FORM S-1 · REGISTRATION STATEMENT

Hearme

IPO priced 1999-04-30 · $18.00 a share · MPTH



From S1 Directory · www.s1directory.com/s1/hearme/ · Source: https://www.sec.gov/Archives/edgar/data/1078693/000101287099000539/0001012870-99-000539.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 16, 1999 REGISTRATION NO. 333- SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 MPATH INTERACTIVE, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	7310	94-3217317
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

665 CLYDE AVENUE MOUNTAIN VIEW, CA 94043 (650) 429-3900 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) LYNN HEUBLEIN CHIEF OPERATING OFFICER MPATH INTERACTIVE, INC. 665 CLYDE AVENUE MOUNTAIN VIEW, CALIFORNIA 94043 (650) 429-3900 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE) COPIES TO:

Joshua L. Green	Nora L. Gibson
Jeffrey Y. Suto	Randall M. Lake
David T. Sobota	Lindsay C. Freeman
George A. Kellerman	BROBECK, PHLEGER & HARRISON LLP
VENTURE LAW GROUP	Spear Street Tower
A Professional Corporation	One Market
2800 Sand Hill Road	San Francisco, CA 94105
Menlo Park, CA 94025	

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

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. [_] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, 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

Class of Each Class Of Securities To Be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
COMMON STOCK, PAR VALUE $.00005 PER SHARE...	$46,000,000	$12,788

(1) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457(A) UNDER THE SECURITIES ACT.

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

++
+The information in this prospectus is not complete and may be changed. We may +
+not sell these securities until the registration statement filed with the +

+Securities and Exchange Commission is effective. This prospectus is not an +
+offer to sell these securities, and we are not soliciting offers to buy these +
+securities, in any state where the offer or sale is not permitted. +
++

SUBJECT TO COMPLETION, DATED , 1999

(LOGO)

MPATH INTERACTIVE, INC. SHARES COMMON STOCK

We are offering shares of our common stock. This is our initial public offering, and no public market currently exists for our shares. We have applied to have the shares we are offering approved for quotation on the Nasdaq National Market under the symbol "MPTH." We anticipate that the initial public offering price will be between $ and $ per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

	PER SHARE	TOTAL
Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds to Mpath	$	$

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

We have granted the underwriters a 30-day option to purchase up to an additional shares of our common stock to cover over-allotments. BancBoston Robertson Stephens Inc. expects to deliver the shares of common stock to purchasers on , 1999.

BANCBOSTON ROBERTSON STEPHENS THOMAS WEISEL PARTNERS LLC WARBURG DILLON READ LLC WIT CAPITAL CORPORATION AS E-MANAGER(TM) THE DATE OF THIS PROSPECTUS IS , 1999.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SHARES OF COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF OUR COMMON STOCK. IN THIS PROSPECTUS, REFERENCES TO THE "COMPANY," "MPATH," "WE," "US" AND "OUR" REFER TO MPATH INTERACTIVE, INC., AND ITS SUBSIDIARY.

UNTIL , 1999 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS THAT EFFECT TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN addition TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

Table of Contents

Page

Prospectus Summary..... 3
Risk Factors..... 6
How We Intend to Use the Proceeds from this Offering..... 20
Dividend Policy..... 20
Capitalization..... 21
Dilution..... 22
Selected Consolidated Financial Data..... 23
Management's Discussion and Analysis of Financial Condition and Results

of Operations..... 24
Business..... 32
Management..... 48
Certain Transactions..... 56
Principal Stockholders..... 59
Description of Capital Stock..... 61
Shares Eligible for Future Sale..... 63
Underwriting..... 65
Legal Matters..... 67
Experts..... 67
Additional Information..... 67
Index to Financial Statements..... F-1

We own or have rights to trademarks or tradenames that we use in conjunction with the sale of our products and services. Mpath Interactive and Mplayer are registered trademarks owned by us. "Active communities," "people-to-people communities," Mpath, the Mpath logo, Mplayer.com, the Mplayer.com logo, hearme, HearMe.com, the HearMe.com logo, and POP.X are trademarks that are owned by us. XOOM.com is a trademark of XOOM.com. This prospectus also makes reference to trademarks of other companies.

This prospectus includes statistical data regarding the Internet industry. Such data is taken or derived from information published by sources including Jupiter Communications, LLC, a media research firm focusing on the Internet industry and International Data Corporation, a provider of market and strategic information for the information technology industry. Although we believe that such data are generally indicative of the matters reflected therein, such data are inherently imprecise and you are cautioned not to place undue reliance on such data.

[Inside Front Cover]

Title: "Mpath Interactive, Inc., Leading Technology Solutions for Live Internet Communities" Block of text on left side: "Mpath Interactive, Inc., develops, licenses and operates technologies that enable Internet sites to create and manage live Internet communities. These communities are characterized by real-time interaction among multiple simultaneous users. Mpath operates leading live communities, such as HearMe.com and Mplayer.com, serving over 2.5 million registered users."

Overlaying the images described below is an arrow leading from "Conventional Communities," going through "Technologies for Live Communities," ending on top of "Live Communities," and pointing at "Benefits of Live Communities."

Graphics on left side bottom: Four small graphic images creating a circle around the phrase "Conventional Communities." The images include: 1. Image of an envelope with text "Email" 2. Image of a memo with text "Bulletin Boards" 3. Image of hands shaking with text "Text Chat" 4. Image of globe with text "Web Hosting" Text and Graphics on right side bottom: "Technologies for Live Communities. POP.X allows you to deploy and operate multi-participant Internet applications quickly and easily." POP.X logo.

Graphics on right side center: Five small graphic images creating a circle around the phrase "Live Communities." The images include: 1. Image of two people talking to each other with text "Real-time Audio Chat (with text and instant messaging)" 2. Image of a gavel and a block of wood with text "Live Auctions" 3. Image of race car with text "Multi-participant Games" 4. Image of microphone with text "Live Music Events" 5. Image of computer with text "Help Desk Applications"

```
Block of text on right side top:
"Benefits of Live Communities:
    .   Highly engaging experiences
    .   Lengthy member session times
    .   Rich media advertising
    .   Integrated, targeted advertising
    .   High leverage of member-created content"
```

[Gate 1]

Title: "Live Communities" with text centered below title reading: "Live Communities reach millions of people, offering them the ability to interact in real-time, while utilizing rich media tools such as audio chat, game play, graphics, text chat and instant messaging and paging."

Text and graphics on left side of page: Mplayer.com logo with text "Internet Multi-Participant Entertainment Communities" and "www.mplayer.com." Five images of Mplayer.com Web pages that show visitors to the site the steps involved in utilizing Mplayer.com's services. The text associated with such images of Mplayer.com's Web pages is as follows:

"1. Becoming a member of Mplayer.com takes a few simple steps and begins at the www.mplayer.com site."

"2. To get started, sign up and download the Mplayer.com software. It's free and installs automatically. Then choose a member name and password. Other Mplayer.com members will know you by your member name."

"3. Log-on to the Mplayer.com Service. Click on the `Games' navigation button and it will take you to the Main Menu. There are dozens of games to choose from. You can visit one of the many chat rooms by clicking on the title."

"4. Once you have entered a Game Lobby, you may enter a Game Room and join in the fun, or create your own room and invite others to join you. There are a variety of tournaments, events, contests, sweepstakes and drawings in which to participate. There are also many prizes to win, some awarded for skill, others at random."

"5. Members can choose to participate in Mplayer.com's premium service, which offers Ratings and Rankings that display an icon next to the player's name to demonstrate their ranking in a particular game. Premium service also includes special events, contests, magazine subscriptions, special features and exclusive games."

Text and graphics on right side of page: HearMe.com logo with text "Live Internet Audio Communities" and "www.hearme.com." Five images of HearMe.com Web pages that show visitors to the site the steps involved in utilizing HearMe.com's services. The text associated with such images of HearMe.com's Web pages is as follows:

"1. Joining the Live Audio Communities on HearMe.com involves a few quick steps and the process begins by visiting www.hearme.com."

"2. To start, download the free HearMe.com self-installing software. It will allow you to enter live audio chat rooms. You'll only need to download the first time you join."

"3. Now you can select a Lobby to enter. There are several communities to choose from to suit all tastes."

"4. Inside the Lobby, join a specific audio room that suits your mood or create you own room. Using your PC microphone and speakers, you can hold personal conversations or conference calls with friends and family. These private live audio communities allow you to lock or password protect your chat. Musically- inclined members are invited to the On Stage community to perform or to sit back and listen."

"5. You can use the HearMe.com pager to see if your friends and family are on the service and page them to join you in an audio room You can also send them instant messages if they're on the service or a telegram will be waiting for them the next time they sign on."

Prospectus Summary

Because this is only a summary, it does not contain all the information that may be important to you. You should read the entire prospectus, especially "Risk Factors" and the consolidated financial statements and notes, before deciding to invest in shares of our common stock. This prospectus assumes that the underwriters have not exercised the over-allotment option and that all shares of preferred stock have been converted into shares of common stock.

Our Company

Mpath develops, licenses and operates technologies that enable Internet sites to create and manage live communities characterized by real-time interaction among multiple simultaneous users. We also operate our own leading live communities serving over 2.6 million registered users with over 50,000 unique daily visitors generating over 100 minutes of average daily usage per visitor, as of January 1999. Our robust and scaleable technology solutions include graphics, text and sound interactivity, such as voice and music over the Internet, as well as integrated network and site management capabilities. We leverage our proprietary technology by licensing third party site operators software products and providing services for building live communities that may be self-managed or hosted by us on an outsourced basis. The real-time nature of live communities creates highly engaging environments that drive long usage times and strong user loyalty, demonstrated by frequent repeat visits. Our technologies offer Internet advertisers a differentiated opportunity to reach targeted audiences

participating in absorbing, memorable activities and to do so with message formats that go beyond the simple "banner" ads common to the Web. We believe we thereby deliver high value solutions that significantly enhance the impact of a broad range of e-business sales and marketing efforts.

The Internet is an increasingly significant global interactive medium for communications, content and commerce. According to International Data Corporation ("IDC"), the number of Web users worldwide will grow from 97 million at the end of 1998 to 320 million by the year 2002. The Internet now represents the fastest growing form of media in history. As Internet accessibility, usage and functionality grow, the Internet is increasingly being used as a medium for direct communication as well as a rapidly growing sales and marketing channel. Jupiter Communications estimates that total online advertising revenue in the U.S. in 1997 was $940 million and expects this amount to grow to $4.4 billion by 2000. Although sites representative of the early stages of Internet commercialization provide valuable services, they did not initially enable Web users to interact or communicate with other individuals. As a result, people-to-people communities have emerged to satisfy user demand for interaction and communication. We believe an opportunity exists to create, operate and enable higher quality people-to-people communities characterized by real-time simultaneous interaction among multiple users, which we call live communities. Creating successful live communities presents numerous technological challenges, requiring high standards of scalability, performance, accessibility, ease-of-use, security and content management. Given the attractiveness live communities offer users, advertisers and e-businesses, and given the time and effort required to build such communities, we believe a significant opportunity exists for delivering proven online technologies and services that enable rapid creation and management of full-featured live communities on the Internet.

Through our Mpath Foundation business unit, we are a leading provider of enabling technology and services to a growing customer base of online companies seeking to create and operate live communities on the Internet. With its innovative POP.X technology system, Mpath Foundation offers its customers broad technological expertise in networks, operations, information systems, integration technologies, and the customer support capabilities necessary to deploy live community applications rapidly and manage large Internet communities. In addition, we provide fully-functional online game services through our first generation product and we provide log-in, account management, billing and database management services to companies operating online content through our Customer Management System service. Customers of Mpath Foundation consist of a growing base of leading online entertainment companies such as CSK Sega, Eidos Interactive, Electronic Arts, Fujitsu, GTECH, LG Internet, Macromedia and Sony.

Through our Live Communities business unit we have developed and operate two services, Mplayer.com and HearMe.com. In October 1996, we launched Mplayer.com, a premier live entertainment service on the Internet. The Mplayer.com service now consists of three active communities that are built around common interests and offers over 100 of the most popular online multi-participant games. Total usage time on Mplayer.com exceeds 200 million user minutes per month, as of January 1999, compared to 67 million user minutes as of January 1998. After less than two years of operations, Mplayer.com has become the number eleven Internet site in terms of total usage time per month according to our usage data. In January 1999, we launched HearMe.com, our

second live community service. HearMe.com is currently comprised of seven live communities, making live audio interaction available to people whose interests extend beyond entertainment. We intend to build the HearMe.com services through relationships with Web sites that want to offer live audio communities to their members. We intend to continue to expand this business unit by creating additional services and live communities.

To maintain our leadership position in providing enabling technologies for companies seeking to build live communities on the Internet and in operating our own premier live communities, we have adopted the following strategies:

. expand our sales and marketing efforts;

. promote membership growth and usage;

. maintain and extend technology leadership and expertise;

. maximize value for advertisers and e-businesses; and . pursue multiple revenue streams.

We have assembled an impressive group of corporate partners, including Infoseek, XOOM.com, Intel, Yahoo!, Excite, Macromedia, GTECH, Sega and Cox Enterprises. These partners bring capital, brand recognition, promotional strength and technology expertise to our service offering and facilitate the growth of our overall business.

Our principal executive offices are located at 665 Clyde Avenue, Mountain View, California 94043. Our telephone number at that location is (650) 429- 3900. Information contained on our Web sites at http://www.mpath.com, http://www.mplayer.com and http://www.hearme.com do not constitute part of this prospectus.

The Offering

Common stock offered by Mpath..... shares Common stock to be outstanding after the offering.. shares(1) Use of proceeds..... Working capital and general corporate purposes(2) Proposed Nasdaq National Market symbol..... MPTH (1) Based on the number of shares outstanding as of December 31, 1998. Includes the conversion of 10,416,615 shares of preferred stock outstanding at December 31, 1998 and the conversion of 3,035,306 shares of preferred stock we sold to certain investors in January 1999. Also includes the exercise and subsequent conversion to common stock of warrants for 77,422 shares of Series E Preferred Stock issued in January 1999 and assumed to be exercised immediately before completion of this offering. Excludes (a) shares issuable upon conversion of a promissory note, in the principal amount of $1,864,000 that is convertible upon a sale of us or this offering, (b) 1,673,410 shares subject to outstanding options under our 1995 Stock Option/Stock Issuance Plan, (c) 1,986,282 shares subject to outstanding warrants, (d) 2,500,000 shares reserved for issuance under our 1999 Stock Incentive Plan, (e) 300,000 shares reserved for issuance under our 1999 Directors' Stock Option Plan, (f) 750,000 shares reserved for issuance under our 1999 Employee Stock Purchase Plan. See "Management--Stock Plans" and the notes to our consolidated financial statements.

(2) Please see "How We Intend to Use the Proceeds from this Offering."

Summary Consolidated Financial Information (in thousands, except per share data) In the following summary consolidated financial data, the consolidated statement of operations data for the years ended December 31, 1996, 1997 and 1998 and consolidated balance sheet data as of December 31, 1998 are derived from and qualified in their entirety by the annual consolidated financial statements of Mpath. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Year Ended December 31, 1996 1997 1998

Statement of Operations Data:			
Net revenues:			
Live Communities	$ 12	$ 686	$ 3,022
Foundation	112	2,041	5,005
Total revenues	124	2,727	8,027
Cost of net revenues:			
Live Communities	35	1,808	2,221
Foundation	90	620	790
Total cost of revenues	125	2,428	3,011
Gross profit (loss)	(1)	299	5,016
Operating expenses	25,328	13,852	16,848
Loss from operations	(25,329)	(13,553)	(11,832)
Net loss	$(25,039)	$(13,648)	$(11,945)
Basic and diluted net loss per share			$ (3.99)
Weighted average shares outstanding used in basic and diluted net loss per share calculation			2,992

December 31, 1998 1996 1997 1998

Selected Non-Financial Data:			
Total registered users	--	317	2,340
Total user minutes per month	--	45,917	181,341

	December 31, 1998		
	Actual	Pro Forma(1)	Pro Forma As Adjusted(2)
Balance Sheet Data:			
Cash and cash equivalents	$ 1,114	$ 20,158	
Working capital	(2,067)	(18,477)	
Property and equipment, net	1,878	1,878	
Total assets	6,177	25,221	
Long term notes payable	1,864	1,864	
Stockholders' deficit (equity)	(4,348)	16,196	

(1) Reflects (i) the sale of 3,035,306 shares of preferred stock we sold to certain investors in January 1999 for an aggregate purchase price of $20.0 million, (ii) the proceeds of $510,985 from the exercise of warrants to purchase 77,422 shares of stock that will be exercised effective as of the closing of this offering (iii) the repayment of $1,500,000 in notes payable upon the sale of preferred stock in January 1999 and (iv) the conversion of all outstanding shares of preferred stock into shares of common stock upon the closing of this offering. (2) Reflects the receipt of the net proceeds from the sale of the shares of common stock sold in this offering at an assumed initial public offering price of $ per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses. Please see "How We Intend to Use the Proceeds from this Offering" and "Capitalization."

Unless otherwise indicated, all information in this prospectus assumes (1) the sale of 3,035,306 shares of preferred stock in January 1999, (2) the exercise and subsequent conversion into common stock of warrants to purchase 77,422 shares of preferred stock, (3) the repayment of $1,500,000 in notes payable upon the sale of preferred stock in January 1999 and (4) the conversion of each outstanding share of preferred stock into one share of common stock, all of which will occur on or before the closing of this offering. In addition, all information in this prospectus assumes no exercise of the Underwriters' over-allotment option.

Risk Factors

You should carefully consider the risks described below before making an investment decision in our company. In addition, you should keep in mind that the risks described below are not the only risks that we face. Additional risks not presently known to us, or risks that we currently believe are immaterial, may also impair our business operations. Moreover, you should refer to the other information contained in this prospectus for a better understanding of our business.

Our business, financial condition, or results of operations could be adversely affected by any of the following risks. If we are adversely affected by such risks, then the trading price of our common stock could decline, and you could lose all or part of your investment.

This prospectus contains forward-looking statements that relate to future events or to our future financial performance. These statements are only predictions. Actual events or performance results may differ significantly from those anticipated in the forward-looking statements.

We have a limited operating history upon which to base your investment decision We were was founded in January 1995 and have a limited operating history. We did not begin generating advertising or licensing revenues until October 1996. For the year ended December 31, 1997, we generated revenues of $2.7 million, and for the year ended December 31, 1998, we generated revenues of $8.0 million. As an investor in our common stock, you should consider the risks and difficulties that we face as an early stage company in a new and rapidly evolving market. Some of the specific risks we face include our:

. ability to maintain and to increase levels of traffic on our live communities;

. ability to develop and extend the Mplayer.com and HearMe.com brands;

. ability to increase demand for our products and services;

. substantial dependence on software licensing revenues;

. ability to maintain projected advertising rates;

. ability to adapt to rapidly changing technologies and developing markets;

. ability to manage rapidly expanding operations and increasing Internet traffic effectively;

. ability to attract, retain, and motivate qualified personnel;

. substantial dependence on products that have limited market acceptance; and . ability to compete in a highly competitive market.

In addition, we depend on the growing use of the Internet for commerce, communication and advertising. We also depend on the sale of advertising on the Mpath live communities and the licensing of our POP.X technology for future revenue growth. We cannot be certain that our business strategy will be successful or that we will successfully address these risks.

Due to our limited operating history, it is difficult or impossible for us to predict future results of operations. As a result, you should not expect future revenue growth to be comparable to our recent revenue growth. We believe that period-to-period comparisons of our operating results are not meaningful and you should not rely on the results for any period as an indication of future performance.

We have had a history of losses We have had substantial losses since our inception, and we cannot assure you that we will ever become or remain profitable. As of December 31, 1998, we had an accumulated deficit of $53.0 million, which includes a write-off of $14.5 million of goodwill and in-process research and development expenses incurred in connection with our acquisition of Catapult Entertainment in 1996. Although we have experienced growth in net revenues, members, customers and Internet reach in recent periods, we cannot be certain that such growth rates will continue at their current levels or increase in the future.

We have not yet become profitable on a quarterly or annual basis, and we anticipate that we will continue to incur net losses for the foreseeable future. The extent of these losses will be contingent, in part, on the amount of growth in our revenues from advertising, licensing, commerce and premium subscription fees. We expect our operating expenses to increase significantly, especially in the areas of engineering, sales and marketing and brand promotion, and, as a result, we will need to generate increased quarterly revenues to become profitable.

If our revenues fail to grow at anticipated rates, our operating expenses increase without a commensurate increase in our revenues or we fail to adjust operating expense levels accordingly, our business, results of operations and financial condition will be adversely affected. Our operating losses may increase in the future and we cannot be certain that we will ever become or remain profitable.

The sales and implementation cycle(s) for our Mpath Foundation products and services is long Our Mpath Foundation customers often take a long time to evaluate our products and services, and many people are involved in the sales process. We spend a lot of time educating and providing information to our prospective customers regarding the use and benefits of our products and services. Even after deciding to license our products, our customers tend to deploy our products slowly and deliberately depending on the skill set of the customer, the size of deployment, the complexity of the customer's system architecture, the quantity of hardware involved, and the degree of hardware and software configuration necessary to deploy our products. The long sales and implementation cycles for our products and services and the timing of these sales may cause license and service revenues and operating results to vary significantly from period to period.

We depend on advertising contracts and most of these contracts are short-term We derive a significant portion of our revenues from the sale of advertising. These advertising sales are made under short-term contracts that average two to three months in length. Consequently, many of our advertising customers can cease advertising on our Web site quickly and without penalty. As a result, our quarterly revenues and operating results depend heavily on advertising revenues from contracts entered into within the quarter and on our ability to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. If customers cancel or defer existing advertising or commerce contracts or if we fail to obtain new contracts in any quarter, our business, results of operations and financial condition for that quarter and future periods will be adversely affected.

Furthermore, our advertising revenues are based in part on the amount of traffic on Mplayer.com and HearMe.com. Accordingly, if the amount of traffic on our live communities falls below our expectations or those of existing or potential advertisers, we may lose advertising customers. In addition, substantially all of our advertising contracts require us to guarantee a minimum number of impressions. In the event that we fail to deliver such minimum impressions, we could be required to provide credit for additional impressions and we may have to reduce advertising rates in order to maintain existing advertisers and attract new advertisers.

The unpredictability of our quarterly results may adversely affect the trading price of our common stock Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control. These factors include:

. demand for and market acceptance of our products and services and Web- based advertising;

. long sales cycles for our Mpath Foundation products and services;

. budgeting cycles of advertisers;

. amount and timing of capital expenditures and other costs relating to the expansion of our operations and future acquisitions;

. introduction of new or enhanced products and services by us or our competitors;

. loss of one or more of our key advertising contracts or relationships;

. changes in our pricing policy or those of our competitors;

. engineering or development fees that we may pay for new Web site development and publishing tools;

. technical difficulties with our live communities; and . general economic conditions.

As a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service or marketing decisions or business combinations that could have a material adverse effect on our business, results of operations and financial condition. In order to accelerate the promotion of the Mplayer.com and HearMe.com brands, we intend to significantly increase our marketing budget. Such an increase in marketing expenditures may adversely affect our results of operations for a number of quarterly periods.

Due to our relatively short operating history we have limited meaningful historical financial data upon which to base our planned operating expenses. Accordingly, our expense levels are based in part on our expectations as to future revenues from advertising, software licensing fees, commerce revenue-sharing arrangements, premium membership service fees and our anticipated growth in memberships and to a large extent are fixed. We cannot be certain that we will be able to accurately predict our revenues, particularly in light of the intense competition for the sale of Web-based advertisements, revenue- sharing opportunities and new members, our limited operating history and the uncertainty as to the broad acceptance of the Web as an advertising and commerce medium. If we fail to accurately predict revenues in relation to fixed-expense levels, our business, results of operations and financial condition could be adversely affected.

We face intense competition Mpath Live Communities The market for Internet users and advertisers is new and rapidly evolving. Competition is intense and is expected to increase significantly in the future. In addition, barriers to entry are relatively insubstantial. We believe that the principal competitive factors for companies seeking to create live communities on the Internet include the following:

. critical mass and functionality;

. brand recognition;

. member affinity and loyalty;

. broad demographic focus; and . open access for visitors.

Other companies creating Web-based live communities on the Internet are Cendant, E-Pub Services (Uproar.com), Lipstream, Microsoft, SegaSoft and Sony. We will also likely face competition in the future from Web directories, search engines, shareware archives, online communities, Internet telephony, content sites, commercial online service providers, sites maintained by Internet service providers and other entities that attempt to or establish communities on the Internet either by developing their own community or acquiring one of our competitors.

In addition, our future competition could include traditional media companies, a number of which, including CBS, Disney and NBC, have recently invested in and acquired Internet companies. Our competitors and potential competitors may develop superior communities or communities that achieve greater market acceptance than our community. We also compete for visitors with many Internet content providers and Internet service providers, including Web directories, search engines, shareware archives, content sites, commercial online services and sites maintained by Internet service providers, as well as thousands of Internet sites operated by individuals and government and educational institutions. These competitors include free information, search and content sites or services, such as America Online, CNET, CNN/Time Warner, Excite, Infoseek, Lycos, Microsoft, Netscape and Yahoo!. We also compete with the foregoing companies, as well as traditional forms of media such as newspapers, magazines, radio and television, for advertisers and advertising revenues. We believe that the principal competitive factors in attracting advertisers include the amount of traffic on our Web site, brand recognition, customer service, the demographics of our members and viewers, our ability to offer targeted audiences and the overall cost-effectiveness of the advertising medium we offer. We believe

that the number of Internet companies relying on Web-based advertising revenue will increase substantially in the future. Accordingly, we will likely face increased competition, resulting in increased pricing pressures on our advertising rates which could in turn have a material adverse effect on our business, results of operations and financial condition.

Many of our existing and potential competitors, including Web directories and search engines and large traditional media companies, have longer operating histories in the Web market, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we have. Such competitors can undertake more extensive marketing campaigns for their brands and services, adopt more aggressive advertising pricing policies and make more attractive offers to potential employees, distribution partners, commerce companies, advertisers and third-party content providers. Advertisers may perceive Internet content providers and Internet service providers, including Web directories, search engines, shareware archives, sites that offer professional editorial content, commercial online services and sites maintained by Internet service providers as more desirable Web sites for placement of advertisements.

In addition, substantially all of our current advertising customers and strategic partners also have established collaborative relationships with certain of our competitors or potential competitors, and other high-traffic Web sites. Accordingly, we cannot be certain that we will be able to grow our membership base, traffic levels and advertiser customer base at historical levels or retain our current members, traffic levels or advertiser customers. Advertisers may find other Web sites more attractive if Web traffic grows at a faster rate on the Web sites of competitors. and our strategic partners may decline to renew their agreements with us. We may not be able to compete successfully against our current or future competitors and competition could have a material adverse effect on our business, results of operations and financial condition.

Mpath Foundation

The market for software and services for the Internet is relatively new, constantly evolving and intensely competitive and we expect that competition will only intensify in the future. As part of our business, we sell and license products and services for people-to-people community applications. Our principal competitors in this market include Acuity Software and in-house developers of such applications. Competitive factors in this market include the following:

. quality and reliability of software;

. features for creating, editing and adapting content;

. ease of use and interactive user features;

. scaleability and cost per user; and . compatibility with the user's existing network components and software systems.

To expand our user base and further enhance the user experience, we must continue to innovate and improve the performance of our POP.X technology. Many of our existing and potential competitors have longer operating histories, greater name recognition and significantly greater financial, technical

and marketing resources than we do. We are committed to continued market penetration of our brand, products and services and we may implement pricing, licensing, service or marketing changes as a strategic response to changes in the competitive environment in an effort to extend our current brand and technology franchise. If we make price concessions or if our pricing and distribution strategies emerge from our competitors, our business, financial condition and results of operations may be adversely affected.

We rely on our ability to maintain and develop strategic relationships Although we view our strategic relationships as a key factor in our overall business strategy, we cannot be certain that we will be successful in developing new strategic relationships or that our strategic partners will view such relationships as significant to their own business or that they will continue their commitment to us in the future. Additionally, any party to a strategic agreement with us may fail to perform its contractual obligations and we cannot be certain that we could enforce any such agreement. We do not generally establish minimum performance requirements for our strategic partners but instead rely on their voluntary efforts. In addition, most of these agreements may be terminated by either party with little notice. Therefore, we cannot be certain that these relationships will be successful. Our business, results of operations and financial condition may be materially adversely affected if any strategic partner discontinues its relationship with us for any reason.

Our Mpath Foundation business unit has a limited number of customers upon whom we rely Mpath Foundation revenues have accounted for the majority of our revenues to date. Historically, we have received a significant portion of our Mpath Foundation revenues from a limited number of sales and license agreements. We believe that a customer's decision to license our technology is relatively discretionary and, for large-scale users, often involves a significant long- term commitment of resources. Therefore, any downturn in the business of potential customers could have a material adverse effect on our revenues and quarterly results of operations. We currently have eight Mpath Foundation customers, two of which accounted for approximately 35% and 11% of our total revenues during 1997, and three of which accounted for approximately 23%, 12% and 10% of our total revenues during 1998.

We rely on advertising revenue and our results of operations could be adversely affected if the Web does not continue its development as an effective advertising medium Intense competition in the sale of advertising on the Web has resulted in a wide variety of pricing models, rate quotes and advertising services, making it difficult to project future levels of advertising revenues and rates. It is also difficult to predict which pricing models, if any, will achieve broad acceptance among advertisers. We have derived a significant portion of our revenues to date from the sale of advertisements. Our strategy is to continue to emphasize advertising as a method of generating revenues. Our current business model is therefore highly dependent on the amount of traffic on our Web site. This type of business model, however, is relatively unproven. The Internet as an advertising medium has not been available for a sufficient period of time to gauge our effectiveness as compared with traditional advertising media. Many of our advertisers have only limited experience with the Web as an advertising medium, have not yet devoted a significant portion of their advertising budgets to Web-based advertising and may not find such advertising to be effective for promoting their products and services relative to traditional

print and broadcast media. For 1998, advertising on the Web represented a nominal portion of overall advertising revenues in the United States. Our ability to generate significant advertising revenues will also depend on, among other things, our ability to provide advertisers with a large base of users possessing demographic characteristics attractive to advertisers as well as our ability to develop or acquire effective advertising delivery and measurement systems.

