes that its customized corporate online stores, its commitment to customer service and readily available product offerings create valuable long-term relationships and repeat purchasing behavior. The Company intends to further pursue customized online retail opportunities and devote significant resources to encourage overall customer loyalty.

Capitalize on Expanding Market. Computer Literacy intends to capitalize on the growing market for information resources by leveraging its online platform and brand, and by providing an extensive selection of products and services previously unavailable through a single or centralized source. In addition, the Company will consider developing incremental revenue opportunities by promoting its products through affiliated sites and expanding into related product areas. The Company believes that the international market for its product offering is large and expanding and that the Internet offers a unique opportunity for it to expand its international presence quickly and cost-effectively. Further, the Company's customer demographics and substantial site traffic creates a meaningful opportunity for potential ancillary revenues such as banner advertising, links to related sites and cross promotions.

Establish and Leverage Supplier Relationships. Computer Literacy intends to capitalize upon the advantages associated with its online platform to create and sustain strong relationships with publishers and other suppliers. The Company also intends to leverage its market leadership position to expand cooperative marketing campaigns with publishers, pursue direct supply relationships and improve volume discounts. Computer Literacy plans to hire additional personnel primarily dedicated to establishing and maintaining supplier relationships in order to improve availability, delivery, pricing terms and, in certain circumstances, exclusivity.

Maintain Technology Focus and Expertise. Because speed, scalability and ease of use are essential to effectively operating online stores, Computer Literacy's internal engineering group will continue to devote 32 substantial resources to develop, acquire and implement technological enhancements to its

Web site and transaction-processing systems. Among other technology objectives, the Company intends to provide increasingly value-added services and make the user interface as intuitive, engaging and effective as possible, while continuously improving the efficiency of its transaction-processing and fulfillment activities.

Computer Literacy's Online Store

Customers enter the Computer Literacy online store through the Company's Web site and, in addition to ordering technical books, technology based training solutions, research reports and product manuals, customers can conduct targeted searches, browse highlighted selections, bestsellers and other features, read and post reviews, register for value-added services, check order status and participate in promotions.

Browsing. The Computer Literacy online store offers visitors a variety of highlighted subject areas and special features. Popular features include "bestsellers," "whatshot" and "clrecommends," which enable individuals to view the most popular and best selling items. The "techcenters" area directs customers to information resources for particular subject categories such as Java or C++, and "partnershelves" provides the user with titles and selections specific to products from technology leaders such as Cisco, Hewlett-Packard, Microsoft and Sun Microsystems. In addition, the Computer Literacy home page presents a variety of other features of topical or current-event interest, such as "whatsnew" which allows customers to be notified of recent releases of new versions and "eventscalendar" which provides the user information on store events and tradeshows. Further, customers can click on the "suggestions" button, located at the bottom of each page, and make a suggestion to the Company.

Searching. A primary feature of the Computer Literacy online store is its interactive, searchable catalog of more than 300,000 titles. The Company provides a selection of search tools enabling users to quickly find technical resources based on title, subject, author, publisher or ISBN. Within a particular search, a customer can choose to sort the selections in various orders of importance. The Company believes that its focus on technical materials allows for an efficient search mechanism by delivering search results of relevant technical materials. After a selection has been located, Computer Literacy informs customers of related products which provides unique up-selling and marketing opportunities.

Ordering. To purchase products, customers simply click on an icon to add books to their online shopping basket and can remove products from their shopping baskets as they browse. To execute orders, customers click on the "checkout" icon and are prompted to supply shipping and credit card details, either online, by e-mail or by telephone. Customer account information is stored on the Company's secure servers and is automatically recalled for subsequent purchases. Personal passwords allow repeat customers to automatically access previously provided information, as well as book notification profiles. The Company's system automatically confirms each order by e-mail within minutes after placing the order and advises customers by e-mail shortly after orders are shipped.

Reviews and Content. The Computer Literacy online store offers numerous forms of content to entertain, engage and inform readers, and enhance the customer's shopping experience. For many of its selections, customers are able to access reviews by Computer Literacy's in-house editorial staff and other industry leaders. In addition, customers are encouraged to write and post their own reviews which are also available under "more information available" icons. Within the "special items" area of the online store, customers can access other interviews and articles by industry leaders. Due to the customer's need for credible advice, specific background information about reviewers is posted, such as the reviewer's profession and level of expertise. In addition, the Company's practice of displaying the table of contents for many of its selections, and often sample chapters, enables the purchaser to evaluate the content of the item being purchased.

Availability and Fulfillment. Computer Literacy strives to ship 90% of all orders received weekdays by 4:00 p.m. Pacific Time on the same day. Below each product offering is a symbol that indicates whether such item is in stock. Customers select from a variety of delivery options, including overnight and various international shipping alternatives. The Company seeks to provide rapid and reliable fulfillment of customer orders, and intends to continue to improve its record of availability and fulfillment. See "-- Warehousing and Fulfillment." 33 Customized Online Stores. The Company's co-branded online stores are accessible through the Company's home page or from the intranet sites of corporate customers, and provide the Company with opportunities to be the preferred provider of information resources to organizations and their employees and constituents.

The following table depicts the Company's best selling titles in terms of dollar volume from February 1, 1998 through April 30, 1998:

PRODUCT TYPE (APPROXIMATE NO. OF TITLES AVAILABLE) PRICE RANGE BEST SELLING TITLES

Technical Books (300,000)	$7.25 - $790.00	- Samba: Integrating UNIX and Windows - MCSE Core Requirements, Second Edition - Cisco IOS Configuration - Computer Networks, Third Edition - CNE Study Guide for Intranet users
Technology Based Training Solutions (1,600)	$69.95 - $2,900.00	- Complete Cisco Curriculum - Complete Microsoft MCSE Curriculum - Microsoft Windows NT Technical Support
Training		
Product Manuals and Research Reports (65)	$23.50 - $250.00	- Microsoft Visual C+ Run-Time Library - About the AS/400 and Internet - Power PC 601 RIS Microprocessor User's Manual
Reference		

In addition to its online stores, Computer Literacy maintains four retail stores, located in San Jose, Sunnyvale and Cupertino, California and Vienna, Virginia. For the period beginning on the date of the CLBI acquisition through January 31, 1998, revenues attributable to these physical stores were $7.1 million. These stores supplement the Company's operating results and provide a profitable means of customer acquisition and branding. Additionally, the existence of the stores enables the Company to engage in unique cross-promotional efforts and offer in-store events such as guest lectures. The

Company periodically evaluates the location and productivity of its stores, and may close, consolidate or relocate stores as conditions warrant. See "Risk Factors -- Unpredictability of Future Revenues; Potential Fluctuations in Quarterly Operating Results; Seasonality."

Customers

The Company's customers consist of both individual technical professionals, who primarily purchase for business purposes, and corporate customers. Through its relationships with corporate customers, the Company sells to purchasing agents, corporate librarians and training departments as well as to individual employees within these organizations. The Company has also leveraged these corporate customer relationships into sales to constituents of the corporate customers. The number of customer accounts has grown from approximately 1,600 as of January 31, 1997 to over 29,000 as of April 30, 1998 and repeat purchases have accounted for approximately 50% of online revenue from inception to April 30, 1998. No single customer accounted for more than 10% of total revenues in the fiscal years ended January 31, 1997 or January 31, 1998 or the three months ended April 30, 1998. The following table sets forth a representative list of the Company's corporate accounts who have purchased at least $10,000 of the Company's technical books, technology based training solutions, product manuals and research reports for the three month period ended April 30, 1998:

3Com Corp.	Lotus Development Corporation	Rockwell International Corp.
Cisco Systems, Inc.	Microsoft Corporation	Software Quality Engineering
Hewlett-Packard Company	Motorola, Inc.	Sun Microsystems, Inc.
Intel Corporation	Prism Solutions, Inc.	University of California, Santa Cruz Extension
Lawrence Livermore National Laboratory		

Set forth below is a case study of a representative corporate customer relationship.

Microsoft Corporation. Computer Literacy's relationship with Microsoft began in January 1997 when the Microsoft Corporate Library ("MS Library") began using Computer Literacy as one of its sources to 34 acquire materials for its collection. In this manner, the library staff acts as central purchasing agents to acquire resources on behalf of the entire corporate staff, who turn to the MS Library as an internal one-stop resource for their own information needs. Recognizing the importance of this strategic account, the Company assigned a member of its sales team to actively manage the account, deliver personal service, and further develop the relationship. The assigned account manager is in weekly contact to personally resolve issues, expedite important orders, and suggest products and services. The Company believes that the MS Library chooses to buy from Computer Literacy because it delivers higher levels of service by lending personal attention, accepting orders via its corporate credit card, and offering faster shipping, all at competitive prices. In January 1998, Computer Literacy extended its relationship with Microsoft to reach external constituents, specifically with members of the Microsoft development community, by collaborating with the Microsoft Site Builder Network ("SBN"). Microsoft chose Computer Literacy as its partner to develop a co-branded store for SBN members and visitors. This selection was based on Computer Literacy's focus on the technology professional, its unique ability to provide value-added content, and its commitment to partnering as demonstrated by previous relationships and resource commitments to partnership projects. Once the selection was made,

Computer Literacy developed the SBN store site which features books of particular interest to SBN's audience of Web developers. Together, Microsoft and Computer Literacy promote the SBN store via vehicles such as e-mailings to over 500,000 registered SBN members, Web site links and other mechanisms.

Sales and Marketing

The Company's sales and marketing strategy is focused on both individual consumers and organizations, which represent distinct yet complementary customer segments. This approach is designed to cost-effectively strengthen the Company's brand name, increase customer traffic to the Computer Literacy online store, build customer loyalty and develop revenue opportunities through the Company's distribution channels.

Corporate Sales. The Company has sales personnel primarily focused on fulfilling the information resource requirements of corporate organizations and their employees and constituents. The Company's direct sales force is headquartered in Sunnyvale, California and each member is assigned to specific strategic accounts. Each member of the direct sales organization, including telesales personnel, is compensated with base salary and commissions. The Company intends to expand its corporate sales force and add telesales capacity to focus on small and midsized businesses, educational institutions and governmental agencies. See "Risk Factors -- Need for Additional Personnel," "-- Dependence on Key Personnel" and "-- Management of Expanding Business; Limited Senior Management Resources."

Marketing and Consumer Sales. Computer Literacy utilizes a variety of programs and promotional activities to increase traffic and purchases on its Web site and in retail locations. The Company maintains a proprietary customer database of e-mail addresses that allows for cost-effective personal notification and other targeted marketing. Computer Literacy continues to build customer loyalty by delivering customized services, promotions and products to its customers. The Company targets the individual customer through a mix of promotional activities and strategic advertising. Over 2,000 Web sites have links to the Company's online store. These links are located primarily on Web sites concerning computers or other technical topics, which are considered complementary to the Company's online store. The Company also places a limited number of advertisements on strategic Web sites.

The Company advertises in a number of trade journals, newspapers and magazines targeted to the information technology professionals and information systems consultants. The Company may also pursue advertisements in other media, such as radio and television. In addition, the Company has served as the official bookseller of certain trade shows and conventions, such as the Microsoft's TechEd and Software Development West. See "Risk Factors -- Risks Associated with Branding."

International Sales. For fiscal 1998 and the three months ended April 30, 1998, approximately 21% and 19%, respectively, of online revenue was derived from international sales. The Company believes that the Internet offers a unique opportunity for it to rapidly expand its international presence on a cost-effective basis and it intends to pursue this opportunity aggressively.

Customer Service and Support

The Company is committed to providing superior customer service and support. The Company's customer service and support personnel are trained to assist customers in purchasing decisions, recommend complementary products and handle general customer inquiries. The Company answers service and support questions through e-mail 24 hours a day, seven days a week, and through its toll-free phone line from 6:00 a.m. Pacific time to 9:00 p.m. Pacific time. The Company has automated certain portions of its customer service and support operations and intends to enhance and provide further automation of such service and operations.

Warehousing and Fulfillment

For fiscal 1998 and the three months ended April 30, 1998 the Company purchased approximately 30% and 38%, respectively, of its books from Ingram. The Company relies to a large extent on rapid fulfillment from Ingram and other vendors. The Company generally has no commitments to or arrangements with any of its vendors that guarantee the availability of merchandise, the continuation of particular payment terms or the extension of credit limits. There can be no assurance that the Company's current vendors will continue to sell merchandise to the Company on current terms or that the Company will be able to establish new or extend current vendor relationships to ensure acquisition of merchandise in a timely and efficient manner and on acceptable commercial terms. If the Company were unable to develop and maintain relationships with vendors that would allow it to obtain sufficient quantities of merchandise on acceptable commercial terms, its business, financial condition and results of operations would be materially adversely affected. See "Risk Factors -- Reliance on Certain Suppliers."

The Company currently maintains a warehouse and distribution center in Sunnyvale, California. The Company is considering outsourcing the warehousing and fulfillment of orders to a service provider located in closer proximity to certain publishers, wholesalers, distributors and delivery services. There can be no assurance that outsourcing such services will result in operating efficiencies or will not cause a significant disruption in the fulfillment of orders, the distraction of management and other key personnel and the expenditure of significant financial and other resources. Any such disruption, distraction or expenditure could materially adversely affect the Company's business, results of operations and financial condition. See "Risk Factors -- Fulfillment Center Relocation."

Technology and Product Development

Using a combination of its internally developed proprietary technology and commercially available licensed technology, the Company has implemented an integrated system of site management, search engine, customer support, inventory management, network monitoring, quality assurance, transaction

processing and fulfillment services. The Company's technology architecture is based on a distributed model that is extremely scalable, flexible and modular. See "Risk Factors -- Trademarks and Proprietary Rights; Unlicensed Arrangements and Materials."

The Company's current strategy is to focus its development efforts on creating and enhancing the proprietary software unique to its business, especially as it relates to interaction with customers. Computer Literacy licenses commercially available technology in areas where the Company cannot create unique value. See "Risk Factors -- Dependence on Continued Growth of Electronic Commerce; and "-- Rapid Technological Change."

The Company's integrated system consists of a dynamic Web site and transaction processing components. The Company's dynamic Web site allows customers to search, browse and view product information, monitor product status and availability, compare different product options, and make purchase decisions specific to their particular needs. The Company has implemented a transaction processing system that supports corporate ordering, multiple account profiles for individual and corporate users, custom integration and co-branding with partner sites, the application of selective discounting and promotion codes, and referral tracking and reporting. The system can accommodate large numbers of products, across different product categories and millions of individual items, offer users multiple shipping and delivery options, and provides secure credit card transactions. The Company has implemented a customer service system that manages order adjustments, credits, returns, refunds, cancellations, and customer account information. The Company's back-end system is fully integrated and includes inventory management, accounts payable, accounts receivable, general ledger, and retail point of sale.

Computer Literacy's engineering staff consisted of 14 individuals as of April 30, 1998. The Company's engineering strategy includes enhancing the functionality of its existing features, developing new features, and integrating off-the-shelf components into its environment. Computer Literacy is currently investing significant resources in its system development and expects to continue to do so in the future. The Company believes its future success depends on its ability to continue developing and enhancing this system.

