

244 Fifth Ave., 2nd Fl., Ste. 2801 • New York, NY 10001 • Tel: (212) 726 1408 • Fax: (413) 215 0880**Egghead.com, Inc. (NASDAQ: EGGS)****Update: Egghead and Onsale now fully integrated -HOLD**

May 31, 2000

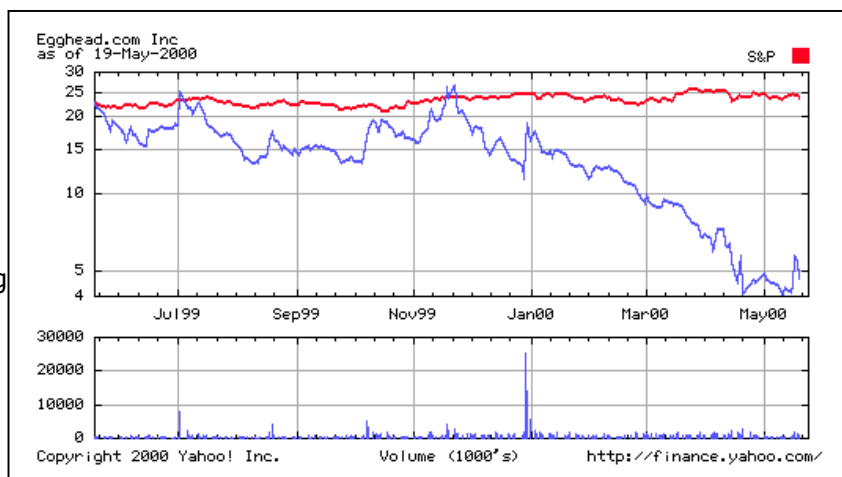
KEY CONSIDERATIONS

- Egghead and Onsale websites and related operations are now fully integrated; former customers of both companies are able to use their existing accounts to place orders and a new customer service facility were created
- EGGS has been recently confirmed the No.1 ranking from several leading e-commerce research firms including Nielsen// Rating, PC Data Online and Gomez.com. Media Matrix reported that EGGS customer base grew 3% from January to February
- Traffic, customers and spending per customer significantly increased during the first quarter as well as the number of repeated purchases. Repeat customers account for 71% of the orders
- We expect that Internet commerce-based growth will continue over the next 3-5 years. We believe that Egghead.com to be well-positioned to benefit from that growth; however primary revenue growth is not sufficient and greater emphasize must be given to lower losses and higher gross margin
- We project negative earning for year2000 and 2001, positive income is expected for 2002

Recent Price	\$ 4.313
52WK Low	\$ 4
52WK High	\$26.50
P/E	N/A
P/Book	3.00
P/Sales	0.27
Market Capitalization	\$163.9Mil
Shares Outstanding	38 Mil
Float	28.1Mil
Daily Volume (3-month Average)	1.23
EPS	
1998	\$(1.03)
1999	\$(2.84)
2000E	\$(1.82)
Current Ratio	1.61
Total Debt to Equity	0.00
LT Debt	0.00
Total Cash	\$52.5 Mil

COMPANY PROFILE

Egghead.com is a leading Internet retailer of computer hardware, software, peripherals, and accessories, including excess, reconditioned, and closeout brand-name computer products. Egghead.com also sells consumer electronics, sporting goods, and vacation packages Through its auction site, Onsale.com, the Company offers bargains on excess and closeout goods and services. Egghead.com, Inc. was formed following the November 22, 1999 merger between Egghead.com, Inc. (old) and Onsale, Inc. As a result of the merger Egghead became a wholly owned subsidiary of Onsale. All outstanding shares of Egghead were converted into shares of Onsale common stock, and the name of the Company was changed to Egghead.com. In the pooling of interests merger, Egghead.com (old) shareholders received .565 shares of Onsale common stock in exchange for each share of Egghead common stock.

ONE-YEAR PRICE AND VOLUME GRAPH

This report was prepared by Francesca Durante and David R. Rivas, Ph.D.