The process of managing advertising within a large, high-traffic Web site such as ours is an increasingly important and complex task. We license our advertising sales and management system from NetGravity. Any replacement of this system could disrupt our ability to manage our advertising operations for a period of time. In addition, to the extent that we encounter system failures or material difficulties in the operation of this system, we could be unable to deliver banner advertisements and sponsorships through our Web site.

Any extended failure of, or material difficulties encountered in connection with, our advertising management system may expose us to "make good" obligations with our advertisers, which, by displacing saleable advertising inventory, among other consequences, would reduce revenues and have a material adverse effect on our business, results of operations and financial condition.

We rely on our intellectual property and proprietary rights and may be unable to protect these rights Our success depends in part on our ability to protect our proprietary software and other intellectual property. To protect our proprietary rights, we rely generally on patent, copyright, trademark and trade secret laws, confidentiality agreements with employees and third parties, and license agreements with consultants, vendors and customers, although we have not signed such agreements in every case. Despite our efforts to protect our proprietary rights, unauthorized third parties could, copy or otherwise obtain and use our products or technology, or develop similar technology. Other parties may breach confidentiality agreements and other protective contracts we have entered into. As a result we may not become aware of, or have adequate remedies in the event of, such a breach.

We currently have six issued patents in the U.S. with expiration dates ranging from 2014 to 2016, two allowed patents and 16 patents pending (one of which is a provisional patent). We cannot be certain that any pending or future patent applications will be granted, that any existing or future patent will not be challenged, invalidated or circumvented, or that the rights granted under any patent that has issued or may issue will provide competitive advantages to us. Many of our current and potential competitors dedicate substantially greater resources than we do to protection and enforcement of intellectual property rights, especially patents. If a blocking patent has issued or issues in the future, we would need to either obtain a license or design around the patent. We cannot be certain that we would be able to obtain such a license on acceptable terms, if at all, or to design around the patent. We pursue the registration of certain of our trademarks and service marks in the U.S. and in certain other countries, although we have not secured registration of all our marks. As of February 11, 1999, we had four registered U.S. and four foreign trademarks or service marks, and had applications pending for an additional five U.S. and six foreign trademarks or service marks, and one intent to use trademark application in the U.S.

Legal standards relating to the validity, enforceability and scope of protection of certain proprietary rights in Internet-related businesses are uncertain and still evolving, and no assurance can be given as to the future viability or value of any of our proprietary rights or of similar rights of other companies within this market. We cannot be certain that the steps taken by us will prevent misappropriation or infringement of our proprietary information.

Any such infringement or misappropriation, should it occur, could have a material adverse effect on our business, results of operations and financial condition. In addition, we are currently involved in litigation and additional litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation might result in substantial costs and diversion of resources and management attention and could have a material adverse effect on our business, results of operations and financial condition. Furthermore, it is possible that our business activities may infringe upon the proprietary rights of others, or that other parties may assert infringement claims against us.

From time to time, we have been, and expect to continue to be, subject to claims in the ordinary course of our business including claims of alleged infringement of the trademarks, service marks and other intellectual property rights of third parties by us and the content generated by our members. Although such claims have not resulted in any significant litigation or had a material adverse effect on our business to date, such claims and any resultant litigation, should it occur, might subject us to significant liability for damages. In addition, even if such claims are not meritorious, they could be time consuming and expensive to defend. Finally, as a result of such claims, our proprietary rights could be invalidated. Any of the foregoing could result in the diversion of management time and attention, any of which might have a material adverse effect on our business, results of operations and financial condition.

We also rely on certain technology and content that we license from third parties, including software that is integrated with our internally developed software and used in our products and Web site, to perform key functions. Although we are generally indemnified against claims that such third-party technology or content infringes the proprietary rights of others, such indemnification is not always available for all types of intellectual property rights (for example, patents may be excluded), and in some cases the scope of such indemnification is limited. Even if we receive broad indemnification, third-party indemnitors are not always well capitalized and may not be able to indemnify us in the event of infringement, resulting in substantial exposure to us.

Infringement or invalidity claims arising from the incorporation of third- party technology or content, and claims for indemnification from our customers resulting from such claims, may be asserted or prosecuted against us. As a result of such claims, even if not meritorious, we could incur expenditures of significant financial and managerial resources in addition to potential product redevelopment costs and delays, all of which could materially and adversely affect our business, financial condition and results of operations. See "Business--Proprietary Rights."

We will need to manage our expanding business effectively We have experienced and may continue to experience rapid growth, which has placed, and could continue to place, a significant strain on our managerial, financial and operational resources. We are required to manage multiple relationships with various strategic partners, technology licensors, members, POP.X licensees, advertisers and other third parties.

These requirements will be exacerbated in the event of our further growth or in the number of third-party relationships, and we cannot be certain that our systems, procedures or controls will be adequate to support our operations or that our management will be able to manage any growth effectively. To effectively manage our potential growth, we must continue to implement and improve our operational, financial and management information systems and to expand, train and manage our employee base. As of December 31, 1998, we had grown to 111 full-time employees from 97 as of December 31, 1997, and we anticipate that the number of our employees will increase significantly in the next 12 months.

We depend on certain key personnel Our performance is substantially dependent on the performance of our senior management and other key employees. Three members of the management team have only been employed by us for less than three months. We do not currently have "key person" life insurance policies on any of our employees. The loss of the services of any of our executive officers or other key employees could have a material adverse effect on the business, results of operations and financial condition. Competition for senior management, experienced media sales and marketing personnel, software developers, qualified engineers and other employees is intense, and we cannot be certain that we will be successful in attracting and retaining such personnel.

We have experienced difficulty from time to time in hiring and retaining the personnel necessary to support the growth of our business, and we may experience similar difficulty in the future. Our failure to successfully manage our personnel requirements would have a material adverse effect on our business, results of operations and financial condition.

We will face risks if we make acquisitions As part of our business strategy, we review acquisition prospects that would complement our existing business or enhance our technological capabilities. Although we do not currently have any agreement with respect to any material acquisitions, we may make acquisitions of complementary businesses, products or technologies in the future. However, we may not be able to locate suitable acquisition opportunities. Future acquisitions by us could result in potentially dilutive issuances of equity securities, large and immediate write- offs, the incurrence of debt and contingent liabilities or amortization expenses related to goodwill and other intangible assets, any of which could materially and adversely affect our results of operations.

Furthermore, acquisitions entail numerous risks and uncertainties, including difficulties in the assimilation of operations, personnel, technologies, products and the information systems of the acquired companies, diversion of management's attention from other business concerns, risks of entering geographic and business markets in which we have no or limited prior experience and potential loss of key employees of acquired organizations. Except for our acquisition of Catapult, we have not made any material acquisitions in the past. We cannot be certain that we would be able to

successfully integrate any businesses, products, technologies or personnel that might be acquired in the future, and our failure to do so could have a material adverse effect on our business, results of operations and financial condition.

We depend on access to commercial content and must pay for that access Our future success depends in large part upon our ability to aggregate and deliver compelling content over the Internet. Although we create some of our own content such as poker and chess, we also rely on third-party content providers, such as game developers, for entertaining content. Our ability to aggregate and deliver compelling content provided by third parties may be adversely impacted by a number of factors, including the following:

. third-parties may increase the price of the content they provide;

. many of our third-party content providers compete with us for members and advertising and may decide not to provide us with content;

. our contracts with third-party content providers are usually short-term and may be canceled by such providers if we do not fulfill our obligations; and . our competitors and many of our third-party content providers provide content that is similar or the same as our content and may do so at a lower cost.

If we fail to aggregate and deliver compelling third-party content to our users, Web traffic to our site might decrease and, as a result, advertising revenue might decrease. This could have a material adverse effect on our business, results of operations and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

System failure may cause interruption of our services The performance of our server and networking hardware and software infrastructure is critical to our business and reputation and our ability to attract Web users, advertisers, new members and commerce partners to our live communities. Because we have incorporated third-party software into our systems and we depend upon Internet service providers to provide consumers with access to our products and services, we are limited in our ability to prevent system failures. We have sustained system failures for significant periods of time and may experience similar failures in the future. Users have also occasionally experienced difficulties due to system failures unrelated to our systems. These system failures caused an interruption in our live community services resulting in less traffic. If similar failures were sustained or repeated, our advertising revenues, our reputation and the attractiveness of our brand name could be impaired.

Our disk storage is configured to survive multiple drive failures without data loss. To ensure backup and restoration of all production data, our system is comprised of several dedicated servers and tape libraries that have the capacity to backup the Mpath live communities sites every 24 hours. We rotate backup media into offsite archives to ensure data integrity should catastrophic events occur onsite.

There is much legal uncertainty regarding regulating the activities conducted on the Internet We are not currently subject to direct regulation by any governmental agency, other than laws and regulations generally applicable to businesses, although certain U.S. export controls and import controls of other countries, including controls on the use of encryption technologies, may apply to our products. Due to the increasing popularity and use of the Internet, it is possible that a number of laws and regulations

may be adopted in the U.S. and abroad with particular applicability to the Internet. It is possible that governments will enact legislation that may be applicable to us in areas such as content, network security, encryption and the use of key escrow, data and privacy protection, electronic authentication or "digital" signatures, illegal and harmful content, access charges and retransmission activities. Moreover, the applicability to the Internet of existing laws governing issues such as property ownership, content, taxation, defamation and personal privacy is uncertain. The majority of such laws were adopted before the widespread use and commercialization of the Internet and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. Any such export or import restrictions, new legislation or regulation or governmental enforcement of existing regulations may limit the growth of the Internet, increase our cost of doing business or increase our legal exposure. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

We face potential liability for claims based on the nature and content of the materials that we distribute over the Internet, including claims for defamation, negligence or copyright, patent or trademark infringement, which claims have been brought, and sometimes successfully litigated, against Internet companies. Our general liability insurance may not cover claims of this type or may not be adequate to indemnify us for any liability that may be imposed. Any liability not covered by insurance or in excess of insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

Legislation over content distributed over the Internet could damage the growth of the Internet generally and decrease the demand for our products and services. Although two recently enacted federal laws regulating the content distributed over the Internet have either been partially struck down or enjoined, similar laws may be proposed and adopted. Portions of the Communications Decency Act of 1996, which proposed to impose criminal penalties on anyone distributing "indecent" material to minors over the Internet, were held to be unconstitutional by the U.S. Supreme Court. In addition, a federal judge recently issued a preliminary injunction against the Child Online Protection Act, a law attempting to protect children from pornography over the Internet. While we do not distribute the types of materials that these acts were designed to regulate, the nature of similar legislation and the manner in which it may be interpreted and enforced cannot be fully determined and, therefore, such similar legislation could subject us to potential liability, which in turn could have an adverse effect on our business, financial condition and results of operations. See "--We rely on our intellectual property and proprietary rights, and seek to protect our intellectual property and proprietary rights."

Due to the global nature of the Web, it is possible that, although transmissions by us over the Internet originate primarily in the State of California, the governments of other states and foreign countries might attempt to regulate our transmissions or prosecute us for violations of their laws. Violations of local laws may be alleged or charged by state or foreign governments, we may unintentionally violate such laws and such laws may be modified, or new laws enacted, in the future. Any of the foregoing developments could have a material adverse effect on our business, results of operations and financial condition.

We could face liability or regulation of the personal identifying information obtained from people using our Web site The Federal Trade Commission is considering regulation regarding the collection and use of personal identifying information obtained from individuals, including children, when accessing Web sites. Such regulation may include a requirement that companies establish certain procedures to, among other things:

. give adequate notice to consumers regarding information collection and disclosure practices;

. provide consumers with the ability to have personal identifying information deleted from a company's database;

. clearly identify affiliations or a lack thereof with third parties which may collect information or sponsor activities on a company's Web site; and . obtain express parental consent prior to collecting and using personal identifying information obtained from children under 13 years of age.

While we have implemented or intend to implement programs designed to enhance the protection of the privacy of our members, including children, we cannot be certain that such programs will conform with any regulation adopted by the Federal Trade Commission. Moreover, even in the absence of such regulation, the Federal Trade Commission has begun investigations into the privacy practices of companies that collect information on the Internet. One such investigation has resulted in a consent decree pursuant to which the Internet company has agreed to establish programs to implement the four principles noted above. We may become subject to such an investigation, and the Federal Trade Commission's regulatory and enforcement efforts may adversely affect the ability to collect demographic and personal information from members. These developments could have an adverse effect on our ability to target product offerings and attract advertisers and would have a material adverse effect on our business, results of operations and financial condition.

In addition, at the international level, the European Union has adopted a directive that will impose restrictions on the collection and use of personal data, effective October 1998. Such directive could, among other things, affect U.S. companies that collect information over the Internet from individuals in European Union member countries, and may impose restrictions that are more stringent than current Internet privacy standards in the United States. We cannot be certain that such directive will not adversely affect the activities of entities such as us that engage in data collection from users in European Union member countries.

We are subject to litigation On September 20, 1996, Mpath, MPCAT Acquisition Corporation (a wholly-owned subsidiary of Mpath), and Catapult Entertainment, Inc. executed an Agreement and Plan of Reorganization. The agreement provided for the merger of MPCAT into Catapult such that Catapult would be the surviving corporation and would become a wholly-owned subsidiary of Mpath. In addition, Catapult agreed, as part of the merger agreement, that it would file a voluntary bankruptcy petition. On October 10, 1996, Catapult filed a voluntary bankruptcy petition under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Northern District of California, San Jose Division. On November 15, 1996, the Bankruptcy Court entered its order, which approved the merger between MPCAT and Catapult. At the same time, the Bankruptcy Court entered a separate order that authorized Catapult to assume two patent licenses that it had obtained from Steve

Perlman prior to filing the bankruptcy petition. Mr. Perlman objected to the assumption of his licenses by Catapult, so on November 18, 1996, Mr. Perlman filed an appeal with the United States District Court for the Northern District of California, San Jose Division. On August 7, 1997, the District Court affirmed the Bankruptcy Court decision. On September 8, 1997, Mr. Perlman filed an appeal with the Ninth Circuit Court of Appeals, and on January 28, 1999, the Ninth Circuit reversed the Bankruptcy Court and the District Court. The Ninth Circuit held that Catapult could not assume Mr. Perlman's licenses without Mr. Perlman's consent. Catapult expects to file a petition for a writ of certiorari with the United States Supreme Court prior to April 28, 1999.

Mpath has been informed that the current holder of the rights to these patents is Microsoft. We believe that the technology used by Mpath in its products and services do not infringe upon these patents. However, if a court were to rule that our technology did infringe upon these patents we believe we will be able to work around these patents. Even if we were unable to work around these patents and were required to remove these portions of our technology, we do not believe that this would have a material adverse effect on our business, results of operations, or financial condition.

From time to time we have been, and expect to continue to be, subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of third-party trademarks and other intellectual property rights by us and our licensees. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources and could materially and adversely affect our business, financial condition and results of operations.

We may be vulnerable to unauthorized access, computer viruses and other disruption problems Despite the implementation of security measures, our networks may be vulnerable to unauthorized and illegal access, computer viruses and other disruptive problems. A party who is able to circumvent security measures could misappropriate proprietary information or cause interruptions in our Internet operations. Internet service providers and online service providers have in the past experienced, and may in the future experience, interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others. We may be required to expend significant capital or other resources to protect against the threat of security breaches or to alleviate problems caused by such breaches.

Although we intend to continue to implement industry-standard security measures, we cannot be certain that measures implemented by us will not be circumvented in the future. Eliminating computer viruses and alleviating other security problems may require interruptions, delays or cessation of service to users accessing our Web sites, which could have a material adverse effect on our business, results of operations and financial condition.

Our products are new and face rapid technological changes The market for our products is characterized by:

. rapid technological advances;

. evolving standards in the Internet and software markets;

. changes in customer requirements; and . frequent new product and service introductions and enhancements.

As a result, our future success depends upon our ability to enhance our current products and services and to develop and introduce new products and services that will achieve market acceptance. If we do not adequately respond to the need to develop and introduce new products or services, then our business, operating results and financial condition will be adversely affected.

We strive to incorporate new technology into the Mpath live communities and our Mpath Foundation products for the benefit of our members, visitors, licensees and advertising and commerce partners. Introducing new technology into our systems involves numerous technical challenges, substantial amounts of personnel resources and often times takes many months to complete. We cannot be certain that we will be successful at integrating such technology into the Mpath live communities and our Mpath Foundation products on a timely basis. In addition, such integration may degrade the responsiveness and speed of the Mpath live communities and our Mpath Foundation products and we cannot be certain that, once integrated, such technology will function as expected.

Major product enhancements and new products and services often require long development and testing periods to achieve market acceptance. In addition, our software products are complex and, despite vigorous testing and quality control procedures, may contain undetected errors or "bugs" when first introduced or updated. Any inability to timely deliver quality products and services could have a material adverse effect on our business, results of operations and financial condition. See "--We may be sued for product liability claims and our products may contain defects."

We will increasingly depend on distributors for our Mpath Foundation products and services We currently sell the vast majority of our Mpath Foundation products and services through our internal sales staff. If demand for our products and services increases, however, we will need to enter into reseller arrangements with Web development firms, enterprise applications resellers and OEM partners to distribute our products and technologies. Resellers and OEMs frequently have exclusive sales territories pursuant to individually negotiated contracts, which may limit our ability to build and expand our network of resellers and OEMs. In addition, some resellers and OEMs may offer products of one or more of our competitors, and they may emphasize our competitors' products at the expense of our products. If we do not adequately develop and maintain a network of resellers and OEMs, our business, results of operations and financial condition could be adversely impacted.

We may be sued for product liability claims and our products may contain defects By licensing and supporting our products, we run the risk of product liability and related claims. Although our license agreements typically contain provisions that are designed to limit our exposure to such claims, there can be no assurance that these provisions will be enforceable in all jurisdictions where we license and service our products. We currently have products liability insurance coverage in the amount of $6,000,000, which covers claims resulting from bodily injury or property damage. To the extent that any claims are not covered by insurance, we may be adversely affected.

In addition, the computer software and hardware environment is characterized by a wide variety of non-standard configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. Despite testing by us and by our customers, there can be no assurance that errors will not be found in new products or enhancements. The occurrence of any errors in our products could result in adverse publicity, loss of or delay in market acceptance, or claims by customers against us, any of which could have an adverse effect upon our business, operating results and financial condition. See "--Our products are new and face rapid technological changes."

We may require future capital to implement our business plan We currently anticipate that the net proceeds of the offering, together with our existing line of credit and available funds will be sufficient to meet our anticipated needs for working capital and capital expenditures for at least the next 12 months. We may need to raise additional funds in the future in order to fund more aggressive brand promotions and more rapid expansion, to develop newer or enhanced products or services, to fund acquisitions, to respond to competitive pressures or to acquire complementary businesses, technologies or services.

If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be reduced, stockholders may experience additional dilution and such securities may have rights, preferences or privileges senior to those of the rights of our common stock. We cannot be certain that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or not available on acceptable terms, we may not be able to fund our expansion, promote our brand names as we desire, take advantage of unanticipated acquisition opportunities, develop or enhance services or respond to competitive pressures. Any such inability could have a material adverse effect on our business, results of operations and financial condition.

We face risks associated with trying to become Year 2000 compliant Many currently installed computer systems and software products are coded to accept or recognize only two digit entries in the date code field. These systems and software products will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, computer systems and software used by many companies and governmental agencies may need to be upgraded to comply with such Year 2000 requirements or risk system failure or miscalculations causing disruptions of normal business activities.

We are not currently aware of any Year 2000 compliance problems relating to our technology or our IT or non-IT systems that would have a material adverse effect on our business, results of operations or financial condition, without taking into account our efforts to avoid or fix such problems. We may discover Year 2000 compliance problems in our technology that will require substantial revisions. In addition, third-party software, hardware or services incorporated into our material IT and non-IT systems may need to be revised or replaced, all of which could be time consuming and expensive. If we fail to fix our technology or to fix or replace third-party software, hardware or services on a timely basis, the result could be lost revenues, increased operating costs, the loss of customers and other business interruptions, any of which could have a material adverse effect on our business, results of

operations and financial condition. Moreover, the failure to adequately address Year 2000 compliance issues in our technology, and our IT and non-IT systems could result in claims of mismanagement, misrepresentation or breach of contract and related litigation, which could be costly and time-consuming to defend. In addition, there can no assurance that governmental agencies, utility companies, Internet access companies, third-party service providers and others outside our control will be Year 2000 compliant. The failure by such entities to be Year 2000 compliant could result in a systemic failure beyond our control, such as a prolonged Internet, telecommunications or electrical failure, which could also prevent us from delivering our products and services to our customers, decrease the use of the Internet or prevent users from accessing the Web sites of our strategic partners, which could have a material adverse effect on our business, results of operations and financial condition.

Officers and directors and their affiliates will continue to have substantial control over Mpath after the offering After completion of this offering, our executive officers and directors and their affiliates beneficially own approximately % of the shares of common stock (% if the underwriters exercise the over-allotment option in full). As a result, our officers, directors and their affiliates will have the ability to influence the election of our Board of Directors and the outcome of corporate actions requiring stockholder approval. Such concentration of ownership may have the effect of delaying or preventing a change in our corporate control. See "Principal Stockholders."

There has been no prior market for our common stock and we expect the price of our common stock to be volatile Prior to this offering, you could not buy or sell our common stock publicly. An active public market for our common stock may not develop or be sustained after the offering, and the market price might fall below the initial public offering price. The initial public offering price may bear no relationship to the price at which the common stock will trade upon completion of this offering. The initial public offering price will be determined based on negotiations between us and the representatives of the underwriters, based on factors that may not be indicative of future market performance. The market price of the common stock may fluctuate significantly in response to a number of factors, some which are beyond our control, including:

. quarterly variations in operating results;

. changes in financial estimates by securities analysts;

. changes in market valuation of software and Internet companies;

. announcements by us of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;

. loss of a major customer or failure to complete significant license transactions;

. additions or departures of key personnel;

. any shortfall in revenue or net income or any increase in losses from levels expected by securities analysts;

. future sales of common stock; and . stock market price and volume fluctuations, which are particularly common among highly volatile securities of Internet and software companies.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, operating results and financial condition.

We have broad discretion in how we use the proceeds from this offering Our management can spend most of the proceeds from this offering in ways with which the stockholders may not agree. See "How We Intend to Use the Proceeds from this Offering."

We may have substantial sales of our common stock after the offering Sales of a substantial number of shares of common stock after the offering could adversely affect the market price of the common stock and could impair our ability to raise capital through the sale of additional equity securities. On completion of this offering, we will have shares of common stock outstanding or subject to currently exercisable options (shares if the Underwriters over-allotment option is exercised in full). The shares sold in this offering (shares if the Underwriter's over-allotment option is exercised in full) will be freely tradable without restriction or further registration under the Federal securities laws unless purchased by "affiliates" of Mpath as that term is defined in Rule 144. The remaining 17,831,239 shares of common stock outstanding on completion of the offering will be "restricted securities" as that term is defined in Rule 144.

Our stock and option holders are subject to lock-up agreements that limit their ability to sell common stock. These securityholders cannot sell or otherwise dispose of any shares of common stock for a period of at least 180 days after the date of this prospectus without the prior written approval of BancBoston Robertson Stephens. When the lock-up agreements expire, these shares and the shares underlying the options will become eligible for sale, in some cases only pursuant to the volume, manner of sale and notice requirements of Rule 144. See "Management 1995 Stock Option/Stock Issuance Plan."

Certain provisions of our charter documents may have anti-takeover effects Certain provisions of our Amended and Restated Certificate of Incorporation and bylaws could make it more difficult for a third party to acquire us, even if a change of control would be beneficial to our stockholders. For more information, see "Description of Capital Stock."

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

How We Intend to Use the Proceeds from This Offering

Our net proceeds from the sale of the shares of common stock we are offering are estimated to be $ ($ if the Underwriters' over-allotment option is exercised in full) assuming an offering price of $ per share and after deducting the underwriting discount and commissions. We currently expect to use the net proceeds primarily for working capital and general corporate purposes, funding product development and expanding our sales and marketing organization. In addition, we may use a portion of the net proceeds for further development of our product lines through acquisitions of products, technologies and businesses. Accordingly, although we have no present commitments or agreements with respect to any such acquisitions, management will have significant discretion in applying the net proceeds of this offering. Pending such uses, we will invest the net proceeds in short-term, investment grade, interest-bearing securities.

Dividend Policy

We have never declared or paid cash dividends on our common stock or preferred stock and anticipate that all future earnings, if any, will be retained for development of its business. The payment of dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, capital requirements, the financial condition of Mpath, and general business conditions.

Capitalization

The following table sets forth the capitalization of Mpath (1) at December 31, 1998; (2) on a pro forma basis to show the effect of the conversion into common stock of all outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series C-1 Preferred Stock and Series D Preferred Stock on the closing of the offering, the issuance of and subsequent conversion of 3,035,306 shares of Series E Preferred Stock into common stock and the issuance of 77,422 shares of common stock reflecting the exercise and subsequent conversion of a Series E Preferred Stock warrant at an exercise price of $6.60 per share on the closing of the offering; and (3) on a pro forma as adjusted basis to show the effect of the sale by Mpath of shares of common stock offered hereby at an assumed public offering price of $ per share (after deducting the underwriting discount and estimated expenses of the offering). See "How We Intend to Use the Proceeds from this Offering" and notes to our consolidated financial statements. The information set forth below is unaudited and should be read in conjunction with Mpath's consolidated financial statements and notes thereto.

December 31, 1998 Pro Forma Actual Pro Forma As Adjusted (in thousands) Long term notes payable, less current portion.. $ 1,864 $ 1,864 326 Long term capital lease obligations, less current portion..... 326 326 Stockholders' equity (deficit): Preferred stock, $0.00005 par value; 16,294,986 shares authorized actual, 10,416,615 shares issued and outstanding, actual; 2,000,000 shares authorized, no shares issued or outstanding pro forma and pro forma as adjusted..... 1 --

Common stock warrants..... 2 2 Common stock, $0.00005 par value, 25,000,000 shares authorized actual, 50,000,000 shares authorized pro forma and pro forma as adjusted; 3,834,815 shares issued and outstanding actual; 17,364,158 shares issued and outstanding pro forma(1); shares issued and outstanding pro forma as adjusted (2)..... -- 1 Additional paid in capital..... 49,655 70,199 Notes receivable from stockholders..... (1,020) (1,020) Accumulated deficit..... (52,986) (52,986) Total stockholders' equity (deficit)..... (4,348) 16,196 Total capitalization..... $ (2,158) $ 18,386 (1) Based on the number of shares outstanding as of December 31, 1998. Includes the conversion of 10,416,615 shares of preferred stock outstanding at December 31, 1998 and the conversion of 3,035,306 shares of preferred stock we sold to certain investors in January 1999. Also includes the exercise of warrants for 77,422 shares of Series E Preferred Stock issued in January 1999 and assumed to be exercised immediately before completion of this offering. Excludes (a) shares issuable upon conversion of a promissory note in the principal amount of $1,864,000 that is convertible upon a sale of us or this offering, (b) 1,673,410 shares subject to outstanding options under our 1995 Stock Option/Stock Issuance Plan, (c) 1,986,282 shares subject to outstanding warrants, (d) 2,500,000 shares reserved for issuance under our 1999 Stock Incentive Plan, (e) 300,000 shares reserved for issuance under our 1999 Directors' Stock Option Plan and (f) 750,000 shares reserved for issuance under our 1999 Employee Stock Purchase Plan. See "Management-- Stock Plans" and the notes to our consolidated financial statements. (2) Adjusted for the effect of the sale of shares of common stock hereby offered at an assumed public offering price of $ per share after deducting the underwriting discount and estimated expenses of the offering.

Dilution

Mpath's pro forma net tangible book value as of December 31, 1998 was approximately $ or $ per share of common stock. "Net tangible book value" per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of common stock outstanding, as adjusted to show the effect of the conversion into common stock of all outstanding shares of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series C-1 Preferred Stock and Series D Preferred Stock on the closing of the offering, the issuance of and subsequent conversion of 3,035,306 shares of Series E Preferred Stock into common stock the repayment of $1,500,000 in notes payable upon the sale of the Series E Preferred Stock, and the issuance of 77,422 shares of common stock reflecting the exercise and subsequent conversion of a warrant to purchase Series E Preferred Stock at an exercise price of $6.60 per share on the closing of the offering. After giving effect to the sale of the shares of common stock offered by us at an assumed initial public offering price of $ per share, and the adjustments set forth above, our pro forma net tangible book value as of December 31, 1998 would have been $ or $ per share of common stock. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share before the offering..... $(0.25) Increase attributable to new investors..... Pro forma net tangible book value after the offering..... Dilution per share to new investors..... $ The following table summarizes on a pro forma basis, as of December 31, 1998, the differences between the existing stockholders, as adjusted, and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us, and the average price per share paid.

Shares Purchased Total Consideration ---------- ---------- Average Price Number Percent Amount Percent Per Share

```
Existing stockholders.....  17,364,158       % $67,754,000       %    $
New investors.............
  Totals.................              100.0% $            100.0%
```

The information presented with respect to existing stockholders assumes no exercise of warrants to purchase 1,986,282 shares that were outstanding on February 11, 1999 and no exercise of outstanding options under the 1995 Stock Option/Stock Issuance Plan. As of February 11, 1999, options to purchase 1,673,410 shares were outstanding under our 1995 Stock Option/Stock Issuance Plan; 124,694 shares are reserved for issuance upon exercise of options that may be granted subsequent to February 11, 1999 under the 1995 Stock Option/Stock Issuance Plan; 2,500,000 shares are reserved for issuance under our 1999 Stock Incentive Plan; 300,000 shares are reserved for issuance upon exercise of options that may be granted under the 1999 Directors' Stock Option Plan; and 750,000 shares are reserved for issuance under the 1999 Employee Stock Purchase Plan. The issuance of common stock under these plans will result in further dilution to new investors. These figures also include 3,035,306 shares of preferred stock (which will be converted into 3,035,306 shares of common stock upon the closing of this offering) and the exercise and subsequent conversion into common stock of a warrant to purchase 77,422 shares of preferred stock issued after December 31, 1998 in a private placement to certain investors. See "Management--Stock Plans," "Certain Relationships and Related Transactions" and the notes to our consolidated financial statements.

Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the notes thereto and with "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 1996, 1997 and 1998, and the consolidated balance sheet data at December 31, 1997 and 1998, are derived from audited consolidated financial statements included elsewhere in this prospectus. The consolidated statement of operations data for the period from inception to December 31, 1995 and the consolidated balance sheet data as of December 31, 1995 and 1996 are derived from audited financial statements not included in this prospectus.

```
                                    Period from
                                     January 9,
```

	1995 (inception) to December 31,	Year Ended December 31,		
	1995	1996	1997	1998
Statement of operations Data	(in thousands, except for per share data)			
Net revenues:				
Live Communities	$ --	$ 12	$ 686	$ 3,022
Foundation	--	112	2,041	5,005
Total revenue	--	124	2,727	8,027
Cost of net revenues:				
Live Communities	--	35	1,808	2,221
Foundation	--	90	620	790
Total cost of revenues	--	125	2,428	3,011
Gross profit (loss)	--	(1)	299	5,016
Operating expenses:				
Research and development	1,502	5,261	2,436	3,132
Sales and marketing	171	3,937	6,906	7,847
General and administrative	746	2,877	2,841	3,274
Stock based compensation	34	377	1,669	2,595
Write-off of acquired intangibles	--	12,876	--	--
Total operating expenses	2,453	25,328	13,852	16,848
Loss from operations	(2,453)	(25,329)	(13,553)	(11,832)
Interest and other income (expense), net	99	291	(93)	(111)
Loss before provision for income taxes	(2,354)	(25,038)	(13,646)	(11,943)
Provision for income taxes	(1)	(1)	(2)	(2)
Net loss	$(2,355)	$(25,039)	$(13,648)	$(11,945)
Basic and diluted net loss per share	$ (2.53)	$ (11.40)	$ (5.34)	$ (3.99)
Weighted average shares outstanding used in basic and diluted net loss per-share calculation	932	2,196	2,556	2,992

December 31, 1995 1996 1997 1998

Balance Sheet Data:		(in thousands)		
Cash and cash equivalents	3,548	$ 5,511	$ 9,132	$ 1,114
Working capital (deficit)	3,169	4,006	7,580	(2,067)
Total assets	4,333	8,142	12,356	6,177
Long term notes payable	--	2,756	1,864	1,864
Stockholders' equity (deficit)	3,548	2,364	5,138	(4,348)

	December 31,		
	1996	1997	1998
Selected Non-Financial Data:		(in thousands)	
Total registered users	--	317	2,340
Total user minutes per month	--	45,917	181,341

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

Except for the historical information contained herein, the discussion in this prospectus contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, that involve risks and uncertainties. Our actual results could differ materially from those discussed here.

Factors that could cause or contribute to such differences include, but are not limited to, those discussed below, as well as those discussed elsewhere in this prospectus. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this prospectus.

Overview

Mpath develops, licenses and operates technologies that enable Internet sites to create and manage live communities characterized by real-time interaction among multiple simultaneous users. We were incorporated and commenced operations in January 1995. From inception through September 1996, our activities primarily consisted of recruiting employees and raising capital, performing product and technology development, engaging in marketing activities and negotiating strategic relationships. In November 1995, we entered into an agreement with PSINet, Inc. for the deployment of a low-latency network, which provided a platform for launching and operating the Mplayer.com service. Testing of the Mplayer.com service began in February 1996 and the service was launched commercially in October 1996. In April 1996, we licensed our live community software and network services to SegaSoft Networks, Inc., which occurred concurrently with an equity investment by affiliates of SegaSoft's parent, CSK Corporation. In November 1996, we acquired Catapult Entertainment, Inc., in order to acquire its enabling network technology. In January 1999, we launched HearMe.com, our second live community service. During the period from January 1995 to December 31, 1998, we raised gross proceeds of approximately $34.9 million from the sale of equity securities to venture capital investors and strategic partners. In January 1999, we raised an additional $20.0 million from the sale of equity securities to venture capital investors and strategic partners. The proceeds from these financings have primarily been used to finance our research and development and the sales and marketing of our products and services. In addition, we also issued 868,254 shares of Series C Preferred Stock in our acquisition of Catapult.

We generate our revenues from two business units, Live Communities and Mpath Foundation. With respect to Live Communities, we derive the substantial majority of revenues from advertising fees. While the Mplayer.com and the HearMe.com services are free to all registered members, users may also pay subscription fees to us in exchange for access to premium services such as special events, rankings and ratings, contests, magazine subscriptions, special features and exclusive games. We also have a subscription plan that allows the members to purchase a year's subscription up front at a discounted rate. Additionally, we have begun to derive revenues from e-commerce activities, including fees from special event promotions and merchandise sales. Advertising revenue is recognized ratably over the term of each particular advertising agreement. E-commerce revenue is recognized when notification of shipment has taken place and the revenue has been earned. With respect to Mpath Foundation, we derive revenues from licensing fees for our technology and related services. We also derive incremental Mpath Foundation revenues from service, maintenance and upgrade fees, which represent a significant source of recurring revenues each year. Monthly service revenues are recognized over the period in which services are provided. Development revenue is recognized at the time services are completed or as development milestones are achieved. License revenue is recognized in the period earned. Deferred revenue consists primarily of monthly service revenue billed and paid in advance.

Since we launched our first Live Community service in October 1996 and began negotiating certain license agreements through the Mpath Foundation business unit, we have generated $10.9 million in revenues through December 31, 1998. For the period from inception to December 31, 1998 we have incurred a cumulative net loss of $53.0 million, of which $14.5 million came from a one- time write-off of goodwill and in-process research and development expenses associated with our acquisition of Catapult.

Cost of net revenues for Live Communities consists primarily of the cost of operating the network infrastructure and royalties paid to third-party content providers. Cost of revenues for Mpath Foundation consists primarily of network operating expenses in conjunction with providing services to Mpath Foundation customers.

Mpath's operating expenses consist of sales and marketing expenses, research and development expenses and general and administrative expenses. Sales and marketing expenses consist principally of salaries paid to employees in sales and marketing activities, advertising and promotional materials, public relations costs and travel. Research and development expenses consist principally of salaries and compensation paid to employees and consultants engaged in research and development activities and product testing. General and administrative expenses consist principally of salaries and compensation paid to employees and consultants engaged in activities other than sales and marketing and research and development, facilities and related depreciation, in-house and outside legal and accounting fees and related costs, and travel. All operating costs are expensed as incurred.

We have a limited operating history upon which an evaluation of us, our current business, and our prospects can be based. In addition, our revenue model is evolving and relies substantially upon the sale of advertising on our Mplayer.com and HearMe.com services and the licensing of our POP.X technology. Our business must be considered in light of the risks, expenses and problems frequently encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets such as the Internet. Our results of operations and financial condition may be subject to volatility in future periods.

Results of Operations The following table presents Mpath's statement of operations data for the periods indicated as a percentage of total revenues.

Year Ended December 31, 1996 1997 1998

Net revenues:			
Live Communities	9.7 %	25.2 %	37.6 %
Foundation	90.3	74.8	62.4
Total revenues	100.0	100.0	100.0
Cost of net revenues:			
Live Communities	28.2	66.3	27.7
Foundation	72.6	22.7	9.8
Total cost of revenues	100.8	89.0	37.5
Gross profit (loss)	(0.8)	11.0	62.5
Operating expenses:			
Research and development	42.4	89.3	39.0
Sales and marketing	31.7	253.2	97.8
General and administrative	23.2	104.2	40.8
Stock compensation	.3	61.2	32.3

Write-off of acquired intangibles	103.7	--	--
Total operating expenses	201.3	507.9	209.9
Loss from operations	(201.3)	(496.9)	(147.4)
Interest and other income(expense), net	2.3	(3.4)	(1.4)
Loss before provision for income tax	(199.0)%	(500.3)	(148.8)
Provision for income taxes	--	--	--
Net loss	(199.0)%	(500.3)%	(148.8)%

Year Ended December 31, 1998 Compared to the Year Ended December 31, 1997 Revenues. Net revenues increased 194.3% from approximately $2.7 million for the year ended December 31, 1997 to approximately $8.0 million for the year ended December 31, 1998. Net revenues from Live Communities increased from $686,000 to $3.0 million. This increase was primarily driven by growth in advertising revenues associated with an expanding number of advertisers and the growth of traffic and usage time in our live communities. Net revenues from Mpath Foundation increased from $2.0 million for the year ended December 31, 1997 to approximately $5.0 million for the year ended December 31, 1998. This increase was primarily attributable to the successful development and release of our POP.X technology, an increase in the number of Mpath Foundation customers and the related increase in license revenues.

Cost of revenues. Cost of revenues increased 24.0% from approximately $2.4 million, or 89.0% of net revenues, for the year ended December 31, 1997 to approximately $3.0 million, or 37.5% of net revenues, for the year ended December 31, 1998. Cost of revenues declined as a percentage of net revenues primarily due to the substantial increase in net revenues between 1997 and 1998. Cost of revenues for Live Communities increased from approximately $1.8 million for the year ended December 31, 1997 to approximately $2.2 million for the year ended December 31, 1998. This increase was primarily due to server and network costs associated with the growth of the Live Communities business unit and royalties paid to third-party content providers. Cost of revenues for Mpath Foundation increased from approximately $620,000 for the year ended December 31, 1997 to approximately $790,000 for the year ended December 31, 1998. The increase was attributable to connectivity and server costs associated with services provided to Mpath Foundation customers.

Research and development. Research and development expenses increased 28.6% from approximately $2.4 million, or 89.3% of net revenues, for the year ended December 31, 1997 to approximately $3.1 million, or 39.0% or net revenues, for the year ended December 31, 1998. Research and development expenses declined as a percentage of net revenues primarily because of the substantial increase in net revenues between 1997 and 1998. The increase in research and development expenses was primarily due to an increase of salary expense in 1998 as additional engineers were hired to support the Mpath Foundation development of the POP.X technology and to additional equipment and software expenditures associated with the increased headcount.

Sales and marketing. Sales and marketing expenses increased 13.6% from approximately $6.9 million, or 253.2% of net revenues, for the year ended December 31, 1997, to approximately $7.8 million, or 97.8% of net revenues, for the year ended December 31, 1998. Sales and marketing expenses decreased as a percentage of net revenues primarily because of the substantial increase in net revenues between 1997 and 1998. The increase in sales and marketing expenses was primarily due to an increase in

additional salary expense related to expanding our sales force in order to grow advertising revenues in our Live Communities business unit, offset by decreases in other costs associated with marketing and public relations expenses as well as decreased depreciation of the assets acquired from Catapult.

General and administrative. General and administrative costs increased 15.2% from approximately $2.8 million, or 104.2% of net revenues, for the year ended December 31, 1997 to approximately $3.3 million, or 40.8% of net revenues, for the year ended December 31, 1998. General and administrative costs decreased as a percentage of net revenues primarily because of the substantial increase in net revenues between 1997 and 1998. These increases were primarily due to salary increases in the operations support area, patent filings and legal expenses associated with general corporate matters.

Stock based compensation. Stock based compensation costs increased from approximately $1.7 million in the year ended December 31, 1997 to approximately $2.6 million or 32.3% of net revenues in the year ended December 31, 1998. The increase relates to an increase in employees as well as the fair market value of the Company's common stock.

Interest and other income (expense), net. Interest and other income (expense), net includes interest expense primarily related to lease and debt obligations and interest income earned on short-term investment of cash.

Year Ended December 31, 1997 Compared to the Year Ended December 31, 1996 Revenues. Net revenues increased from approximately $124,000 in the year ended December 31, 1996 to approximately $2.7 million in the year ended December 31, 1997. Net revenues from Live Communities increased from approximately $12,000 for the year ended December 31, 1996 to approximately $686,000 for the year ended December 31, 1997. This increase was primarily attributable to an increase in advertising revenues associated with the launch of the Mplayer.com service in October 1996. Net revenues from Mpath Foundation increased from approximately $112,000 for the year ended December 31, 1996 to approximately $2.0 million for the year ended December 31, 1997. This increase was primarily attributable to license revenues generated by relationships with key Mpath Foundation customers.

Cost of revenues. Cost of revenues increased from approximately $125,000 in the year ended December 31, 1996 to approximately $2.4 million, or 89.0% of net revenues, in the year ended December 31, 1997. Cost of revenues for Live Communities increased from approximately $35,000 for the year ended December 31, 1996 to approximately $1.8 million for the year ended December 31, 1997. This increase was primarily due to server and network costs associated with the Live Communities services, royalties to third-party content providers and Internet service provider access charges. Cost of revenues for Mpath Foundation increased from approximately $90,000 for the year ended December 31, 1996 to approximately $620,000 for the year ended December 31, 1997. This increase was primarily due to an increase in server and network costs necessary to support Mpath Foundation customers.

Research and development. Research and development expenses decreased from approximately $5.3 million in the year ended December 31, 1996 to approximately $2.4 million, or 89.3% of net revenues, in the year ended December 31, 1997. This decrease was primarily due to $1.6 million in-process

research and development expense associated with the acquisition of Catapult in November 1996. The remaining decrease was primarily associated with reduced cost in consulting fees and software support fees, which were required during the development of Mplayer.com client and server software in 1996. These decreases were offset by an increase of salary expense in 1997 as additional engineers were hired to support the Mpath Foundation contracts.

Sales and marketing. Sales and marketing costs increased from approximately $3.9 million in the year ended December 31, 1996 to approximately $6.9 million, or 253.2% of net revenues, in the year ended December 31, 1997. This increase was primarily due to additional salary expense, depreciation for Catapult assets and outside consulting. This increase was partially offset by decreases in the costs associated with member acquisition, branding, product development and public relations. We were able to make these expense reductions in 1997, as Mplayer.com went from a primarily subscription-based model to an advertising- based model.

General and administrative. General and administrative costs decreased from approximately $2.9 million in the year ended December 31, 1996 to approximately $2.8 million, or 104.2% of net revenues, in the year ended December 31, 1997. Expenditures are primarily for salary, patent filings and legal expenses associated with general corporate matters.

Write-off of acquired intangibles. The write-off of acquired intangibles is associated with the November 1996 acquisition of Catapult. We acquired all of the assets and assumed the liabilities of Catapult as part of a Chapter 11 Plan of Reorganization under the United States Bankruptcy Code. The acquisition was accounted for as a purchase. The purchase price, including liabilities assumed, in excess of the fair value of assets acquired was allocated to in-process research and development of $1.6 million, which was immediately expensed as research and development expenses, and goodwill of $12.9 million. The goodwill was originally assigned a two-year life but was written off in December 1996 due to a change in our business strategy relating to the use of the technology and business acquired from Catapult. As a result of this change in strategy, the Company determined that it had no use for and that there would be no future cash flows from the Catapult assets.

Interest and other income (expenses), net. Interest and other income (expenses), net includes interest expense primarily related to lease and debt obligations and interest income earned on short-term investment of cash.

Stock compensation. Stock compensation costs increased from approximately $377,000 in the year ended December 31, 1996 to approximately $1.7 million or 61.2% of net revenues in the year ended December 31, 1997. The increase relates to an increase in employees as well as the fair market value of the Company's common stock.

Quarterly Results of Operations The following tables set forth certain unaudited consolidated statements of operations data for the eight quarters ended December 31, 1998, as well as the percentage of our revenues represented by each item. This data has been derived from unaudited interim consolidated financial statements prepared on the same basis as our audited consolidated financial statements contained in this prospectus and, in our opinion, include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of

such information when read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this prospectus. Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control. See "Risk Factors--The unpredictability of our quarterly results may adversely affect the trading price of our common stock," for a list of factors affecting our quarterly operating results. In addition, our quarterly results may be adversely impacted by the long sales cycle for our Mpath Foundation products and services. See "Risk Factors--The sales cycle for our Mpath Foundation products and services is long."

	Three Months Ended							
	Mar. 31, 1997	Jun. 30, 1997	Sep. 30, 1997	Dec. 31, 1997	Mar. 31, 1998	Jun. 30, 1998	Sep. 30, 1998	Dec. 31, 1998
	(in thousands, except as a percentage of net revenues)							
Statement of operations:								
Net revenues:								
Live Communities	$ 120	$ 176	$ 145	$ 245	$ 317	$ 393	$ 931	$ 1,381
Foundation	171	344	449	1,077	1,134	1,103	1,287	1,481
Total revenues	291	520	594	1,322	1,451	1,496	2,218	2,862
Cost of net revenues:								
Live Communities	235	475	508	590	584	567	463	607
Foundation	203	121	153	143	192	190	210	198
Total cost of revenues	438	596	661	733	776	757	673	805
Gross profit (loss)	(147)	(76)	(67)	589	675	739	1,545	2,057
Operating expenses:								
Research and development	665	597	551	623	779	767	779	807
Sales and marketing	2,155	1,468	1,630	1,653	1,852	1,896	2,058	2,041
General and administrative	789	616	766	670	767	820	785	902
Stock based eompensation	417	417	417	418	649	649	649	648
Total operating expenses	4,026	3,098	3,364	3,364	4,047	4,132	4,271	4,398
Loss from operations	(4,173)	(3,174)	(3,431)	(2,775)	(3,372)	(3,393)	(2,726)	(2,341)
Interest and other income (expense), net	(41)	(82)	19	11	(15)	146	(87)	(155)
Loss before provision for income taxes	(4,214)	(3,256)	(3,412)	(2,764)	(3,387)	(3,247)	(2,813)	(2,496)
Provision for income taxes	--	--	--	(2)	--	--	--	(2)
Net loss	$ (4,214)	$(3,256)	$(3,412)	$(2,766)	$(3,387)	$(3,247)	$(2,813)	$(2,498)

As a percentage of net revenues:							
Net revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
100.0%							
Cost of revenues.....	150.8	111.3	109.8	53.2	53.5	50.6	30.4
28.1							
Gross profit (loss)...	(50.8)	(11.3)	(9.8)	46.8	46.5	49.4	69.6
71.9							
Operating expenses:							
Research and development.....	228.9	114.6	92.7	47.2	53.7	51.3	35.1
28.2							
Sales and marketing....	741.6	284.9	275.8	127.3	127.6	126.7	92.8
71.3							
General and administrative.....	271.6	118.3	129.0	50.6	52.9	54.8	35.4
31.5							
Stock based compensation.....	143.5	80.2	70.2	31.6	44.7	43.4	29.3
22.6							
Total operating expenses.....	1.385.6	598.0	567.7	256.8	278.9	276.2	192.6
153.6							
Loss from operations....	(1,436.4)	(609.3)	(577.5)	(210.0)	(232.4)	(226.8)	(123.0)
(81.7)							
Interest and other income (expense), net..	(14.1)	(15.7)	57.5	.7	(1.0)	9.7	(3.9)
(2.3)							
Loss before provision for income taxes.....	(1,422.3)	(593.6)	(520.0)	(210.6)	(231.4)	(236.5)	(119.1)
(84.0)							
Provision for income taxes.....	--	--	--	--	--	--	--
--							
Net loss.....	(1,422.3)%	(593.6)%	(520.0)%	(210.6)%	(231.4)%	(236.5)%	(119.1)%
(84.0)%							

As a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service or marketing decisions or business combinations that could have a material adverse effect on our business, results of operations and financial condition. In order to accelerate the promotion of the Mplayer.com and HearMe.com brands, we intend to significantly increase their marketing budgets. A substantial increase in marketing expenditures will have a negative impact on our results of operations for a number of quarterly periods.

As a result of our limited operating history, we have limited meaningful historical financial data upon which to base planned operating expenses. Accordingly, our expense levels are based in part on our expectations as to future revenues from advertising, software licensing, commerce revenue-sharing arrangements, premium membership service fees and our anticipated growth in membership. There can be no assurance that we will be able to accurately predict our revenues, particularly in light of the intense competition for the sale of Web-based advertisements, revenue-sharing opportunities and new members, our limited operating history and the uncertainty as to the broad acceptance of the Web as an advertising and commerce medium. Any failure by us to accurately predict revenues in relation to fixed-expense levels could have a material adverse effect on our business, results of operations and financial condition.

Liquidity and Capital Resources We have generated limited revenues from operations to date. Since our inception, we have financed our operations primarily through the private sale of equity securities and, to a lesser extent, capitalized leases and bank borrowings. As of December 31, 1998, we had raised approximately $34.9 million from the issuance of preferred stock which does not include an additional $20.0 million we raised from the issuance of preferred stock in January 1999. We had also drawn down approximately $2.5 million from a $4.0 million financing agreement. As of December 31, 1998, we had approximately $1.1 million of cash and cash equivalents, which does not include an additional $20.0 million we raised from the issuance of preferred stock in January 1999.

Net cash used in operating activities was $9.4 million, $11.1 million and $9.3 million in fiscal 1996, 1997 and 1998, respectively. For such periods, net cash used by operating activities was primarily a result of funding ongoing operations.

Net cash used in investing activities was $3.8 million, $1.0 million and $719,000 in fiscal 1996, 1997 and 1998, respectively. Cash used in investing activities in each period was primarily related to purchases of property and equipment, except for fiscal 1996, when $2.4 million was used as payment for the Catapult acquisition.

Net cash provided by financing activities of $15.1 million, $15.7 million and $2.0 million in fiscal 1996, 1997 and 1998, respectively, was primarily attributable in each period to net proceeds from the issuance of preferred stock and notes payable. We have funded our operations primarily by capital contributed by investors in five rounds of private financing. The first round, completed in January 1995, raised approximately $1.4 million through the sale of Series A Preferred Stock. The second round, completed between August 1995 and January 1996, raised approximately $4.5 million through the sale of Series B Preferred Stock. The third round, completed between April 1996 and January 1997, raised approximately $15.4 million through the sale of Series C Preferred Stock. The fourth round completed between July 1997 and August 1997, raised a total of approximately $16.8 million, through the sale of Series D Preferred Stock. Of the $16.8 million raised with Series D Preferred Stock, approximately $14.9 million was cash and $1.8 million was through conversion of a promissory note and Series C Preferred Stock. In January 1999, we completed a fifth round in which we raised a total of approximately $20.0 million through the sale of Series E Preferred Stock.

In 1995, we entered into a capital lease agreement with Lighthouse Capital and have drawn down all available funds of approximately $1.5 million. We entered into a $4.0 million financing agreement in July 1998. The agreement consisted of a term loan for $1.5 million, an accounts receivable revolving line of credit for $1.5 million and a capital equipment loan of $1.0 million. Amounts borrowed under these agreements are collateralized by substantially all our assets. As of December 31, 1998 we had drawn down $1.5 million against the term loan agreement and approximately $1.0 million against the capital equipment agreement. We fully repaid the term loan with a portion of the net proceeds from the sale of our Series E Preferred Stock in January 1999.

In November 1996, we acquired all of the assets and assumed the liabilities of Catapult as part of a Chapter 11 Plan of Reorganization under the United States Bankruptcy Code. The total acquisition cost was approximately $11.8 million, which consisted of (1) cash payments of approximately $2.4

million, including approximately $549,000 paid to fund Catapult's unsecured creditor payments; (2) shares of Series C Preferred Stock, and (3) legal and accounting costs of approximately $367,000. Net liabilities in excess of assets assumed by Mpath amounted to approximately $2.6 million.

We currently anticipate that the net proceeds of the offering, together with our existing lines of credit and available funds will be sufficient to meet our anticipated needs for working capital and capital expenditures for at least the next 12 months. We may need to raise additional funds in the future in order to fund more aggressive brand promotions and more rapid expansion, to develop newer or enhanced products or services, to fund acquisitions, to respond to competitive pressures, or to acquire complementary businesses, technologies or services. There can be no assurance that additional financing will be available on terms favorable to Mpath, or at all.

Year 2000 Compliance

Many currently installed computer systems and software products are coded to accept or recognize only two digit entries in the date code field. These systems and software products will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, computer systems and software used by many companies and governmental agencies may need to be upgraded to comply with such Year 2000 requirements or risk system failure or miscalculations causing disruptions of normal business activities.

State of Readiness. We have made a preliminary assessment of the Year 2000 readiness of our information technology ("IT") systems, including the hardware and software that enable us to provide and deliver our products and services. Our assessment plan consists of:

. quality assurance testing of our internally developed proprietary software incorporated in our products;

. contacting third-party vendors and licensors of material hardware, software and services that are both directly and indirectly related to the delivery of our products and services;

. contacting vendors of material non-IT systems;

. assessment of repair or replacement requirements;

. repair or replacement;

. implementation; and . creation of contingency plans in the event of Year 2000 failures.

We plan to perform a Year 2000 simulation on our technology during the third quarter of 1999 to test system readiness. Based on the results of our Year 2000 simulation test, we intend to revise the code of our technology as necessary to improve its Year 2000 compliance. We have been informed by many of our hardware and software component vendors that the products we use are currently Year 2000 compliant. We will require our other material hardware and software component vendors to provide assurance of their Year 2000 compliance. We will complete this process during 1999. We are currently assessing our non-IT systems and will seek assurance of Year 2000 compliance from providers of

material non-IT systems. Until such testing is complete and such vendors and providers are contacted, we will not be able to completely evaluate whether our IT systems or non-IT systems will need to be revised or replaced.

Costs. To date, we have incurred approximately $10,000 in connection with identifying or evaluating Year 2000 compliance issues. Our expenses have related to the operating costs associated with time spent by employees in the evaluation process and Year 2000 compliance matters generally. We anticipate our costs will continue to include employee expenses and will increase for purchases of Year 2000 compliant upgrades to our existing hardware and software platforms. We estimate that these costs will total between $150,000 and $200,000; however, if these costs are substantially higher than anticipated, it could have a material adverse effect on our business, results of operations and financial condition.

Risks. We are not currently aware of any Year 2000 compliance problems relating to our technology or our IT or non-IT systems that would have a material adverse effect on our business, results of operations or financial condition, without taking into account our efforts to avoid or fix such problems. We may discover Year 2000 compliance problems in our technology that will require substantial revisions. In addition, third-party software, hardware or services incorporated into our material IT and non-IT systems may need to be revised or replaced, all of which could be time consuming and expensive. If we fail to fix our technology or to fix or replace third-party software, hardware or services on a timely basis, the result could be lost revenues, increased operating costs, the loss of customers and other business interruptions, any of which could have a material adverse effect on our business, results of operations and financial condition. Moreover, the failure to adequately address Year 2000 compliance issues in our technology, and our IT and non-IT systems could result in claims of mismanagement, misrepresentation or breach of contract and related litigation, which could be costly and time-consuming to defend. In addition, there can no assurance that governmental agencies, utility companies, Internet access companies, third-party service providers and others outside our control will be Year 2000 compliant. The failure by such entities to be Year 2000 compliant could result in a systemic failure beyond our control, such as a prolonged Internet, telecommunications or electrical failure, which could also prevent us from delivering our products and services to our customers, decrease the use of the Internet or prevent users from accessing the Web sites of our strategic partners, which could have a material adverse effect on our business, results of operations and financial condition.

Contingency Plan. As discussed above, we are engaged in an ongoing Year 2000 assessment and the development of contingency plans. The results of our Year 2000 simulation testing and the responses received from third-party vendors and service providers will be taken into account in determining the nature and extent of any contingency plans.

Recently Issued Accounting Principles On March 4, 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). SOP 98-1 provides guidance on accounting for the costs of computer software developed or

obtained for internal use. Costs incurred prior to the initial application of SOP 98-1 should not be adjusted to the amounts that would have been capitalized had this SOP been in effect when those costs were incurred. SOP 98-1 is effective for financial statements for fiscal years beginning after December 15, 1998. Accordingly, the Company will adopt SOP 98-1 in its financial statements for the year ending December 31, 1999. The impact on the financial statements of the adoption of this standard has not yet been determined, but is not expected to be significant.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to the increase or decrease in the amount of interest income we can earn on our investment portfolio and on the increase or decrease in the amount of interest expense we must pay with respect to our various outstanding debt instruments. The risk associated with fluctuating interest expense is limited, however, to the exposure related to those debt instruments and credit facilities which are tied to market rates. We do not use derivative financial instruments in our investment portfolio. We ensure the safety and preservation of our invested principal funds by limiting default risks, market risk and reinvestment risk. We mitigate default risk by investing in high-credit quality securities.

Business

The discussion in this prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Overview

Mpath develops, licenses and operates technologies that enable Internet sites to create and manage live communities characterized by real-time interaction among multiple simultaneous users. We also operate our own leading live communities serving over 2.6 million registered users with over 50,000 unique daily visitors generating over 100 minutes of average daily usage per visitor, as of January 1999. Our robust and scaleable technology solutions include graphics, text and sound interactivity, such as voice and music over the Internet, as well as integrated network and site management capabilities. We leverage our proprietary technology by licensing third party site operators software products and providing services for building live communities that may be self-managed or hosted by us on an outsourced basis. The real-time nature of live communities creates highly engaging environments that drive long usage times and strong user loyalty, demonstrated by frequent repeat visits. Our technologies offer Internet advertisers a differentiated opportunity to reach targeted audiences participating in absorbing, memorable activities and to do so with message formats that go beyond the simple "banner" ads common to the Web. We believe we thereby deliver high value solutions that significantly enhance the impact of a broad range of e-business sales and marketing efforts.

Through our Mpath Foundation business unit, we are a leading provider of enabling technology and services to a growing customer base of online companies seeking to create and operate live communities on the Internet. Mpath Foundation is dedicated to delivering proven online technologies and services that enable the creation of full-featured, live communities on the Internet. With our innovative POP.X technology system, Mpath Foundation offers our customers broad technological expertise in networks, operations, information systems, integration technologies, and the customer support capabilities necessary to deploy live community applications rapidly and manage large Internet communities. In addition, we provide fully-functional online game services through our first generation product and we provide log-in, account management, billing and database management services to companies operating online content through our Customer Management System service. Customers of Mpath Foundation consist of a growing base of leading online entertainment companies such as CSK Sega, Eidos Interactive, Electronic Arts, Fujitsu, GTECH, LG Internet, Macromedia and Sony.

Through our Live Communities business unit we have developed and operate two services, Mplayer.com and HearMe.com. In October 1996 we launched Mplayer.com, a premier live entertainment service on the Internet. The Mplayer.com service now consists of three active communities that are built around common interests and offers over 100 of the most popular online multi-participant games. Total usage time on Mplayer.com exceeds 200 million user minutes per month, as of January 1999, compared to 67 million user minutes per month as of January 1998. After less than two years of operations, Mplayer.com has become the number eleven Internet site in terms of total usage time per month according to our usage data. In January 1999, we launched HearMe.com, our second live community service. HearMe.com is currently comprised of seven live communities, making live audio interaction available to people whose interests extend beyond entertainment. We intend to build the HearMe.com services through relationships with Web sites that want to offer live audio communities to their members. We intend to continue to expand this business unit by creating additional services and live communities.