As of April 30, 1998, the Company's online store operations staff consisted of four systems administrators and one database administrator who are responsible for managing, monitoring, and operating the Company's online store and related systems. The uninterrupted operation of the Company's online store and related system is essential to its business, and the site operations staff is responsible for ensuring its reliability. The Company uses three Internet service providers. The Company anticipates upgrading capacity to allow for faster telecommunication services in the future. See "Risk Factors -- Management of Expanding Business; Limited Senior Management Resources," "-- Risk of Capacity Constraints; Reliance on Internally Developed Systems; System Development Risks;" and "-- Risk of System Failure; Single Site and Order Interface."

Competition

The electronic commerce market is new, rapidly evolving and intensely competitive. The market for information resources is more mature but also intensely competitive. The Company expects competition to continue to intensify in the future. The Company currently or potentially competes with a variety of companies. These competitors include (i) a significant number of retail and online bookstores, including Amazon.com, Barnes & Noble, Inc., Borders Group, Inc. and other vendors of books, training products and product manuals, (ii) various computer super-stores that carry related information resources at retail locations, in catalogs and over the Internet, (iii) a number of indirect competitors that specialize in electronic commerce or derive a substantial portion of their revenue from electronic commerce and (iv) other companies with substantial customer bases in the computer and other technical fields. There can be no assurance that the Company can maintain a competitive position against current or future competitors as they enter the markets in which the Company competes, particularly those with greater financial, marketing, service, support, technical and other resources than the Company. The failure by the Company to maintain a competitive position within the market could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company believes that the principal competitive factors on which it competes in its market are brand recognition, selection, personalized services, convenience, price, accessibility, customer service, quality of search tools, quality of editorial and other site content and reliability and speed of fulfillment. Many of the Company's current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than the Company. In addition, online retailers may be acquired by, receive investments from or enter into other commercial relationships with larger, well-established and well-financed companies as use of the Internet and other online services increases. Certain of the Company's competitors may be able to secure merchandise from vendors on more favorable terms, devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing or inventory availability policies and devote substantially more resources to Web site and systems development than the Company. Increased competition may result in reduced operating margins, loss of market share and a diminished brand franchise. As a strategic response to changes in the competitive environment, the Company may from time to time make certain pricing, service or marketing decisions or acquisitions that could result in reduced margins or otherwise have a material adverse effect on its business, financial condition and results of operations. New technologies and the expansion of existing technologies may increase the competitive pressures on the Company. For example, applications that select specific titles from a variety of Web sites may channel customers to online booksellers that compete with the Company. Companies that control access to transactions through a network or Web browsers could also promote the Company's competitors or charge the Company a substantial fee for inclusion. In addition, vendors of information resources such as technology based training could provide direct access to training programs online. There can 37 be no assurance that the Company will be able to compete successfully against current and future

competitors, and competitive pressures faced by the Company may have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors -- Competition."

Intellectual Property and Other Proprietary Rights

The Company regards its copyrights, service marks, trademarks, trade dress, trade secrets and similar intellectual property as critical to its success, and relies on trademark and copyright law, trade secret protection and confidentiality and/or license agreements with its employees, customers, partners and others to protect its proprietary rights. The Company pursues the registration of its trademarks and service marks in the U.S. and internationally, and has applied for the registration of certain of its trademarks and service marks. Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which the Company's products and services are made available online. While the Company attempts to ensure that the quality of its brand is maintained by such licensees, there can be no assurance that such licensees will not take actions that might materially adversely affect the value of the Company's proprietary rights or reputation, which could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate or that third parties will not infringe or misappropriate the Company's copyrights, trademarks, trade dress and similar proprietary rights. In addition, there can be no assurance that other parties will not assert infringement claims against the Company. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources. The Company is not currently aware of any legal proceedings pending or threatened against it.

In addition, the Company displays reviews and articles on technical subjects in its online store. Some reviews and articles may be copyrighted and the Company may not have explicit permission from the author for use of such intellectual property. There can be no assurance that the authors will not assert infringement claims against the Company. If a claim is asserted alleging that the Company has infringed the proprietary rights of a third party, the Company may be required to seek licenses to continue to use such intellectual property. The failure to obtain the necessary licenses or other rights at a reasonable cost could have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors -- Trademarks and Proprietary Rights; Unlicensed Arrangements and Materials."

Employees

As of April 30, 1998, the Company employed 129 full-time employees. In addition, the Company employed 17 part-time employees, primarily for its physical retail stores. The Company also employs independent contractors and other temporary employees in its editorial, operations and finance and administration departments. None of the Company's employees are represented by a labor union, and the Company considers its employee relations to be good. Competition for qualified personnel in the

Company's industry is intense, particularly among software development and other technical staff. The Company believes that its future success will depend in part on its continued ability to attract, hire and retain a sufficient number of highly skilled personnel. See "Risk Factors -- Dependence on Key Personnel;" and "-- Need for Additional Personnel."

Facilities

The Company's principal administrative, engineering, marketing, customer service, warehousing and merchandising facility totals approximately 13,635 square feet and is located in Sunnyvale, California under a master lease that expires on July 31, 1999. In addition, the Company leases four physical stores located in San Jose, Sunnyvale and Cupertino, California, and Vienna, Virginia. The Company does not own any real property. The Company expects that its current facilities will be sufficient for the foreseeable future. The Company periodically evaluates the location and productivity of its stores, and may close, consolidate or relocate stores as conditions warrant.

Management

Directors and Executive Officers

The following table sets forth certain information regarding the executive officers and directors of the Company as of July 15, 1998:

Name Age Position

Chris MacAskill	44	Chief Executive Officer, President and Chairman of the Board
Kim Orumchian	33	Vice President of Engineering, Secretary and Director
Donald P. Alvarez	33	Vice President of Finance and Chief Financial Officer
Dennis F. Capovilla	38	Vice President of Sales and Business Development
Robert M. Cudd	43	Vice President of Marketing
Riki M. Tokuno	41	Chief Operating Officer
Peter G. Bodine(1)	36	Director
Ralph C. Derrickson	39	Director
Alan S. Fisher(2)	37	Director
Tod H. Francis(1)	38	Director
David C. Schwab	40	Director
Peter C. Wendell(2)	48	Director

(1) Member of the Audit Committee (2) Member of the Compensation Committee Chris MacAskill has been Chief Executive Officer, President and a director of the Company since co-founding the Company in June 1995. From June 1991 to June 1993, Mr. MacAskill served as Director of Developer Relations at NeXT Inc., a software development company. From June 1993 to June 1995, Mr. MacAskill served as Director of Developer Relations at General Magic, a software development company. From

September 1983 to May 1991, Mr. MacAskill served as Vice President of Engineering at Western Atlas International, a geophysics company. In September 1981, Mr. MacAskill founded PSI, a petroleum engineering company, which was acquired by Western Atlas International in October 1983. Mr. MacAskill received his B.S. in Geophysics from the University of Utah and received his M.S. in Geophysics from Stanford University.

Kim Orumchian has been Vice President of Engineering, Secretary and a director of the Company since co-founding the Company in June 1995. From May 1994 to June 1996, Mr. Orumchian served as a third party Product Manager for General Magic, a software development company. From September 1990 to April 1994, Mr. Orumchian served as Manager of Developer Relations for NeXT Inc., a software development company. Mr. Orumchian received his B.A. in Physics from Reed College and received his B.S. in Applied Physics from Columbia University School of Engineering.

Donald P. Alvarez joined the Company as Vice President of Finance and Chief Financial Officer in September 1997. From January 1994 to August 1997, Mr. Alvarez served as Controller for West Marine Inc., a retailer of recreational boating supplies and apparel. From January 1987 to December 1993, Mr. Alvarez served as an audit manager for Deloitte & Touche LLP, an international public accounting firm. Mr. Alvarez received his B.S. in Business Administration from California State University, Hayward.

Dennis F. Capovilla joined the Company as Vice President of Sales and Business Development in June 1997. From August 1995 to July 1997, Mr. Capovilla served as Director of the Imaging Division and Worldwide Printer Supplies for Apple Computer, a computer company. From December 1992 to December 1994, Mr. Capovilla directed Apple Computer's worldwide marketing efforts for the Imaging Division. From January 1989 to December 1992, Mr. Capovilla served as a channel marketing manager for Versatec Inc., an affiliate of Xerox Engineering Systems, a technology company, where he directed North American distributor and VAR channel activities. Mr. Capovilla received his B.S. in Marketing from Santa Clara University and did graduate work in business at the Leavey School of Business at Santa Clara University.

Robert M. Cudd joined the Company as Vice President of Marketing in March 1998. From September 1996 to March 1998, Mr. Cudd served as Vice President of Marketing for West Marine Inc., a retailer of recreational boating supplies and apparel. From March 1994 to May 1996, Mr. Cudd served as the Director of Marketing for the Computer City Division of Tandy Corporation, a computer company. From November 1989 to January 1994 he served as Vice President of Marketing at Computerland, a retail company. Mr. Cudd received his B.S. in Business from Ferris State University.

Riki M. Tokuno joined the Company as Chief Operating Officer in November 1997. From February 1992 to October 1997, Mr. Tokuno held a variety of positions with Tandy Corporation, a computer company, including Vice President of Sales and Operations and General Manager of the Incredible Universe division. From 1981 to 1986, Mr. Tokuno served as Vice President of Sales and Operations of the Western division of VideoConcepts, a division of Eckerd Corporation, a technology company. Mr. Tokuno studied electrical engineering at the University of California at Davis.

Peter G. Bodine has been a director of the Company since May 1998. Since December 1992, Mr. Bodine has served as a partner of APV Technology Partners ("APV"), a venture capital investment firm, and as an Executive Vice President of Asia Pacific Ventures, a consulting firm affiliated with APV. Before joining APV in 1992, Mr. Bodine was co-founder of International Business Catalysts, a consulting firm focused on international trade and investment counsel. Mr. Bodine received his B.S. in Finance from Brigham Young University and his M.B.A. from the University of Utah.

Ralph C. Derrickson has been a director of the Company since June 1998. Since December 1996 Mr. Derrickson has been employed by Vulcan Northwest, an investment firm, where he focuses on new media, Internet, and technology-enabled consumer product investments. From June 1993 to December 1996, Mr. Derrickson served as Vice President of Product Development for Starwave, a multi-media company, where he oversaw the development of online and multimedia products. From December 1989 to February 1992, Mr. Derrickson served as Director of Systems for NeXT, Inc., a software development company. Mr. Derrickson also serves as a director of Metricom Inc. Mr. Derrickson received his Bachelor of Technology in Systems Software Science from the Rochester Institute of Technology.

Alan S. Fisher has been a director of the Company since July 1998. Mr. Fisher has been Vice President of Development and Operations, Chief Technical Officer and a director of ONSALE, Inc. ("ONSALE"), an online retailer, since co-founding ONSALE in July 1994. He also served as Chief Financial Officer of ONSALE from July 1994 to July 1996. Mr. Fisher is also President and Chairman of Software Partners, Inc., a developer and publisher of software products, which he co-founded in August 1988. From April 1984 to August 1988, Mr. Fisher served as Technical Marketing Manager and Product Development Manager for Teknowledge, Inc., a developer of artificial intelligence software products. Mr. Fisher serves as a director of Infodata Systems, Inc., an internet document publishing software company. Mr. Fisher received his B.S. in Electrical Engineering from the University of Missouri and received his M.S. in Electrical Engineering from Stanford University.

Tod H. Francis has been a director of the Company since September 1996. Mr. Francis has been general partner of Trinity Ventures since March 1996. Prior to being named a general partner, Mr. Francis worked at Trinity Ventures as an associate from March 1993 to March 1995 and as a principal from March 1995 to March 1996. Prior to joining Trinity Ventures, Mr. Francis was a partner at RAM Group, a marketing management firm and worked at Johnson & Johnson, in brand management. Mr. Francis received his B.A. in Economics and his M.B.A from Northwestern University.

David C. Schwab has been a director of the Company since September 1996. Mr. Schwab has been a general partner of Sierra Ventures since June 1996. Prior to joining Sierra Ventures, Mr. Schwab co-founded Scopus Technology, Inc., a client-server software systems company, and served in various capacities from August 1991 to June 1996, most recently as Vice President of Sales. Mr. Schwab also serves as a director of Micromuse, Inc. Mr. Schwab received his B.A. in Systems Engineering from University of California San Diego, his M.S. and ENG. in Aerospace Engineering from Stanford University, and his M.B.A from Harvard Business School.

Peter C. Wendell has been a director of the Company since September 1996. Mr. Wendell has been a General Partner of Sierra Ventures since 1982, the year in which he founded that firm. Prior to that time he served in various executive capacities with IBM Corp. Since 1991 he has also held a faculty appointment at Stanford University's Graduate School of Business where he teaches "Entrepreneurship and Venture Capital." Mr. Wendell holds an A.B. degree from Princeton University and an M.B.A. from Harvard Business School.

All directors hold office until the next annual meeting of the stockholders and until their successors have been duly elected and qualified. Officers are elected by and serve at the direction of the Board of Directors. There are no family relationships among the directors or officers of the Company.

Board Committees

The Board has established an Audit Committee to meet with and consider suggestions from members of management and the Company's internal audit staff, as well as the Company's independent accountants, concerning the financial operations of the Company. The Audit Committee also has the responsibility to review audited financial statements of the Company and consider and recommend the employment of, and approve the fee arrangements with, independent accountants for both audit functions and for advisory and other consulting services. The Audit Committee is currently comprised of Mssrs. Bodine and Francis. The Board has also established a Compensation Committee to review and approve the compensation and benefits for the Company's key executive officers, administer the Company's stock purchase, equity incentive and stock option plans and make recommendations to the Board regarding such matters. The Compensation Committee is currently comprised of Messrs. Wendell and Fisher.

Compensation of Directors

Directors receive no cash remuneration for serving on the Board of Directors or any Board Committee. Non-employee Board members are eligible for option grants pursuant to the provisions of the Automatic Option Grant Program under the Company's 1998 Omnibus Equity Incentive Plan. Under the Automatic Option Grant Program, each individual who first becomes a non-employee Board member after the date of the Company's initial public offering; will be granted an option to purchase 7,500 shares of the Company's Common Stock on the date such individual joins the Board ("Initial Grant"). In addition, at each Annual Meeting of Stockholders, each individual who will continue to serve as a member of the Board after such meeting will receive an additional option to purchase 1,500 shares of Common Stock ("Annual Grant"). However, a director will not receive an Annual Grant in the same calendar year that he received an Initial Grant. The exercise price for each option granted under the Automatic Option Grant Program will be equal to the fair market value per share of the Common Stock on the automatic grant date. Each Initial Grant will become vested and exercisable with respect to 25% of the option shares on the first anniversary of the date of grant and with respect to an additional 1/48th of the option shares upon the completion of each month of service thereafter. Each

Annual Grant will become fully vested and exercisable on the first anniversary of the date of grant. See "-- Stock Plans." In addition, directors are reimbursed for all reasonable expenses incurred by them in attending Board and Committee meetings.