The content of this report represents an interpretation and analysis of information generally available to the public or released by responsible individuals in the subject companies but is not guaranteed as to accuracy or completeness. InternetFundManager.com, Inc. has not independently verified any of the information contained herein. Opinions expressed herein are subject to change without notice. This report is published solely for information purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy any security. Recommendations made in this report are intended for investors who are aware of, suited to and financially able to bear the risks involved. InternetFundManager.com, Inc. and its officers, from time to time, may have long or short positions in the securities mentioned or options to buy or sell the securities mentioned in this report. Past performance does not guarantee future performance. Forward looking statements that relate to future events or future business and financial performance can be only predictions and the actual events or results may differ from those discussed due to, among other things, those risks described in the company's reports on form 10-Q and 10-K. Copyright © 2000. All rights reserved.

COMPETITION

Egghead.com emerged from the holiday season with one of the best-known brand names on the Internet; however the competitive environment in the online commerce is increasingly fierce and continuously evolving and any attracted customer must be retained with continuous and careful efforts. On the one hand there is no doubt that U.S. consumers are committed to e-commerce, on the other they are very deal sensitive. Consumers select sites that offer them the best whole experience, including price, freebies, and savings features. These consumer-purchasing trends indicate that increasingly online customer loyalty must be won on every transaction. The site that wins the sale is the one that offers the best deal of the moment. This clearly presents challenges to dot coms as positioning as the '*best deal/experience*' provider can be very tenuous.

STRATEGIES FOR GROWTH

The main strategies for growth are focused on expanding the business with synergistic product categories to complement the present product mix and continue building brand recognition. EGGS has pursued the objective to expand its product line mainly through reseller agreements and new services.

Reseller agreements

In April EGGS entered into a reseller agreement with e-NITED business solution. e-NITED is the e-commerce and fulfillment division of United Stationers Inc., North America largest provider of office products and fulfillment solution to Internet resellers. Under the terms of the agreement e-NITED will enable EGGS to offer its customer base a wide range of office products to complement their technology product purchase. e-NITED will handle the fulfillment of all office orders placed through EGGS. Since the greater part of EGGS sales comes from its small office/Home Office customer base, the expansion into general office products is a logical move for EGGS, in fact it will enable the company to expand into complementary products.

During the quarter Egghead.com signed reseller agreements with several leading hardware vendors such as Compaq and Sony reflecting an increasing acceptance of the online retail channel by major manufacturers. Under the agreements EGSS resells Compaq business system products including Armada Notebooks, Deskpro PCs and Profiliant Servers.

New services

EGGS has recently announced wireless connectivity to its website via application service provider Everypath. As a result anyone with a smart phone or a Palm™ VII handheld computer will be able to buy goods from Egghead.com site. Using 3Com's Palm VII organizer EGGS customers can now trade online without being in front of a desktop computer.

Eggs joined the 40-plus U.S and European online retailers, resellers and e-commerce content providers who license CDS's multi-lingual Transactive Product Data. As a result the company will be able to offer this comprehensive database of computer and technology product information to its customers. CDS currently catalogs more than 150,000 SKUs in the U.S. and leading European markets. The service's multi-lingual functionality enables customers to deliver locally focused information on a global scale.

Marketing

Since gaining brand recognition and consumer loyalty is critical, EGGS continuously tries to improve its competitive position. On April 4th the company introduced a bold new corporate logo to more accurately communicate EGGS position as a leading Internet destination for technology products and related services. In addition, EGGS awarded Grey Advertising/SF one of the world leading independent advertising companies a \$50 million account to create a national branding campaign that will break in the fall.

EUROPE

Europe is the second largest Internet market after North America, according to Jupiter Communication; European online advertising and e-commerce revenues are small compared with U.S figures, but they are growing twice as fast. Many American e-tailers such as Amazon.com and Ebay have already launched a European "invasion" and Egghead.com is planning to expand its business in the old continent. Nevertheless any company that wish to expand its activity in Europe must not forget that brand power does not project across boundaries without a big investment as companies such as Coca-Cola and Mac Donald's learned.

KEY RISK FACTORS

The main risk factor remains the **increasing competition** in the Online Retail sector. New competitors or alliances among competitors and vendors continuously emerge threatening rapidly Egghead's market share.