Industry Opportunity

The Internet and the World Wide Web The Internet is an increasingly significant global interactive medium for communications, content and commerce. According to International Data Corporation ("IDC"), the number of Web users worldwide will grow from 97 million at the end of 1998 to 320 million by the year 2002. The Internet now represents the fastest growing form of media in history. According to a recent study, the Internet achieved a reach of 50 million households in only 5 years, whereas cable television, broadcast television and radio each attained a similar level of adoption only after at least 10 years. The dramatic growth in Internet usage has been fueled by a number of key factors, including:

. technological, functional and infrastructure advances in computing and communications;

. relatively lower costs associated with publishing content on the Internet as compared to traditional media;

. increased quantity and improved quality of information and services offered on the Web; and . increased affordability of, access to and resulting proliferation of multimedia PCs.

As Internet accessibility, usage and functionality grow, the Internet is increasingly being used as a medium for direct communication as well as a rapidly growing sales and marketing channel. Jupiter Communications estimates that total online advertising revenue in the U.S. in 1997 was $940 million and expects this amount to grow to $4.4 billion by 2000. We anticipate that the growth in Web advertising will be largely driven by the unique interactive character of the Internet. Specifically, the Internet allows advertisers to target their messages to distinct, self-qualified audiences, measure the effectiveness of their advertisements and modify campaigns on a real-time basis.

The Demand for Live Communities on the Internet During the Internet's brief history, we believe three stages of commercialization have emerged, with each successive stage building upon the experience and momentum of the previous stage. The first stage has enabled users to search and view Web sites containing professionally created content on topics of general interest such as current events, sports, weather and finance. During this stage, Internet search and information destination sites (e.g., CNET, Disney, ESPN SportsZone, Excite, Infoseek, Yahoo!, etc.) have gained widespread prominence as they provided a valuable function for users seeking Web content. The second stage has been characterized by the emergence of commerce-centric sites (e.g., Amazon, eBay, E*Trade, priceline.com, etc.). Such sites typically offer visitors a wide variety of compelling commerce opportunities allowing the Internet to serve as a substitute for direct retail, telephone or catalog sales, thereby generating substantial levels of user traffic.

Although sites representative of the first two stages of commercialization provide valuable services, they did not initially enable Web users to interact or communicate with other individuals. As a result, people-to-communities such as GeoCities, theglobe.com and XOOM.com have emerged as the third stage of Internet commercialization to address the demand by users to interact and communicate with each other. Using existing technologies, these people-to- people communities aggregate large numbers of people and leverage member- generated content by offering user-created personal web sites, free e-mail, user-defined bulletin boards, text chat and shared-interest categories. However, the attractiveness of the interactive experience within these people- to-people communities depends on several factors, including the nature of the communication, the richness of the media and the quality of member-created content. We believe an opportunity exists to create, operate and enable higher quality people-to-people communities characterized by real-time simultaneous interaction among multiple users, which we call live communities.

We believe that live communities are differentiated from existing people-to- people communities because they offer a more complete interactive experience. Within live communities, thousands of people can communicate in real-time, while using rich media tools such as audio, graphics, text chat and instant messaging. The combination of these tools and capabilities provides users with the ability to engage with others in activities such as live concerts, live auctions, group conferencing, help desk applications, distance learning, multi- player games and more. While live communities enhance the quality of the interactive experience for users, we believe they also provide advertisers and e-businesses

with an attractive means of promoting and selling their products and services over the Web. These communities allow advertisers and e-businesses to reach highly targeted audiences within a more personalized context, thereby improving the impact of sales and marketing efforts. The real-time interactive nature of live communities typically results in long usage times and repeat visits, providing further value for advertisers and e-businesses. In addition, the use of advanced interactive technologies enables advertisers to create rich and effective advertisements that go beyond existing banner advertisements.

Creating successful live communities presents numerous technological challenges, requiring high standards of scalability, performance, accessibility, ease-of-use, security and content management. Given the attractiveness live communities offer users, advertisers and e-businesses, and given the time and effort required to build such communities, we believe there is a tremendous opportunity to deliver proven online technologies and services that enable the rapid creation and management of full-featured live communities on the Internet.

The Mpath Solution

We are well-positioned to capitalize on the demand and future growth prospects for live communities through licensing of our proprietary technologies and the operation of our premier live communities. We are a leading provider of enabling technology and services to a growing customer base of online companies seeking to create and operate live communities on the Internet. In addition, as a recognized leader in the creation of live communities, we have developed and operate Mplayer.com, a premier live entertainment service comprised of multi-participant entertainment communities, and HearMe.com, a service comprised of live audio communities.

Through our Mpath Foundation business unit, we offer our customers proprietary software technologies necessary to rapidly deploy live community applications. Additionally, we provide broad technological expertise in networks, operations, information systems, integration technologies and services necessary to manage large Internet communities. We have developed POP.X, the first commercially available, platform-independent end-to-end system for rapid deployment of mass-consumer, live community applications on the Internet. POP.X delivers proven technology that allows companies to build Internet community features without being concerned about scaling issues, back-end customer management systems, browser compatibility, large downloads or consumer difficulties regarding ease-of-use.

Through our Live Communities business unit, we have developed and operate our own live communities serving over 2.5 million registered users with over 50,000 unique daily visitors generating over 100 minutes of average daily usage per visitor, as of February 1999. Launched in October 1996, Mplayer.com is a premier live multi-participant entertainment service on the Internet. In January 1999, we launched HearMe.com, our second live community service. HearMe.com is currently comprised of seven live audio communities, making live audio interaction available to people whose interests extend beyond entertainment. We believe Mplayer.com and HearMe.com offer one of the widest range of opportunities to advertisers and e-businesses available on the Internet today. Advertisers may choose among several options to achieve both branding and direct marketing

objectives. Our live communities offer advertisers rich 3D and audio advertisements, targeting based on consumer data and the ability to obtain direct customer feedback and research on the impact of particular advertising campaigns. In addition, e-businesses can offer their products directly to targeted consumers in a variety of vertical markets.

Mpath Strategy

In order to maintain our leadership position in providing enabling technologies for companies seeking to build live communities on the Internet and in operating our own premier live communities, we have adopted the following strategies:

Expand Our Sales and Marketing Efforts. Through our direct sales efforts, we have developed a base of large, high profile customers who provide an attractive stream of both initial and follow-on revenues, validate our reputation as a technology leader and help to demonstrate the capabilities of our technology and services. While we will continue to pursue these customers through direct sales efforts, we also intend to package diverse product offerings and distribute them through reseller arrangements with Web development firms, enterprise applications resellers and OEM partnerships with developers of customer service, e-commerce or other applications. In addition, we plan to develop an entry-level product with features and a price point more suited for smaller Web sites and target customers who can use the capabilities of the Mpath Foundation technology and services outside of the entertainment and media market segments.

Promote Membership Growth and Usage. We plan to increase membership and usage levels on Mplayer.com, HearMe.com and future services by continuing to provide compelling content and services. In particular, we encourage member-created content because it is often the most original, engaging and frequently updated content available on the Internet. We seek to drive membership growth by expanding distribution of the Mplayer.com and HearMe.com services through partnering relationships with major sites, such as portal sites, destination content and commerce sites, community sites and entertainment content companies. In addition, we intend to expand our membership base and increase usage by (1) adding new third-party content to our sites; (2) entering into arrangements with content providers to co-market our live community sites; (3) providing an entertaining community for current users, thereby motivating current users to recruit new members; and (4) streamlining the registration and installation process. In addition, we intend to increase membership and usage by continuing to improve the community features offered by Mplayer.com and HearMe.com, such as live audio chat, paging, tournaments and hosting of member fan sites.

Maintain and Extend Technology Leadership and Expertise. We have developed proprietary technology for, and accumulated extensive expertise in, delivering a broad range of live community applications on the Internet. This technology and expertise extends to several areas, including client software, network infrastructure, Internet protocols, security, large systems development and scaling. We will continue to expand our features, capabilities and customer solutions with our POP.X technology. In particular, we intend to add support for third party content authoring tools and add to our suite of POP.X applications. This will make it easier for developers to create POP.X content and further speed the launch of their custom Web applications on POP.X. We will also add new features and

capabilities to POP.X that will enable us to significantly improve the customer experiences on our live community services, such as simplifying and expediting the process of acquiring new customers and immediately engaging them in an entertaining experience.

Maximize Value for Advertisers and E-businesses. We seek to maximize the value our live communities offer to advertisers by providing an attractive, growing and targeted audience, as well as by delivering innovative advertising products and campaign management techniques. The Mplayer.com and HearMe.com services consist of multiple desirable and demographically distinct communities, with strong membership growth and long average usage times, which, combined with our technology, allow advertisers to present TV-style full-screen advertisements and other rich media advertising products. The Mplayer.com and HearMe.com services allow advertisers to deliver different messages to different users within the same community experience. Advertisers may also conduct integrated campaigns such as event sponsorships coupled with regular branded advertising and banner ads. Finally, advertisers may use the chat room technology to conduct online focus groups prior to, during and following an advertising campaign to help plan and measure the effectiveness of a particular campaign. The combination of our live community context, highly specific and desirable user demographics, and long usage times provides a favorable platform for targeted and cost-effective online advertising and e-commerce.

Pursue Multiple Revenue Streams. Our proprietary technology and leading live communities enable us to maximize revenue from multiple sources. Mpath Foundation derives the majority of its revenues through licenses of its technology solutions, including POP.X, to customers interested in creating live communities on the Internet. The Live Community services, Mplayer.com and HearMe.com, derive a majority of their revenues through advertising and we intend to maximize advertising revenues by continuing to provide a compelling value proposition for advertisers. We will also seek to increase premium subscription revenues by improving the special benefits and features that are available beyond the free services offered by these communities. These benefits and features include access to special events, rankings and ratings, contests, magazine subscriptions, special features and exclusive games. In addition, we intend to derive revenues from e-commerce activities, including fees from special event promotions and merchandise sales.

Products and Services We derive revenues from two business units, Live Communities and Mpath Foundation. Through our Live Communities business unit we have developed and operate two services, Mplayer.com and HearMe.com, with over 2.6 million registered users as of January 1999. Through our Mpath Foundation business unit, we are a leading provider of enabling technology and services to a growing customer base of online companies seeking to create and operate live communities on the Internet.

Live Communities

Through our Live Communities business unit we have developed and operate two services, Mplayer.com and HearMe.com. The Mplayer.com service consists of three interactive communities built around common interests. The HearMe.com service is also characterized by multiple communities which have been created by members with similar interests. We intend to build the HearMe.com

service through relationships with Web sites that want to offer live audio communities to their members. Our early efforts to recruit partners for HearMe.com will focus on sites with targeted demographics attractive to key advertisers.

Title: "Mpath Live Communities" Flow chart with "Live Communities" at the top with arrows pointing to two boxes below it. The box below and to the left of "Live Communities" contains the Mplayer.com logo and text reading "Entertainment." This box has arrows pointing to three boxes below it, which contain text reading, from left to right: (Box 1) "Classics and Casino Community," (Box 2) "Sports Community," and (Box 3) "Gamers Community." The box below and to the right of "Live Communities" contains the HearMe.com logo and text reading "Live Audio." This box has arrows pointing to two boxes below it, which contain text reading, from left to right: (Box 1) "HearMe.com communities, Family & Friends, On Stage, Romance, Teen Chat, Sports, College, General Chat," and (Box 2) "Partner Communities, Developed by Partners."

Our live community services are free to registered members. To join, users log on to the Mplayer.com and HearMe.com Web sites, complete a short registration form and download the client software for Mplayer.com and HearMe.com either from the Web site or a retail CD-ROM. In addition, Mplayer.com members may also choose to become Mplayer Plus members for a fee of $39.95 for a one-year membership, $49.90 for a two-year membership or $3.95 for a one-month membership. In exchange, they receive access to special events, rankings and ratings, contests, magazine subscriptions, special features and exclusive games.

Mplayer.com offers over 100 games for online play, more than any other Internet game and entertainment service. These games cover a wide range of interests including action, strategy, simulation and sports with top retail titles such as Army Men, Commandos, Links LS, Panzer General I & II, Quake I & II, Rainbow 6, Total Annihilation and Unreal. The retail games are licensed from leading game publishers such as ABC Multimedia, Acclaim Entertainment, Broderbund Software, Eidos Interactive, Electronic Arts, Hasbro Interactive, Id Software, MGM Interactive, Mindscape, THQ and The 3DO Company. For certain titles, users must purchase the CD-ROM from the publisher to play on Mplayer.com, while for other games a free shareware version of the game can be downloaded from Mplayer.com. Unlike most other online game services, the Mplayer.com technology offers multi-player games with low latency which, combined with Mplayer.com's easy-to-use software, has enabled Mplayer.com to be one of the leading live entertainment services on the Internet. In addition to its retail games, Mplayer.com offers over a dozen classic board and card games, such as checkers, backgammon, hearts and spades, most of which can be downloaded for free. These games in the aggregate generate approximately the same amount of usage as retail games. Many of these games offer in-game text and live audio chat, allowing players to speak with one another using their microphones during game play.

Our live communities also offer a rich set of community features including text and live audio chat, buddy lists, paging, member profiles, ranking, tournaments, member submitted editorial, a bulletin board service and hosting of member game fan sites. Mplayer.com and HearMe.com live audio chat allows members to speak with one another in real-time and requires only a microphone to be

connected to their PC. HearMe.com enables many popular community activities including live concerts, live auctions, group conferencing, help desk applications, distance learning, multi-player games and more.

We believe our live communities offer a wide range of Internet advertising opportunities to marketers, allowing them to achieve both branding and direct marketing objectives. In general, on Mplayer.com and HearMe.com, advertisers can use a variety of formats, including rich media, to communicate their messages to targeted audiences based on demographics and content. At the end of an advertising campaign, Mplayer.com and HearMe.com facilitate market research on the impact of the campaign. This research shows that effective campaigns take advantage of a range of advertising products, thereby delivering an advertiser's message within multiple contexts, which leads to increased consumer brand awareness and purchase intent. Mplayer.com and HearMe.com's advertising products include:

. TV-style full-screen ads, which, according to an industry analysis, are the best branding vehicle on the Internet.

. the Pop-Up Box, an effective direct response vehicle that is shown to all registered members when they log-on. It drives high request rates for advertisers on our live communities.

. the WebViewer within live audio chat and entertainment rooms, which provides direct traffic to the advertiser's Web site and allows our registered members to surf within it without having to leave Mplayer.com or HearMe.com.

. sponsorship of lobbies, channels, pagers and events, which provide advertisers with persistent visibility and branding.

. member portraits, which provide users with the ability to use advertisers' logos and brand icons as part of their online identities.

. e-mail newsletters, which provide a great direct response vehicle through hyperlinks to the advertiser's Web site.

. banner ads and buttons, a well-established Internet branding and direct response vehicle.

Mpath Foundation

Mpath Foundation is a leading provider of enabling technology and services to a growing customer base of online companies seeking to create and operate live communities on the Internet. Leveraging our technological expertise in creating live communities, we recently introduced POP.X (short for POPulation eXplosion), our second generation technology system built on the experiences and knowledge obtained from the original architecture developed for Mplayer.com. In addition, we have created another derivative service, the Customer Management System, which provides log-in, account management, billing, database management and reporting services to companies operating online content. POP.X is marketed and sold as a licensable technology product, while the Customer Management System is offered as an Mpath-hosted service option.

POP.X is the first commercially available, platform-independent, end-to-end system providing for the rapid deployment of mass-consumer, live community applications on the Internet. As the diagram below illustrates, the POP.X technology permits users to quickly access live interactive experiences, without the need for user installation, thereby increasing customer acquisition and retention. When a user first visits a Web site that uses POP.X, the user's browser downloads a lightweight Webtop from the Web site's server. This lightweight Webtop receives user input, displays graphics and plays sounds associated with live community applications. The POP.X application, which resides on the Web site's server, processes the bulk of the information required to enable the live community application. In particular, the Web site's server guides media assets to an individual user's PC when needed and communicates data between multiple users' Webtops in real-time.

Title: "POP.X Technology Solution" Flow chart with interconnected boxes and numbered blocks of text. The numbered blocks of text read as follows: "1. Consumers visit Web site that uses POP.X for live people-to-people application. Browser requests Web page with embedded POP.X application." "2. If the first visit, POP.X Webtop is fetched from the Web server by the browser to the consumer's PC." "3. POP.X application server launches the applications associated with the Webtop." "4. Media assets are sent as needed to the Webtop." "5. The Webtop displays graphics, plays sounds and animations and receives user input under the direction of the POP.X application executing on the application server." "6. Application instances on application server communicate data to implement people-to-people interaction."

In the center of the flow chart is a black circle with text reading "The Internet." At the top of the flow chart there are three boxes with text reading, from left to right: (Box 1) "Web Page," (Box 2) "Web Browser," and (Box 3) "POP.X Webtop." Leading from Box 2 is an arrow that points down and to the left to a box that is subdivided into two boxes that contain text reading, from top to bottom: "Customer-Created HTML For Web site" and "Industry Standard Web Server." This subdivided box has an arrow pointing down to a cylinder with text reading "Web Logs." Leading from Box 3 is an arrow that points down to a subdivided box that contains text reading, from top to bottom: "Customer-Created Applications, Mpath-Supplied Community Applications," "POP.X Application Server," "Asset Manager," and "Data Analysis Tools." Below "Asset Manager" is an arrow pointing down to a cylinder with text reading "Media Assets." Below "Data Analysis Tools" is an arrow pointing down to a cylinder with text reading "Service Data Base." Below both of these cylinders is text reading "Web site administrators extract reports and update media assets." To the right of "Data Analysis Tools" is an arrow pointing to a box with text reading "Service Data & Reports."

Using the POP.X technology, developers can create and deploy live community applications in a significantly shorter time frame, and can instead focus on creating such applications without being concerned about the inherent operating restrictions of the Internet. POP.X enables communities to scale rapidly without large technology or staffing expenditures, permits content to be easily and rapidly changed and refreshed, and provides for key data analysis capabilities (e.g., system operation diagnostics, service improvement analysis, data mining features, etc.). The architecture allows a complete online service to be easily constructed out of multiple small, component applications, without the developer having to become an expert in the details of scaleable, reliable real-time system design.

For example, a typical online service would consist of three core applications: a chat application which implements a single chat room, a lobby manager which allows a user to browse through a list of rooms, and pager application which allows users to reach each other to determine where they are. The developer's focus would be on the creation of three distinct user experiences, without the concerns about how they would work and inter-operate. In addition, given that many Web publishers have significant existing online sites and services, POP.X's open architecture supports existing industry standards for application development and legacy system integration, with well- defined and documented interfaces and APIs.

The Customer Management System is a service offered to online publishers to enable session and user-based tracking and billing. The Customer Management System allows developers to extract value from their online application by tracking usage, analyzing user behavior and billing for online services. The Customer Management System is a well proven, reliable system that can be easily integrated with any online application, allowing the publisher to reduce development time and instead focus on their areas of expertise. Provided as an Mpath-hosted service, the Customer Management System consists of a real-time customer engine and a warehouse for data analysis. The real-time engine provides secure value-based transactions and implements many billing models, including subscription, pay-per-play and micro-transactions. The data warehouse allows for trend analysis, thereby maximizing the application value. The Customer Management System service provides connection to the Customer Management System customer content site through secure links over the Internet or dedicated frame relay connections.

Technology for Live Communities We have developed technology solutions for creating a broad range of live community applications on the Internet. Since 1995, we have invested heavily in developing valuable proprietary software and related technologies, incurring over $12.3 million of research and development expenses in the aggregate. In particular, we have developed expertise and technology in four major areas: client software and user experience, network infrastructure for real-time live community applications, Internet protocols and security, and large systems development and scaling.

The key to successfully delivering any mass-consumer real-time experience on the Internet is a strong command of client PC software technology and user experience design. Our proprietary software remedies difficult problems in this area including streaming real-time media to client PCs, implementing rich applications as software components for flexible Web-based delivery, integrating applications with browsers and robust Webtop technology that hide PC software configuration issues from applications. We have also built software and developed flexible and powerful technology for automatically updating our software that resides on users' PCs, while taking into account varying software versions and configurations.

As the diagram below illustrates, the level of technology required to enable people-to-people communities is driven by the type of community application offered within a particular Web site. Conventional communities, which offer users Web page hosting, bulletin board and email services, require relatively simple technology such as Web servers, Java and email servers. Live communities, however, require highly sophisticated software and technology including multicast protocols, latency

matching software and distributed infrastructures. Primary examples of real-time live community applications are live auctions, help desk applications, distance learning, live audio chat, live music performance and multi-player fast-action games. We operate two branded services, Mplayer.com and HearMe.com, which enable these applications. We have also developed and marketed POP.X, which is the first commercially available, platform-independent, end-to-end system providing for the rapid deployment of live community experiences on the Internet.

Title: "Technology for People-to-People Communications" Flow chart with interconnected blocks of text. At the top of the chart there are two column headings: "Conventional Communities" and "Live Communities." On the left-hand side of the chart there are three row headings: "Examples," "Enabling Technology" and "Applications." At the bottom of the chart, there is an arrow pointing from left to right with the text "Asynchronous Communication" appearing on the left side of the arrow and the text "Real-time Communication" appearing on the right side of the arrow. There are eight boxes within the chart located in the three rows described above. Each box within a row has an arrow pointing to the box to its right. The first box, located on the left side of the "Examples" row, contains the text "Geocities, theglobe.com, XOOM.com." The second box, located to the right of the first box, contains the text "Mplayer.com, HearMe.com." In addition, the bottom of the second box contains an arrow pointing from left to right with the text "POP.X" written across it. The third box, located on the left side of the "Enabling Technology" row, contains the text "Web servers, Java, Mail servers." The fourth box, located to the right of the third box, contains the text "Mpath: POP.X and community applications, Others: Custom built point solutions." The fifth box, located to the right of the fourth box, contains the text "Mpath: POP.X Multicast protocols, Latency matching, Distributed Infrastructure." The sixth box, located on the left side of the "Applications" row, contains the text "Web page hosting, Bulletin boards, Email." The seventh box, located to the right of the sixth box, contains the text "Live auctions, Help desk applications, Distance learning, Games, Text Chat." The eighth box, located to the right of the seventh box, contains the text "Live audio chat, Live music performance, Fast Actions Games."

We have significant experience designing, deploying and managing high performance network infrastructures necessary to deliver real-time live community applications. Mplayer.com and HearMe.com leverage the same distributed Internet infrastructure, thereby delivering reliable and predictable low latency experiences. We have developed extensive technology in network transport protocols for different types of data streams and security for delivering a broad range of live-community applications. In particular, our protocols enable very low delay (latency) for data transport between client PCs, multicast services to manage data rates, and scaling for large numbers of simultaneous users. Our technology provides a robust and secure environment for operating live communities on the Internet.

Large mass-consumer real-time communities also require significant back-end systems for operating the applications. We have developed significant software technology and expertise in large back end systems for operating commercial live communities. Our software technology is designed to automatically deal with scaling and load balancing, and we also provide interfaces for commercial software packages, such as databases, billing systems and advertising tracking and rotation systems.

We believe that we have created a significant barrier to potential competitors in the area of live Internet communities. This barrier is comprised of multiple pieces. The broad range of skills and technologies needed to enable live communities is difficult to assemble in a single company. We have accumulated multiple years of development experience. We aggressively protect our intellectual property and continue to heavily invest in new technology development. Our research and development expenses for the prior three years were as follows:

Year Amount

1998..... $3.1 million 1997..... $2.4 million 1996..... $5.3 million Strategic Relationships Mpath has entered into strategic relationships with some of the most prominent media and technology companies in order to increase membership and usage, maximize revenues, build brand recognition, accelerate product development and acquire content. Certain of these relationships are described below.

Infoseek. Infoseek and Mpath have agreed to distribute a customized co- branded version of the Mplayer.com client software and create, on Infoseek's Go Network, co-branded pages that include Mplayer.com client software downloads, certain online and interactive entertainment. Infoseek and Mpath also plan to engage in significant cross-promotional activities and investigate certain e-commerce opportunities. This relationship may enhance our opportunities for e- commerce, broaden distribution of the client software and boost Mplayer.com brand recognition.

XOOM.com. XOOM.com and Mpath have agreed to distribute a co-branded version of the Mplayer.com client software and to create and maintain a co-branded version of the Mplayer.com site for the use of XOOM.com members and site visitors. The co-branded version of Mplayer.com will be promoted on the XOOM.com site as "XOOM.com Games powered by Mplayer.com". Further, XOOM.com will pay us a portion of revenue received from end users referred to XOOM.com from the co-branded pages. This relationship brings us greater Internet reach, broadens distribution of client software and creates additional e-commerce revenue opportunities.

Intel. Intel has sponsored the Intel MMX channel on Mplayer.com to promote and create awareness of Intel's MMX technology. We have also been selected by Intel to develop certain products compatible with future Intel product releases. Intel is a repeat advertiser in Mplayer.com, taking advantage of the brand advertising opportunities presented by Mplayer.com's advertising products. Intel has requested the use of various Mpath screen shots and other Mpath promotional materials to demonstrate examples of innovative Internet technologies available on the Intel platform. Intel is also an investor in our company.

Yahoo!. We have signed a letter of understanding with Yahoo!, which outlines an arrangement to license to Yahoo! our audio chat technology to real-time "one-to-one" and "one-to-many" streaming audio chat for use on Yahoo!'s Audio Chat Service for an initial six-month period. As part of the letter, we have issued Yahoo! a warrant to purchase 192,000 shares of our common stock, which Yahoo! can only exercise upon reaching certain performance goals, including renewal of the license. We believe that our relationship with Yahoo! will further validate our technology, promote HearMe.com as a growing Web site on the Internet, and increase the membership and reach of our live communities.

Excite. Excite and Mpath have created a co-branded area on www.excite.com that creates a portal to the Mplayer.com service and provides additional distribution of the Mplayer.com client software. Excite and Mpath have also undertaken activities to promote each other's services on the Internet. Our agreement with Excite expands the distribution of the Mplayer.com client software, promotes Mplayer.com on one of the Internet's largest Web sites and helps to increase Mplayer.com's Internet reach.

Macromedia. Macromedia and Mpath have agreed to collaborate on the development of certain products, license certain technologies to each other, and co-market their products and services. The companies anticipate working together to develop tools and products used to create highly interactive and large-scale Internet services and communities. Macromedia has agreed to license POP.X from us. We have licensed Macromedia's Flash Player and will participate in Macromedia's Traffic Affiliate Program. This relationship helps accelerate acceptance of POP.X by leveraging Macromedia's standard for multi-participant media development. The agreements between the companies also help to further validate our technologies, create additional Internet reach for us and provide us with revenue opportunities.

GTECH. GTECH was an early adopter of Mpath's POP.X technology. GTECH has licensed POP.X from us for use with GTECH's entertainment and government- sanctioned online lottery systems. This presents an exciting new application and market for POP.X. Our relationship with GTECH has accelerated product development, provided revenue, and added another important reference account to validate our technology.

Sega. SegaSoft Networks was the first licensee of Mplayer.com technology and uses the technology to operate its online service, www.heat.net. We have rights to certain SegaSoft Networks content and payments from SegaSoft Networks. SegaSoft Networks' parent company, CSK Corporation, is an investor in our company, and we also have a business relationship with Sega of America, Incorporated, another CSK subsidiary.

Cox. Cox Interactive Media has contracted with Mpath for distribution of the Mplayer.com client software and the creation of a game channel for Cox. The agreement with Cox Interactive Media features co-branding of various web pages on the Cox Web sites and authorizes Cox to distribute the Mplayer.com client software to end users. Cox Technology Investments, Inc., a Cox affiliate, is an investor in our company. The Cox relationship provides distribution of the Mplayer.com client software, added promotion for Mplayer.com and extension of our Internet reach.

Marketing and Sales

Live Communities

The marketing strategy for Mplayer.com and HearMe.com emphasizes two key objectives. The first is to provide consumers with online communities in which they can socialize, create their own experiences, engage in activities and events, and play multi-player games. The second is to provide

online advertisers with opportunities to reach this attractive, targeted audience with innovative advertising products. We also market additional value-added services and products to Mplayer.com users.

We market advertising opportunities on our live communities to the advertising industry through Web advertisements, trade shows, direct mail, advertising in the trade press and general public relations. We intend to expand our sales force in 1999 and to open new sales offices in locations that can target attractive market segments.

We market Mplayer.com to consumers through Web advertising and publicity in consumer publications and Web sites. The Web ads are primarily placed on entertainment and community Web sites, which attract a similar psychographic and demographic audience as Mplayer.com. Our survey data indicates that over 90% of the participants in our sports and gamers communities are male, and the people within those communities are typically between the ages of 13 and 50; however, approximately 40% of the participants in our classics and casino community are women, and the people within that community are typically between the ages of 25 and 50. The public relations activity is focused on consumer publications such as Internet magazines, game magazines, news magazines, entertainment magazines, and newspapers. We are following a similar strategy for HearMe.com. Currently, over 40% of the participants on our HearMe.com service are women, and the people within the service are typically between the ages of 13 and 55. In addition, the significant majority of retail games offered on Mplayer.com contain a "button" on the CD-ROM version of the game linking to Mplayer.com.

Our marketing and sales organization is also responsible for acquiring and developing original content for our live communities. We establish and maintain relationships with the world's leading computer game developers, enlisting their content for distribution on the Mplayer.com service while creating our own content for distribution within our live communities. In addition, we attract and retain our members on both the Mplayer.com and HearMe.com services by encouraging member-created content, hosting contests and events, and building information-oriented Web pages.

Once a consumer becomes a registered member of our live communities, we begin to market value-added services and products to the consumer, including premium services, pay-per-play games and online purchasing of software and hardware products. These products are marketed to the consumer directly through Web and e-mail newsletter advertising and are sold online.