Directors who are also employees of the Company are eligible to receive options and be issued shares of Common Stock directly under the 1998 Omnibus Equity Incentive Plan and are also eligible to participate in the Company's 1998 Employee Stock Purchase Plan.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Messrs. Wendell and Fisher. None of these individuals was at any time since the formation of the Company, an employee of the Company. No executive officer of the Company serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee.

Executive Compensation

The following summary compensation table sets forth information concerning cash and non-cash compensation earned during the fiscal year ended January 31, 1998 by the Company's Chief Executive Officer and each of the Company's other four highest paid executive officers whose total compensation for services in all capacities to the Company exceeded or would have exceeded $100,000 during such year had such officers provided services for the Company for the entire fiscal year (the "Named Executive Officers").

Summary Compensation Table for Fiscal Year 1998

				LONG-TERM COMPENSATION AWARDS	
	ANNUAL COMPENSATION			SECURITIES	
NAME AND PRINCIPAL POSITION	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPENSATION ($)	UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION ($) (1)
Chris MacAskill.....	$ 81,539	--	--	--	$308
Chief Executive Officer and President					
Kim Orumchian.....	81,539	--	--	--	308
Vice President of Engineering and Secretary					
Donald P. Alvarez.....	50,000(2)	--	--	300,000	--
Vice President of Finance and Chief Financial Officer					
Riki M. Tokuno.....	34,904(3)	$25,000	$57,987(4)	300,000	--
Chief Operating Officer					
Dennis F. Capovilla.....	76,962(5)	--		210,000(6)	--
Vice President of Sales and Business Development					

(1) Represents matching contributions to each Named Officer's 401(k) plan account.

(2) Mr. Alvarez commenced employment on September 2, 1997.

(3) Mr. Tokuno commenced employment on November 10, 1997.

(4) Represents moving and related expenses.

(5) Mr. Capovilla commenced employment on July 7, 1997.

(6) Mr. Capovilla received an option grant for 90,000 shares of the Company's Common Stock on February 27, 1998.

Stock Options Granted in Fiscal 1998

The following table provides information concerning grants of options to purchase the Company's Common Stock made during the fiscal year ended January 31, 1998 to the Named Executive Officers. No stock appreciation rights were granted to these individuals during such year.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)(2)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL 1998(3)	EXERCISE PRICE PER SHARE ($)(4)	EXPIRATION DATE	5%($)	10%($)
Chris MacAskill.....	--	--	--	--	--	--
Kim Orumchian.....	--	--	--	--	--	--
Donald P. Alvarez....	300,000	9.5%	$0.06	9/1/07	$11,320	$28,687
Riki M. Tokuno.....	300,000	9.5	0.30	11/9/07	56,601	143,437
Dennis F. Capovilla.....	210,000(5)	6.7	0.06	8/25/07	7,924	20,081

(1) The assumed 5% and 10% rates of stock price appreciation are provided in accordance with rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of the future Common Stock price. Actual gains, if any, on stock option exercises are dependent on the future performance of the Common Stock, overall market conditions and the option holders' continued employment through the vesting period. This table does not take into account any appreciation in the price of the Common Stock from the date of grant to the date of this Prospectus. Unless the market price of the Common Stock appreciates over the option term, no value will be realized from the option grants made to the Named Executive Officers.

(2) Each of the options listed in the table was granted under the Company's 1996 Stock Plan and is immediately exercisable. The shares purchasable thereunder are subject to repurchase by the Company at the original exercise price paid per share upon the optionee's cessation of service prior to vesting in such shares. Except for Mr. Tokuno's option, the repurchase right lapses as to 25% of the option shares upon the completion of 12 months of service and as to the balance in equal monthly installments upon the completion of each of the next 36 months of service. For Mr. Tokuno's option, the repurchase right lapses as to 30,000 option shares on the option grant date, as to an additional 25% of the option shares upon the completion of 12 months of service and as to the balance in equal monthly installments upon the completion of each of the next 36 months of service thereafter. The option shares will fully vest upon an acquisition of the Company by merger or asset sale, unless the Company's repurchase right with respect to the unvested option shares is assigned to the acquiring entity. The plan administrator has the discretionary authority to reprice the options through the cancellation of those options and the grant of replacement options with an exercise price based on the fair market value of the option shares on the regrant date. Each option has a maximum term of 10 years, subject to earlier termination in the event of the optionee's cessation of employment with the Company.

(3) The Company granted options to purchase an aggregate of 3,179,902 shares of Common Stock during the fiscal year ended January 31, 1998.

(4) All options were granted at an exercise price equal to the fair market value of the Company's Common Stock as determined by the Board of Directors of the Company on the date of grant. The exercise price may be paid in cash, check, promissory note, shares of the Company's Common Stock valued at fair market value on the exercise date or a cashless exercise procedure involving a same-day sale of the purchased shares.

(5) Mr. Capovilla received an option grant for 90,000 shares of the Company's Common Stock on February 27, 1998.

Aggregated Option Exercises in Last Fiscal Year and Fiscal 1998 Year-end Option Values

No options were exercised by the Named Executive Officers during the fiscal year ended January 31, 1998. The following table provides the specified information concerning unexercised options held as of January 31, 1998 by the Named Executive Officers. No stock appreciation rights were granted or exercised by the Named Executive Officers during the fiscal year ended January 31, 1998.

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT JANUARY 31, 1998 (#)(1)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT JANUARY 31, 1998 ($)(2)	
NAME	VESTED	UNVESTED	VESTED	UNVESTED
Chris MacAskill	116,420	232,843	$58,443	$116,887
Kim Orumchian	43,575	87,153	21,875	43,751
Donald P. Alvarez	0	300,000	0	147,000

Riki M. Tokuno	30,000	270,000	7,500	67,500
Dennis F. Capovilla	0	210,000	0	102,900

(1) Each of the options listed in the table is immediately exercisable. The shares purchasable thereunder are subject to repurchase by the Company at the original exercise price paid per share upon the optionee's cessation of service prior to vesting in such shares. Except for Mr. Tokuno's option, the repurchase right lapses as to 25% of the option shares upon the completion of 12 months of service and as to the balance in equal monthly installments upon the completion of each of the next 36 months of service. For Mr. Tokuno's option, the repurchase right lapses as to 30,000 option shares on the option grant date, as to 25% of the option shares upon the completion of 12 months of service and as to the balance in equal monthly installments upon the completion of each of the next 36 months of service.

(2) Calculated by subtracting the exercise price from the fair market value of the underlying securities, as determined by the Board of Directors as of January 31, 1998, of $0.55 per share.

Employment Agreements and Change in Control Arrangements

Messrs. MacAskill and Orumchian have each entered into employment agreements with the Company. The employment agreements set forth the base salary and general employee benefits offered to Messrs. MacAskill and Orumchian. The annual base salary for each of Mssrs. MacAskill and Orumchian is currently $110,000. The employment agreements also provide that in the event Mr. MacAskill or Mr. Orumchian is terminated without cause or due to disability, the terminated employee will receive a severance payment equal to six months of salary, payable in equal monthly installments over a six-month period. Each severance payment is payable in full for the initial three-month period following the termination and may be offset by any compensation received by the terminated employee from another employer during the remaining three-month period. Severance payments will cease in the event of death. In addition, the employment agreements amended each of Mr. MacAskill's and Mr. Orumchian's stock purchase agreement with the Company, dated June 12, 1995, such that in the event of a change in control, an additional number of shares subject to each stock purchase agreement will become vested, and such additional shares will be equal to the greater of (i) 50% of the shares then remaining vested or (ii) the number of shares that would have become vested during the 12-month period following the change in control.

Mr. Alvarez has entered into an employment agreement with the Company. The employment agreement sets forth the base salary, bonus potential, stock option grant and general employee benefits offered to Mr. Alvarez. Mr. Alvarez's annual base salary will be $125,000. Mr. Alvarez is guaranteed a bonus of $15,000 in his first year of employment with the Company. Mr. Alvarez was granted an option to purchase 300,000 shares of the Company's Common Stock.

Mr. Cudd has entered into an employment agreement with the Company. The employment agreement sets forth the base salary, bonus potential, stock option grant and general employee benefits offered to Mr. Cudd. Mr. Cudd's annual base salary will be $135,000. Mr. Cudd received a signing bonus of $10,000 and is guaranteed a bonus of $25,000 in his first year of employment with the Company. Mr. Cudd was granted an option to purchase 260,000 shares of the Company's Common Stock.

In the event of a change in control, the vesting of the options granted to Messrs. Alvarez and Cudd will accelerate and an additional number of option shares will become vested that is equal to the greater of: (i) 50% of any unvested option shares; or (ii) a number of shares equal to the number each officer would become vested in had he provided 12 months of additional service following the change in control.

Mr. Tokuno has entered into an employment agreement with the Company. The employment agreement sets forth the base salary, bonus potential and general employee benefits offered to Mr. Tokuno. Mr. Tokuno's annual base salary will be $165,000. In addition, the employment agreement provides for the Company's payment of various relocation expenses, including expenses related to moving and storage, costs associated with the sale of Mr. Tokuno's home and the purchase of a new home and a tax gross-up payment for the Company's payment of these relocation expenses.

The Board of Directors has the authority under the 1998 Omnibus Equity Incentive Plan to accelerate the exercisability of outstanding options, or to accelerate the vesting of the shares of Common Stock subject to outstanding options, held by all optionees, including the Chief Executive Officer and the other Named Officers, in the event of a change in control.

Stock Plans

1998 Omnibus Equity Incentive Plan The Company's 1998 Omnibus Equity Incentive Plan (the "Plan") was adopted by the Board on July 13, 1998, subject to stockholder approval. The Company has reserved (a) 3,000,000 shares plus (b) the aggregate number of shares remaining available for issuance under the 1996 Stock Plan (as of July 13, 1998 approximately 4,693,991 shares, of which 4,394,874 shares are subject to outstanding options) for issuance under the Plan. As of July 13, 1998, no options had been granted under the Plan and 3,299,117 shares are available for option grant. As of February 1 of each year, commencing with the year 2000, the number of shares reserved for issuance under the Plan will be increased automatically by the lesser of 2% of the total number of the then outstanding shares of Common Stock or 1,000,000 shares.

Under the Plan, employees, non-employee members of the Board ("Outside Directors") and consultants may be awarded options to purchase shares of Common Stock, stock appreciation rights ("SARs"), restricted shares and stock units (the "Awards").

If restricted shares or shares of Common Stock issued upon the exercise of options are forfeited, these shares will become available for future issuance under the Plan. If stock units, options or SARs are forfeited or terminate for any other reason prior to exercise, the corresponding shares will again become available for issuance under the Plan. However, if stock units are settled or SARs are exercised,

then the number of shares of Common Stock actually issued in the settlement will reduce the number of shares reserved for issuance under the Plan and any balance will again become available for issuance under the Plan.

The Plan will be administered by the Company's Compensation Committee (the "Committee"). The Committee has the complete discretion to determine which eligible individuals are to receive any award, determine the type, number, vesting requirements and other features and conditions of such award, interpret the Plan and make all other decisions relating to the operation of the Plan. The Committee has the authority to modify, extend or assume outstanding options and SARs or may accept the cancellation of outstanding options and SARs in return for the grant of new options or SARs for the same or a different number of shares and at the same or a different exercise price.

Options may be incentive stock options designed to satisfy section 422 of the Internal Revenue Code or nonstatutory stock options not designed to meet such requirements. Only employees may be granted incentive stock options, and employees and non-employees may receive the remaining types of available Awards. The term of an incentive stock option cannot exceed 10 years (except that the term of an incentive stock option granted to a holder of more than 10% of the Company's stock cannot exceed 5 years). No optionee may receive in a single fiscal year options to purchase more than 100,000 shares of Common Stock. However, a new employee may receive, in the fiscal year in which he or she commences employment, options to purchase up to 300,000 shares of Common Stock.

The exercise price for incentive stock options granted under the Plan will in no event be less than 100% of the fair market value of the Common Stock on the grant date (except that incentive stock options granted to a holder of more than 10% of the Company's stock will have an exercise price of no less than 110% of fair market value on the grant date), and the exercise price for non-statutory stock options will be no less than 85% of the fair market value of the Common Stock on the grant date. The exercise price for options granted under the Plan may be paid in cash or in outstanding shares of Common Stock. Options may also be exercised by using a cashless exercise method, a pledge of shares to a broker or promissory note. The payment for the award of newly issued restricted shares will be made in cash, by promissory note or the rendering of past or future services.

Each Outside Director who first becomes a member of the Board after the date of this offering will receive a one-time option grant for 7,500 shares of Common Stock upon taking office. Upon the conclusion of each regular annual meeting of the Company's stockholders held in the year 1999 and thereafter, each Outside Director who will continue to serve as a Board member will receive an option covering 1,500 shares of Common Stock. The initial 7,500-share option grant will become exercisable for 25% of the shares upon completion of 12 months of service and the balance will become exercisable in equal monthly installments over the next 36 months of service. The annual 1,500-share option grant will become exercisable in full on the first anniversary of the date of grant. All automatic option grants to Outside Directors will be non-statutory stock options with an exercise price equal to 100% of the fair market value of Common Stock on the date of grant. In the event of an Outside Director's termination as a result of death, total and permanent disability or retirement at or after age 65, the options will become fully vested. The Board may decide to implement a program that allows an

Outside Director to elect to receive his or her annual retainer payments and meeting fees, if any, from the Company in the form of cash, options, restricted shares, stock units or a combination thereof. The number and terms of such options, restricted shares or stock units to be granted to Outside Directors in lieu of annual retainers and meeting fees that would otherwise be paid in cash will be calculated in a manner determined by the Board. The Committee may also provide that the non-statutory stock options that otherwise would be granted to an Outside Director will instead be granted to an affiliate of such Outside Director, provided that the service-related vesting and termination provisions pertaining to non-statutory stock options will be applied with regard to the service of the Outside Director.

SARs may be awarded in combination with options and may provide that the SARs will not be exercisable unless the related options are forfeited. No individual may, in a single calendar year, be granted SARs that pertain to more than 100,000 shares of Common Stock. However, SARs granted to a new employee in the fiscal year in which his or her service as an employee with the Company commences may not pertain to more than 300,000 shares of Common Stock.

The Committee may award restricted shares under the Plan. The payment for the award of restricted shares will be made in cash, cash equivalents, promissory note or the rendering of past or future services. To the extent that an award consists of newly issued restricted shares, the recipient must furnish consideration with a value not less than the par value of those restricted shares, in the form as the Committee may determine. An award of restricted shares may be subject to vesting.

The Committee may grant stock units. No cash consideration by the recipients will be required. A stock unit award may carry with it a right to dividend equivalents which entitles the holder to be credited with an amount equal to all cash dividends paid on one share of Common Stock while the stock unit is outstanding. Stock units may be settled in cash, shares of Common stock or a combination of both.

The Committee may determine that, upon an optionee's or participant's death, disability or retirement or a change in control, an award of an option, SAR, stock units or restricted shares will become fully exercisable as to all shares subject to such award. A change in control includes a merger or consolidation of the Company, sale of assets, certain changes in the composition of the Board and acquisition of 50% or more of the combined voting power of the Company's outstanding stock. In the event of a merger or other reorganization, outstanding options, SARs, restricted shares and stock units will be subject to the agreement of merger or reorganization, which may provide for the assumption of outstanding awards by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting and accelerated expiration or for settlement in cash.