- **Regulations.** Changes in the regulatory environment represent a possible risk in the close future. The ever-increasing popularity of the Internet in general and online services in particular, makes it likely the approval of laws that will more rigorously regulate the Internet. Indeed issues such as online contracts, user privacy, pricing, fraud, content and quality of products and services, taxation, intellectual property rights and information security are still controversial and not fully addressed by existing laws.

- **System failures.** E-tailers' success depends on the efficient and uninterrupted operation of its computer and communications hardware systems; the reliability and availability of the web site are necessary key to success factors in this sector. Processing systems and network infrastructure are critical to the company's reputation and its ability to attract and retain large numbers of users. Failures in the day-to-day operations of the site and in the capacity to deal with growth could lead to unfavorable consequences on the business, results of operations and financial condition.

- **Internet Sector.** Internet companies are vulnerable to the rapid evolution of electronic commerce and related technology. The Internet and the electronic commerce industry are characterized by rapid technological change, change in customer requirements, new service or product introductions embodying new technologies, and the emergence of new industry standards and practices. In order not to become obsolete the company must continue to to develop or license new technologies and respond promptly and cost-effectively to technological advances and emerging industry standards and practices.

EXPLANATION OF FINANCIALS

Revenue. We expect that Internet commerce-based growth will continue over the next 3-5 years. It is in fact expected that an increasing percentage of the domestic population will have access to the Internet over the next several years, we believe up to 95% of the total U.S. population may have Internet access by year 2004. This will traduce in a dramatic increases in the overall volumes of online commerce during that time frame. As a consequence, a revenue growth of 40% to 50% is expected in 2000 while the revenue growth rate is seen slowing to 35% to 40% in 2001 mainly due to the low of large numbers.

Gross profit. Gross profit in expected to increase mainly because of the relevant increase in revenues; the gross margin is expected increase from 5.37% in 1999 to 7% in 2000 and 9% in 2001 due to a lower percentage influence of the cost of revenue.

Sales and Marketing. Eghead.com undertook an aggressive sales and customer-acquisition campaign during the second and third quarter of 1999, as a result sales and marketing expenses doubled in 1999. 1999 significant advertising effort is not expected to incur in 2000 and 2001, thus sales and advertising margin is expected to fall from 19% to 13% in 2000 and 10% in 2001.

General and Administrative. Additional personnel are being added to meet the company's rapid growth. The costs of handling payroll and other personnel concerns are increasing in absolute terms, however margins will slightly fall through fiscal year 2000 and 2001

Engineering. The programs used to run the auction site will not only be enhanced over time, but also adjusted in order to revise the auction format so as to maintain consumer interest and interactivity. Thus, engineering costs will grow slightly over the next few quarters. As a percentage of revenue, engineering expenses will be lower due to the achievement of economy of scale, remaining around 1 percent in 2000 and below 1% in 2001.

Operating Expenses. Total operating expenses will rise moderately in absolute terms in the next two years; however the negative operating margin is expected to improve, from the 1999 -20%, over 2000 and to be around -5% by the end of 2001.

Operating Loss. Increased spending on promotional, administrative, and programming activities will likely result in a negative operating income.

Tax Rate. Tax will not be incurred for the near future due to continuing losses.

Net Loss. Egghead will maintain a net loss during 2000 and 2001; positive earnings are expected in 2002.