Mpath Foundation

To reach as many customer segments as possible and broaden the customer penetration of POP.X, Mpath Foundation markets its products and services through both direct and indirect distribution channels, domestically and internationally. In addition to addressing the needs of Web publishers seeking a complete system for developing and deploying live communities applications, Mpath Foundation has implemented a strategy to meet the needs of customers with specific application requirements. As such, Mpath Foundation plans to implement developer marketing programs targeted

at creating a variety of highly customizable POP.X applications. These applications include live audio chat, pagers, classic games, event auditoriums and data analysis tools that are designed to complement a Web publisher's existing content.

Mpath Foundation's direct sales force sells and markets products primarily to the top 200 Web content publishers worldwide. The initial target customers for POP.X include media companies, large portal sites, games publishers, wagering/gaming providers, as well as major entertainment companies. The direct sales force consists of regional account managers and technical sales engineers, supported by in-house technical marketing and customer support organizations. Customers such as Macromedia, GTECH and Sony enhance our ability to further penetrate this market with POP.X technology and applications.

Mpath Foundation's reseller channel was established to create broader customer penetration and drive POP.X application development. We have established relationships with three classes of resellers including (1) Developer Partners focused on developing and selling POP.X applications; (2) Enterprise Partners delivering a full service solution to Web content publishers including creative development, infrastructure and operations; and (3) OEM Partners creating online products that incorporate POP.X components. Mpath Foundation reseller programs are targeted at penetration of the top 2,000 Web site publishers and services.

Mpath Foundation participates in trade shows, conferences, and seminars, provides product information through our Web sites, places online advertising pieces through electronic media, participates in public relations activities, drives reach programs through targeted direct mail, and sponsors special reseller and developer programs, including its own conference. These programs are primarily targeted at driving awareness of POP.X in the Web publishing industry, creating brand recognition, and stimulating reseller and developer engagement with Mpath Foundation's products and services.

Operations and Infrastructure The network for our live communities is managed from our headquarters in Mountain View, California. The central services are co-located with Exodus Communications, a provider of Internet system and network management solutions. Our central services utilize four Sun enterprise-class servers consisting of a Master Control Program machine, a member database machine, a data warehouse machine and a member services billing machine. In addition, the central services utilize Sun servers for functions such as matchmakers, webservers and information logging and an X86 architecture machine for matchmaking.

We also deploy numerous live communities servers across multiple locations at Exodus, PSINet and @Home co-location sites. The live communities servers are located as close as feasible to network interchange points to facilitate improved connectivity and lower latency. In general, the network topology for Mplayer.com and HearMe.com is designed to provide easy scalability and reduce network downtime. Our distributed architecture for our live communities servers enables Mplayer.com and HearMe.com to continue operations even in cases of severe Internet outages as long as some

connectivity to our central service facility remains functional. The architecture also ensures optimal performance for users during game play. We intend to expand our infrastructure as necessary to meet the demand for our products and services.

The Operations department is comprised of three groups: the Central Services Administration Group, the Network Operations Center Group and the Customer Support Group. The Central Services Administration Group is responsible for web services, network infrastructure, live communities administration and Mpath Foundation administration. The Network Operations Center group is responsible for real-time response and intervention into issues with its live communities and Mpath Foundation production services, and is staffed twenty-four hours per day, seven days a week. The Customer Support group is responsible for both customer billing and account issues for Electronic Arts' Ultima Online, Mpath Live Communities and other customers.

Competition

Mpath Live Communities The market for Internet users and advertisers is new and rapidly evolving. Competition is intense and is expected to increase significantly in the future. In addition, barriers to entry are relatively insubstantial. We believe that the principal competitive factors for companies seeking to create live communities on the Internet include the following:

. critical mass and functionality;

. brand recognition;

. member affinity and loyalty;

. broad demographic focus; and . open access for visitors.

Other companies creating Web-based live communities on the Internet are Cendant, E-Pub Services (Uproar.com), Lipstream, Microsoft, SegaSoft and Sony. We will also likely face competition in the future from Web directories, search engines, shareware archives, online communities, Internet telephony, content sites, commercial online service providers, sites maintained by Internet service providers and other entities that attempt to or establish communities on the Internet either by developing their own community or acquiring one of our competitors.

In addition, our future competition could include traditional media companies, a number of which, including CBS, Disney and NBC, have recently invested in and acquired Internet companies. Our competitors and potential competitors may develop superior communities or communities that achieve greater market acceptance than our community. We also compete for visitors with many Internet content providers and Internet service providers, including Web directories, search engines, shareware archives, content sites, commercial online services and sites maintained by Internet service providers, as well as thousands of Internet sites operated by individuals and government and educational institutions. These competitors include free information, search and content sites or services, such as America Online, CNET, CNN/Time Warner, Excite, Infoseek, Lycos, Microsoft, Netscape and Yahoo!. We also compete with the foregoing companies, as well as traditional forms of media such as newspapers, magazines, radio and television, for advertisers and advertising revenues. We believe that

the principal competitive factors in attracting advertisers include the amount of traffic on our Web site, brand recognition, customer service, the demographics of our members and viewers, our ability to offer targeted audiences and the overall cost-effectiveness of the advertising medium we offer. We believe that the number of Internet companies relying on Web-based advertising revenue will increase substantially in the future. Accordingly, we will likely face increased competition, resulting in increased pricing pressures on our advertising rates which could in turn have a material adverse effect on our business, results of operations and financial condition.

Many of our existing and potential competitors, including Web directories and search engines and large traditional media companies, have longer operating histories in the Web market, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we have. Such competitors can undertake more extensive marketing campaigns for their brands and services, adopt more aggressive advertising pricing policies and make more attractive offers to potential employees, distribution partners, commerce companies, advertisers and third-party content providers. Advertisers may perceive Internet content providers and Internet service providers, including Web directories, search engines, shareware archives, sites that offer professional editorial content, commercial online services and sites maintained by Internet service providers as more desirable Web sites for placement of advertisements.

In addition, substantially all of our current advertising customers and strategic partners also have established collaborative relationships with certain of our competitors or potential competitors, and other high-traffic Web sites. Accordingly, we cannot be certain that we will be able to grow our membership base, traffic levels and advertiser customer base at historical levels or retain our current members, traffic levels or advertiser customers. Advertisers may find other Web sites more attractive if Web traffic grows at a faster rate on the Web sites of competitors. and our strategic partners may decline to renew their agreements with us. We may not be able to compete successfully against our current or future competitors and competition could have a material adverse effect on our business, results of operations and financial condition.

Mpath Foundation

The market for software and services for the Internet is relatively new, constantly evolving and intensely competitive and we expect that competition will only intensify in the future. As part of our business, we sell and license products and services for community applications. Our principal competitors in this market include Acuity Software and in-house developers of such applications. Competitive factors in this market include the following:

. quality and reliability of software;

. features for creating, editing and adapting content;

. ease of use and interactive user features;

. scaleability and cost per user; and . compatibility with the user's existing network components and software systems.

To expand our user base and further enhance the user experience, we must continue to innovate and improve the performance of our POP.X technology. Many of our existing and potential competitors have longer operating histories, greater name recognition and significantly greater financial, technical and marketing resources than we do. We are committed to continued market penetration of our brand, products and services and we may implement pricing, licensing, service or marketing changes as a strategic response to changes in the competitive environment in an effort to extend our current brand and technology franchise. If we make price concessions or if our pricing and distribution strategies emerge from our competitors, our business, financial condition and results of operations may be adversely affected. See "Risk Factors--We face intense competition."

Proprietary Rights

Mpath's success depends in part on our ability to protect our proprietary software and other intellectual property. To protect our proprietary rights, we rely generally on patent, copyright, trademark and trade secret laws, confidentiality agreements with employees and third parties, and license agreements with consultants, vendors and customers, although we have not signed such agreements in every case. Despite such protections, a third party could, without authorization, copy or otherwise obtain and use our products or technology, or develop similar technology. We cannot assure that our agreements with employees, consultants and others who participate in product development activities will not be breached, that we will have adequate remedies for any breach, or that our trade secrets will not otherwise become known or independently developed by competitors. In the U.S., we currently have six issued patents in the U.S. with expiration dates ranging from 2014 to 2016, two allowed patents and 16 patents pending (one of which is a provisional patent). There can be no assurance that any pending or future patent applications will be granted, that any existing or future patent will not be challenged, invalidated or circumvented, or that the rights granted under any patent that has issued or may issue will provide competitive advantages to us. Many of our current and potential competitors dedicate substantially greater resources to protection and enforcement of intellectual property rights, especially patents. If a blocking patent has issued or issues in the future, we would need to either obtain a license or design around the patent. There can be no assurance that we will be able to obtain such a license on acceptable terms, if at all, or to design around the patent. We pursue the registration of certain of its trademarks and service marks in the U.S. and in certain other countries, although it has not secured registration of all its marks. As of February 11, 1999, we had four registered U.S. and four foreign trademarks or service marks, and had applications pending for an additional five U.S. and six foreign trademarks or service marks, and one intent to use trademark application in the U.S. See "Risk Factors--We rely on our intellectual property and proprietary rights and may be unable to protect these rights."

Employees

As of December 31, 1998, we have 111 full-time employees, including 29 in research and development, 51 in sales and marketing and 25 in general and administrative functions. From time to time, we also employ independent contractors to support our engineering, market, sales and support and administrative organizations. See "Risk Factors--We depend on certain key personnel."

Facilities

We are headquartered in Mountain View, California, where we lease approximately 28,800 square feet of office space under a lease expiring in January 2002. We also maintain a sales office in New York City. We believe that our existing facilities are adequate to meet our current and foreseeable requirements or that suitable additional or substitute space will be available as needed.

Legal Proceedings

On September 20, 1996, Mpath, MPCAT Acquisition Corporation (a wholly-owned subsidiary of Mpath), and Catapult Entertainment, Inc. executed an Agreement and Plan of Reorganization. The agreement provided for the merger of MPCAT into Catapult such that Catapult would be the surviving corporation and would become a wholly-owned subsidiary of Mpath. In addition, Catapult agreed, as part of the merger agreement, that it would file a voluntary bankruptcy petition. On October 10, 1996, Catapult filed a voluntary bankruptcy petition under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Northern District of California, San Jose Division. On November 15, 1996, the Bankruptcy Court entered its order, which approved the merger between MPCAT and Catapult. At the same time, the Bankruptcy Court entered a separate order that authorized Catapult to assume two patent licenses that it had obtained from Steve Perlman prior to filing the bankruptcy petition. Mr. Perlman objected to the assumption of his licenses by Catapult, and on November 18, 1996, Mr. Perlman filed an appeal with the United States District Court for the Northern District of California, San Jose Division. On August 7, 1997, the District Court affirmed the Bankruptcy Court decision. On September 8, 1997, Mr. Perlman filed an appeal with the Ninth Circuit Court of Appeals, and on January 28, 1999, the Ninth Circuit reversed the Bankruptcy Court and the District Court. The Ninth Circuit held that Catapult could not assume Mr. Perlman's licenses without Mr. Perlman's consent. Catapult expects to file a petition for a writ of certiorari with the United States Supreme Court prior to April 28, 1999.

We have been informed that the current holder of the rights to these patents is Microsoft. We believe that the technology used in our products and services does not infringe upon these patents. However, if a court were to rule that our technology did infringe upon these patents we believe we will be able to work around these patents. Even if we were unable to work around these patents and were required to remove these portions of our technology, we do not believe that this would have a material adverse effect on our business, results of operations, or financial condition.

From time to time we have been, and expect to continue to be, subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of third-party trademarks and other intellectual property rights by us and our licensees. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources and could materially and adversely affect our business, financial condition and results of operations.

Management

The names and ages of Mpath's executive officers and directors as of February 10, 1999, are as follows:

Name Age Position

Paul Matteucci	43	President, Chief Executive Officer, Acting General Manager, Live Communities and Director
Lynn Heublein	36	Chief Operating Officer
Linda Palmor	43	Chief Financial Officer
Brian Apgar	44	Chief Entrepreneur, Founder and Director
Steven Roskowski	33	Chief Technical Officer
Robert Csongor	36	General Manager, Mpath Foundation
James Schmidt	46	Vice President, Engineering
James W. Breyer (1)	37	Director
David A. Brown (2)	53	Director
Douglas G. Carlston (1)	51	Director
William McCall	38	Director
Gregory O'Brien	51	Director
Ruthann Quindlen (2)	44	Director

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

Paul Matteucci, President and Chief Executive Officer, joined Mpath and became a Director in May 1995. From December 1994 to May 1995, Mr. Matteucci was a Resident Entrepreneur at Institutional Venture Partners. From July 1986 to December 1994, Mr. Matteucci held various positions at Adaptec, Inc., including Vice President and General Manager. Prior to joining Adaptec, Inc., Mr. Matteucci held positions with Texas Instruments. Mr. Matteucci received an M.B.A. from Stanford University and an M.A. from Johns Hopkins School of Advanced International Studies. Mr. Matteucci received his undergraduate degree from the University of Pacific in Stockton, California.

Lynn Heublein, Chief Operating Officer, joined Mpath in November 1996 upon Mpath's acquisition of Catapult Entertainment, Inc., which is now a wholly- owned subsidiary of Mpath. Catapult filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Northern District of California, San Jose Division, on October 10, 1996, and MPCAT Acquisition Corporation, a wholly-owned subsidiary of Mpath, merged with and into Catapult upon the conclusion of the bankruptcy proceedings. Ms. Heublein was a co-founder of Catapult, and from April 1994 to November 1996, she was Executive Vice President, Business Development at Catapult. From October 1993 to April 1994, she served as Vice President of Marketing for THQ, Inc. Ms. Heublein has also served Mpath in the capacity of Acting Chief Financial Officer and General Manager, Mpath Foundation. Ms. Heublein holds a B.S. in Engineering from the University of Washington and an M.B.A. from Stanford University.

Linda R. Palmor, Chief Financial Officer, joined Mpath in February 1999. From February 1996 to February 1999, Ms. Palmor worked for Terayon Communication Systems, a developer and marketer of cable modem systems, where she served in a number of positions, including Vice President, Finance and Corporate Controller. From 1995 to 1996, Ms. Palmor served as the Corporate Controller of Electronic Arts, Inc., a multimedia software company. From 1991 to 1995, Ms. Palmor held a number of financial positions with The Walt Disney Company, a media conglomerate. Ms. Palmor is a certified public accountant, and she received a B.Sc. degree in biochemistry from Manchester University in the United Kingdom.

Brian Apgar, Chief Entrepreneur, Founder and Director, co-founded Mpath in January 1995, where he has also served as President, Vice President, Development, General Manager, and Chief Operating Officer. From October 1993 to January 1995, Mr. Apgar served as a Resident Entrepreneur and in other consulting capacities for several venture capital firms, including Merrill Pickard Anderson & Eyre, Sigma Partners and Institutional Venture Partners. Mr. Apgar holds a B.A. in Physics from Princeton University.

Steve Roskowski, Chief Technical Officer, joined Mpath in November 1996 upon Mpath's acquisition of Catapult Entertainment, Inc., which is now a wholly- owned subsidiary of Mpath. Catapult filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Northern District of California, San Jose Division, on October 10, 1996, and MPCAT Acquisition Corporation, a wholly-owned subsidiary of Mpath, merged with and into Catapult upon the conclusion of the bankruptcy proceedings. From March 1994 to December 1996, Mr. Roskowski was Vice President, Engineering and a co-founder of Catapult. Mr. Roskowski has also served Mpath as Vice President, Operations and Vice President, Technology, Mpath Foundation. From October 1992 to March 1994, Mr. Roskowski was a manager of hardware for General Magic. Prior to that, he was a Project Manager at Apple Computer. Mr. Roskowski holds a B.S. in Engineering from the California Institute of Technology.

Robert Csongor, General Manager, Mpath Foundation, joined Mpath in August 1996 where he initially served as Director of Product Marketing and also as Vice President, Business Development and Marketing. From January 1995 to August 1996, he served as Director of Marketing at NVIDIA Corporation. From August 1986 to January 1995, Mr. Csongor served in various capacities at Adaptec, Inc., including as Director of Marketing. Mr. Csongor holds a B.S. in Electrical Engineering from Villanova University.

James Schmidt, Vice President, Engineering, joined Mpath in December 1998. From December 1986 to December 1998, Mr. Schmidt worked for Adaptec Inc., where he served in a number of positions, including Vice President and Chief Information Officer, Vice President, Process Development and Infrastructure, and Vice President, Engineering. Mr. Schmidt received both a B.S. degree in Electrical Engineering and an M.S. degree in Electrical Engineering from Wichita State University.

James W. Breyer has served as a Director of Mpath since January 1995. Mr. Breyer has been a general partner of Accel Partners, a venture capital firm, since 1990, and the Managing Partner since 1997. Prior to joining Accel, Mr. Breyer worked as a management consultant at McKinsey and Company, and he held product management and marketing positions at Apple Computer and Hewlett Packard. Mr. Breyer currently serves as a director of Actuate, RealNetworks, Inc. and several privately held companies. Mr. Breyer holds a B.S. in Computer Science and Economics from Stanford University and an M.B.A. from Harvard University, where he was named a Baker Scholar.

David A. Brown has served as a Director of Mpath since June 1995. Mr. Brown currently sits on the Board of Directors of Quantum Corporation, a mass storage company he helped found in February 1980. Mr. Brown has also been a management consultant and board member for various technology

companies since February 1992. Mr. Brown received a B.S. in Engineering from San Jose State University and an M.S. in Engineering from the University of Santa Clara.

Douglas G. Carlston has served as a Director of Mpath since February 1996. Mr. Carlston was a founder of Broderbund Software Inc., and he served as Chairman of the Board of Broderbund from November 1989 through August 1998. Mr. Carlston also served as Chief Executive Officer of Broderbund from November 1989 until October 1996 and as President of Broderbund from September 1981 until November 1989. Mr. Carlston holds a B.A. and J.D. from Harvard University.

William McCall has served as a Director of Mpath since November 1998. Mr. McCall is the Director, New Media Development of Cox Enterprises, a media company, a position he has held since March 1997. From November 1994 to March 1997, Mr. McCall was a director of TCI Interactive, the interactive division of TCI, a cable company. From March 1994 to November 1994, Mr. McCall was employed by Classic Sports. From February 1991 to March 1994, he was employed by Court TV. Mr. McCall holds a B.A. in History from Connecticut College.

Gregory O'Brien has served as a Director of Mpath since January 1999. Mr. O'Brien has been Chief Administrative Officer at CSK Global Business Offices since May 1998, and has held various other positions at CSK or its affiliates since September 1990. CSK is a computer software and services company. Mr. O'Brien has a B.BA. and an M.B.A. from Pace University.

Ruthann Quindlen has served as a Director of Mpath since January 1995. Ms. Quindlen has been a partner at Institutional Venture Partners since 1994, where she has focused on investments in Internet and software companies. Prior to joining Institutional Venture Partners, Ms. Quindlen was a Managing Director at Alex Brown & Sons. Ms. Quindlen serves on the boards of many other private Internet companies including Digital Impact, Diffusion, FaceTime, Portera Systems, and TimeHub. Ms. Quindlen has a B.S. in Economics from Georgetown University and an M.B.A. from The Wharton School at the University of Pennsylvania.

Board Composition

Directors are elected annually at Mpath's annual meeting of stockholders, and serve for the term for which they are elected and until their successors are duly elected and qualified. Mpath's Bylaws currently provide for a Board of Directors comprised of eight directors.

Board Compensation

Mpath's directors do not receive cash compensation for their services as directors, although certain directors are reimbursed for reasonable expenses incurred in attending Board or committee meetings. In August 1995, Mr. Brown purchased 60,000 shares of common stock at a price per share of $0.05. In February 1996, Mr. Carlston purchased 60,000 shares of common stock at a price per share of $0.21. The stock purchased by Messrs. Brown and Carlston is subject to a right of repurchase by Mpath that lapses over a four-year period. Officers of Mpath are appointed by the Board of Directors and serve at the Board's discretion. Directors who are employees of Mpath are also eligible to participate in Mpath's 1995 Stock Option/Stock Issuance Plan, and beginning in 1999, they will also be eligible to participate

in Mpath's 1999 Employee Stock Purchase Plan. Beginning in 1999, directors who are not employees of Mpath will be eligible to participate in Mpath's 1999 Directors' Stock Option Plan. See "Stock Plans."

Mpath has entered into indemnification agreements with each member of the Board of Directors and certain of its officers providing for the indemnification of such person to the fullest extent authorized, permitted or allowed by law.

Board Committees

The Board of Directors has a Compensation Committee that reviews and recommends to the Board the compensation arrangements provided to the management of Mpath and administers the various stock option plans. The members of the Compensation Committee are Ms. Quindlen and Mr. Brown.

The Board of Directors has an Audit Committee that reviews Mpath's annual audit and meets with Mpath's independent auditors to review Mpath's internal controls and financial management practices. The Board's Audit Committee currently consists of Mr. Breyer and Mr. Carlston.

Compensation Committee Interlocks and Insider Participation The Compensation Committee of the Board of Directors consists of Mr. Brown and Ms. Quindlen. No interlocking relationship exists between any member of our Board of Directors or our Compensation Committee and any member of the board of directors or compensation committee of any other company, and no such interlocking relationship has existed in the past.

Executive Compensation The following table sets forth summary information concerning the compensation received for services rendered to Mpath during the year ended December 31, 1998 by the Chief Executive Officer and each of the other four most highly compensated executive officers, each of whose aggregate compensation during our last fiscal year exceeded, or would exceed on an annualized basis, $100,000 (the "Named Officers").

Summary Compensation Table

		Annual Compensation		Long-Term Compensation	
Name and Principal Position	Salary ($)	Bonus ($)	Other Annual Compensation ($)(1)	Securities Underlying Options (#)	All Other Compensation ($)

Paul Matteucci..... $206,853 -- $9,566 300,000 -- President and Chief Executive Officer Lynn Heublein..... 178,786 -- 2,764 160,000 -- Chief Operating Officer Brian Apgar..... 187,378 -- 5,870 15,000 -- Chief Entrepreneur and Founder Steven Roskowski..... 155,500 -- 2,357 40,000 -- Chief Technical Officer Robert Csongor..... 152,375 -- 5,759 25,000 -- General Manager, Mpath Foundation (1) Other Annual Compensation consists of health insurance premiums paid for by Mpath on behalf of the Named Officer, and in some cases, the spouse and dependents of the Named Officer.

Option Grants

The following table provides certain summary information regarding stock options granted to the Named Officers during the fiscal year ended December 31, 1998.

	Individual Grants (1)				Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation For Option Term (2)	
Name	Number Of Securities Underlying Options Granted (#)	Percent Of Total Options Granted To Employees In Fiscal Year	Exercise Price ($/Share)	Expiration Date	5%	10%
Paul Matteucci.....	300,000	18.9%	$1.03	6/8/08	$194,328	$492,466
Lynn Heublein.....	160,000	10.1	1.03	10/8/08	103,642	262,649
Brian Apgar.....	15,000	0.9	1.03	10/8/08	9,716	24,623
Steven Roskowski.....	40,000	2.5	1.03	10/8/08	25,910	65,662
Robert Csongor(3).....	25,000	1.6	1.03	10/8/08	16,194	41,039

Option Grants in Last Fiscal Year (1) Consists of options granted pursuant to Mpath's 1995 Stock Option/Stock Issuance Plan. See "Stock Plans--1995 Stock Option/Stock Issuance Plan." (2) Stock price appreciation of 5% and 10% is assumed pursuant to rules promulgated by the Securities and Exchange Commission and does not represent Mpath's predictions of its stock performance. There can be no assurance that the actual stock price appreciation over the ten-year option term will be at the assumed 5% and 10% levels or at any other defined level. (3) In January 1999, Mr. Csongor received an option to purchase 20,000 shares of common stock at an exercise price of $4.62.

Option Exercises and Holdings The following table provides summary information concerning the shares of common stock acquired in 1998, the value realized upon exercise of stock options in 1998, and the year end number and value of unexercised options with respect to each of the Named Officers as of December 31, 1998.

Fiscal Year-End Option Values

	Shares Acquired on Exercise	Value	Number of Securities Underlying Unexercised Options at December 31, 1998 (#)	Value of Unexercised In-the-Money Options at December 31, 1998 ($)
Name	(#)	Realized ($)(1)	(Exercisable/Unexercisable)	(Exercisable/Unexercisable)(1)
Paul Matteucci.....	0	0	420,000/0	$617,400/$0
Lynn Heublein.....	174,584	$46,413	151,347/0	$216,702/$0
Brian Apgar.....	0	0	30,000/0	$ 44,100/$0
Steven Roskowski.....	139,829	$64,737	23,931/0	$ 29,400/$0
Robert Csongor.....	120,000	$56,400	0/0	$ 0/$0

(1) Value calculated by determining the difference between the fair market value of underlying securities at exercise date (for value realized) or year-end (for value at year-end), and the exercise price. The estimated fair market value of Mpath's common stock on December 31, 1998 was $2.50 per share.

Stock Plans

1999 Stock Incentive Plan. Our 1999 Stock Incentive Plan was adopted by the Board of Directors in February 1999 and we will be submitting it for approval by our stockholders prior to the closing of this offering. A total of 2,500,000 shares of common stock has been reserved for issuance under the 1999

Stock Incentive Plan. The number of shares reserved for issuance under the 1999 Stock Incentive Plan will be subject to an annual increase on the first day of each of our fiscal years in 2000, 2001, 2002, 2003, and 2004 equal to the lesser of (1) 750,000 shares, (2) 3% of our outstanding common stock on the last day of the immediately preceding fiscal year, or (3) such lesser number of shares as the Board of Directors determines. No options to purchase shares of common stock have been issued under the 1999 Stock Incentive Plan.

The 1999 Stock Incentive Plan provides for the grant of incentive stock options to employees within the meaning of Section 422 of the IRS Code, and nonstatutory stock options and restricted stock to employees, directors and consultants. The 1999 Stock Incentive Plan is currently administered by the Compensation Committee, which has been designated by the Board of Directors to administer the 1999 Stock Incentive Plan with respect to different groups of service providers. The number, vesting schedule, and exercise price for options, or conditions for restricted stock, granted under the 1999 Stock Incentive Plan will be as determined by the relevant administrator; provided, however, that in no event may an individual employee receive option grants for more than 2,500,000 shares in any fiscal year, and the exercise price of incentive stock options must be at least equal to the fair market value of our common stock on the date of grant.

In the event of a sale of all or substantially all of our assets of Mpath, or the merger or consolidation of Mpath with or into another corporation in which the ownership of more than 50% of the total combined voting power of Mpath's outstanding securities changes hands, then restrictions on restricted stock shall lapse, and outstanding options granted under the 1999 Stock Plan may be assumed or an equivalent option substituted by the successor corporation, and if not assumed or substituted by a successor corporation will accelerate and become fully vested effective upon the consummation of such transaction.

The Board of Directors may amend, modify or terminate the 1999 Stock Plan at any time as long as such amendment, modification or termination does not impair vesting rights of plan participants and provided that stockholder approval shall be required for an amendment to the extent required by applicable law, regulations or rules. The 1999 Stock Plan will terminate on February 9, 2009, unless terminated earlier by the Board of Directors.

1995 Stock Option/Stock Issuance Plan. Our 1995 Stock Option/Stock Issuance Plan (the "1995 Stock Plan") was adopted by the Board of Directors and approved by our stockholders in April 1995. As of December 31, 1998, an aggregate of 3,453,000 shares of common stock had been reserved for issuance under the 1995 Stock Plan. The 1995 Stock Plan provides for the granting of incentive stock options (within the meaning of Section 422 of the Code) to employees and nonstatutory stock options and stock purchase rights to employees, non-employee directors and consultants. As of February 11, 1999, 1,673,410 shares of common stock were issuable upon exercise of outstanding options granted under the 1995 Stock Plan, 1,656,396 shares of common stock have been issued upon exercise of options or pursuant to stock purchase rights. Options and stock purchase rights granted under the 1995 Stock Plan will remain outstanding in accordance with their terms, but the Board of Directors has determined that no further options or other awards will be granted under the 1995 Stock Plan.

The 1995 Stock Plan may be administered by the Board of Directors or a committee of the Board (the "Administrator") with the authority to grant option and stock purchase rights and to determine the terms of such awards. Stock options granted under the 1995 Stock Plan may not have a term of more than ten years and generally remain exercisable for a period of three months following termination of the optionee's relationship with Mpath (with longer periods applying in the event such termination occurs as a result of death or disability). The exercise price of all incentive stock options must be at least equal to the fair market value of the common stock at the time of grant, and the exercise price of nonstatutory stock options and the purchase price for stock purchase grants must be at least 85% of the fair market value of the common stock at the time of grant, however, the exercise price of stock options and the purchase price of stock purchase rights granted to employees owning stock that represents more than 10% of the total combined voting power of all classes of outstanding capital stock of Mpath must in all cases be at least 110% of the fair market value of the common stock at the time of grant. The Administrator has authority to grant stock options which are exercisable prior to vesting, in which case the unvested portion of the exercised shares are subject to a right of repurchase in favor of Mpath at the optionee's original cost. Outstanding options vest, and repurchase rights as to exercise unvested options and stock purchase rights lapse, generally at a rate of 25% upon completion of one year of service after the grant and the balance in successive equal monthly installments over the next three years of service. In the event of a shareholder approved merger or consolidation of Mpath in which the ownership of more than 50% of the total combined voting power of Mpath's outstanding securities changes hands, or the sale of all or substantially all of Mpath's assets in a complete liquidation or dissolution of Mpath, outstanding options granted under the 1995 Stock Plan will terminate unless assumed by a successor in interest to Mpath's business, and all Company stock repurchase rights will terminate unless such repurchase rights are assigned to the successor corporation.

1999 Directors' Stock Option Plan. Our 1999 Directors' Stock Option Plan (the "Directors' Plan") was adopted by the Board of Directors in February 1999 and we will be submitting it for approval by our stockholders prior to the closing of this offering. A total of 300,000 shares of common stock has been reserved for issuance under the Directors' Plan.

The Directors' Plan provides for an automatic initial grant of an option to purchase 30,000 shares of common stock to each person who first becomes a nonemployee director after the effective date of the plan upon appointment or election. Initial grants to nonemployee directors shall become exercisable in installments as to 25% of the total number of shares subject to the option on the first, second, third and fourth anniversaries of the date of grant. The Directors' Plan also provides for annual grants, on the date of each annual meeting of Mpath's shareholders, to each nonemployee director who has served on Mpath's Board of Directors for at least six months. The annual grant to such nonemployee directors is an option to purchase 7,500 shares of common stock, which option shall become exercisable in full on the fourth anniversary of the date of grant. The exercise price of all stock options granted under the Directors' Plan shall be equal to the fair market value of a share of Mpath's common stock on the date of grant of the option. Options granted under the Directors' Plan have a term of ten years, however, the

option will terminate earlier to the extent not vested when the optionee ceases to serve as a Director or to the extent vested if it is not exercised within 12 months after the Director's death or disability or within 90 days after the Director ceases to serve as a Director for any other reason.