The Board may amend or terminate the Plan at any time, and the Plan will continue unless otherwise terminated by the Board. Amendments may be subject to stockholder approval to the extent required by applicable laws.

1998 Employee Stock Purchase Plan The Board adopted the Company's 1998 Employee Stock Purchase Plan (the "Purchase Plan") on July 13, 1998, subject to the approval of the Company's stockholders. A total of 300,000 shares of Common Stock will be reserved for issuance under the

Purchase Plan. On February 1 of each year, beginning with the year 2000, the total number of shares of Common Stock reserved for issuance will automatically increase by the number of shares necessary to cause the number of shares available for issuance to be restored to 300,000.

The Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code, will be implemented by 24-month offering periods, each offering period containing four six-month accumulation periods, with purchases occurring at the end of each six-month accumulation period. A new offering period begins every six months. The first accumulation and offering periods are expected to begin on the effective date of this offering and will end on May 31, 1999 and November 30, 2000, respectively.

The Purchase Plan will be administered by the Committee. Employees will be eligible to participate if their customary employment with the Company is for more than 20 hours per week and for more than 5 months per year. The Purchase Plan permits each eligible employee to purchase Common Stock through payroll deductions, which may not exceed 15% of an employee's compensation, nor more than 500 shares on any purchase date. In addition, the value of the Common Stock (determined at the beginning of the offering period) that may be purchased by any participant in a calendar year is limited to $25,000.

The price of the Common Stock purchased under the Purchase Plan will be 85% of the lower of the fair market value of the Common Stock on the date immediately prior to the first date of the period or the date at the end of the applicable accumulation period. For the initial offering period, the price of the Common Stock purchased under the Purchase Plan will be 85% of the lower of the initial public offering price or the fair market value on the date at the end of the applicable accumulation period. An offering period continues to apply to a participant for the full 24 months, unless the market price of the Common Stock is lower when a subsequent offering period begins. In that event, the subsequent offering period automatically becomes the applicable period for purposes of determining the purchase price.

Employees may end their participation in the Purchase Plan at any time during the accumulation period, and participation ends automatically upon termination of employment with the Company. In the event of a merger or consolidation, each offering period and accumulation period will terminate and each outstanding purchase right will be exercised. The Board may amend or terminate the Purchase Plan at any time. However, the Board may not, without stockholder approval, materially increase the number of shares of Common Stock available for issuance.

Limitation of Liability and Indemnification of Directors and Executive Officers

As permitted by the Delaware General Corporation Law (the "Delaware Law"), the Company's Second Amended and Restated Certificate of Incorporation which, which will become effective upon the closing of this offering, includes a provision that directors of the Company shall not be personally liable for monetary damages to the Company or its stockholders for a breach of fiduciary duty as a

director, except for liability as a result of (i) a breach of the director's duty of loyalty to the Company or its stockholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) an act related to the unlawful stock repurchase or payment of a dividend under Section 174 of the Delaware Law; and (iv) transactions from which the director derived an improper personal benefit. Such limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission.

Upon the closing of this offering, the Company's Second Amended and Restated Certificate of Incorporation will authorize the Company to indemnify its officers, directors and other agents, by bylaws, agreements or otherwise, to the fullest extent permitted under the Delaware Law. Prior to the closing of this offering, the Company will enter into separate indemnification agreements with its directors and officers which are, in some cases, broader than the specific indemnification provisions contained in the Delaware Law. The indemnification agreements will require the Company, among other things, to indemnify such officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers (other than liabilities arising from willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding to which they are a party to or participant in and as to which they could be indemnified, and to obtain directors' and officers' insurance if available on reasonable terms.

As permitted by the Delaware law, the Company's Amended and Restated Bylaws, which will become effective upon the closing of this offering, provide for mandatory indemnification of its directors and permissible indemnification of officers and employees to the maximum extent allowed by the Delaware Law.

At present, there is no pending litigation or proceeding involving a director, officer, employee or agent of the Company where indemnification will be required or permitted. The Company is not aware of any threatened litigation or proceeding which may result in a claim for such indemnification.

Certain Transactions

Since January 1, 1996, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which the Company or any of its subsidiaries was or is to be a party in which the amount involved exceeded or will exceed $60,000 and in which any director, executive officer, holder of more than 5% of the Common Stock of the Company or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest other than (i) compensation agreements and other arrangements, which are described where required in "Management," and (ii) the transactions described below.

In June 1995, the Company sold 3,315,588 shares of Common Stock to Chris MacAskill, the Chief Executive Officer, President and a director of the Company, for an aggregate purchase price of $11,051.96. As payment of the purchase price, Mr. MacAskill transferred the title to certain equipment to the Company and canceled the obligation of the Company to reimburse him for certain expenses. In June 1995, the Company also sold 2,700,000 shares of Common Stock to Kim

Orumchian, the Vice President of Engineering, Secretary and a director of the Company, for an aggregate purchase price of $9,000. As payment of the purchase price, Mr. Orumchian transferred the title to certain equipment to the Company and canceled the obligation of the Company to reimburse him for certain expenses.

The Company has issued, in private placement transactions (collectively, the "Private Placement Transactions"), shares of Preferred Stock as follows: an aggregate of 9,814,800 shares of Series B Preferred Stock at $0.417 per share (including the conversion of shares of Series A Preferred Stock into an aggregate of 619,800 shares of Series B Preferred Stock) in September and December 1996; an aggregate of 4,166,667 shares of Series C Preferred Stock at $0.60 per share in May 1997; an aggregate of 6,904,762 shares of Series D Preferred Stock at $1.05 per share in January 1998; and an aggregate of 3,430,479 shares of Series E Preferred Stock at $1.61 per share in May 1998. Each share of Preferred Stock is convertible into one share of Common Stock and all such shares of Preferred Stock shall be converted into shares of Common Stock upon the closing of this offering.

The following table summarizes the shares of Preferred Stock purchased by Named Executive Officers, directors and 5% stockholders of the Company and persons and entities associated with them in the Private Placement Transactions.

INVESTOR(1)	SERIES B PREFERRED STOCK	SERIES C PREFERRED STOCK	SERIES D PREFERRED STOCK	SERIES E PREFERRED STOCK
APV Technology Partners, L.P. (Peter Bodine) (2)	600,000	256,824	238,095	279,503
Needham Capital Partners II, L.P. (3)	--	--	2,142,858	279,503
Sierra Ventures V, L.P. (Peter Wendell and David Schwab)	6,000,000	2,568,312	1,904,762	279,503
Trinity Ventures V, LP (Tod Francis)(4)	2,400,000	1,027,323	952,381	93,166
Vulcan Ventures Incorporated (Ralph Derrickson)	--	--	--	2,173,193
Chris MacAskill	20,574	8,802	--	874

(1) Shares held by affiliated persons and entities have been aggregated. See "Principal Stockholders."

(2) Includes shares held by APV Technology Partners, L.P., APV Technology Partners II, L.P. and APV Technology Partners U.S., L.P.

(3) Includes shares held by Needham Capital Partners II, L.P., Needham Capital SBIC, L.P. and Needham Capital Partners II (Bermuda), L.P.

(4) Includes shares held by Trinity Ventures, V, LP and Trinity Ventures, Side-By-Side Fund V, LP.

The Company believes that all of the transactions set forth above were made on terms no less favorable to the Company than could have been obtained from unaffiliated third parties. All future transactions, including loans between the Company and its officers, directors, principal stockholders and their affiliates will be approved by a majority of the Board of Directors, including a majority of the independent and disinterested outside directors on the Board of Directors, and will continue to be on terms no less favorable to the Company than could be obtained from unaffiliated third parties.

Principal Stockholders

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of June 30, 1998, and as adjusted to reflect the sale of the Shares offered hereby, (i) by each person or entity who is known by the Company to own beneficially more than 5% of the Company's Common Stock, (ii) by each of the Named Executive Officers and by each of the Company's directors and (iii) by all executive officers and directors of the Company as a group.

NAME AND ADDRESS OF BENEFICIAL OWNERS	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENT OF TOTAL (1)(2) BEFORE THE OFFERING	AFTER THE OFFERING
Sierra Ventures V, L.P. (3) 3000 Sand Hill Road, Building 4, Suite 210 Menlo Park, CA 94025	10,752,577	35.34%	
Entities affiliated with Trinity Ventures V, L.P. (4) 3000 Sand Hill Road, Building 1, Suite 240 Menlo Park, CA 94025	4,472,870	14.70%	
Entities affiliated with Needham Capital Partners II, L.P. (5) 445 Park Avenue, 3rd Floor New York, NY 10022	2,422,361	7.96%	
Vulcan Ventures Incorporated(6) 110 100th Avenue N.E., Suite 550 Bellevue, WA 98004	2,173,913	7.15%	
Chris MacAskill (7)	3,695,101	12.01%	
Kim Orumchian (8)	2,830,728	9.26%	
Donald P. Alvarez (9)	300,000	*	
Riki M. Tokuno (10)	300,000	*	
Dennis F. Capovilla (11)	300,000	*	
Peter G. Bodine (12)	1,374,422	4.52%	
Ralph C. Derrickson (6)	--	--	
Alan S. Fisher (13)	--	--	
Tod H. Francis (4)	4,472,870	14.70%	
David C. Schwab (3)	10,752,577	35.34%	
Peter C. Wendell (3)	10,752,577	35.34%	
All directors and executive officers as a group (12 people)(14)	26,459,611	82.52%	

* Represents beneficial ownership of less than 1% of the outstanding shares of Common Stock.

(1) Percentage ownership is based on 30,435,050 shares outstanding as of June 30, 1998, including 24,316,708 shares of Common Stock issuable upon conversion of all outstanding preferred stock at the closing of this offering. Shares of Common Stock subject to options currently exercisable or exercisable within 60 days of June 30, 1998 are deemed outstanding for purposes of computing the percentage ownership of the person holding such options but are not deemed outstanding for

computing the percentage ownership of any other person. Except pursuant to applicable community property laws or as indicated in the footnotes to this table, each stockholder identified in the table possesses sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by such stockholder. Unless otherwise indicated, the address of each of the individuals listed in the table is c/o Computer Literacy, Inc., 1308 Orleans Drive, Sunnyvale, CA 94089.

(2) Assumes the Underwriters' over-allotment option is not exercised.

(3) David C. Schwab, a director of the Company, is a venture partner of SV Associates V, L.P. Peter C. Wendell, a director of the Company, is a general partner of SV Associates V, L.P. SV Associates V, L.P. is the general partner of Sierra Ventures V, L.P. Each of Messrs. Schwab and Wendell disclaims beneficial ownership of the shares held by Sierra Ventures V, L.P. except to the extent of his pecuniary interest therein.

(4) Includes 4,225,919 shares held by Trinity Ventures V, LP and 246,951 shares held by Trinity Ventures Side-By-Side Fund V, LP. Tod H. Francis, a director of the Company, is a general partner of Trinity Ventures. Mr. Francis disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(5) Includes 1,438,141 shares held by Needham Capital Partners II, L.P., 666,667 shares held by Needham Capital SBIC, L.P. and 317,553 shares held by Needham Capital Partners II (Bermuda), L.P.

(6) Ralph C. Derrickson, a director of the Company, is an affiliate of Vulcan Ventures Incorporated. Mr. Derrickson disclaims beneficial ownership of such shares.

(7) Includes 349,263 shares of Common Stock issuable upon exercise of immediately exercisable options, 196,461 shares of which are subject to the Company's right of repurchase.

(8) Includes 130,728 shares of Common Stock issuable upon exercise of immediately exercisable options, 73,535 shares of which are subject to the Company's right of repurchase.

(9) Represents 300,000 shares of Common Stock issuable upon exercise of immediately exercisable options, 300,000 shares of which are subject to the Company's right of repurchase.

(10) Represents 300,000 shares of Common Stock issuable upon exercise of immediately exercisable options, 270,000 shares of which are subject to the Company's right of repurchase.

(11) Represents 300,000 shares of Common Stock issuable upon exercise of immediately exercisable options, 300,000 shares of which are subject to the Company's right of repurchase.

(12) Includes 931,551 shares held by APV Technology Partners, L.P., 232,885 shares held by APV Technology Partners U.S., L.P. and 209,986 shares held by APV Technology Partners II, L.P. (collectively, the "APV Funds"). Peter G. Bodine is a managing member of APV Management Co., L.L.C., the general partner of the APV Funds. Mr. Bodine disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(13) Excludes 30,000 shares of Common Stock issuable upon exercise of immediately exercisable options granted subsequent to June 30, 1998, all of which are subject to the Company's right of repurchase.

(14) Includes 1,639,991 shares of Common Stock issuable upon exercise of immediately exercisable options, 1,399,996 shares of which are subject to the Company's right of repurchase. Excludes 30,000 shares of Common Stock issuable upon exercise of immediately exercisable options granted subsequent to June 30, 1998, all of which are subject to the Company's right of repurchase.

Description of Capital Stock

Upon the closing of this offering, the authorized capital stock of the Company will consist of 50,000,000 shares of Common Stock, par value $0.001, and 5,000,000 shares of Preferred Stock, par value $0.001.

Prior to the closing of this offering, the Company reincorporated in the State of Delaware and, upon the closing of this offering, the Company intends to amend and restate its Certificate of Incorporation. The following summary of certain provisions of the Common Stock and Preferred Stock does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the forms of the Company's Second Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws to be effective upon the closing of this offering, which are included as exhibits to the Registration Statement of which this Prospectus forms a part, and by the provisions of applicable law.

Common Stock

As of June 30, 1998, there were 30,435,050 shares of Common Stock outstanding that were held of record by 32 stockholders (assuming conversion of all shares of Preferred Stock into shares of Common Stock). There will be shares of Common Stock outstanding (assuming no exercise of the Underwriters' over-allotment option and assuming no exercise after June 30, 1998 of outstanding options) after giving effect to the sale of the shares of Common Stock to the public offered hereby.

The holders of Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding Preferred Stock, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of assets legally available therefor. See "Dividend Policy." In the event of the liquidation, dissolution, or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of Preferred Stock, if any, then outstanding. The Common Stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and nonassessable, and the shares of Common Stock to be issued upon completion of this offering will be fully paid and nonassessable.

Preferred Stock

Upon the closing of this offering, all outstanding shares of Preferred Stock will convert into shares of Common Stock. Thereafter, pursuant to the Company's Second Amended and Restated Certificate of Incorporation, the Board of Directors will have the authority to issue up to 5,000,000 shares of Preferred Stock in one or more series and to fix or alter the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series of Preferred Stock or the designation of such series, without further vote or action by the stockholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of Common Stock. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock, including the loss of voting control to others. At present, the Company has no plans to issue any of the Preferred Stock.

Warrants

As of June 30, 1998, a warrant was outstanding to purchase an aggregate of 62,496 shares of Common Stock (assuming the conversion of all shares of Preferred Stock into shares of Common Stock) at an exercise price of $0.60 per share. Such warrant will expire on May 28, 2002.