In the event of a sale of all or substantially all of the assets of Mpath or the merger or consolidation of Mpath with or into another corporation in which the ownership of more than 50% of the total combined voting power of Mpath's outstanding securities changes hands, all outstanding options will accelerate and become fully vested effective upon the consummation of such transaction.

The Directors' Plan is designed to work automatically without administration; however, to the extent administration is necessary, it will be performed by the Board of Directors without participation by a director with respect to matters in which such director has a personal interest. The Board of Directors may amend or terminate the Directors' Plan; provided, however, that no such action may adversely affect any outstanding option. If not terminated earlier, the Directors' Plan will have a term of ten years.

1999 Employee Stock Purchase Plan. Our 1999 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors in February 1999 and we will be submitting it for approval by our stockholders prior to the closing of this offering. A total of 750,000 shares of common stock has been reserved for issuance under the Purchase Plan, none of which have been issued as of the date of this offering. The number of shares reserved for issuance under the Purchase Plan will be subject to an annual increase on the first day of each of Mpath's fiscal years in 2000, 2001, 2002, 2003, and 2004 equal to the lesser of (1) 100,000 shares, (2) 1% of Mpath's outstanding common stock on the last day of the immediately preceding fiscal year, or (3) such lesser number of shares as the Board of Directors determines. The Purchase Plan becomes effective on the date of this prospectus. Unless terminated earlier by the Board of Directors, the Purchase Plan shall terminate in February 2019.

The Purchase Plan, which is intended to qualify under Section 423 of the Code, will be implemented by a series of overlapping offering periods of 24 months' duration, with new offering periods (other than the first offering period) commencing on May 1 and November 1 of each year. Each offering period will consist of four consecutive purchase periods of six months' duration, at the end of which six month period (a "purchase date") an automatic purchase will be made for participants. The initial offering period is expected to commence on the date of this offering and end on April 30, 2001; the initial purchase period is expected to begin on the date of this offering and end on October 31, 1999. The Purchase Plan will be administered by the Board of Directors or by a committee appointed by the Board. Employees (including officers and employee directors) of Mpath, or of any majority-owned subsidiary designated by the Board, are eligible to participate in the Purchase Plan if they are employed by Mpath or any such subsidiary for at least 20 hours per week and more than five months per year. The Purchase Plan permits eligible employees to purchase common stock through payroll deductions, which in any event may not exceed 20% of an employee's compensation, at a price equal to the lower of 85% of the fair market value of the common stock at the beginning of each offering period or at the end of each purchase period. Employees may end their participation in the Purchase Plan at any time

during an offering period, and participation ends automatically on termination of employment. The Board may also implement provisions of the Purchase Plan that permit stock purchases through cash or stock contributions.

No employee shall be granted an option under the Purchase Plan if immediately after the grant such employee would own stock and/or hold outstanding options to purchase stock equaling 5% or more of the total voting power or value of all classes of stock of Mpath or its subsidiaries, or if such option would permit an employee to purchase stock under all employee stock purchase plans of Mpath and its subsidiaries to accrue at a rate that exceeds $25,000 of fair market value of such stock for each calendar year in which the option is outstanding at any time. In addition, no employee may purchase more than 2,000 shares of common stock under the Purchase Plan in any one purchase period. If the fair market value of the common stock on a purchase date is less than the fair market value at the beginning of the offering period, each participant in the Purchase Plan shall automatically be withdrawn from the offering period as of the end of the purchase date and re-enrolled in the new twenty-four month offering period beginning on the first business day following the purchase date.

The Purchase Plan provides that in the event of a merger or consolidation of Mpath with or into another corporation or a sale of all or substantially all of Mpath's assets, each right to purchase stock under the Purchase Plan will be assumed or an equivalent right substituted by the successor corporation unless the Board of Directors shortens any ongoing offering period so that employees' rights to purchase stock under the Purchase Plan are exercised prior to the transaction. The Board of Directors has the power to amend or terminate the Purchase Plan and to change or terminate offering periods as long as such action does not adversely affect any outstanding rights to purchase stock thereunder, provided however that the Board may amend or terminate the Plan or an offering period even if it would adversely affect outstanding options in order to avoid Mpath's incurring adverse accounting charges.

Limitation of Liability and Indemnification Matters As permitted by the Delaware General Corporation Law (the "Delaware Law"), Mpath has included in its Restated Certificate of Incorporation a provision to eliminate the personal liability of its officers and directors for monetary damages for breach or alleged breach of their fiduciary duties as officers or directors, respectively, subject to certain exceptions. In addition, Mpath's Bylaws provide that Mpath is required to indemnify its officers and directors under certain circumstances, including those circumstances in which indemnification would otherwise be discretionary, and Mpath is required to advance expenses to its officers and directors as incurred in connection with proceedings against them for which they may be indemnified. Mpath has entered into indemnification agreements with its officers and directors containing provisions that are in some respects broader than the specific indemnification provisions contained in the Delaware Law. The indemnification agreements require Mpath, among other things, to indemnify such officers and directors against certain liabilities that may arise by reason of their status or service as officers and directors (other than liabilities arising from willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, and to obtain directors' and officers' insurance if available on reasonable terms. Mpath has also obtained directors' and officers' liability insurance.

At present, Mpath is not aware of any pending or threatened litigation or proceeding involving a director, officer, employee or agent of Mpath in which indemnification would be required or permitted. Mpath is not aware of any threatened litigation or proceeding that might result in a claim for such indemnification. Mpath believes that its charter provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers.

Certain Transactions

Private Placements of Securities In January 1995, we issued and sold a total of 100,000 shares of our common stock at a price of $0.05 per share and 2,800,000 shares of our Series A Preferred Stock at a price of $0.50 per share to IVP and its affiliates and Accel Partners and its affiliates.

In August 1995 and January 1996, we issued and sold a total 2,190,842 shares of our Series B Preferred Stock at a price of $2.07 per share to IVP, Accel Partners, Sutter Hill Ventures and its affiliates and certain other private investors.

In April 1996, we issued and sold a total of 1,154,580 shares of our Series C Preferred Stock at a price of $10.28 per share to CSK Corporation and its affiliates, IVP, Accel Partners, Sutter Hill and certain other private investors. In November 1996, we issued and sold a total of 291,829 shares of our Series C Preferred Stock at a price per share of $10.28 to CSK Corporation. In March 1997, we issued and sold a total of 48,638 shares of our Series C Preferred Stock at a price of $10.28 per share to Electronic Arts.

In November 1996, we acquired all of the outstanding capital stock of Catapult Entertainment, Inc., a California corporation, in connection with Catapult's reorganization. Pursuant to an Agreement and Plan of Reorganization and an Agreement and Plan of Merger, Catapult merged with and into a wholly-owned subsidiary of ours. In connection with the merger, we issued 868,254 shares of our Series C Preferred Stock and options to purchase 121,078 shares of our common stock, valued at $10.28 per share, to the stockholders of Catapult. In addition, we issued and sold a warrant to purchase up to 52,250 shares of our common stock at a price of $60.00 per share to Intel. This warrant expires on December 31, 2000. We also issued two convertible promissory notes to Intel for $1,150,000 and $150,000 respectively, and issued a convertible senior subordinated promissory note to Viacom for $1,864,000. In July 1997, the notes to Intel were canceled in exchange for shares of our Series D Preferred Stock and warrants to purchase our common stock, based on a purchase price of $5.40 per share. The Viacom Note is convertible into common stock upon a sale of all or substantially all of Mpath, through a merger, acquisition, or other transaction or upon an initial public offering of Mpath's common stock pursuant to a registration statement. The Viacom Note is due and payable on November 18, 2001.

In July and August 1997, we issued and sold a total of 3,111,110 shares of our Series D Preferred Stock to Intel, Technology Crossover Ventures, Electronic Arts, IVP, Accel Partners, Sutter Hill, Cox Technology Investments and certain other private investors at a price of $5.40 per share. In addition, in July and August 1997, we issued warrants to purchase 1,555,555 shares of common stock at an

exercise price of $5.40 per share to the purchasers of the Series D Preferred Stock. These warrants to purchase common stock are exercisable in stages. One-half of the shares subject to these common stock warrants are exercisable upon the earlier to occur of (1) a sale of Mpath in which the consideration per share received by us (on a fully-diluted basis) is less than $10.80 per share and (2) two years from the date of their issuance. The second half of the shares subject to these common stock warrants are exercisable upon the earlier to occur of (1) a sale of Mpath in which the consideration per share received by us (on a fully-diluted basis) is less than $10.80 per share and (2) 30 months from the date of their issuance. The first half of these warrants expire upon the earliest of (1) the issuance and sale of shares of our common stock in an initial underwritten registered public offering in which the price per share at least $10.80 and where we receive total net proceeds of at least $15,000,000, (2) a sale of Mpath in which the consideration per share received by us (on a fully-diluted basis) is at least $10.80, (3) the closing of a private financing of Mpath in which the price per share (on a fully-diluted basis) is at least $10.80 and where we receive total net proceeds of at least $10,000,000 and (4) two years from the date of their issuance. The second half of these warrants expire upon the same events as the first half of these warrants, except that they may be exercisable for up to 30 months after their issuance, not just two years. In any event, these common stock warrants expire five years from the date they become exercisable, if that ever occurs.

In July 1998, we entered into a Loan and Security Agreement with Greyrock Business Credit, a Division of NationsCredit Commercial Corporation under which Greyrock Business Credit made a $1,500,000 term loan to us and agreed to provide additional loans for the purchase of equipment and for general working capital purposes. In connection with the loan agreement with Greyrock Business Credit, we issued and sold Greyrock Business Credit a warrant to purchase 23,000 shares of our Series D Preferred Stock at an exercise price of $5.40 per share. This warrant is exercisable at any time and expires on July 30, 2003.

In January 1999, we issued and sold a total of 3,035,306 shares of our Series E Preferred Stock to Intel, Technology Crossover Ventures, IVP, Accel Partners, Sutter Hill, Wheatley Partners, HLM ICB Fund, Winfield Capital Corp., Spinnaker Founders Fund and its affiliates and certain other private investors at a price of $6.60 per share. In connection with this sale of our Series E Preferred Stock, we issued a warrant to purchase 77,422 shares of our Series E Preferred Stock at an exercise price of $6.60 per share to NationsBanc Montgomery Securities LLC, the placement agent in the Series E financing. This warrant expires on the closing of this offering.

Since inception, we from time to time have issued and sold shares of our common stock and granted options to purchase common stock to our employees, directors and consultants.

Transactions with Directors and Officers Affiliate Relationships. The following members of the Board of Directors are affiliated with certain private investors that participated in the foregoing transactions: James W. Breyer (Accel Partners), William McCall (Cox Technology Investments), Ruthann Quindlen (IVP) and Gregory O'Brien (CSK Corporation). In addition, David Brown directly holds shares of our Preferred Stock.

Change of Control. On February 5, 1999, Linda Palmor, Chief Financial Officer, received a non-qualified option to purchase 150,000 shares of our common stock at an exercise price of $5.50 per share, which price represented 85% of our common stock's fair market value on the date of grant. The stock issuable upon exercise of Ms. Palmor's option is subject to vesting over a four-year period. Upon certain change of control events 40% of Ms. Palmor's unvested stock shall immediately vest.

Promissory Notes. The executive officers listed on the table below have executed full-recourse promissory notes in favor of Mpath in excess of $60,000. All of the notes listed below were executed in connection with the purchase of shares of our common stock.

Name Date of Note Amount Interest Rate Term

Lynn Heublein, Chief Operating Officer	10/05/98	$ 78,105.23	5.12%	(1)
	11/22/98	$101,707.56	4.51%	(1)
Linda Palmor, Chief Financial Officer	02/05/99	$885,600.75	4.71%	(2)
Steven Roskowski, Chief Technical Officer	11/22/98	$144,999.78	4.51%	(1)
Robert Csongor, General Manager, Mpath Foundation	11/22/98	$123,594.00	4.51%	(1)

(1) These notes will become due and payable upon the earlier of (a) 9 months after our initial public offering, (b) 5 years from the date of issue or (c) the termination of the executive officer's employment with us. (2) This note will become due and payable upon the earlier of (a) 2 years after our initial public offering, (b) 5 years from the date of issue or (c) the termination of the executive officer's employment with us.

SegaSoft Agreement

In April 1996, we entered into a Technology License Agreement with SegaSoft. Under the agreement with SegaSoft, we granted SegaSoft a non-exclusive license to use certain proprietary information and technology to support multi- participant interactive applications. In addition, we must provide technical assistance to SegaSoft. and SegaSoft must develop at least two games in each 12 month period beginning December 1, 1997. At any time after April 1998, SegaSoft may terminate the agreement upon 12 months written notice.

Principal Stockholders

The following table sets forth certain information with respect to the beneficial ownership of the shares of Mpath's common stock on a fully-diluted basis as of February 11, 1999, and as adjusted to reflect the sale of the common stock offered by Mpath pursuant to this prospectus (1) by each person who is known by Mpath to own beneficially more than 5% of Mpath's common stock on a fully-diluted basis; (2) by each director, the Chief Executive Officer and the Named Officers; and (3) by all directors and executive officers of Mpath as a group. In addition, common stock issuable upon conversion of all

outstanding preferred stock are considered outstanding. Except as otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable.

Name	Shares Beneficially Owned(1)	Percent of Class(2) Before Offering	Percent of Class(2) After Offering
Accel Partners (3)	2,849,151	16.0%	
IVP (4)	2,849,153	16.0%	
CSK Corporation and affiliates (5)	1,338,528	7.8%	
Sutter Hill Ventures (6)	1,334,119	7.5%	
Intel Corporation	1,087,239	6.1%	
Cox Technology Investments, Inc.(7)	925,925	5.2%	
Paul Matteucci (8)	1,000,000	5.5%	
Brian Apgar (9)	639,000	3.6%	
Lynn Heublein (10)	424,728	2.4%	
Steve Roskowski(11)	242,402	1.4%	
Robert Csongor(12)	140,000	*	
James W. Breyer (3)	2,849,151	16.0%	
David A. Brown	195,757	1.1%	
Douglas G. Carlston	60,000	*	
William McCall (7)	925,925	5.2%	
Gregory O'Brien (5)	1,388,528	7.8%	
Ruthann Quindlen (4)	2,849,153	16.0%	
All executive officers and directors as a group (13 persons) (13)	11,014,195	59.1%	

* Less than 1%. (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days of February 11, 1999 are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage of ownership of each other person. The persons named in this table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable and except as indicated in the other footnotes to this table. (2) Percent of beneficial ownership is based on 17,831,239 shares of common stock outstanding as of February 11, 1999, and shares of common stock outstanding after this offering. (3) Consists of 2,609,824 shares held by Accel IV L.P., 105,417 shares held by Accel Investors 94 L.P., 54,134 shares held by Accel Keiretsu L.P., 62,680 shares held by Ellmore C. Patterson Partners, and 17,096 shares held by Prosper Partners. Mr. Breyer is an affiliate of each of the entities listed in the previous sentence and disclaims his beneficial ownership of such shares except to the extent of his pecuniary interest therein.The address of Accel is 428 University Avenue, Palo Alto, California 94301. (4) Consists of 2,733,993 shares held by Institutional Venture Partners VI, 56,075 shares held by Institutional Venture Management VI, 13,630 shares held by IVP Founders Fund I, L.P. and 45,455 shares held by IVP Broadband Fund, L.P. Ms. Quindlen is General Partner of each of the entities listed in the previous sentence and disclaims beneficial ownership of such shares except to the extent of her pecuniary interest therein. The address of IVP is 3000 Sand Hill Road, Building 2, Suite 290, Menlo Park, California 94025. (5) Consists of 694,263 shares held by CSK Corporation, 462,844 shares held

by CSK Venture Capital Co. Ltd., 115,711 shares held by CSK Venture Capital Co. Ltd. as Investment Manager for CSK-2 Investment Fund, 57,855 shares held by CSK Venture Capital Co. Ltd. as Investment Manager for CSK-1(A) Investment Fund, and 57,855 shares held by CSK Venture Capital Co. Ltd. as Investment Manager for CSK-1(B) Investment Fund. Mr. O'Brien is an officer of a company affiliated with CSK Corporation and disclaims beneficial ownership of such shares. The address of CSK Corporation is 25th Floor, Shinjuku-Sumitomo Building, 2-6-1 Mishi-Shinjuku, Shinjuku-ku, Tokyo 163- 0227, Japan.

(6) Consists of 998,852 shares held by Sutter Hill Ventures, and 335,267 shares held by 14 individuals or entities associated with Sutter Hill Ventures. The address of Sutter Hill Ventures is 755 Page Mill Road, Suite A200, Palo Alto, California 94304. (7) Mr. McCall is Director, New Media Development of a company affiliated with Cox Technology Investments, Inc. and disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein. The address of Cox Technology Investments, Inc. is 1400 Lake Hearn Drive, Atlanta, Georgia 30319. (8) Includes 420,000 shares exercisable under outstanding stock options within 60 days of February 11, 1999. The address of Mr. Matteucci is c/o Mpath Interactive, Inc., 665 Clyde Avenue, Mountain View, California 94043. (9) Includes 30,000 shares exercisable under outstanding stock options within 60 days of February 11, 1999. (10) Includes 151,390 shares exercisable under outstanding stock options within 60 days of February 11, 1999. (11) Includes 23,931 shares exercisable under outstanding stock options within 60 days of February 11, 1999. (12) Includes 20,000 shares exercisable under outstanding stock options within 60 days of February 11, 1999. (13) Includes 795,321 shares exercisable under outstanding stock options within 60 days of February 11, 1999.

Description of Capital Stock

Upon the completion of this offering, the authorized capital stock of Mpath will consist of 50,000,000 shares of common stock, $.00005 par value, and 2,000,000 shares of undesignated preferred stock, $.00005 par value, after giving effect to the amendment of Mpath's Certificate of Incorporation to delete references to the Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, which will occur upon conversion of such preferred stock into common stock upon the closing of this offering.

Common Stock

As of February 11, 1999, there were 17,831,239 shares of common stock outstanding held of record by 199 stockholders, and options to purchase an aggregate of 1,673,410 shares of common stock were also outstanding. There will be shares of common stock outstanding (assuming no exercise of the Underwriter's overallotment option, exercise of outstanding options under the Stock Plans after February 11, 1999 or exercise of warrants outstanding after the closing of this offering) 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 for each share held of record on all matters submitted to a vote of the stockholders. The common stock has no preemptive or conversion rights or other subscription rights. There are no sinking fund provisions applicable to the common stock. The outstanding shares of common stock are, and the shares of common stock to be issued upon completion of this offering will be, fully paid and non-assessable.

Preferred Stock

Upon the closing of the offering, all outstanding shares of preferred stock will be converted into 13,451,921 shares of common stock and automatically retired. Thereafter, the Board of Directors is authorized to issue preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series 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 Mpath without further action by the stockholders. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including voting rights, of the holders of common stock. In certain circumstances, such issuance could have the effect of decreasing the market price of the common stock. As of the closing of the offering, no shares of preferred stock will be outstanding and Mpath currently has no plans to issue any shares of preferred stock.

Registration Rights

The holders of 17,363,200 shares of common stock, including shares issuable upon exercise of outstanding warrants, (the "Registrable Securities"), or their transferees are entitled to certain rights with respect to the registration of such shares under the Securities Act. These rights are provided under the terms of an agreement between Mpath and the holders of the Registrable Securities. Pursuant to such Agreement, on the written demand of holders of more than 50% of the then outstanding Registrable Securities, Mpath shall use its best efforts to register such shares and those of any other stockholders who, by prompt notice, request registration, subject to certain cutbacks in participation made by the managing underwriter. Mpath is not required to effect more than two such demand registrations on Form S-1 at any time and more than two such demand registrations on Form S-3 in any twelve-month period. Such holders are also entitled to unlimited piggyback registration rights, subject to certain cutbacks in participation made by the managing underwriter. All offering expenses in connection with such registration will be borne by Mpath, excluding underwriting discounts and commissions.

Delaware Law and the Effect of Certain Certificate of Incorporation and Bylaw Provisions Mpath is subject to the provisions of Section 203 of the Delaware General Corporation Law, and anti-takeover law. In general, the statute prohibits a publicly-held Delaware corporation from engaging in a business combination with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is

approved in a prescribed manner. A "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the stockholder. For purposes of Section 203, an "interested stockholder is defined to include any person that is:

. the owner of 15% or more of the outstanding voting stock of the corporation;

. an affiliate or associate of the corporation and was the owner of 15% or more of the voting stock outstanding of the corporation, at any time within three years immediately prior to the relevant date; and . an affiliate or associate of the persons described in the foregoing bullet points.

Stockholders may, by adopting an amendment to the corporation's certificate of incorporation or bylaws, elect for the corporation not to be governed by Section 203, effective 12 months after adoption. Neither Mpath's Certificate of Incorporation nor the Bylaws exempt Mpath from the restrictions imposed under Section 203 of the Delaware General Corporation Law. It is anticipated that the provisions of Section 203 of the Delaware General Corporation Law may encourage companies interested in acquiring Mpath to negotiate in advance with the Board of Directors of Mpath because the stockholder approval requirement would be avoided if a majority of the directors then in office approve either the business combination or the transaction that results in the stockholder becoming an interested stockholder.

In February, 1999, our Board of Directors and stockholders approved certain amendments to our Certificate of Incorporation and Bylaws to provide, among other things, that directors of Mpath will be elected without the application of cumulative voting. Such provision shall become effective at the first meeting of stockholders following the annual meeting of stockholders when Mpath shall have had at least 800 stockholders. Such amendments also provide that, after the closing of the offering contemplated hereby, any action required or permitted to be taken by the stockholders of Mpath may be taken only at a duly called annual or special meeting of the stockholders. The Bylaws also establish procedures, including advance notice procedures with regard to the nomination, other than by or at the direction of the Board of Directors, of candidates for election as directors. See "Description of Capital Stock--Common Stock."

The foregoing provisions could have the effect of making it more difficult for a third party to effect a change in the control of the Board of Directors. In addition, these provisions could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, a majority of the outstanding voting stock of Mpath.

Transfer Agent and Registrar The Transfer Agent and Registrar for the common stock is BankBoston, N.A. The Transfer Agent's address and telephone number is 150 Royall Street, Campton, Massachusetts, 02021, (781) 575-2000.

Shares Eligible for Future Sale

Prior to this offering, there has been no market for our common stock. Future sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of certain contractual and legal restrictions on resale, sales of substantial amounts of our common stock in the public market after such restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital.

Upon completion of the offering, we will have outstanding shares of common stock. Of these shares, the shares sold in the offering, plus any shares issued upon exercise of the underwriters' over-allotment option, will be freely tradable without restriction under the Securities Act, unless purchased by "affiliates" of Mpath as that term is defined in Rule 144 of the Securities Act.

The remaining 17,831,239 shares of common stock outstanding are "restricted securities" within the meaning of Rule 144. Restricted shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144, Rule 144(k), or Rule 701 of the Securities Act, all of which are summarized below. Sales of the restricted shares in the public market, or the availability of such shares for sale, could adversely affect the market price of our common stock.

Our stockholders have entered into lock-up agreements in which they have agreed that they will not, without the prior written consent of BancBoston Roberston Stephens, offer, sell, contract to sell, or grant any option to purchase or otherwise dispose of their shares of our common stock for a period of 180 days following the effective date of the registration statement filed pursuant to this offering. These lock-up agreements also apply to any securities owned by our stockholders that are exercisable for or convertible into our common stock. As a result of these contractual restrictions, notwithstanding possible earlier eligibility for sale under the provisions of Rules 144, 144(k) and 701, shares subject to lock-up agreements will not be saleable until such lock-up agreements expire or are waived by BancBoston Robertson Stephens. Taking into account the lock-up agreements, and assuming BancBoston Robertson Stephens does not release stockholders from these agreements, the following shares will be eligible for sale in the public market at the following times:

. beginning on the effective date, only the shares sold in the offering will be immediately available for sale in the public market;

. beginning 180 days after the effective date, approximately 14,718,511 shares will be eligible for sale pursuant to Rules 144, 144(k) and 701; and . an additional 3,112,728 shares will be eligible for sale pursuant to Rule 144 after January 2000.

Shares eligible to be sold by affiliates pursuant to Rule 144 are subject to volume restrictions. In general, under Rule 144, and beginning after the expiration of the lock-up agreements, a person, or persons whose shares are aggregated, who has beneficially owned restricted shares for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of: (1) one percent of the number of shares of common stock then outstanding, which will equal approximately shares immediately after the offering; or (2) the average weekly trading volume of the

common stock during the four calendar weeks preceding the 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 us. Under Rule 144(k), a person who is not deemed to have been an affiliate of Mpath at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Pursuant to the lock-up agreements, all of our employees holding common stock or stock options may not sell shares acquired upon exercise of their options until 180 days after the effective date. Beginning 180 days after the effective date, any of our employees, officers, directors, or consultants who purchased his or her shares pursuant to a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell such shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. In addition, Mpath intends to file one or more registration statements under the Securities Act as promptly as possible after the effective date to register shares to be issued pursuant to the our employee benefit plans. As a result, any options exercised under our stock option plans or any other benefit plan after the effectiveness of such registration statement will also be freely tradable in the public market, except that shares held by affiliates will still be subject to the volume limitation, manner of sale, notice and public information requirements of Rule 144 unless the shares are otherwise resaleable under Rule 701. As of February 11, 1999, there were outstanding options for the purchase of 1,673,410 shares, all of which were exercisable. No shares have been issued to date under our Employee Stock Purchase Plan or our Directors' Stock Option Plan. As of February 11, 1999, there were outstanding warrants for the purchase of 1,986,282 shares that will survive the completion of this offering. See "Risk Factors--New investors will suffer immediate substantial dilution," "Management--Stock Plans" and "Description of Capital Stock--Registration Rights."

Underwriting

The underwriters named below, acting through their representatives, BancBoston Robertson Stephens Inc., Thomas Weisel Partners LLC, Warburg Dillon Read LLC, a subsidiary of UBS AG, and Wit Capital Corporation acting as e- Manager, have severally agreed with us, subject to the terms and conditions of the underwriting agreement, to purchase from us the number of shares of common stock set forth opposite their names below. The underwriters are committed to purchase and pay for all such shares if any are purchased.

Number of Underwriter Shares BancBoston Robertson Stephens Inc. ..... Thomas Weisel Partners LLC..... Warburg Dillon Read LLC, a subsidiary of UBS AG..... Wit Capital Corporation.....
TOTAL.....

The representatives of the underwriters have advised us that the underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at such price less a concession not in excess of $ per share, of which $ may be reallowed to other dealers. After this offering, the public offering price, concession, and reallowance to dealers may be reduced by the representatives. No such reduction shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus. The common stock is offered by the underwriters as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

The underwriters, at our request, have reserved for sale at the initial public offering price up to shares of common stock to visitors and users of our services or our Web sites who express an interest in purchasing such shares. The sale of such shares will be made by Wit Capital acting as e- Manager in the offering. Purchases of the reserved shares are to be made through an account at Wit Capital in accordance with Wit Capital's procedures for opening an account and transacting in securities. Any reserved shares not purchased by visitors and users to our services or Web sites will be offered by the underwriters on the same basis as other shares offered hereby.

A prospectus in electronic format is being made available on an Internet Web site maintained by Wit Capital. In addition, pursuant to an e-Dealer Agreement, all dealers purchasing shares from Wit Capital in the offering similarly have agreed to make a prospectus in electronic format available on Web sites maintained by each of the e-Dealers.

The underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

Over-Allotment Option. We have granted to the underwriters an option, exercisable during the 30-day period after the date of this prospectus, to purchase up to additional shares of common stock at the same price per share as we will receive for the shares that the underwriters have agreed to purchase. To the extent that the underwriters exercise such option, each of the underwriters will have a firm commitment to purchase approximately the same percentage of such additional shares that the number of shares of common stock to be purchased by it shown in the above table represents as a percentage of the shares offered hereby. If purchased, such additional shares will be sold by the underwriters on the same terms as those on which the shares are being sold. We will be obligated, pursuant to the option, to sell shares to the extent the option is exercised. The underwriters may exercise such option only to cover over-allotments made in connection with the sale of the shares of common stock offered hereby. If such option is exercised in full, the total price to public, underwriting discounts and commissions and proceeds to company will be $ million, $ million and $ million, respectively.

Indemnity. The underwriting agreement contains covenants of indemnity among the underwriters and us against certain civil liabilities, including liabilities under the Securities Act and liabilities arising from breaches of representations and warranties contained in the underwriting agreement.

Lock-Up Agreements. Each of our officers and directors and certain other holders of shares of our common stock have agreed, during the period ending 180 days after the date of this prospectus (the "Lock-Up Period"), subject to certain exceptions, not to offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any shares of common stock or any options or warrants to purchase any shares of common stock, or any securities convertible into or exchangeable for shares of common stock owned as of the date of this prospectus or thereafter acquired directly by such holders or with respect to which they have the power of disposition, without the prior written consent of BancBoston Robertson Stephens Inc. However, BancBoston Robertson Stephens Inc. may, in it sole discretion and at any time without notice, release all or any portion of securities subject to the lock-up agreements. There are no existing agreements between the representatives of the underwriters and any of our stockholders providing consent to the sale of shares prior to the expiration of the lock-up period.

Future Sales. In addition, we have agreed that during the lock-up period, we will not, without the prior written consent of BancBoston Robertson Stephens Inc., subject to certain exceptions, (1) consent to the disposition of any shares held by stockholders subject to lock-up agreements prior to the expiration of the lock-up period or (2) issue, sell, contract to sell, or otherwise dispose of, any shares of common stock, any options to purchase any shares of common stock or any securities convertible into, exercisable for or exchangeable for shares of common stock other than our sale of shares in this offering, the issuance of common stock upon the exercise of outstanding options, and the issuance of options under existing stock option and incentive plans, provided such options do not vest prior to the expiration of the lock-up period. See "Shares Eligible for Future Sale."

Listing. Application has been made to have our common stock approved for quotation on the Nasdaq National Market under the symbol "MPTH."

No Prior Public Market. Prior to this offering, there has been no public market for our common stock. Consequently, the public offering price for the common stock offered by this prospectus will be determined through negotiations among Mpath and the representatives of the underwriters. Among the factors to be considered in such negotiations are prevailing market conditions, certain financial information of Mpath, market valuations of other companies that Mpath and the representatives believe to be comparable to Mpath, estimates of the business potential of Mpath, the present state of Mpath's development and other factors deemed relevant.

Stabilization. The representatives of the underwriters have advised us that, pursuant to Regulation M under the Securities Act, certain persons participating in this offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids, that may have the effect of stabilizing or maintaining the market price of the common stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A "syndicate covering transaction" is the bid for or the purchase of common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with this offering. A "penalty bid" is an arrangement permitting the representatives to reclaim the selling

concession otherwise accruing to an underwriter or syndicate member in connection with this offering if the common stock originally sold by such underwriter or syndicate member is purchased by the representatives in a syndicate covering transaction and has therefore not been effectively placed by such underwriter or syndicate member. The representatives have advised us that such transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

Legal Matters

The validity of our common stock offered hereby will be passed upon for Mpath by Venture Law Group, A Professional Corporation, 2800 Sand Hill Road, Menlo Park, California. Joshua L. Green and Jeffrey Y. Suto, Directors of Venture Law Group, are the Secretary and Assistant Secretary, respectively, of Mpath. Certain legal matters in connection with this offering will be passed upon for the underwriters by Brobeck, Phleger & Harrison LLP, Spear Street Tower, One Market, San Francisco, California. As of the date of this prospectus, two Directors of Venture Law Group beneficially own an aggregate of 9,600 shares of Mpath's common stock.

Experts

The consolidated financial statements as of December 31, 1997 and 1998 and for the years ended December 31, 1996, 1997 and 1998, which are included in the prospectus, are included in reliance on the reports of PricewaterhouseCoopers LLP, independent accountants, given to us on the authority of such firm as experts in accounting and in auditing.

Additional Information

We have filed with the Securities and Exchange Commission a registration statement, which includes any amendments thereto, on Form S-1 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 are contained in exhibits to the registration statement as permitted by the rules and regulations of the Securities and Exchange Commission. For further information with respect to Mpath and our common stock offered hereby, reference is made to the registration statement, including the exhibits thereto, and the financial statements and 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 Securities and Exchange Commission as an exhibit to the registration statement, reference is made to the exhibit for a more complete description of the matter involved. The registration statement, including exhibits thereto and the financial statements and notes filed as a part thereof, as well as such reports and other information filed with the Securities and Exchange Commission, may be inspected without charge at the public reference facilities maintained by the

Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the Securities and Exchange Commission located at Seven World Trade Center, 13th Floor, New York, New York, 10048, and the Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of all or any part thereof may be obtained from the Securities and Exchange Commission upon payment of certain fees prescribed by the Securities and Exchange Commission. Such reports and other information may also be inspected without charge at a Web site maintained by the Securities and Exchange Commission. The address of such site is http://www.sec.gov.

Mpath Interactive, Inc.

Contents

Page

Report of Independent Accountants..... F-2 Consolidated Balance Sheets..... F-3 Consolidated Statements of Operations..... F-4 Consolidated Statements of Stockholders' Equity (Deficit)..... F-5 Consolidated Statements of Cash Flows..... F-6 Notes to Consolidated Financial Statements..... F-7

Report of Independent Accountants

To the Board of Directors and Stockholders of Mpath Interactive, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Mpath Interactive, Inc. (the Company) at December 31, 1997 and 1998, and the results of their operations and their cash flows for the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP San Jose, CA January 29, 1999, except as to Note 15, which is as of February 12, 1999

Mpath Interactive, Inc.

CONSOLIDATED BALANCE SHEETS (in thousands, except share data) December 31, 1997 1998 1998 (Pro Forma) (unaudited)

ASSETS			
Current assets:			
Cash and cash equivalents	$ 9,132	$ 1,114	
Accounts receivable, net of allowance for doubtful accounts of $8 and $20 respectively	651	2,226	
Prepaid expenses and other current assets	364	710	
Total current assets	10,147	4,050	
Restricted cash	165	170	
Property and equipment, net	1,974	1,878	
Other assets	70	79	
Total assets	$ 12,356	$ 6,177	
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	$ 429	$ 1,119	
Accrued payroll and related expenses	787	1,029	
Accrued expenses	652	719	
Current portion of capital lease obligations	399	458	
Deferred revenue	278	332	
Notes payable	--	2,426	
Deferred rent	22	34	
Total current liabilities	2,567	6,117	
Convertible note payable	1,864	1,864	
Capital lease obligations, net of current portion	784	326	
Accrued stock compensation expense	2,003	2,218	
Total liabilities	7,218	10,525	
Commitments and contingencies (Note 5)			

Stockholders' equity: Convertible preferred stock: Par value: $0.00005 Authorized: 16,294,986 shares Issued and outstanding: 10,425,921 and 10,416,615, respectively, and 0 pro forma with liquidation preference of $46,529,773..... 1 1 $ -- Common stock warrants..... 2 2 2 Common stock: Par value: $0.00005 Authorized: 25,000,000 shares Issued and outstanding: 2,584,150 and 3,834,815, respectively, and 14,251,430 pro forma..... -- -- 1 Additional paid-in capital..... 46,259 49,655 49,655 Notes receivable from stockholders..... (83) (1,020) (1,020) Accumulated deficit..... (41,041) (52,986) (52,986) Total stockholders' equity (deficit)..... 5,138 (4,348) $ (4,348) Total liabilities and stockholders' equity (deficit)..... $ 12,356 $ 6,177 The accompanying notes are an integral part of these consolidated financial statements.

Mpath Interactive, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except share data) Year Ended December 31, 1996 1997 1998

Net revenues:			
Live Communities	$ 12	$ 686	$ 3,022

Foundation	112	2,041	5,005
Total revenues	124	2,727	8,027
Cost of net revenues:			
Live Communities	35	1,808	2,221
Foundation	90	620	790
Total cost of revenues	125	2,428	3,011
Gross profit (loss)	(1)	299	5,016
Operating expenses:			
Research and development	5,261	2,436	3,132
Sales and marketing	3,937	6,906	7,847
General and administrative	2,877	2,841	3,274
Stock based compensation	377	1,669	2,595
Write-off of acquired intangibles	12,876	--	--
Total operating expenses	25,328	13,852	16,848
Loss from operations	25,329	13,553	11,832
Interest and other income	353	283	390
Interest and other expense	(62)	(376)	(501)
Interest and other income (expense), net	291	(93)	(111)
Loss before provision for income taxes	25,038	13,646	11,943
Provision for income taxes	(1)	(2)	(2)
Net loss	$25,039	$13,648	$11,945
Net loss per common share:			
Basic	$(11.40)	$ (5.34)	$ (3.99)
Diluted	$(11.40)	$ (5.34)	$ (3.99)
Weighted average shares outstanding:			
Basic	2,196	2,556	2,992
Diluted	2,196	2,556	2,992

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

Mpath Interactive, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (in thousands)

	Convertible Preferred Stock			Common Stock		Additional Paid-In	Notes Receivable From	Accumulated	Total Stockholders' Equity
	Shares	Amount	Warrants	Shares	Amount	Capital	Stockholders	Deficit	(Deficit)
Balance at December 31, 1995	4,989	$ 1	$--	2,277	$--	$ 5,939	$ (37)	$ (2,354)	$ 3,549
Conversion of prior year stock par value	--	--	--	--	--	--	--	--	--
Issuance of Series B convertible preferred stock net of offering costs of $9	2	--	--	--	--	5	--	--	5
Issuance of common stock for notes receivable	--	--	--	220	--	46	(46)	--	--
Exercise of stock options	--	--	--	34	--	2	--	--	2
Issuance of Series C convertible preferred stock, net of offering costs of $54	1,446	--	--	--	--	14,816	--	--	14,816
Issuance of Series C convertible preferred stock in consideration of Catapult acquisition	878	--	--	--	--	9,021	--	--	9,021
Stock based compensation	--	--	--	--	--	12	--	--	12
Net loss	--	--	--	--	--	--	--	(25,039)	(25,039)
Balance at December 31, 1996	7,315	1	--	2,531	--	29,841	(83)	(27,393)	2,366
Issuance of Series C convertible preferred	49	--	--	--	--	500	--	--	500
Exchange of Series C convertible preferred stock for Series D convertible preferred stock	44	--	--	--	--	--	--	--	--
Issuance of Series D convertible preferred stock, net of offering									

cost of $98 and converted unamortized debt discount of $360... 3,018 -- -- -- -- 15,841 -- -- 15,841 Issuance of common stock warrants in conjunction with Series D convertible preferred stock..... -- -- 2 -- -- -- -- -- 2 Exercise of stock options..... -- -- -- 53 -- 14 -- -- 14 Stock based compensation..... -- -- -- -- -- 63 -- -- 63 Net loss..... -- -- -- -- -- -- -- (13,648) (13,648) Balance at December 31, 1997..... 10,426 1 2 2,584 -- 46,259 (83) (41,041) 5,138 Adjustment to Series C relating to Catapult escrow closing..... (9) -- -- -- -- (96) -- -- (96) Warrants issued to purchase of Series D preferred stock for services rendered..... -- -- -- -- -- 64 -- -- 64 Exercise of common stock options for notes receivable and cash..... -- -- -- 852 -- 937 (937) -- -- Repurchase of stock options..... -- -- -- (2) -- (2) -- -- (2) Exercise of stock options..... -- -- -- 400 -- 113 -- -- 113 Stock based compensation..... -- -- -- -- -- 2,380 -- -- 2,380 Net loss..... -- -- -- -- -- -- -- (11,945) (11,945) Balances at December 31, 1998..... 10,417 $ 1 2 3,834 $-- $49,655 $(1,020) $(52,986) $(4,348) The accompanying notes are an integral part of these consolidated financial statements.

Mpath Interactive, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands) Year ended December 31, 1996 1997 1998

Cash flows from operating activities:			
Net loss	$(25,039)	$(13,648)	$(11,945)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	395	852	976
Stock based employee compensation	377	1,669	2,595
Non cash interest on debt	--	30	32
Write-off of purchased in-process research and development costs from Catapult	1,600	--	--
Write-off of intangible assets acquired in connection with the Catapult acquisition, net of legal and accounting costs of $367	12,509	--	--
Loss (Gain) on sale of investment	--	--	(166)
Amortization of notes payable discount	7	48	--
Changes in assets and liabilities:			
Accounts receivable	(2)	(588)	(1,575)
Prepaid expenses and other current assets	(179)	74	(314)
Officer note receivable	70	--	--
Other assets	23	(1)	(9)
Accounts payable	161	(41)	690
Accrued payroll and related expenses	212	227	242
Accrued expenses	505	3	67
Deferred revenue	(8)	268	54
Deferred rent	--	23	12
Net cash used in operating activities	(9,369)	(11,084)	(9,341)
Cash flows from investing activities:			
Purchase of investment	--	--	(625)
Proceeds from sale of investment	--	--	791
Proceeds from disposal of fixed assets	--	57	0
Acquisition of property and equipment	(1,220)	(1,092)	(880)
Purchase of certificate of deposit (restricted cash)	(165)	--	(5)
Payments for Catapult acquisition, net of cash acquired of $30	(2,414)	--	--
Net cash used in investing activities	(3,799)	(1,035)	(719)
Cash flows from financing activities:			
Proceeds from notes payable	--	--	2,500

Payments of notes payable.....			(74)
Proceeds from capital lease transactions.....	431	678	--
Proceeds from refunds of capital lease deposits.....	--	20	--
Payments under capital lease obligations.....	(123)	(360)	(399)
Proceeds from exercise of common stock options, net of repurchase.....	2	14	111
Proceeds from issuance of Series B preferred stock.....	5	--	--
Proceeds from issuance of Series C preferred stock, net.....	14,816	500	(96)
Proceeds from issuance of Series D preferred stock, net.....	--	13,287	--
Proceeds from issuance of bridge loans.....	--	1,600	--
Proceeds from common stock warrants issued with Series D preferred stock.....	--	1	--
Net cash provided by financing activities.....	15,131	15,740	2,042
Net increase (decrease) in cash and cash equivalents.....	1,963	3,621	(8,018)
Cash and cash equivalents, beginning of period...	$ 3,548	$ 5,511	$ 9,132
Cash and cash equivalents, end of period.....	$ 5,511	$ 9,132	$ 1,114

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

Mpath Interactive, Inc.

Notes to Consolidated Financial Statements

For the Years Ended December 31, 1996, 1997 and 1998

1. Formation and Business of the Company:

Mpath Interactive, Inc. (the Company), was incorporated in Delaware and commenced operations in January 1995. Mpath designs, develops, operates and markets a people-to-people entertainment and game community on the Internet and provides technology and services to third parties seeking to create online communities.

2. Summary of Significant Accounting Policies:

Cash and Cash Equivalents:

The Company considers all highly liquid investments with original maturities of three months or less, to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates market.

Restricted Cash:

At December 31, 1997 and 1998, cash balances of approximately $165,000 and $170,000, respectively, were restricted from withdrawal and held by a bank in the form of certificates of deposit. These certificates of deposit serve as collateral to a letter of credit issued to the Company's landlord as

a security deposit, and as a deposit against the Company's credit card.

Concentration of Credit Risk:

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company deposits its cash and cash equivalents with two major banks. The Company has not experienced any losses on its deposits of cash and cash equivalents. Management believes that these banks are financially sound and, accordingly, minimal credit risk exists.

With respect to accounts receivable, the Company's customer base is dispersed across many different geographic areas and range from individual consumers to a variety of commercial entities. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company periodically reviews the need for reserves for potential credit losses and such losses have been within management's expectations.

No customer accounted for more than 10% of total revenues during the year ended December 31, 1996. During the year ended December 31, 1997, sales to two customers accounted for approximately 35% and 11% of total revenues. During the year ended December 31, 1998 three customers accounted for 10%, 12% and 23% of total revenues. One customer accounted for 43% of total accounts receivable at December 31, 1997. As of December 31, 1998, two customers accounted for approximately 19% and 27% of total accounts receivable.

Fair Value of Financial Instruments:

The carrying amount of notes payable and capital lease obligations approximate fair value.

Consolidation:

The consolidated financial statements include those of the Company and its subsidiary. Inter-company balances and transactions have been eliminated in consolidation.

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Property and Equipment:

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally three to five years. When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in income.

Long-Lived Assets:

The Company accounts for long-lived assets under Statement of Financial Accounting Standards No. 121 (SFAS No. 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires the Company to review for impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets, whenever events or changes in

circumstances indicate that the carrying amount of an asset might not be recoverable. When such an event occurs, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the undiscounted expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized.

Revenue Recognition:

Live Communities

Advertising revenues are recognized ratably over the period in which the advertisement is displayed provided that no significant obligations remain and collection of the resulting receivable is probable. Advertising rates are dependent on the services provided and the placement of the advertisements. To date, the duration of the Company's advertising commitments has generally averaged from two to three months.

Revenues derived from monthly subscription services and on line only games are recognized over the period in which the services are provided.

Foundation

The Company has adopted the provisions of Statement of Position 97-2, or SOP 97-2, "Software Revenue Recognition," as amended by Statement of Position 98-9, "Software Revenue Recognition With Respect to Certain Transactions." The Company recognizes product revenue upon shipment if a signed contract exists, the fee is fixed and determinable, collection of resulting receivables is probable and product returns are reasonably estimable. For contracts with multiple obligations (e.g., maintenance, unspecified upgrades), the Company allocates revenue to each component of the contract based on objective evidence of its fair value, which is specific to the Company, or for products not being sold separately, the price established by management. The Company recognizes revenue allocated to maintenance fees for ongoing customer support and unspecified upgrades ratably over the period of the maintenance contract or upgrade period.

Revenues derived from software development activities are recognized using the percentage of completion methodology. The Company evaluates these long term contracts periodically for potential loss situations; any such loss would be recorded when identified.

Research and Development Costs:

Research and development expenditures are charged to operations as incurred.

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Advertising Costs:

Costs related to advertising and promotion of products is charged to sales and marketing expense as incurred. Advertising cost charged to expenses for the years ended December 31, 1996, 1997, and 1998 were approximately $921,000, $572,000, $1,201,000, respectively.

Earnings per Share

Statement of Financial Accounting Standards No. 128 (SFAS No. 128), "Earnings per Share", establishes standards for computing and presenting earnings per share. Basic earnings per share is calculated using the average shares of common stock outstanding while diluted earnings per share reflects the potential dilution that could occur because of preferred stock and if stock options and warrants were exercised. Preferred stock, stock options and warrants are excluded from the calculation if their effect would be antidilutive.

Stock-Based Compensation Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation", defines a fair value based method of accounting for an employee stock option or similar equity instrument. This statement gives entities a choice of recognizing related compensation expense by adopting the fair value method or measuring compensation using the intrinsic value approach under Accounting Principles Board (APB) Opinion No. 25. The Company has chosen to continue to use the measurement prescribed by APB Opinion No. 25 for employee stock options and to make supplemental disclosures to show the effects of using the fair value-based measurement criteria. The Company accounts for options granted to non-employees under SFAS No. 123.

Income Taxes:

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Certain Risks and Uncertainties:

The Company is subject to all of the risks inherent in an early stage business in the technology and entertainment industries. The risks include but are not limited to limited operating history, limited management resources, reliance on advertising for revenues where acceptance of advertising on the Internet is uncertain, reliance on relationships with content providers, dependence on the Internet and related security risks and the changing nature of the Internet industry.

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Income:

The Company has adopted the accounting treatment prescribed by Financial Accounting Statement No. 130, "Comprehensive Income." The adoption of this statement had no impact on the Company's financial statements for the periods presented.

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Segment Information:

In 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). SFAS No. 131 supersedes FAS 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas, and major customers. The adoption of SFAS No. 131 did not affect results of operations or financial position but did affect the disclosure of segment information (see Note 13).

Recent Accounting Pronouncements:

On March 4, 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use. Costs incurred prior to the initial application of SOP 98-1 should not be adjusted to the amounts that would have been capitalized had this SOP been in effect when those costs were incurred. SOP 98-1 is effective for financial statements for fiscal years beginning after December 15, 1998. Accordingly, the Company will adopt SOP 98-1 in its financial statements for the year ending December 31, 1999. The impact on the financial statements of the adoption of this standard has not yet been determined, but is not expected to be significant.

Pro Forma Balance Sheet (unaudited):

The accompanying unaudited pro forma balance sheet at December 31, 1998 reflects the assumed conversion of the Series A, Series B, Series C, Series C-1 and Series D preferred stock into common stock as of December 31, 1998.

Reclassifications:

Certain prior year amounts have been reclassified for consistency with current year financial statement presentation.

3. Catapult Acquisition:

In November 1996, the Company acquired all of the assets and assumed the liabilities of Catapult Entertainment, Inc. ("Catapult") as part of a Chapter 11 Plan of Reorganization under the United States Bankruptcy Code. The total acquisition cost was approximately $11,831,000 and consisted of (i) cash payments of $2,444,000, including $549,000 paid to Catapult's unsecured creditors; (ii) 877,560 shares of Series C preferred stock valued at $10.28 per share (see Note 7); and (iii) legal and accounting

costs of $367,000. Net liabilities in excess of assets assumed by the Company amounted to $2,644,000. Approximately 105,000 shares of Series C Preferred Stock were placed in escrow in the event that the Company was required to pay allowable unsecured claims in excess of $549,000. As of May 1998, the final payment of $121,000 had been requested by Catapult creditors for which the Company was entitled to receive reimbursement from Series C preferred stock in escrow. The Series C preferred stock held in escrow was reduced by 9,306 shares and the remaining 95,665 shares were released to the stockholders of Catapult.

The acquisition was accounted for as a purchase. Accordingly, the results of operations of Catapult have been included in the consolidated statements of operations from the date of acquisition.

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) The purchase price, including liabilities assumed, in excess of the fair value of assets acquired was allocated to in-process research and development ($1,600,000), which was immediately expensed, and goodwill ($12,876,000).

The goodwill was originally assigned a two-year life but in December 1996 the Company decided to changed their business strategy relating to the use of the technology and business acquired from Catapult. As a result of this change in strategy, the Company determined that it had no use for and that there would be no future cash flows from the Catapult assets. Accordingly, the Company wrote off the goodwill as soon as the impairment was identified.

In June 1998, the Company exercised warrants, received in connection with the Catapult Acquisition, and immediately sold the acquired shares, realizing a gain of approximately $167,000. The gain was included in other income during the year ended December 31, 1998.

4. Property and Equipment:

Property and equipment consists of the following (in thousands):

December 31, Useful 1997 1998 Life

Software.....	$ 212	$ 212	3 years
Computer equipment.....	1,198	2,078	3 years
Furniture and fixtures....	86	86	5 years
Leasehold improvements....	109	109	5 years
Equipment under capital lease:			
Software.....	56	56	
Computer equipment.....	1,546	1,546	
	3,207	4,087	
Less accumulated depreciation and amortization.....	(1,233)	(2,209)	
	$ 1,974	$ 1,878	

The accumulated amortization on assets under capital lease was approximately $455,000 and $900,000 at December 31, 1997 and 1998, respectively.

5. Commitments and Contingencies:

Contingencies:

The Company has received notice of certain claims for potential patent infringement. The Company believes that these claims are without merit, intends to defend them vigorously. However, litigation is subject to inherent uncertainties and thus, there can be no assurance that these claims will be resolved favorably to the Company or that they will not have a material adverse affect on the Company's financial statements.

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Lease Obligations:

Future minimum lease payments under capital and operating leases at December 31, 1998 are as follows:

	Capital Leases	Operating Leases
1999	$ 523,000	$ 419,000
2000	334,000	422,000
2001	10,000	435,000
2002	--	36,000
Total minimum lease payments	867,000	$1,312,000
Less amount representing interest	(83,000)	
	784,000	
Less current portion	(458,000)	
	$ 326,000	

Rent expense for the years ended December 31, 1996, 1997 and 1998, was approximately $458,000, $500,000, and $498,000, respectively.

6. Notes Payable:

In conjunction with its acquisition of Catapult (Note 3), the Company assumed certain indebtedness of Catapult. Included in the indebtedness assumed were convertible, non-interest bearing promissory notes payable totaling $1,300,000 which were due in full in November 2001. Associated with these notes was unamortized debt discount, which was calculated using an interest rate of 8.25%. Warrants to purchase the Company's common stock were issued in conjunction with the convertible promissory notes at the time of the Catapult acquisition. In July 1997, these notes were converted into 981,481 shares of Series D preferred Stock and warrants to purchase 490,741 shares of the Company's common stock. These warrants have an exercise price of $5.40 per share and have exercisability and

expiration terms defined in Note 7--Common Stock Warrants. The unamortized debt discount was recorded as a reduction to additional paid-in capital in connection with the conversion of the notes into the Series D preferred stock.

The Company also assumed a convertible note payable from Catapult bearing interest at prime (7.75% at December 31, 1998) which is due with interest in November 2001. At December 31, 1997 and 1998, the Company had $1,864,000 outstanding under this note payable. The entire amount of unpaid principal and accrued interest may be converted, at the option of the note holder, into shares of the Company's common stock, upon (i) a sale of all or substantially all of the Company, through a merger, acquisition or other transaction, or (ii) upon an initial public offering of the Company's common stock.

In May 1997, the Company received convertible bridge loans totaling $1,600,000 from certain of its stockholders. The bridge loans carried interest at 6.23 % per annum. In July 1997, the bridge loans and accrued interest of approximately $14,000 were converted into 647,405 shares of Series D preferred stock and warrants to purchase 323,702 shares of the Company's common stock. These warrants have an exercise price of $5.40 per share and have exercisability and expiration terms defined in Note 7--Warrants.

In July 1998, the Company entered into a revolving line of credit agreement for up to $1,500,000 or 80% of the Company's accounts receivable, a capital equipment purchase line agreement for up to $1,000,000 and a term loan agreement up to $1,500,000, all bearing interest rates of prime plus 2.0% (9.75% at December 31,

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) 1998). Amounts borrowed under these agreements are collateralized by substantially all assets of the Company. In conjunction with this agreement, the Company issued a warrant to purchase 23,000 shares of the Company's Series D preferred stock at an exercise price of $5.40 per share, which expires July 31, 2003. As the fair value of these warrants was determined to be immaterial at the date of issuance, no additional debt issuance costs were recorded.

As of December 31, 1998, the Company has borrowed $1,500,000 and $1,000,000 against the term loan agreement and the capital equipment purchase line agreement, respectively. Amounts drawn against the revolving line of credit, term loan and capital equipment purchase line are due no later than June 30, 1999. The term loan was repaid in January 1999 (see Note 14). The Company is required to make monthly payments on the capital equipment purchase line equal to 1/48th of the balance until June 30, 1999. As of December 31, 1998, the Company has not drawn down any of the available funds on the revolving line of credit.

7. Stockholders' Equity (Deficit):

Convertible Preferred Stock:

The Company has authorized a total of 13,182,258 shares of convertible preferred stock. The following is outstanding:

Issued and Outstanding December 31, Designated 1997 1998

Series A	2,800,000	2,800,000	2,800,000
Series B	2,234,320	2,190,842	2,190,842
Series C	2,323,969	2,323,969	2,314,663
Series C-1	2,323,969	--	
Series D	3,500,000	3,111,110	3,111,110
Total convertible preferred stock		10,425,921	10,416,615

The rights, preferences and privileges of the preferred stockholders are as follows:

Dividends:

The holders of Series A, Series B, Series C, Series C-1 and Series D preferred stock are entitled to receive dividends, out of any assets legally available prior and in preference to any declaration or payment of any dividend on the common stock at the rate of $.05, $.205, $1.03, $1.03 and $0.54 per share per annum, respectively, when and if declared by the Board of Directors. Such dividends are not cumulative. After payment of the dividend preference, outstanding shares of Series A, Series B, Series C, Series C-1 and Series D preferred stock shall participate with shares of common stock as to any additional declaration or payment of any dividend. As of December 31, 1998, no dividends have been declared or paid.

Liquidation:

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series D preferred stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of Series A, Series B, Series C and Series C-1 preferred stock and common stock, an amount per share equal to the sum of (i) $5.40 for each outstanding share of Series D preferred stock and (ii) an amount equal to declared but unpaid dividends on such shares. If upon the occurrence of such event, the assets and funds thus distributed among the holders of Series D preferred stock

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) shall be insufficient to permit the payment of preferential amounts, then the entire assets and funds to the Company legally available for distribution shall be distributed ratably among the holders of Series D preferred stock in proportion to the aggregate liquidation preference for the shares owned by each such holder.

After completion of distribution to the preferred Series D stockholders, the holders of Series A, Series B, Series C and Series C-1 preferred stock shall be entitled to receive, prior and in preference to any distribution of any assets of the Company to the holders of common stock, an amount per share equal to the sum of (i) $.50 for each outstanding share of Series A preferred stock, $2.07 for each outstanding share of Series B preferred stock, $10.28 for each outstanding share of Series C and Series C-1 preferred stock, and (ii) an amount equal to declared but unpaid dividends on such shares. If upon the

occurrence of such an event, the assets and funds distributed among the holders of Series A, Series B, Series C and Series C-1 preferred stock shall be insufficient to permit the payment of preferential amounts, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series A, Series B, Series C and Series C-1 preferred stock in proportion to the aggregate liquidation preference for the share of such stock owned by each holder.

After completion of distribution to the preferred stockholders, the remaining assets of the Company will be distributed to the holders of Series A preferred stock and common stock pro rata based upon the number of shares of common stock held by each (assuming conversion into common stock of all such Series A preferred stock) until the holders of Series A preferred stock shall have received an aggregate of $2.50 per share of Series A preferred stock held, including amounts paid from above. Any remaining assets are to be distributed ratably among the holders of the Company's common stock.

Conversion:

Each share of Series A, Series B, Series C, Series C-1 and Series D preferred stock is convertible, at the option of the holder, into such number of fully paid and nonassessable shares of common stock as determined by dividing the applicable original issue price by the conversion price applicable to such share in effect at the date of conversion. The original issue price shall be adjusted for any stock splits. Each share of preferred stock shall automatically be converted into shares of common stock immediately upon the earlier of (i) the closing of a firm commitment underwritten public offering results in not less than $10.28 per share and aggregate net proceeds to the Company of more than $15,000,000 or (ii) written consent or agreement of the holders of 66 2/3% of the then outstanding preferred stock. At December 31, 1998, each share of Series A, Series B, Series C, Series C-1 and Series D preferred stock can be converted to one share of common stock, subject to adjustments under specific circumstances. The Company has reserved a total of 14,642,477 shares of common stock in the event of preferred stock conversion.

Redemption:

The preferred stock is not redeemable.

Voting Rights:

The holder of each share of Series A, Series B, Series C, Series C-1 and Series D preferred stock is entitled to one vote for each share of common stock into which such share of the preferred stock is convertible.

Common Stock:

Previously the Company had issued 2,397,000 shares of its common stock to the founders and key employees of the Company under restricted stock purchase agreements in exchange for notes receivable bearing interest at 5.2% to 6.8% per annum.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) In the period ending December 31, 1998, the Company issued 852,378 options for shares of its common stock to seven key employees of the Company. All of the options were exercised immediately in exchange for cash and notes receivable bearing interest rates ranging from 5.93% to 6.02% per annum.

Under the terms of the agreements, the Company has the option to repurchase all or any portion of the purchased shares in which the founders and key employees have not acquired a vested interest, should the individuals cease to be employed, at the holder's original purchase price. The Company's right to repurchase such shares generally lapses 25% on the first anniversary date of the purchase of the common stock and thereafter ratably over three years. At December 31, 1998, 195,354 shares of the founders common stock and 589,599 shares of the options exercised were subject to the Company's right of repurchase.

Warrants:

In conjunction with a capital lease agreement, the Company granted warrants to purchase up to 43,477 shares of its Series B preferred stock at an exercise price of $2.07 per share and expire September 30, 1999. The warrants are exercisable based on the amount of the lease line used. As the fair value of these warrants was determined to be immaterial at the date of issuance, no charge to rent expense was recorded. At December 31, 1998 warrants to purchase 43,477 shares of Series B preferred stock were fully exercisable. The Company has reserved 43,477 shares of Series B preferred stock for the exercise of these warrants.