ANTI-TAKEOVER EFFECTS OF PROVISIONS OF THE CERTIFICATE OF INCORPORATION, BYLAWS AND DELAWARE LAW The Second Amended and Restated Certificate of Incorporation provides that, effective upon the closing of this offering, all stockholder actions must be effected at a duly called meeting and not by written consent.

This could discourage potential acquisition proposals and could delay or prevent a change in control of the Company. This provision is intended to enhance the likelihood of continuity and stability in the composition of the Board of Directors and in the policies formulated by the Board of Directors and to discourage certain types of transactions that may involve an actual or threatened change of control of the Company. This provision is designed to reduce the vulnerability of the Company to an unsolicited acquisition proposal. The provision is also intended to discourage certain tactics that may be used in proxy fights. However, this provision could have the effect of discouraging others from making tender offers for the Company's shares and, as a consequence, may inhibit fluctuations in the market price of the Company's shares that could result from actual or rumored takeover attempts. This provision also may have the effect of preventing changes in the management of the Company. See "Risk Factors -- Anti-Takeover Effect of Certain Charter Provisions and Delaware Law."

The Company's Second Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws will provide that the Company will indemnify officers and directors against losses that may incur in investigations and legal proceedings resulting from their services to the Company, which may include services in connection with takeover defense measures. Such provisions may have the effect of preventing changes in the management of the Company.

Upon the closing of this offering, the Company will be subject to Section 203 of the Delaware General Corporation Law ("Section 203"), which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the time that such stockholder became an interested stockholder, unless: (i) prior to such time, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (x) by directors who are also officers of the Company and (y) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) at or subsequent to such time, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock not owned by the interested stockholder. Section 203 could prohibit or delay mergers or other takeover or change-in-control attempts with respect to the Company and, accordingly, may discourage attempts to acquire the Company.

Section 203 defines business combination to include: (i) any merger or consolidation involving the corporation and the interested stockholder; (ii) any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder; (iii) subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; (iv) any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or (v) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation. In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person.

Registration Rights

After this offering, the holders of approximately 24,316,708 shares of Common Stock will be entitled to certain rights with respect to the registration of such shares under the Securities Act. Under the terms of an Investors' Rights Agreement between the Company and the holders of such registrable securities, if the Company proposes to register any of its securities under the Securities Act, either for its own account or for the account of other security holders exercising registration rights, such holders are entitled to notice of such registration and are, subject to certain limitations, entitled to include shares of Common Stock therein. Additionally, such holders are also entitled to certain demand registration rights pursuant to which they may require the Company to file a registration statement

under the Securities Act at the Company's expense 52 (other than underwriter's discounts and commissions) with respect to their shares of Common Stock, and the Company is required to use its best efforts to effect such registration. Further, holders may require, subject to certain limitations, the Company to file additional registration statements on Form S-3 at the Company's expense (other than underwriters' discounts and commissions). All of these registration rights are subject to certain conditions and limitations, among them the right of the underwriters of an offering to limit the number of shares included in such registration and the right of the Company not to effect a requested registration within six months following an offering of the Company's securities, including the offering made hereby.

Each stockholder's registration rights expire upon the earlier of three (3) years from the closing of this offering or such time that such stockholder can sell all of his, her or its stock under Rule 144(k).

Transfer Agent and Registrar

The Transfer Agent and Registrar for the Common Stock will be U.S. Stock Transfer Corporation.

Listing

The Company has applied to list its Common Stock on the Nasdaq National Market under the trading symbol "CMPL."

Shares Eligible for Future Sale

Upon completion of this offering and based on the shares outstanding as of June 30, 1998, there will be shares of Common Stock outstanding, assuming no exercise of outstanding options. Of these shares, the shares sold in this offering (assuming no exercise of the underwriters' over-allotment option) will be freely tradeable without restriction or further registration unless purchased by "affiliates" of the Company as that term is defined in Rule 144 under the Securities Act. The remaining shares will be "restricted securities" as that term is defined under Rule 144 (the "Restricted Shares"). Sales of Restricted Shares in the public market, or the availability of such shares for sale, could adversely affect the market price of the Common Stock.

Of the Restricted Shares, an aggregate of 27,004,573 shares of Common Stock will be eligible for sale in the public market subject to Rule 144 and Rule 701 under the Securities Act after expiration of a contractual lock-up beginning 180 days after the date of the Prospectus, unless earlier released, in whole or in part, by NationsBanc Montgomery Securities LLC and thereafter an additional 3,394,143 shares will be eligible for sale pursuant to Rule 144 upon the expiration of one-year holding periods on May 22, 1999.

In general, under Rule 144, beginning 90 days after the date of this Prospectus, a person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least one year, including persons who may be deemed to be "affiliates" of the Company, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of: (i) one percent of the number of shares of Common Stock then outstanding (which will equal approximately shares immediately after this offering); or (ii) the average weekly trading volume of the Common Stock as reported through the Nasdaq National Market during the four calendar weeks preceding the filing of a Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about the Company. Under Rule 144(k), a person who is not deemed to have been an affiliate of the Company at any time during the 90 days preceding a sale, and who has beneficially owned the Restricted Shares proposed to be sold for at least two years (including the holding period of any prior owner except an affiliate), is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, shares eligible for sale under Rule 144(k) may be sold immediately upon completion of this offering.

Rule 701 permits resales of shares issued pursuant to certain compensatory benefit plans and contracts and prior to the date the issuer becomes subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), subject to certain limitations on the aggregate offering price of a transaction and certain other conditions, commencing 90 days after the issuer becomes subject to the reporting requirements of the Exchange Act, in reliance upon Rule 144, but without compliance with certain restrictions, including the holding period requirements, contained in Rule 144. In addition, the Securities and Exchange Commission 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 Exchange Act, 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 lock-up restrictions described above, beginning 90 days after the date of this Prospectus, may be sold by persons other than affiliates 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.

The Company has agreed that it will not sell, offer, contract for or grant any options to purchase or otherwise dispose of any shares of its Common Stock or securities convertible into or exchangeable for its Common Stock, except with respect to options or other rights outstanding on the date of this Prospectus or pursuant to the Company's stock plans described in this Prospectus, for a period of 180 days after the date of the Prospectus without the prior written consent of NationsBanc Montgomery Securities LLC.

The Company intends to register on a Form S-8 registration statement under the Securities Act, during the 180-day lockup period, the resale of 7,993,991 shares of Common Stock issuable upon exercise of outstanding options or reserved for issuance under the 1996 Stock Plan, the 1998 Omnibus Equity

Incentive Plan and the 1998 Employee Stock Purchase Plan. See "Management -- Stock Plans." Such registration will 54 permit the resale of shares so registered by non-affiliates in the public market without restriction under the Securities Act, subject to vesting restrictions or contractual lock-ups.

Upon completion of this offering, the holders of 24,316,708 shares of Common Stock will be entitled to certain registration rights with respect to such shares. See "Description of Capital Stock -- Registration Rights." Registration of such shares would result in such shares becoming freely tradeable without restriction under the Securities Act (except for share purchases by affiliates) immediately upon the effectiveness of such registration.

Underwriting

The Underwriters named below (the "Underwriters"), represented by NationsBanc Montgomery Securities LLC, Piper Jaffray Inc. and Needham & Company, Inc. (the "Representatives"), have severally agreed, subject to the terms and conditions set forth in the Underwriting Agreement, to purchase from the Company the number of shares of Common Stock indicated below opposite their respective names at the initial public offering price less the underwriting discount set forth on the cover page of this Prospectus. The Underwriting Agreement provides that the obligations of the Underwriters to pay for and accept delivery of the shares of Common Stock are subject to certain conditions precedent, and that the Underwriters are committed to purchase all of such shares, if any are purchased.

Number Underwriters of Shares

NationsBanc Montgomery Securities LLC..... Piper Jaffray Inc.....
Needham & Company, Inc.....

Total.....

The Representatives have advised the Company that the Underwriters initially propose to offer the shares of Common Stock to the public on the terms set forth on the cover page of this Prospectus. The Underwriters may allow to selected dealers a concession of not more than $[ ] per share, and the Underwriters may allow, and such dealers may reallow, a concession of not more than $[ ] per share to certain other dealers. After this offering, the offering price and concessions and reallowances to dealers may be changed by the Representatives. The Common Stock is offered subject to receipt and acceptance by the Underwriters and to certain other conditions, including the right to reject orders in whole or in part.

The Company has granted an option to the Underwriters, exercisable during the 30-day period after the date of this Prospectus, to purchase up to a maximum of additional shares of Common Stock to cover over-allotments, if any, at the same price per share as the initial shares to be purchased by the Underwriters. To the extent that the Underwriters exercise this option, each of the Underwriters will

be committed, subject to certain conditions, to purchase such additional shares in approximately the same proportion as set forth in the above table. The Underwriters may purchase such shares only to cover over-allotments made in connection with this offering.

The directors, officers and certain stockholders and option holders of the Company, holding in the aggregate 31,985,082 shares of Common Stock after this offering, have agreed that, subject to certain exceptions, for a period of 180 days after the date of this Prospectus, they will not, without the prior written consent of NationsBanc Montgomery Securities LLC, directly or indirectly sell, offer to sell or otherwise dispose of any such shares of Common Stock or any right to acquire such shares. In addition, the Company has agreed that, for a period of 180 days after the date of this Prospectus, it will not, without the prior written consent of NationsBanc Montgomery Securities LLC, issue, offer, sell, grant options to purchase or otherwise dispose of any of the Company's equity securities or any other securities convertible into or exercisable or exchangeable for the Common Stock or other equity security, other than the grant of options to purchase Common Stock or the issuance of shares of Common Stock under the Company's stock option and stock purchase plans and the issuance of shares of Common Stock pursuant to the exercise of outstanding options and warrants.

In January 1998, Needham Capital Partners II, L.P., Needham Capital SBIC, L.P. and Needham Capital Partners II (Bermuda), L.P., entities affiliated with Needham & Company, Inc., purchased an aggregate of 2,142,858 shares of the Company's Series D Preferred Stock for an aggregate purchase price of $2,250,000.90. In May 1998, Needham Capital Partners II, L.P and Needham Capital Partners II (Bermuda), L.P., entities affiliated with Needham & Company, Inc., purchased an aggregate of 279,503 shares of the Company's Series E Preferred Stock for an aggregate purchase price of $449,999.83. Such shares of Series D Preferred Stock and Series E Preferred Stock held by the entities affiliated with Needham & Company, Inc. will convert into 2,422,361 shares of Common Stock upon the closing of this offering. In addition, an individual affiliated with NationsBanc Montgomery Securities LLC purchased 95,238 shares of Series D Preferred Stock and 15,527 shares of Series E Preferred Stock in January 1998 and May 1998, respectively, for aggregate purchase prices of $99,999.90 and $24,998.47, respectively. Such shares of Series D Preferred Stock and Series E Preferred Stock held by the individual affiliated with NationsBanc Montgomery Securities LLC will convert into 110,765 shares of Common Stock upon the closing of this offering.

The Underwriting Agreement provides that the Company will indemnify the several Underwriters against certain liabilities, including civil liabilities under the Securities Act, or will contribute to payments the Underwriters may be required to make in respect thereof.

Prior to this offering, there has been no public market for the Common Stock. Consequently, the initial public offering price will be determined by negotiations between the Company and the Representatives. Among the factors to be considered in such negotiations will be the history of, and the prospects for, the Company and the industry in which it competes, an assessment of the Company's management, the Company's past and present operations, its past and present financial performance, the prospects for future earnings of the Company, the present state of the Company's development, the

general condition of the securities markets at the time of the offering and the market prices of and demand for publicly traded common stock of comparable companies in recent periods and other factors deemed relevant.

Certain persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of the Common Stock offered hereby. Such transactions may include stabilizing, the purchase of Common Stock to cover syndicate short positions and the imposition of penalty bids. A stabilizing bid means the placing of any bid or the effecting of any purchase for the purpose of pegging, fixing or maintaining the price of the Common Stock. A syndicate covering transaction means the placing of any bid on behalf of the underwriting syndicate or the effecting of any purchase to reduce a short position created in connection with the offering. A penalty bid means an arrangement that permits the Underwriters to reclaim a selling concession from a syndicate member in connection with the offering when shares of Common Stock sold by the syndicate member are purchased in syndicate covering transactions. Such transactions may stabilize or maintain the market price of the Common Stock at a level above that which otherwise might prevail in the open market and, if commenced, may be discontinued at any time.

The Representatives have informed the Company that the Underwriters do not expect to make sales in excess of 5% of the number of shares of Common Stock offered hereby to accounts over which they exercise discretionary authority.

Legal Matters

The validity of the Shares offered hereby and general corporate legal matters will be passed upon for the Company by Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP, Menlo Park, California. As of June 30, 1998, an investment partnership comprised of members of that firm beneficially owned 140,442 shares of the Company's Preferred Stock. Certain legal matters relating to the sale of the shares of Common Stock in this offering will be passed upon for the Underwriters by Brobeck, Phleger & Harrison LLP, San Francisco, California.

Experts

The consolidated financial statements of Computer Literacy, Inc. as of January 31, 1998, and for each of the two years in the period ended January 31, 1998, and the financial statements of Computer Literacy Bookshops, Inc. for the eleven months ended May 31, 1997 and the year ended June 30, 1996 included in this Prospectus and the Registration Statement have been audited by Deloitte & Touche, LLP, independent auditors, as stated in their reports appearing herein, and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

Additional Information

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement (which term shall include any amendments thereto) on Form SB-2 under the Securities Act with respect to the Common Stock offered hereby. This Prospectus, which constitutes a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement, certain items of which are contained in exhibits to the Registration Statement as permitted by the rules and regulations of the Commission. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement, including the exhibits thereto, and the Financial Statements and related Notes filed as a part thereof. Statements made in this Prospectus concerning the contents of any document referred to herein are not necessarily complete. With respect to each such document filed with the Commission as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description of the matter involved.

As a result of this offering, the Company will become subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended. As long as the Company is subject to such periodic reporting and informational requirements, it will file with the Commission all reports, proxy statements and other information required thereby. The Registration Statement, as well as such reports and other information filed by the Company with the Commission, may be inspected at the public reference facilities maintained by the Commission at its principal office located at 450 Fifth Street, N.W., Washington, D.C. 20549 and at its regional offices located at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 7 World Trade Center, 13th Floor New York, New York 10048. Copies of such material may be obtained by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Commission maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. The address of the site is http://www.sec.gov.

Computer Literacy, Inc. and Subsidiary

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January 31, 1997 and 1998 and the three months ended April 30, 1998 (unaudited)..... F-5 Consolidated Statements of Cash Flows for the years ended January 31, 1997 and 1998 and the three months ended April 30, 1997 and 1998 (unaudited)..... F-6 Notes to Consolidated Financial Statements..... F-7 PRO FORMA INFORMATION (UNAUDITED) Introduction to Pro Forma Combined Condensed Financial Information (unaudited)..... F-16 Pro Forma Combined Condensed Statement of Income for the year ended January 31, 1998 (unaudited)..... F-17 Notes to Pro Forma Combined Condensed Statement of Income for the year ended January 31, 1998 (unaudited)..... F-18 COMPUTER LITERACY BOOKSHOPS, INC. Independent Auditors' Report..... F-19 Statements of Income for the year ended June 30, 1996 and the eleven months ended May 31, 1997..... F-20 Statements of Stockholders' Equity for the year ended June 30, 1996 and the eleven months ended May 31, 1997..... F-21 Statements of Cash Flows for the year ended June 30, 1996 and the eleven months ended May 31, 1997..... F-22 Notes to Financial Statements..... F-23

Independent Auditors' Report

To the Board of Directors and Stockholders of Computer Literacy, Inc. Sunnyvale, California We have audited the accompanying consolidated balance sheet of Computer Literacy, Inc. and subsidiary (the "Company") as of January 31, 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 31, 1998, and the results of its operations and its cash flows for each of the two years in the period then ended in conformity with generally accepted accounting principles.

Deloitte & Touche Llp

San Jose, California July 10, 1998

Computer Literacy, Inc.

Consolidated Balance Sheets (In Thousands)

Assets

	JANUARY 31, 1998	APRIL 30, 1998 (UNAUDITED)	PRO FORMA APRIL 30, 1998
Current assets:			
Cash and equivalents	$ 4,974	$ 2,134	
Accounts receivable, net of allowance of $67	153	546	
Inventories	3,683	3,357	
Prepaid expenses and other current assets	440	389	
Total current assets	9,250	6,426	
Property and equipment, net	1,182	1,370	
Goodwill, net	2,962	2,929	
Other assets	204	173	
Total assets	$13,598	$10,898	
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 2,518	$ 1,471	
Accrued expenses	1,084	1,076	
Current portion of capital lease obligations	18	18	
Total current liabilities	3,620	2,565	
Capital lease obligations	53	49	
Total liabilities	3,673	2,614	
Stockholders' equity:			
Preferred stock, no par value, 22,000 shares authorized, 20,886 shares issued and outstanding at January 31, 1998 and April 30, 1998, none; (aggregate liquidation preference of $13,843 at January 31, 1998 and April 30, 1998; pro forma outstanding, none)	13,744	13,769	$ --
Common stock, no par value, 35,000 shares authorized, 6,108 shares issued and outstanding at January 31, 1998 and April 30, 1998; pro forma issued and outstanding 26,994 shares	27	32	13,801
Warrants	12	12	12
Accumulated deficit	(3,858)	(5,529)	(5,529)
Total stockholders' equity	9,925	8,284	$ 8,284
Total liabilities and stockholders' equity	$13,598	$10,898	

See notes to consolidated financial statements. F-3

Computer Literacy, Inc.

Consolidated Statements of Operations (In Thousands, Except Per Share Data)

	YEAR ENDED JANUARY 31,		THREE MONTHS ENDED APRIL 30,	
	1997	1998	1997	1998
			(UNAUDITED)	
Revenues:				
Online	$ 180	$ 3,021	$ 176	$ 1,761
Retail and other	--	7,927	71	2,633
Total revenues	180	10,948	247	4,394
Cost of revenues:				
Online	150	2,189	115	1,326
Retail and other	--	5,216	53	1,688
Total cost of revenues	150	7,405	168	3,014
Gross profit	30	3,543	79	1,380
Operating expenses:				
Sales and marketing	130	4,192	272	1,986
Development and engineering	110	860	76	554
General and administrative	412	1,674	123	543
Total operating expenses	652	6,726	471	3,083
Loss from operations	(622)	(3,183)	(392)	(1,703)
Interest, net	55	(7)	31	32
Net loss	$ (567)	$ (3,190)	$ (361)	$ (1,671)
Basic and diluted net loss per share	$ (0.09)	$ (0.53)	$ (.06)	$ (0.27)
Shares used in calculating basic and diluted net loss per share	6,016	6,035	6,016	6,108

See notes to consolidated financial statements. F-4

Computer Literacy, Inc.

Consolidated Statements of Stockholders' Equity (In Thousands)

	COMMON STOCK		PREFERRED SERIES A		PREFERRED SERIES B		PREFERRED SERIES C		PREFERRED SERIES D		
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	WARRANTS
Balances, February 1, 1996	6,016	$20	470	$133							
Repayment of stockholder note receivable											
125											
Issuance of Preferred Series B (net of issuance costs of $9)					9,120	$3,791					
Conversion of Preferred Series A into Preferred Series B			(470)	(258)	620	258					
Net loss											
Balances, January 31, 1997	6,016	20	--	--	9,740	4,049					
Issuance of Preferred Series B					75	31					
Issuance of Preferred Series C (net of issuance costs of $5)							4,166	$2,495			
Issuance of Preferred Series D (net of issuance costs of $56)									6,905	$7,194	
Issuance of stockholder note receivable											
(25)											
Exercise of stock options											
92	4										
Options granted to											

consultants..... 3 Warrants granted to creditor..... $12 Net loss..... Balances, January 31, 1998..... 6,108 27 -- -- 9,815 4,080 4,166 2,495 6,905 7,169 12 Repayment of stockholder note receivable (unaudited)..... 25 Options granted to consultants (unaudited)..... 5 Net loss (unaudited)..... Balances, April 30, 1998 (unaudited)..... 6,108 $32 -- $ -- 9,815 $4,080 4,166 $2,495 6,905 $7,194 $12

	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
Balances, February 1, 1996.....	$ (101)	$ 52
Repayment of stockholder note receivable.....		125
Issuance of Preferred Series B (net of issuance costs of $9)...		3,791
Conversion of Preferred Series A into Preferred Series B.....		--
Net loss.....	(567)	(567)
Balances, January 31, 1997.....	(668)	3,401
Issuance of Preferred Series B.....		31
Issuance of Preferred Series C (net of issuance costs of $5)...		2,495
Issuance of Preferred Series D (net of issuance costs of $56).....		7,194
Issuance of stockholder note receivable.....		(25)
Exercise of stock options.....		4
Options granted to consultants.....		3
Warrants granted to creditor.....		12
Net loss.....	(3,190)	(3,190)
Balances, January 31, 1998.....	(3,858)	9,925
Repayment of stockholder note receivable (unaudited).....		25
Options granted to consultants (unaudited).....		5
Net loss (unaudited).....	(1,671)	(1,671)
Balances, April 30, 1998 (unaudited).....	$(5,529)	$ 8,284

See notes to consolidated financial statements. F-5

Computer Literacy, Inc.

Consolidated Statements of Cash Flows (In Thousands)

	YEAR ENDED JANUARY 31,		THREE MONTHS ENDED APRIL 30,	
	1997	1998	1997	1998
			(UNAUDITED)	
Cash flows from operating activities:				
Net loss.....	$ (567)	$(3,190)	$ (361)	$(1,671)
Adjustments to reconcile net loss to net cash used in operations:				
Depreciation & amortization.....	13	297	11	107
Options and warrants granted to consultants and creditor.....	--	15	1	5
Changes in operating assets and liabilities:				
Accounts receivable.....	--	(35)	(2)	(393)
Inventories.....	(96)	(1,145)	(207)	326
Prepaid expenses and other assets.....	(18)	(173)	9	63
Accounts payable.....	89	1,680	46	(1,047)
Accrued expenses.....	5	(117)	(21)	(8)
Net cash used in operations.....	(574)	(2,668)	(524)	(2,618)
Cash flows from investing activities:				
Purchase of property and equipment.....	(140)	(941)	(43)	(243)
Acquisition of CLBI, net of cash acquired.....	--	(4,334)	--	--
Net cash used in investing activities.....	(140)	(5,275)	(43)	(243)

Cash flows from financing activities:				
Repayment of capital lease obligation	(2)	(10)	(2)	(4)
Issuance of preferred stock, net	3,916	9,695	9	25
Exercise of stock options, net	--	4	--	--
Net cash provided by financing activities	3,914	9,689	7	21
Net increase/(decrease) in cash and equivalents	3,200	1,746	(560)	(2,840)
Cash and equivalents at beginning of period	28	3,228	3,228	4,974
Cash and equivalents at end of period	$3,228	$ 4,974	$2,668	$ 2,134
Non-cash investing and financing activities:				
Equipment acquired through capital lease transactions	$ 42	$ 42	$ --	$ --
Sale of preferred stock for note receivable	$ --	$ 25	$ --	$ --
Cash paid to acquire CLBI, net of cash acquired:				
Assets acquired		$ 2,926		
Liabilities assumed		(1,897)		
Excess of purchase price over net assets acquired		3,095		
Covenant not to compete		210		
Cash paid to acquire CLBI, net of cash acquired		$ 4,334		
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 1	$ 74	$ --	$ 2

See notes to consolidated financial statements. F-6

Computer Literacy, Inc.

Notes to Consolidated Financial Statements

1. Business and Significant Accounting Policies

Description of Business and Basis of Presentation Computer Literacy, Inc., formerly CBooks Express, Inc., was incorporated in California in November 1994 and reincorporated in Delaware in July 1998. The Company is an online retailer of technical books, technology based training solutions, product manuals, research reports and other information resources, all of which are targeted to information technology professionals. Business is transacted through the Company's online store or through one of its four physical retail locations.

On May 31, 1997, the Company acquired Computer Literacy Bookshops, Inc. ("CLBI") (see Note 2). The acquisition was accounted for as a purchase. The accompanying financial statements include the operations of CLBI from the date of acquisition.

The Company's fiscal year ends on January 31. The accompanying financial statements include the years ended January 31, 1997 ("fiscal 1997") and January 31, 1998 ("fiscal 1998").

Principles of Consolidation The consolidated financial statements include the accounts of Computer Literacy, Inc. and its wholly owned subsidiary, CLBI. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Cash Equivalents

Cash equivalents are highly liquid debt instruments acquired with an original maturity of three months or less. The recorded carrying amounts of the Company's cash equivalents approximate the fair market value.

Concentration of Credit Risk Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and receivables. Risks associated with cash equivalents are mitigated by banking with credit worthy institutions. Risks associated with receivables are mitigated as the Company performs on-going credit evaluations of its customers and requires deposits for sales on credit when deemed necessary. The Company maintains reserves for estimated credit losses. The carrying value of accounts receivable approximate fair value due to their short-term maturity. No one customer accounted for more than 10% of accounts receivable at January 31, 1998.

Inventories

Inventories are valued at the lower of average cost (first in, first out method) or market. The Company's largest vendor accounted for approximately 30% of the Company's book purchases in fiscal 1998.

Property and Equipment Property and equipment is recorded at cost less accumulated depreciation and amortization. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of three to five years. Leasehold improvements are amortized on a straight-line basis over the lesser of the lease term or the estimated useful life.

Long-lived Assets

Goodwill arising from the acquisition of Computer Literacy Bookshops, Inc. is amortized over its estimated life of 15 years. Accumulated amortization was approximately $133,000 at January 31, 1998. The

Company evaluates the recoverability of its long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. No such impairments have been identified to date. The Company assesses the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

Revenue Recognition

The Company recognizes revenue from product sales, net of any discounts, when the products are shipped to customers. Outbound shipping charges are included in net sales. International sales, measured as shipments to addresses outside the United States, were $60,000 for the year ended January 31, 1997. For the year ended January 31, 1998, international sales were less than 10% of total revenues. No foreign country or geographical area accounted for more than 10% of revenue in any of the periods presented.

Advertising Costs

The cost of advertising is expensed as incurred. For the years ended January 31, 1997 and 1998, the Company incurred advertising expense of $45,000 and $920,000, respectively, and $55,000 and $586,000 for the three month periods ended April 30, 1997 and 1998, respectively.

Product Development

Product development expenses primarily consist of costs associated with systems and telecommunications infrastructure, editorial operations and content acquisition. All product development costs have been expensed as incurred.

Income Taxes

Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes," an approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial and tax reporting. In estimating future tax consequences, management generally considers all expected future events other than enactments of changes in the tax laws or rates. Under the provisions of SFAS No. 109, a valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets recorded will not be recognized.

Stock-Based Compensation Stock-based compensation is recognized under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations, using the intrinsic value method. Therefore, the Company measures compensation cost for stock options as the difference, if any, between the quoted market price of the Company's stock, at the date of grant, and the price the employee must pay to acquire the stock under its stock option plans. SFAS No. 123 "Accounting for Stock-Based Compensation," establishes financial accounting and reporting standards for stock-based compensation plans. The accounting standards prescribed are optional, although certain proforma disclosures are required, and allows for a company to account for stock-based compensation cost under existing accounting rules. Therefore, the Company will continue to account for its compensation costs under APB No. 25. The Company adopted the disclosure requirements of SFAS No. 123.

Net Loss Per Share

Net loss per share is computed based on the weighted average number of common shares outstanding. During the fourth quarter of 1998, the Company adopted SFAS No. 128, Earning per Share and, retroactively, restated the 1997 earnings per share (EPS) for the change. SFAS No. 128 requires a dual presentation of basic and diluted EPS. Basic EPS for all periods presented is computed by dividing net loss by the weighted average of common shares outstanding. Diluted EPS for all periods presented was the same as basic EPS since the effect of all other potential dilutive securities are excluded as they are anti-dilutive because of the Company's net losses.

Recently Issued Accounting Standards In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130 "Reporting Comprehensive Income," which requires that an entity report, by major components and as a single total, the change in its net assets during the period from non-shareholder sources; and SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information," which establishes annual and interim reporting standards for an entity's business segments and related disclosures about its products, services, geographic areas, and major customers. Adoption of these statements will not impact the Company's financial position, results of operations or cash flows. Both statements are effective for fiscal years beginning after December 15, 1997, with earlier application permitted.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which defines derivatives, requires that all derivatives be carried at fair value, and provides for hedging accounting when certain conditions are met. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Although the Company has not fully assessed the implications of this new statement, the Company does not believe adoption of this statement will have a material impact on the Company's financial statements.

The Company adopted SFAS No. 130 in fiscal 1999. For the periods presented, net loss and comprehensive loss were the same.

Use of Estimates

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

Unaudited Interim Financial Information The financial information as of April 30, 1998 and for the three months ended April 30, 1997 and 1998 is unaudited, and includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial position at such dates and the operations and cash flows for the periods then ended. Operating results for the three months ended April 30, 1997 and 1998 are not necessarily indicative of results that may be expected for the entire year.

2. Acquisition

On May 31, 1997, the Company completed the acquisition of all of the outstanding capital stock of Computer Literacy Bookshops, Inc., a retailer of computer books, with four stores located in California and Virginia. The purchase price was approximately $5.1 million. The acquisition was accounted for using the purchase method of accounting and accordingly, the assets acquired and liabilities assumed were recorded at F-9

their estimated fair values as of the date of acquisition. The principal assets acquired and liabilities assumed were cash ($759,000), inventory ($2.4 million), prepaid expenses and other current assets ($272,000), covenant not to compete ($210,000), property and equipment ($142,000), accounts receivable ($119,000), and accounts payable and accrued expenses ($1.9 million). The excess of the purchase price over the net identifiable assets acquired of $3.1 million is being amortized over a 15 year period on a straight-line basis.