In conjunction with the issuance of the Series D preferred stock, issued during July and August 1997, the Company issued warrants to the Series D investors to purchase 1,555,555 shares of common stock at a price of $5.40 per share (subject to adjustments under certain circumstances). This grant of 1,555,555 includes the 490,741 convertible promissory note grant and the 323,702 bridge loan conversion grant (see Note 6). No charge was recorded for the fair value of these warrants at the date of grant (of $529,000) as the warrants were costs of financing recorded against additional paid-in capital. One-half of the warrants shall become exercisable upon the earlier of the sale of the Company for a price which is less than $10.80 per share or July 18, 1999 and the remaining warrants shall become exercisable upon the earlier of the sale of the Company for a price which is less than $10.80 per share or January 19, 2001.

One-half of the warrants expire upon (i) the closing of an initial public offering with a price per share greater than $10.80 per share (subject to adjustments under certain conditions) and having aggregate net proceeds to the Company greater than $15,000,000, (ii) the sale of the Company for a price per share greater than $10.80 per share (subject to adjustment) or (iii) a private financing with a price per share greater than $10.80 per share (subject to adjustment); provided that the event occurs before 24 months from the date of purchase. The remaining warrants expire under the same circumstances provided, however, that the event occurs before 30 months from the date of purchase and the offering has an aggregate net proceeds to the Company greater than $10,000,000.

The Company has entered into an agreement with a national Internet Service Provider (service provider) to provide the equipment necessary for the Company's services. In connection with this agreement, the Company has granted warrants to the service provider to purchase up to 120,000 shares of common stock. The terms of such agreement are to be governed by a mutually agreed-upon warrants and equipment leasing agreement between the parties. As of December 31, 1998, such agreement has not been finalized. On February 12, 1999, the Company finalized the agreement which involved the issuance of warrants to purchase 12,000 shares of common stock at $0.21 per share and 108,000 shares at $1.03 per share. These warrants are immediately exercisable and expire in February 2004. The Company will evaluate the fair value of these warrants and recognize the related expense as cost of revenues over the remaining term of the agreement.

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) The Company issued a warrant to purchase up to 52,250 shares of common stock at a price of $60 per share (subject to adjustments under certain circumstances) in connection with the issuance of notes payable by Catapult prior to its acquisition by the Company (See Note 6). The warrant is exercisable, in whole or in part, at any time on or after November 18, 1996, based on certain conditions as defined, and expires on December 31, 2000. The Company has reserved 52,250 shares of common stock for the exercise of this warrant. As the fair value of these warrants was determined to be immaterial at the date of issuance, no charge was recorded.

The following table summarizes the outstanding warrants at December 31, 1998:

Date of Grant	Issued to	Type	Number of Warrants	Exercise Price	Expires
September 1995	Capital lessor	Series B Preferred	43,477	$2.07	September 1999
November 1996	Promissory noteholder	Common	52,250	$60.00	November 2000
July 1997	Series D Preferred investors	Common	1,555,555	$5.40	*
July 1998	Note financer	Series D Preferred	23,000	$5.40	July 2003
*	Internet service provider	Common	120,000	*	*

*- See further information in Note 7--Warrants and Note 6.

1995 Stock Option/Stock Issuance Plan:

During 1995, the Company adopted the 1995 Stock Option/Stock Issuance Plan (the Plan). The Plan is divided into an Option Grant Program under which employees may be granted options to purchase common stock and a Stock Issuance Program under which employees may be issued shares of common stock directly, either through the immediate purchase of such shares or for services rendered to the Company. Options are granted at an exercise price determined by the board of directors and are fully exercisable on date of grant, subject to repurchase (at the original price) by the Company. The repurchase right lapses for 25% of the shares upon completion of one year of service and the balance in successive equal monthly installments over three years. Options expire ten years after issuance. As of December 31, 1998 shares authorized under the plan were 3,453,000.

As part of the Catapult acquisition, the Company exchanged options to purchase 122,403 shares of stock under the Plan for Catapult options outstanding prior to the acquisition. These options, which were fully vested upon consummation of the acquisition, are exercisable following termination of employment for a period up to four years after the Company's acquisition of Catapult or nine months after an initial public offering of the Company, (unless the lock-up period following the initial public offering imposed upon a particular by the underwriters is longer than six months, in which case such option's shall not terminate until three months after expiration of such lock- up period). Shares issuable upon exercise of 15,453 of the options were held as part of the escrow described under Note 3. The Catapult options held in escrow were reduced by 1,325 options and the remaining 14,128 options were released from escrow in 1998. The exercise price of the options was based on the exchange ratio in the acquisition and range from $1.01 to $6.29 per share.

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) Activity under the Plan, including options granted in connection with the above Catapult acquisition, is as follows:

	Options Available for Grant	Number of Options	Exercise Price	Aggregate Price	Weighted Average Exercise Price
Balances, December 31, 1995	728,000	595,000	$0.05-$0.21	$ 62,000	$ 0.10
Options additionally reserved	380,000				
Options granted	(457,903)	457,903	$0.21-$6.29	777,000	$ 1.70
Options canceled	55,500	(55,500)	$0.21-$1.03	(16,000)	$ 0.29
Options exercised		(33,750)	$0.05-$0.21	(2,000)	$ 0.07
Balances, December 31, 1996	705,597	963,653	$0.05-$6.29	821,000	$ 0.85
Options additionally reserved	600,000				
Options granted	(837,750)	837,750	$ 1.03	863,000	$ 1.03
Options canceled	144,525	(144,525)	$0.21-$1.03	(93,000)	$ 0.65
Options exercised		(53,400)	$0.05-$1.03	(15,000)	$ 0.28
Balances, December 31, 1997	612,372	1,603,478	$0.05-$6.29	1,576,000	$ 0.98
Options additionally reserved	1,150,000				
Options granted	(1,586,750)	1,586,750	$1.03-$2.50	1,992,000	$ 1.26
Options repurchased	1,500		$ 1.03		$ 1.03
Options canceled	152,166	(152,166)	$0.05-$6.29	(134,000)	$(0.88)
Options exercised		(1,252,165)	$0.05-$1.13	(1,050,000)	$(0.84)
Balances, December 31, 1998	329,288	1,785,897	$0.05-$6.29	$ 2,384,000	$ 1.33

At December 31, 1996, 1997 and 1998, options for 1,455,088, 12,501 and 589,599 shares remain subject to the Company's right of repurchase.

The options outstanding and currently exercisable by exercise price at December 31, 1998 are as follows:

	Options Outstanding			Options Currently Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.05	106,334	6.3 years	$0.05	106,334	$0.05
$0.21	38,187	5.2 years	$0.21	38,187	$0.21
$1.01-$1.13	1,308,736	9.2 years	$1.03	1,308,736	$1.03
$1.50	46,500	9.9 years	$1.50	46,500	$1.50
$2.01	30,712	2.1 years	$2.01	30,712	$2.01
$2.50	189,000	10 years	$2.50	189,000	$2.50
$6.29	66,428	1.9 years	$6.29	66,428	$6.29
$0.05-$6.29	1,785,897	8.6 years	$1.34	1,785,897	$1.33

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) For financial reporting purposes, the Company has determined that the deemed fair market value on the date of grant of employee stock options granted since 1995 was in excess of the exercise price of the options. The difference is considered stock compensation expense and is charged against income over the vesting period of the options. Future compensation expense from options granted through December 31, 1998 is estimated to be $3,577,000, $3,287,000, $2,099,000, and $1,084,000 for the years ending December 31, 1999, 2000, 2001, and 2002, respectively.

Pro Forma Stock-Based Compensation:

The Company accounts for employee stock options under APB Opinion No. 25. Had the Company determined compensation expense under SFAS No. 123, the effect on the Company's net earnings would have been insignificant. These pro forma results are not necessarily indicative of results which may be expected in the future as additional grants are made each year and options vest over several years. The weighted average fair value of the options and warrants granted or modified for the years ended December 31, 1996, 1997 and 1998 was $0.17, $0.40 and $0.22 respectively.

The following weighted average assumptions were used in the above calculations:

1996 1997 1998

Risk free interest rate.....	6.11%	6.05%	5.13%
Expected life.....	5.5 years	4 years	4 years
Volatility.....	--	--	--
Dividend yield.....	--	--	--

8. Net Loss Per Share:

In accordance with the requirements of SFAS No. 128, a reconciliation of the numerator and denominator of basic and diluted loss per share is provided as follows:

Year Ended December 31, 1996 1997 1998 Numerator--Basic and Diluted: Net loss..... $(25,039,000) $(13,648,000) $(11,945,000) Denominator--Basic and Diluted: Weighted average common shares outstanding..... 2,195,922 2,556,202 2,992,077 Basic and Diluted loss per share..... $ (11.40) $ (5.34) $ (3.99) Options and warrants to purchase common and preferred shares and preferred securities are not included in the diluted loss per share calculations as their effect is antidilutive for all periods presented. These dilutive securities at December 31, 1998 included weighted average common stock equivalents relating to preferred stock and options and warrants to purchase common and preferred shares (as calculated using the treasury method), as follows:

1996 1997 1998

```
Preferred stock..............................  5,332,682  8,662,706  10,416,615
Options.....................................    630,168  1,106,273   1,403,983
Warrants....................................         --    216,088     543,436
```


9. Employee Benefit Plan:

The Company created a 401(k) Plan (the Plan) to provide tax deferred salary deductions for all eligible employees. Participants may make voluntary contributions to the Plan up to 20% of their compensation, not to exceed the annual 402(g) limitation for any plan year. The Company's matching contribution is discretionary as determined by the Board of Directors. During 1996, 1997 and 1998, the Company did not contribute to the Plan.

10. Income Taxes:

For the years ended December 31, 1996, 1997 and 1998 the provision for income taxes comprised minimum state tax expense.

The components of the net deferred tax assets comprised (in thousands):

December 31, 1997 1998

```
Net operating loss carryforwards..........................  $ 14,552   $ 17,588
Tax credit carryforwards..................................       988        988
Accruals, depreciation and amortization...................       389        528
Intangible assets.........................................     6,957      5,097
                                                             22,886     24,201
Less valuation allowance..................................  (22,886)   (24,201)
Net deferred tax asset....................................  $     --   $     --
```

Due to uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has placed a valuation allowance against its net deferred tax assets.

The difference between the statutory rate of approximately 40% (34% federal and 6% state, net of federal tax benefits) and the tax benefit of zero recorded by the Company is primarily due to the Company not recording the benefit received from the accumulation of their net deferred tax assets.

At December 31, 1997 and 1998, the Company had federal and state net operating loss carryforwards of approximately $32,816,000 and $45,232,000, respectively, available to offset future regular and alternative minimum taxable income. Of the total net operating loss carryforwards, $16,231,000 was attributed to Catapult's carryforwards (see Note 3). The Company's net operating loss carryforwards expire on various dates after the year 1999, if not utilized.

Due to changes in the Company's ownership, future utilization of these net operating losses and credit carryforwards will be subject to certain annual limitations as defined by the Tax Reform Act of 1986. Due to separate return limitations, future utilization of the net operating losses and credits of Catapult will be subject to additional limitations.

Due to changes in the Company's ownership, future utilization of these net operating loss carryforwards may be subject to certain limitations on annual utilization as deferred by the Tax Reform Act of 1986.

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

11. Related Party Transactions:

One of the Company's major customers is also an investor and has a seat on the Board of Directors. The Company had revenue transactions in the normal course of business with this customer totaling $515,000 and $1,901,000 in the years ending December 31, 1997 and 1998, respectively. During the year ending December 31, 1996, the Company did not have revenue transactions with this customer. As of December 31, 1998, the Company has an accounts receivable balance of $376,000 outstanding from this customer.

12. Supplemental Disclosure of Cash Flow Information:

Year Ended December 31, 1996 1997 1998

Cash paid for interest	$ 40,000	$ 115,000	$ 222,000
Exercise of common stock options for notes receivable	46,000	--	937,000
Issuance of Series C preferred stock in consideration of Catapult acquisition in November 1996	9,021,000	--	--
Assumption of notes payable in connection with the Catapult acquisition, net of original discount of $415,000	2,756,000	--	--
Conversion of Series C preferred stock to Series D preferred stock	--	500,000	--

Exchange of notes payable for Series D preferred stock	--	1,300,000	--
Conversion of bridge loans and accumulated interest into Series D preferred stock	--	1,614,000	--
Non cash payment for common stock warrants	--	1,000	--
Buyout of Catapult leases with deposit funds	--	74,000	--
Non cash financing cost in conjunction with financing arrangement for warrant of 23,000 shares of Series D preferred stock	--	--	64,000
Compensation accrued for options granted	365,000	1,606,000	215,000
Compensation recorded for options exercised	12,000	63,000	2,380,000

13. Segments:

As discussed in Note 2, the Company has two reportable segments: Live Communities and Foundation. Live Communities provides a live entertainment and game community on the Internet. Foundation leverages the technology expertise developed in creating Live Communities by providing licensed technology, developmental and supporting services to companies seeking to create online communities.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income tax and including nonrecurring gains and losses.

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business has different strategies. The following table provides financial information by segment (in thousands):

	1996		1997		1998	
	Dollar Value	Percent of Total Revenue	Dollar Value	Percent of Total Revenue	Dollar Value	Percent of Total Revenue
Net revenues:						
Live Communities	$ 12	10%	$ 686	25 %	$ 3,022	38%
Foundation	112	90%	2,041	75 %	5,005	62%
Total	$ 124	100%	$ 2,727	100 %	$ 8,027	100%
Cost of net revenues:						
Live Communities	$ 35	28%	$ 1,808	66 %	$ 2,221	28%
Foundation	90	72%	620	23 %	790	10%
Total	$ 125		$ 2,428		$ 3,011	
Gross profit (loss):						
Live Communities	$ (23)	-18%	$ (1,122)	(41)%	$ 801	10%
Foundation	22	18%	1,421	52 %	4,215	52%
Total	$ (1)		$ 299		$ 5,016	
Operating expenses:						
Live Communities	$ 11,648		$ 8,106		$ 9,740	
Foundation	427		4,077		4,513	
Total	$ 12,075		$ 12,183		$14,253	
Operating loss:						

Live Communities.....	$(11,671)	$ (9,228)	$(8,939)
Foundation.....	(405)	(2,656)	(298)
Total.....	$(12,076)	$(11,884)	$(9,237)

In 1996, operating expenses and operating loss do not agree to the amounts on the statement of operations as the write-off of acquired intangibles was not considered to be a part of either operating segment. In 1996, 1997 and 1998, the operating expenses and operating loss do not agree to the amounts on the statements of operations as the stock compensation was not classified within either operating segment.

14. Subsequent Events:

In January of 1999 the Company increased the authorized number of shares of preferred stock to 16,294,986 and issued 3,035,306 shares of Series E convertible preferred stock, with a par value of $.00005 per share, at a price of $6.60 per share. An additional 77,422 shares of Series E preferred stock are reserved for issuance upon exercise of warrants granted to the investment bankers at an exercise price of $6.60 per share. The warrants expire upon the earlier of January 15, 2004, the sale or merger of substantially all of the Company's assets or an underwritten public offering of securities. The fair value of these warrants of $104,000 will be recorded as a reduction of additional paid-in capital.

Each share of Series E preferred stock is convertible at the option of the holder into one share of common stock. All preferred shares will automatically convert into common stock upon the earlier of the closing of an

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) underwritten public offering of common stock for not less than $10.80 per share, with aggregate net proceeds of more than $15,000,000, or the date specified by written consent or agreement of the holders of at least sixty-six and two thirds percent (66.67%) of the then outstanding shares of preferred stock.

The holders of Series E preferred stock are entitled to receive, on an equal basis, non- cumulative dividends in preference to holders of common stock at the rate of $0.66 per share, when and if declared by the Board of Directors.

Upon liquidation, dissolution, or winding up of the Company, the holders of preferred stock are entitled to receive on an equal basis in conjunction with holders of preferred Series D and in preference to holders of common and holders of Series A,B,C and C-1 an amount equal to $6.60 for each share of Series E and $5.40 for each share of Series D then held plus any declared but unpaid dividends. Holders of Series A,B,C and C-1 preferred stock shall then receive distributions based on their liquidation rates.

After completion of the distribution to the preferred stockholders the remaining assets will be distributed to the holders of Series A Preferred Stock and common stock on a common equivalent of $2.50 per share. Thereafter, the holders of common stock will be entitled to receive all remaining

assets.

The holders of each share of Series E preferred stock shall have the right to that number of votes equal to the number of shares of common held on as converted basis.

Immediately subsequent to the issuance of Series E preferred stock the term loan for $1,500,000 (see Note 6) became due and payable. The Company has fully repaid this obligation.

15. Additional Subsequent Events:

In February 1999, the Company's Board of Directors approved the 1999 Stock Incentive Plan, which is still subject to stockholder approval. A total of 2,500,000 shares of common stock has been reserved for issuance under this plan, which is subject to annual increases. This plan provides for the grant of incentive stock options to employees and nonstatutory stock options and restricted stock to employees, directors and consultants. The terms of the option and restricted stock grants will be determined by the Board of Directors on the date of issuance.

In February 1999, the Company's Board of Directors approved the 1999 Directors' Stock Option Plan (the "Directors' Plan"), which is still subject to stockholder approval. A total of 300,000 shares of common stock has been reserved for issuance under the Directors' Plan. The Directors' Plan provides for an initial grant of an option to purchase 30,000 shares of common stock to each person who becomes a non-employee director after the effective date of the Directors' Plan. These options vest and become exercisable 25% annually upon the first, second, third and fourth anniversaries of the date of grant. The Directors' Plan also calls for annual grants upon each annual meeting of options to purchase 7,500 common shares, which option becomes exercisable and vested in full upon the fourth anniversary of the date of grant. Options must be granted at the fair market value on the date of grant and have a term of the lesser ten years or the term of the optionees' service as a director.

In February 1999, the Company's Board of Directors approved the 1999 Employee Stock Purchase Plan (the "Purchase Plan"), which is still subject to stockholder approval. A total of 750,000 shares of common stock has been reserved for issuance under the Purchase Plan, which is subject to annual increases. The Purchase Plan allows for eligible employees to purchase a limited number of shares of the Company's Common Stock at 85% of the fair market value during certain plan-defined dates.

Mpath Interactive, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued) On February 11, 1999, the Company entered into a Letter of Understanding with Yahoo! Inc., which outlines an arrangement to license to Yahoo! certain technology. As part of this arrangement, the Company issued Yahoo! a warrant to purchase 192,000 shares of common stock at an exercise price of $10.29 per share, which Yahoo! can exercise upon certain milestones. The Company will evaluate the fair market value of these warrants at the date the warrants are earned to determine if an adjustment to sales and marketing expense is required.

[Inside Back Cover]

Title: "Advertising Products." Text: "The Mpath technologies offer Internet advertisers an opportunity to reach targeted audiences who are participating in activities that keep them absorbed in our Live Communities. Our Live Communities serve over 2.5 million registered users with over 50,000 unique daily visitors generating over 100 minutes of average daily usage per visitor. Mpath's Live Communities advertising leverages rich media to provide enhanced opportunities for building brand awareness and loyalty and increasing customers' purchase intent. Live Communities can also target ads to distinct demographic and psychographic groups. Live Communities offer standard banner advertising and also go beyond-the banner to offer TV-style interstitials, Web viewers, buttons, sponsorships, contests, promotions and special offers."

Center of page: Seven overlapping images of Web pages, banner ads, and buttons, which display the various types of advertising mediums available. Each image has text associated with it, and the text for such images is as follows:

1. "Email Newsletters. Deliver messages directly to the live communities membership and hyperlink to the advertiser's Web site." 2. "Banner Ads and Buttons. Target by content, demographics, geography, browser and domain." 3. "Intersitials. Offer innovative, full-screen, TV style ads--using animation, audio or static graphics." 4. "Web Viewers. Target by content, demographics and geography with guaranteed visibility so members can navigate the advertiser's site from directly within our live communities." 5. "Sponsorships. Display high visibility ad or logo by lobby, community or pager sponsorship and link ad or logo to the advertiser's Web site." 6. "Member Portraits. Customize a member portrait with the advertiser's corporate logo or icon."

Bottom of page: Text: "Strategic Relationships. Mpath has entered into strategic relationships with some of the most prominent media technology companies in order to increase membership and usage, maximize revenues, build brand recognition, accelerate product development and acquire content." Small corporate logos for the following entities:

1. Infoseek Corporation 2. XOOM, Inc. 3. Intel Corporation 4. Excite, Inc. 5. Macromedia, Inc. 6. GTECH Corporation 7. SegaSoft Networks, Inc. (Heat logo) 8. Cox Interactive Media, Inc.

[Mpath Logo]

[Outside Back Cover Page]

Part Ii

Information Not Required in Prospectus

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

Amount to be Paid

Securities and Exchange Commission registration fee	$ 12,788
NASD filing fee	5,100
Nasdaq National Market listing fee	60,000
Printing and engraving expenses	225,000
Legal fees and expenses	300,000
Accounting fees and expenses	207,000
Blue Sky qualification fees and expenses	3,000
Transfer Agent and Registrar fees	10,000
Miscellaneous fees and expenses	100,000
Total	

* to be filed by amendment Item 14. Indemnification of Directors and Officers Section 145 of the Delaware General Corporation Law (the "Delaware Law") authorizes a court to award, or a corporation's Board of Directors to grant, indemnity 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 X of Mpath's Certificate of Incorporation (Exhibit 3.1 hereto) and Article VII, Section 6 of Mpath's Bylaws (Exhibit 3.3 hereto) provide for indemnification of Mpath's directors, officers, employees and other agents to the maximum extent permitted by Delaware Law. In addition, Mpath has entered into Indemnification Agreements (Exhibit 10.1 hereto) with its officers and directors. The Underwriting Agreement (Exhibit 1.1) also provides for cross-indemnification among Mpath and the Underwriters with respect to certain matters, including matters arising under the Securities Act.

Item 15. Recent Sales of Unregistered Securities Since January, 1995, Mpath has sold and issued the following securities:

1. In January and March 1995, Mpath issued and sold for cash a total of 100,000 shares of its Common Stock at a price of $0.05 per share to two investors and 2,800,000 shares of its Series A Preferred Stock at a price of $0.50 per share to seven investors.

2. In August 1995 and January 1996, Mpath issued and sold for cash a total of 2,190,842 shares of its Series B Preferred Stock at a price of $2.07 per share to 29 private investors.

3. In April, May and July 1996, Mpath issued and sold for cash a total of 1,154,580 shares of its Series C Preferred Stock at a price of $10.28 per share to 35 private investors. In November 1996, Mpath issued and sold a total of 291,829 shares of its Series C Preferred Stock at a price per share of $10.28. In March 1997, Mpath issued and sold 48,638 shares of its Series C Preferred Stock at a price of $10.28 per share to one private investor.

. In November 1996, Mpath acquired one hundred percent of the outstanding stock of Catapult Entertainment, Inc., a California corporation ("Catapult"), in connection with Catapult's reorganization. Pursuant to an Agreement and Plan of Reorganization and an Agreement and Plan of Merger, Catapult merged with and into a wholly-owned subsidiary of Mpath and Mpath issued 868,254 shares of Series C Preferred Stock and options to purchase 121,078 shares of Common Stock, valued at $10.28 per share, to 26 securityholders of Catapult. In addition, Mpath issued and sold a warrant to purchase up to 52,250 shares of Common Stock at a price of $60.00 per share (the "Intel Warrant") to Intel. Mpath also issued two Convertible Promissory Notes to Intel for $1,150,000 and $150,000 respectively (the "Intel Notes") and issued a Convertible Senior Subordinated Promissory Note to Viacom International, Inc. for $1,864,000 (the "Viacom Note").

5. In July and August 1997, Mpath issued and sold a total of 3,111,110 shares of Series D Preferred Stock to 28 private investors for cash and the cancellation of debt at a price of $5.40 per share. In addition, in July and August 1997, Mpath issued warrants to purchase 1,555,555 shares of Common Stock at an exercise price of $5.40 per share to the purchasers of the Series D Preferred Stock (the "Series D Warrants").

6. In July 1998, Mpath entered into a Loan and Security Agreement pursuant to which Mpath received a $1,500,000 term loan. In connection with the Loan and Security Agreement, Mpath issued and a warrant to purchase 23,000 shares of Series D Preferred Stock at an exercise price of $5.40 per share.

7. In January 1999, Mpath issued and sold for cash a total of 3,035,306 shares of Series E Preferred Stock to 69 private investors at a price of $6.60 per share. In addition, Mpath issued a warrant to purchase 77,422 shares of its Series E Preferred Stock at an exercise price of $6.60 per share and paid a commission of $1,201,980 to NationsBanc Montgomery Securities, LLC, the placement agent in the Series E financing.

8. Since inception, Mpath has issued an aggregate of 3,329,806 options to purchase its Common Stock (net of lapsed options) to 184 of its employees, directors and consultants with exercise prices ranging from $0.05 to $5.50, and has issued and sold an aggregate of 4,201,896 shares of its Common Stock (net of repurchases) to 101 of its employees, directors and consultants at prices ranging from $0.005 to $5.50.

The issuances of the above securities were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of such Securities Act as transactions by an issuer not involving any public offering. In addition, certain issuances described in Item 8 were deemed exempt from

registration under the Securities Act in reliance upon Rule 701 promulgated under the Securities Act. The recipients of securities in each such transaction represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and warrants issued in such transactions. All recipients had adequate access, through their relationships with Mpath, to information about Mpath.

Item 16. Exhibits and Financial Statement Schedules (a) Exhibits Number Description

1.1	Form of Underwriting Agreement (subject to negotiation).*
3.1	Amended and Restated Certificate of Incorporation of Mpath.*
3.2	Amended and Restated Certificate of Incorporation of Mpath (as proposed).*
3.3	Amended and Restated Bylaws of Mpath.*
3.4	Amended and Restated Bylaws of MPath (as proposed).*
4.1	Specimen Stock Certificate.*
4.2	Fourth Amended and Restated Investors' Rights Agreement dated January 15, 1999.*
4.3	Form of Common Stock Purchase Warrant.*
4.4	Warrant to Purchase Shares of Capital Stock dated November 18, 1996, issued by Registrant in favor of Intel Corporation.*
4.5	Common Stock Purchase Warrant dated February 12, 1999, issued by Registrant in favor of PSINet, Inc.*
4.6	Common Stock Purchase Warrant dated February 12, 1999, issued by Registrant in favor of PSINet, Inc.*
4.7	Common Stock Purchase Warrant dated February 11, 1999, issued by Registrant in favor of Yahoo! Inc.*+
4.8	Preferred Stock Purchase Warrant dated September 25, 1995, issued by Registrant in favor of Lighthouse Capital Partners, LP.*
4.9	Warrant to Purchase Stock dated July 29, 1998, issued by Registrant in favor of Greyrock Business Credit.*
4.10	Series E Preferred Stock Purchase Warrant dated January 15, 1999, issued by Registrant in favor of NationsBanc Montgomery Securities LLC.*
4.11	Convertible Senior Subordinated Promissory Note dated November 18, 1996, issued by Registrant to Viacom International, Inc.*
5.1	Opinion of Venture Law Group regarding the legality of the common stock being registered.*
10.1	Form of Indemnification Agreement between Mpath and each of its officers and directors.*
10.2	1995 Stock Option/Stock Issuance Plan.*
10.3	1999 Stock Incentive Plan.*
10.4	1999 Employee Stock Purchase Plan.*
10.5	1999 Directors' Stock Option Plan.*
10.6	Distribution Agreement dated April 22, 1998 between Mpath and Cox Interactive Media, Inc.*+
10.7	Content License and Co-branded Area Agreement dated April 15, 1998 between Mpath and Excite, Inc.*+
10.8	POP.X(TM) License Agreement dated June 26, 1998 between Mpath and GTECH Corporation.*+
10.9	Application Development Agreement dated November 9, 1998 between Mpath and Intel Corporation.*+
10.10	Technology License Agreement dated April 15, 1996 between Mpath and SegaSoft Networks, Inc.*+

Number Description

10.11 Amendment #1 to Technology License Agreement dated November 27, 1996 between Mpath and SegaSoft Networks, Inc.*+ 10.12 Amendment #2 to Technology License Agreement dated March 28, 1998 between Mpath and SegaSoft Networks, Inc.*+ 10.13 Amendment #3 to Technology License Agreement dated October 27, 1998 between Mpath and SegaSoft Networks, Inc.*+ 10.14 Content Provider Agreement dated December 23, 1998 between Mpath and Infoseek Corporation.*+ 23.1 Consent of Independent Accountants. 23.2 Consent of Attorney (See Exhibit 5.1).* 24.1 Power of Attorney (See page II-5). 27.1 Financial Data Schedule.

*To be filed by amendment. +Confidential treatment requested as to certain portions of this Exhibit.

(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 financial statements or notes thereto.

Item 17. Undertakings The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Mountain View, State of California on February 16, 1999.

Mpath Interactive, Inc.

By: /s/ Paul Matteucci Paul Matteucci President and Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints, jointly and severally, Paul Matteucci and Lynn Heublein, and each of them, as his or her attorney-in-fact, with full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Registration Statement (including post- effective amendments), and any and all Registration Statements filed pursuant to Rule 462 under the Securities Act of 1933, as amended, in connection with or related to the offering contemplated by this Registration Statement and its amendments, if any, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to any and all amendments to said Registration Statement.

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

Signature Title Date

/s/ Paul Matteucci _____ Paul Matteucci	President, Chief Executive Officer and Director (Principal Executive Officer)	February 16, 1999
/s/ Lynn Heublein _____ Lynn Heublein	Chief Operating Officer (Principal Financial and Accounting Officer)	February 16, 1999

/s/ Brian Apgar Director February 16, 1999 Brian Apgar /s/ James W. Breyer Director February 16, 1999 James W. Breyer /s/ David A. Brown Director February 16, 1999 David A. Brown /s/ Douglas G. Carlston Director February 16, 1999 Douglas G. Carlston /s/ William McCall Director February 16, 1999 William McCall /s/ Gregory O'Brien Director February 16, 1999 Gregory O'Brien /s/ Ruthann Quindlen Director February 16, 1999 Ruthann Quindlen

Ii-5 </Text>