The following unaudited pro forma statements of operations summary combines the results of operations of the Company and Computer Literacy Bookshops, Inc. as if the acquisition had occurred at the beginning of fiscal 1997. The pro forma statements of operations summary does not necessarily reflect the results as they would have been if these combined companies had constituted a single entity during these periods.

Pro Forma Statements of Operations Summary

	FISCAL 1997	FISCAL 1998
	(UNAUDITED) (IN THOUSANDS EXCEPT PER SHARE DATA)	
Net sales	$15,172	$15,886
Gross profit	5,236	5,238
Net income (loss)	$ 138	$(3,050)

Net income (loss) per share	$ 0.02	$ (0.51)
Shares used to compute per share information	6,016	6,035

3. Property and Equipment

Property and equipment, at cost, consists of the following:

	JANUARY 31, 1998	APRIL 30, 1998 (UNAUDITED)
	(IN THOUSANDS)	
Computer and office equipment	$ 901	$1,020
Software	574	690
Leasehold improvements	252	255
Furniture and fixtures	158	163
	1,885	2,128
Less accumulated depreciation and amortization	(703)	(758)
Property and equipment, net	$1,182	$1,370

4. Accrued Expenses

Accrued expenses consist of the following:

	JANUARY 31, 1998	APRIL 30, 1998 (UNAUDITED)
	(IN THOUSANDS)	
Accrued compensation and related benefits	$ 420	$ 468
Accrued sales tax payable	306	184
Store and mail order credits	158	248
Other accrued expenses	200	176
Total	$1,084	$1,076

5. Line of Credit

During fiscal 1997, the Company entered into a loan and security agreement, under which the Company may borrow up to $2 million. In January 1998, the line of credit was increased to $3 million. This line of credit expires in August 1998. Borrowings under the agreement bear interest at one-half of a percent (0.5%) above the bank's prime rate (8.5% at January 31, 1998 and April 30, 1998) and are collateralized by substantially all of the Company's assets including certain intellectual property. The line of credit also contains restrictive covenants, including restriction on payment of dividends, a maximum debt to tangible effective net worth ratios minimum cash requirements and limitations on

losses. There were no borrowings under this agreement at January 31, 1998. At January 31, 1998 and April 30, 1998, the Company was out of compliance with certain of its reporting requirements and received waivers concerning such non-compliance as of those dates.

During fiscal 1998, in connection with the Company's bank line of credit agreement, the Company issued warrants to the bank to purchase up to 83,328 shares of the Company's Series C Preferred Stock at a price of $0.60 per share (62,469 shares were exercisable at January 31, 1998). The Company recorded expense of approximately $12,000 related to the warrants. These warrants expire in May 2002.

6. Stockholders' Equity

Preferred Stock

At January 31, 1998, the amounts, terms and liquidation values of Series B, Series C, and Series D preferred stock are as follows (in thousands):

SERIES	DESIGNATED	SHARES ISSUED AND OUTSTANDING	AMOUNT, NET OF ISSUANCE COSTS	SHARES OF COMMON STOCK RESERVED FOR CONVERSION	AGGREGATE LIQUIDATION PREFERENCE
B..	9,815	9,815	$ 4,080	9,815	$ 4,093
C..	4,166	4,166	2,495	4,166	2,500
D..	7,500	6,905	7,169	6,905	7,250
	21,481	20,886	$13,744	20,886	$13,843

Significant terms of the outstanding preferred stock are as follows:

- Each share of preferred stock is convertible into shares of common stock on a one to one basis, subject to adjustment in certain instances, at the option of the stockholder. Such shares will be converted automatically following the effectiveness of a registration statement under the Securities Act of 1933, as amended, meeting certain criteria or the affirmative vote of the holders of a majority of the shares of preferred stock outstanding at the time of such vote.

- Each share of preferred stock has voting rights equivalent to the number of shares of common stock into which it is convertible.

- Stockholders are entitled to receive noncumulative dividends when and if declared by the Board of Directors out of any assets legally available, prior to and in preference to any declaration or payment of any dividend on the common stock. The dividend rate for Series B, Series C and Series D per share per annum is $0.022, $0.03, and $0.05, respectively. No dividends have been declared as of April 30, 1998.

- In the event of liquidation, dissolution or winding up of the Company, stockholders of Series B, Series C and Series D preferred stock are entitled to receive the original issue price ($0.417, $0.60, and $1.05, respectively), plus any declared and unpaid dividends with respect to such shares. If the assets and funds to be distributed are insufficient to permit full payment, then the funds shall be distributed on a pro rata basis. Upon completion of the distribution, the holders of the common stock will receive all remaining assets of the corporation.

Common Stock

At January 31, 1998, the Company had 35,000,000 shares of Common Stock authorized of which 6,108,342 were issued and outstanding. At January 31, 1998, the Company had reserved shares of common stock for issuance as follows:

(In Thousands)

Issuance under stock option plans	4,863
Conversion of warrants	83
Conversion of convertible preferred stock	20,886
Total shares reserved	25,832

Stock Option Plan

Under the 1996 Stock Plan, which provides for the issuance of incentive and non-qualified stock options, the Company may grant options to purchase up to 4,862,745 shares of common stock to employees, directors and consultants at prices not less than the fair market value at date of grant for incentive stock options and not less than 85% of fair value for nonstatutory stock options. These options generally vest ratably over a 4-year period and expire 10 years from the date of grant. Shares issued upon exercise of options that are unvested are subject to repurchase by the Company upon termination of employment or services. There were no shares issued under the 1996 Stock Plan and outstanding at January 31, 1998 that were subject to repurchase.

Option activity under the 1996 Stock Plan is as follows (in thousands, except per share amounts):

	NUMBER OF SHARES (000'S)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, February 1, 1996	--	--
Options granted (weighted average fair value of $.007 per share)	1,107	$0.043
Outstanding, January 31, 1997 (309 exercisable at a weighted average price of $0.043)	1,107	0.043
Options granted (weighted average fair value of $0.023 per share)	3,180	0.142
Options exercised	(93)	(0.043)
Options canceled	(730)	(0.064)
Outstanding, January 31, 1998 (609 exercisable at a weighted average price of $0.064)	3,464	$0.129

At January 31, 1998 there were 1,305,841 shares available for future grant under the 1996 Stock Plan.

Additional information regarding options outstanding as of January 31, 1998 is as follows (in thousands, except per share amounts):

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	WEIGHTED AVERAGE			

RANGE OF EXERCISE PRICE	NUMBER OF SHARES	REMAINING CONTRACTUAL LIFE (YRS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
		(SHARES IN THOUSANDS)			
$0.043	1,350	8.9	$0.043	392	$0.043
$0.060	1,277	9.5	$0.060	179	$0.060
$0.180-$0.300	514	9.8	$0.270	33	$0.262
$0.500-$0.550	323	10.0	$0.541	5	$0.528
$0.043-$0.550	3,464	9.4	$0.129	609	$0.064

Additional Stock Plan Information As discussed in Note 1, the Company continues to account for its stock-based awards using the intrinsic value method in accordance with APB No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, no compensation expense has been recognized in the financial statements for employee stock arrangements granted at fair value.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), requires the disclosure of pro forma net loss and net loss per share had the Company adopted the fair value method as of the beginning of fiscal 1997. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of the minimum value method, and subsequently through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and the expected time to exercise, which significantly affect the calculated values. The Company's calculations were made using the minimum value option pricing model with the following weighted assumptions average expected life, 48 months following the grant; risk-free interest rate of 5.5% for 1997 and 1998; and no dividends during the expected term. The Company's calculations are based on a multiple option valuation approach and forfeitures are recognized as they occur. If the computed fair values of the 1997 and 1998 awards had been amortized to expense over the vesting period of the awards, pro forma net loss would have been $575,000 ($0.10 per share) and $3.3 million ($0.55 per share) in 1997 and 1998, respectively. However, the impact of outstanding non-vested stock options granted prior to 1997 has been excluded from the pro forma calculation; accordingly the 1997 and 1998 pro forma adjustments are not indicative of future period pro forma adjustments, when the calculation will apply to all applicable stock options.

During fiscal 1998 and the three months ended April 30, 1998, the Company granted 117,221 and 34,607 options to consultants at exercise prices ranging from $0.043 to $0.55 per share, and recorded expense of approximately $3,000 and $5,000, respectively.

7. Income Taxes

The Company's deferred tax balances at January 31, 1997 and 1998 consist of the following:

1997 1998 (In Thousands)

Net operating loss carryforwards	$ 238	$ 1,043
Expenses not currently deductible	--	246
Other	(12)	129
	226	1,418
Valuation allowance	(226)	(1,418)
Net deferred tax asset	$ --	$ --

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The Company has established a valuation allowance of $226,000 and $1,418,000 as of January 31, 1997 and 1998, respectively, due to the uncertainty of realizing future tax benefits from its net operating loss carryforwards and other deferred tax assets.

At January 31, 1998, the Company had federal and state net operating loss carryforwards of approximately $2,962,000, which expire through 2013 and 2004, respectively.

The Tax Reform Act of 1986 and the California Conformity Act of 1987 impose substantial restrictions on the utilization of net operating loss carryforwards if an "Ownership Change," as defined in the Internal Revenue Code, has occurred. To date the Company has not performed the analysis to determine whether or F-13

not an ownership change has occurred. Should there have been an Ownership Change, the Company's ability to utilize its operating loss carryforwards could be limited.

8. Lease Commitments

At January 31, 1998, the Company leased equipment with a cost of $84,000 (accumulated amortization of $14,000) under capital leases.

The Company currently leases office and warehouse space, retail store space and equipment under noncancelable operating leases. Rental expense under operating lease agreements, net of sublease income, for the years ended January 31, 1997 and 1998 was approximately $18,000, and $390,000, respectively, and $17,000 and $160,000 for the three months ended April 30, 1997 and 1998, respectively. Estimated future rents to be recovered under sublease agreements are approximately $62,000 in fiscal 1999.

Future minimum lease commitments, net of sublease income, under noncancelable capital and operating leases and service agreements as of January 31, 1998 are as follows (in thousands):

FISCAL	OPERATING LEASES	CAPITAL LEASES
1999	$418	$ 25
2000	245	25
2001	178	25
2002	30	11
Total	$871	86
Less: amount representing interest		(15)
Present value of future minimum lease payments		71
Current portion		(18)
Long-term portion		$ 53

9. Employee Benefit Plans

As a result of the acquisition of CLBI, the Company has a money purchase pension plan, under which the Company contributes to the plan an amount equal to 10% of the employee's annual compensation through June 30, 1997. The Company has suspended and is in the process of terminating the money purchase pension plan effective June 28, 1998. The Company's contribution to such Plan for fiscal 1998 was $10,000.

Effective November 1997, the Company adopted the Computer Literacy, Inc. 401(k) Plan (the "401(k) Plan") that qualifies as a deferred salary arrangement under Section 401 of the Internal Revenue Code. All full-time equivalent employees over 21 years of age are eligible and may participate in the 401(k) Plan one year subsequent to their hire date. Under the 401(k) Plan, participating employees may defer a portion of their pre-tax earnings not to exceed 15% of their total compensation. The Company matches 50% of the first 4% contributed by the employee. The total Company contribution was $7,000 for fiscal 1998 and $8,000 for the three months ended April 30, 1998.

10. Subsequent Events

In May 1998, the Company issued 3,430,479 shares of Series E Preferred Stock for $1.61 per share. The terms of the Preferred Stock, which has a dividend rate of $0.08 per share per annum and a liquidation preference of $1.61 per share, are substantially the same as those described in Note 6.

In July 1998, the Company reincorporated in Delaware. In addition, in July 1998, the Board of Directors authorized the filing of a registration statement with the Securities and Exchange Commission to permit the Company to sell shares of its common stock to the public and authorized

management to effect such filing. Upon completion of the Company's initial public offering, each outstanding share of preferred stock will convert into common stock. Unaudited pro forma stockholders' equity reflects the assumed conversion of the preferred stock into common stock as of April 30, 1998.

Introduction to Pro Forma Combined Condensed Financial Information (Unaudited)

The acquisition of Computer Literacy Bookshops, Inc. ("CLBI") on May 31, 1997 was accounted for under the purchase method of accounting. This method requires the purchase price of approximately $5.1 million be allocated to the acquired assets and assumed liabilities of CLBI on the basis of their estimated fair values as of the date of acquisition. Consequently, upon consummation of the purchase, the combined company has established a new accounting and reporting basis for the acquired assets and liabilities. The following Pro Forma Combined Condensed Statement of Income (the "Pro Forma Statement of Income") for the year ended January 31, 1998 (unaudited) presents the combined historical financial statements of Computer Literacy, Inc. adjusted to give effect to the transaction on a pro forma basis as if the acquisition had occurred on February 1, 1997 and includes adjustments directly attributable to the acquisition and expected to have a continuing impact on the combined company.

The Pro Forma Statement of Income and related notes are provided for informational purposes only. The Pro Forma Statement of Income presented is not necessarily indicative of the results of operations of Computer Literacy, Inc. as they may be in the future or as they might have been had the purchase been effected on the assumed date. The Pro Forma Statement of Income should be read in conjunction with the historical consolidated financial statements of Computer Literacy, Inc., and CLBI and the related notes thereto, which are included elsewhere in this prospectus.

Computer Literacy, Inc.

PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME YEAR ENDED JANUARY 31, 1998 (IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)

	HISTORICAL			PRO FORMA	
	COMPUTER LITERACY, INC.	CLBI(A)	SUBTOTAL	ADJUSTMENTS	COMBINED
Revenues:					
Online	$ 3,021	$ --	$ 3,021		$ 3,021
Retail and other	7,927	4,938	12,865		12,865
Total revenues	10,948	4,938	15,886		15,886
Gross profit	3,543	1,695	5,238		5,238
Operating expense	6,726	1,764	8,490	$ (225)(b)	8,265
Interest, net	(7)	14	7	(30)(c)	(23)
Net loss	$ (3,190)	$ (55)	$(3,245)	$ 195	$ (3,050)
Basic and diluted net loss per share	$ (0.53)				$ (0.51)

Shares used in calculating basic and diluted net loss per share.....	6,035	6,035

See Notes to Pro Forma Combined Condensed Statement of Income. F-17

Computer Literacy, Inc.

Notes to Pro Forma Combined Condensed Statement of Income (Unaudited)

The following adjustments represent those necessary to show how the purchase could have affected the historical consolidated statement of income had the acquisition been consummated at February 1, 1997.

(a) The CLBI Statement of Operations data is for the period from February 1, 1997 through May 31, 1997 (date of acquisition).

(b) Reflects additional amortization of goodwill and the covenant not to compete ($79,000) offset by acquisition costs paid by CLBI ($292,000) and reduction of depreciation for assets written-off by Computer Literacy, Inc. ($12,000) as if the acquisition of CLBI had occurred February 1, 1997. Goodwill and the covenant not to compete are amortized on a straight-line basis over fifteen years and five years, respectively.

(c) Reflects additional interest expense that would have been paid on the line of credit had the acquisition occurred at February 1, 1997.

Independent Auditors' Report

To the Board of Directors and Stockholders of Computer Literacy, Inc. Sunnyvale, California We have audited the accompanying statements of income, stockholders' equity, and cash flows of Computer Literacy Bookshops, Inc. for the year ended June 30, 1996 and the eleven months ended May 31, 1997. These financial statements are the responsibility of the management of Computer Literacy Bookshops, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the results of operations and cash flows of Computer Literacy Bookshops, Inc. for the year ended June 30, 1996 and the eleven months ended May 31, 1997 in conformity with generally accepted accounting principles.

Deloitte & Touche Llp

San Jose, California July 10, 1998

Computer Literacy Bookshops, Inc.

Statements of Income (In Thousands)

	YEAR ENDED JUNE 30, 1996	ELEVEN MONTHS ENDED MAY 31, 1997
Net revenues	$13,834	$13,613
Cost of revenues	8,957	8,761
Gross profit	4,877	4,852
Selling, general and administrative expenses	4,142	4,372
Income from operations	735	480
Interest, net	5	44
Income before income taxes	740	524
Provision for income taxes	296	320
Net income	$ 444	$ 204

See notes to financial statements. F-20

Computer Literacy Bookshops, Inc.

Statements of Stockholders' Equity (In Thousands)

	COMMON STOCK			TOTAL
	SHARES	AMOUNT	RETAINED EARNINGS	STOCKHOLDERS' EQUITY
Balances, July 1, 1995	200	$50	$1,576	$1,626
Net income	--	--	444	444
Balances, June 30, 1996	200	50	2,020	2,070
Net income	--	--	204	204
Balances, May 31, 1997	200	$50	$2,224	$2,274

See notes to financial statements. F-21

Computer Literacy Bookshops, Inc.

Statements of Cash Flows (In Thousands)

	YEAR ENDED JUNE 30, 1996	ELEVEN MONTHS ENDED MAY 31, 1997
Cash flows from operating activities		
Net income	$ 444	$ 204
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation	98	96
Gain on sale of property and equipment	4	--
Changes in operating assets and liabilities:		
Accounts receivable	207	(68)
Prepaid expenses and other current assets	52	(105)
Inventory	234	(167)
Accounts payable	(101)	(447)
Accrued expenses	132	49
Other	24	(10)
Net cash provided by (used in) operations:	1,094	(448)
Cash flows from investing activities:		
Purchases of property and equipment	(47)	(70)
Net increases/(decrease) in cash and equivalents	1,047	(518)
Cash and equivalents at beginning of period	230	1,277
Cash and equivalents at end of period	$1,277	$ 759
Supplemental disclosure of cash flow information		
Income taxes paid	$ 39	$ 566

See notes to financial statements. F-22

Computer Literacy Bookshops, Inc.

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Organization and Sale of Company Computer Literacy Bookshops, Inc., ("CLBI"), was incorporated in July 1986. CLBI is a retailer of technical and other information-based products, all of which are targeted to information technology professionals. Business is transacted through CLBI's four retail locations in California and Virginia.

On May 31, 1997, all of the outstanding shares of the CLBI were acquired by Computer Literacy, Inc. The purchase price was approximately $5.1 million and the acquisition was accounted for using the purchase method of accounting. The accompanying financial statements reflect operations for the fiscal year ended June 30, 1996 (fiscal 1996) and for the eleven months ended May 31, 1997, the date of acquisition (fiscal 1997).

Use of Estimates

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

Concentration of Credit Risk Financial instruments that potentially subject CLBI to concentrations of credit risk consist principally of cash equivalents and receivables. Risks associated with cash equivalents are mitigated by banking with credit worthy institutions. Risks associated with receivables are mitigated as CLBI performs on-going credit evaluations of its customers and requires deposits for sales on credit when deemed necessary. CLBI maintains reserves for estimated credit losses. The carrying value of accounts receivable approximate fair value due to their short-term maturity. No one customer accounted for more than 10% of accounts receivable at June 30, 1996 and May 31, 1997.

Income Taxes

Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes," an approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in CLBI's financial and tax reporting. In estimating future tax consequences, management generally considers all expected future events other than enactments of changes in the tax laws or rates. Under the provisions of SFAS No. 109, a valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets recorded will not be recognized.

Revenue Recognition

CLBI recognizes revenue from product sales, net of any discounts, at the time of sale for retail sales and when the products are shipped to customers for mail-order sales. Outbound shipping charges are included in net revenues.

Advertising Costs

The cost of advertising is expensed as incurred. CLBI incurred advertising expense of $214,000 in fiscal 1996 and $177,000 in fiscal 1997.

Computer Literacy Bookshops, Inc.

Notes to Financial Statements (Continued)

2. Stockholders' Equity

Convertible Preferred Stock At May 31, 1997, CLBI had 2,000,000 authorized shares of preferred stock, none of which had been issued or was outstanding.

Common Stock

At May 31, 1997, CLBI had 6,000,000 shares of common stock authorized, 200,000 of which were issued and outstanding.

3. Income Taxes

The provision for income taxes consists of (in thousands):

	YEAR ENDED JUNE 30, 1996	ELEVEN MONTHS ENDED MAY 31, 1997
Current:		
Federal	$195	$315
State	59	88
Total current income taxes	254	403
Deferred:		
Federal	36	(66)
State	6	(17)
Total deferred income taxes	42	(83)
Provision for income taxes	$296	$320

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

	YEAR ENDED JUNE 30, 1996	ELEVEN MONTHS ENDED MAY 31, 1997
	(IN THOUSANDS)	
Deferred tax asset (liability):		
Nondeductible acquisition costs	$21	$78
State taxes	(27)	(30)
Other	(2)	27
Net deferred tax asset (liability):	($8)	$75

CLBI's effective income tax rate differs from the federal statutory income tax rate as follows:

	YEAR ENDED JUNE 30, 1996	ELEVEN MONTHS ENDED MAY 31, 1997

Federal statutory income tax rate	35.0%	35.0%
State taxes, net of federal benefit	5.7	5.7
Nondeductible acquisition expenses	--	19.4
Other	(0.7)	1.0
Effective income tax rate	40.0%	61.1%

4. Lease Commitments

CLBI leases office and warehouse space, retail store space and equipment under noncancelable operating leases. Rental expense under operating lease agreements for fiscal 1996 was $413,000 and $396,000 fiscal 1997.

Future minimum lease commitments under noncancelable leases as of May 31, 1997 are as follows:

Fiscal Years Ending June 30, (In Thousands)

1998	$388
1999	247
2000	178
2001	149
Total	$962

5. Employee Benefit Plans

CLBI has a money purchase pension plan under which it agrees to contribute an amount equal to 10% of the employees annual compensation for eligible employees who have completed one year of service, as defined in such plan. CLBI has suspended and is in the process of terminating the money purchase pension plan effective June 28, 1998. CLBI contributed $110,000 and $113,000 to the plan for fiscal 1996 and 1997, respectively.

6. Related Party Transactions

During the periods presented, CLBI provided management and administrated services to an entity under common ownership. Revenue recognized by CLBI during fiscal 1996 and 1997 was approximately $14,000 and $13,000, respectively. The related receivables at June 30, 1996 and May 31, 1997 were approximately $53,000 and $22,000, respectively.

[Art Work]

No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with this offering and, if given or made, such other information or representations must not be relied upon as having been authorized by the Company or any Underwriter. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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Until after , 1998 (25 days after the date of this Prospectus), all dealers effecting transactions in the Common Stock offered hereby, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

Shares

[LOGO] COMMON STOCK PROSPECTUS NationsBanc Montgomery Securities LLC Piper Jaffray inc.

Needham & Company, Inc. , 1998

Part Ii Information Not Required in Prospectus

Item 24. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law authorizes a court to award or a corporation's Board of Directors to grant indemnification to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act"). Article VII, Section 7.6, of the Registrant's Amended and Restated Bylaws which will be effective upon the closing of the offering of Common Stock registered hereunder provides for mandatory indemnification of its directors and permissible indemnification of officers or employees to the maximum extent permitted by the Delaware General Corporation Law.

The Registrant's Certificate of Incorporation, which will be effective upon the closing of the offering of Common Stock registered hereunder, provides that, pursuant to Delaware law, its directors shall not be liable for monetary damages for breach of the directors' fiduciary duty as directors to the Company and its stockholders. This provision in the Certificate of Incorporation does not eliminate the directors' fiduciary duty, and in appropriate circumstances equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the director's duty of loyalty to the Company for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for actions leading to improper personal benefit to the director, and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. The provision also does not affect a director's responsibilities under any other law, such as the federal securities laws or state or federal environmental laws.

The Registrant intends to enter into Indemnification Agreements with its officers and directors, a form of which will be filed by amendment as Exhibit 10.1 hereto and is incorporated herein by reference. The Indemnification Agreements provide the Registrant's officers and directors with further indemnification, that in some cases, may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law.

Reference is made to Section 8 of the Underwriting Agreement contained in Exhibit 1.1 hereto, indemnifying officers and directors of the Registrant against certain liabilities.

Item 25. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by the Company in connection with the sale of Common Stock being registered. All amounts are estimates except the SEC registration fee, the NASD filing fees and the Nasdaq National Market listing fee.

SEC registration fee	$10,177.50
NASD fee	3,950.00
Nasdaq National Market listing fee	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue sky fees and expenses	5,000.00
Transfer agent fees	*
Miscellaneous fees and expenses	*
Total	$ *

* To be filed by amendment.

Item 26. Recent Sales of Unregistered Securities

Since June 30, 1995, the Company issued and sold the following unregistered securities pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Act"), provided by Section 4(2) of the Act or Rule 701 of the Act:

(1) In September and December 1996, the Company issued 9,814,800 shares of Series B Preferred Stock to a group of private investors for aggregate cash consideration of $3,825,000 and the exchange of shares of Series A Preferred Stock.

(2) In May 1997, the Company issued 4,166,667 shares of Series C Preferred Stock to a group of private investors for aggregate cash consideration of $2,500,000.

(3) In May 1997, the Company issued a warrant to purchase up to 83,328 shares of Series C Preferred Stock at an exercise price of $0.60 to a lender of the Company. At July 1, 1998, such warrant was exercisable to purchase 62,496 shares of Series C Preferred Stock.

(4) In January 1998, the Company issued 6,904,762 shares of Series D Preferred Stock to a group of private investors for aggregate cash consideration of $7,250,000.

(5) In May 1998, the Company issued 3,430,479 shares of Series E Preferred Stock to a group of private investors for aggregate cash consideration of $5,523,071.

(6) Between July 1, 1995 and July 1, 1998, the Company granted options to employees and consultants of the Company pursuant to its 1996 Stock Option Plan, at exercise prices between $ and $. At July 1, 1998, options to purchase shares of Common Stock were outstanding.

(7) Between July 1, 1995 and July 1, 1998, the Company issued and sold 102,754 shares of Common Stock upon the exercise of stock options for an aggregate consideration of $.

Item 27. Exhibits and Financial Statement Schedules

(A) Exhibits

Exhibit No. Description

1.1 *	Form of Underwriting Agreement (preliminary form).
2.1	Stock Acquisition Agreement by and among the Registrant, Computer Literacy Bookshops, Inc., Rachel Unkefer and Daniel A. Doernberg, dated as of May 28, 1997.
3.1	Amended and Restated Certificate of Incorporation of the Registrant.
3.2	Form of Second Amended and Restated Certificate of Incorporation to be filed upon the closing of the offering made pursuant to this Registration Statement.
3.3	Bylaws of the Registrant.
3.4	Form of Amended and Restated Bylaws of the Registrant to be filed upon the closing of the offering made pursuant to this Registration Statement.
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4.
4.2 *	Specimen Common Stock certificate.
4.3	Amended and Restated Investors' Rights Agreement, dated May 22, 1998 and as amended on June 30, 1998 among the Registrant and the parties thereto.
5.1 *	Opinion of Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP.
10.1 *	Form of Indemnification Agreement.
10.2	1996 Stock Plan.
10.3	1998 Omnibus Equity Incentive Plan.
10.4	1998 Employee Stock Purchase Plan.
10.5	Sub-Sublease by and between Miller Freeman, Inc. and the Registrant, dated November 1, 1996 and adjacent Sublease Agreement by and between Control Data Systems, Inc., dated June 25, 1997 for the premises located at 1306 Orleans Drive, Sunnyvale, California.

Exhibit No. Description

10.6+	CBT Systems, Ltd. and Computer Literacy, Inc. Agreement, dated as of March 7, 1998, as amended from time to time.
10.7	Employment Agreement dated December 18, 1996, and amendment thereto, dated May 30, 1997 with Mr. MacAskill.
10.8	Employment Agreement dated December 18, 1996, and amendment thereto, dated May 30, 1997 with Mr. Orumchian.
10.9	Offer Letter dated October 2, 1997 to Mr. Tokuno.
10.10	Offer Letter dated August 26, 1997 to Mr. Alvarez.
10.11	Offer Letter dated February 27, 1998 to Mr. Cudd.
23.1	Independent Auditors' Consent.
23.2	Consent of Counsel.
24.1	Power of Attorney (see page II-6).
27.1	Financial Data Schedule (Fiscal 1998).
27.2	Financial Data Schedule (Three months ended April 30, 1998).

* To be filed by amendment + Specified portions of this agreement have been omitted and have been filed separately with the Commission pursuant to a request for confidential treatment.

(B) Financial Statement Schedules

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the consolidated financial statements or notes thereto.

Item 28. Undertakings

The small business issuer 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.

Insofar as indemnification for liabilities arising under the Securities Act of 1993 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer, or controlling person of the small business issuer 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 hereunder, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The small business issuer hereby undertakes that:

(1) For determining any liability under the Act, treat 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 small business issuer pursuant to Rule 424(b)(1), or (4), or 497(h) under the Act shall be deemed to be part of this registration statement as of the time the Commission declared it effective.

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

Signatures

In accordance with the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, State of California, on this 17th day of July 1998.

Computer Literacy, Inc.

By: /s/ CHRIS MACASKILL Chris MacAskill President and Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Chris MacAskill and Donald P. Alvarez and each of them, his true and lawful attorneys-in-fact and agents with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

/s/ CHRIS MACASKILL Chris MacAskill	President, Chief Executive Officer (Principal Executive Officer) and Director	July 17, 1998
/s/ DONALD P. ALVAREZ Donald P. Alvarez	Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	July 17, 1998

/s/ PETER G. BODINE Director July 17, 1998 Peter G. Bodine /s/ RALPH C. DERRICKSON Director July 17, 1998 Ralph C. Derrickson /s/ ALAN S. FISHER Director July 17, 1998 Alan S. Fisher /s/ TOD H. FRANCIS Director July 17, 1998 Tod H. Francis /s/ KIM ORUMCHIAN Director July 17, 1998 Kim Orumchian /s/ DAVID C. SCHWAB Director July 17, 1998 David C. Schwab /s/ PETER C. WENDELL Director July 17, 1998 Peter C. Wendell

Exhibit Index

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27.1		Financial Data Schedule (Fiscal 1998).
27.2		Financial Data Schedule (Three months ended April 30, 1998).

* To be filed by amendment + Specified portions of this agreement have been omitted and have been filed separately with the Commission pursuant to a request for confidential treatment. </TEXT>