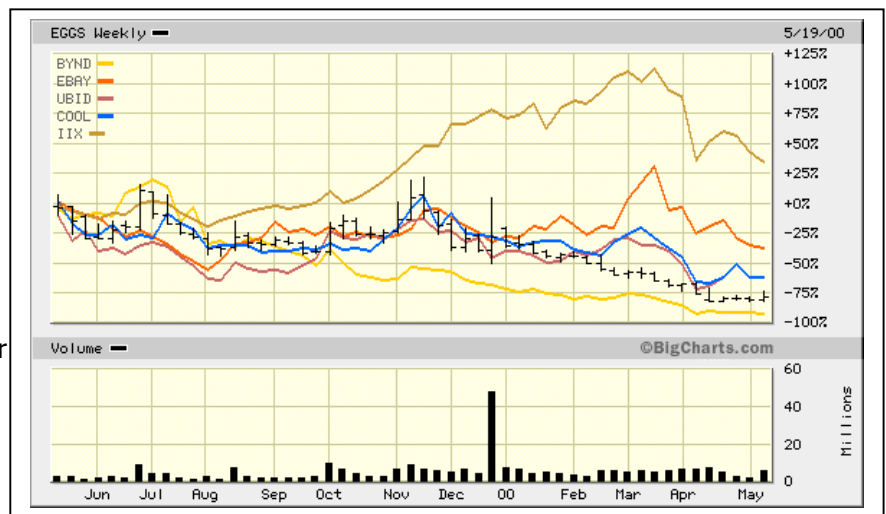
Number of shares outstanding. Egghead relies greatly on issuing shares in order to raise capital. On February Egghead.com announced a financing agreement with Acqua Wellington North American Equity Funds; the agreement calls for Acqua Wellington to invest up to \$100 million in Egghead.com stock in 2000.

VALUATION

A Relative Approach to Valuation

Many pure online retail companies are unprofitable in their early stages and their future performance is highly unpredictable due to the fast changing nature of this industry. Thus we believe a reliance on price to earnings ratios and discounted cash flow models is not practical for evaluation purposes. However, other ratios such as price to sales can be measured and compared to other companies. In addition, other factors such as revenues, margins, customer base, and sector leadership are significant in helping to determine the relative value of an online company. We believe a focus on the latter aspects of a company's performance provides a reasonable valuation of a company.

Internet Sector. The Internet sector as a whole has been volatile with even greater price movements among individual companies. A historical price comparison between Egghead, its main competitors and the Amex Internet Index (IIX) points out that in 1999 e-commerce stocks were characterized by an evident price correction. Even though IIX market-performed the NASDAQ, Egghead.com and many other e-tailers under-performed the IIX. Many e-tailers have plunged over 90% from their all time highs, Etoys (ETYS), lost 93%, from its 52-week high, Ashford.com (ASFD)



lost 92%, PlanetRx (PLRX) gave up 91% and Bayond.com share have "evaporated" 93% of their value. Egghead currently trades at 4 1/2; its value has dropped 70% since the beginning of the year and more than 90% during the last year. Furthermore it is likely that there will be even more turmoil in the e-commerce area due to intense competition, low profit margins and the increasing investors' risk aversion led to the recent correction in the NASDAQ. Investors are becoming more selective when investing in technology stocks and the main focus seems to have shifted from hyper growth to long-term growth.

Revenues and Growth. The company is expecting 8% to 10% sequential revenue growth in the second and third quarter and a 12%to 19% growth during the fourth quarter. The overall year-over-year revenue growth is expected to be of 40% to 45% in 2000 and 45% to 50% in 2001. The more conservative Egghead.com estimation forecasted \$1 billion revenue in 2001. Profitability is expected to follow in 2002.

Value Comparison 05/20/00						
	<i>\$ Price</i>	<i>Market Cap. In millions</i>	<i>Trailing 12 month sales</i>	<i>P/S</i>	<i>Gross Margin % (TTM)</i>	<i>Key Metric</i>
Egghead Inc.	4.75	180.5	18.15	0.27	5.37	3,255,000 registered users
Cyberian Outpost	6	170.0	8.04	0.75	10.83	465,000 customers
Ubid	15.81	183.83	20.99	0.75	9.33	1 million customers
Ebay	121.12	15,800	267.7	60.78	74.37	10 million registered users
Beyond.com	2.13	80.31	3.57	0.6	13.64	2 Million customers

Price to Sales. We believe that price to sales ratio is a key valuation ratio and one that is relevant to a comparison among online retail companies. At present Egghead P/S ratio value is not in line with the values of its main competitors mainly due to the low level of the price during the last two months. This might indicate that the company stock is slightly under-evaluated at present. Ebay P/S ratio is considerably higher than the competitors'; this is the result of a greater confidence the market has demonstrated toward the company one of the reasons being that Ebay had a positive Net Income in 1999 and it is expected to be even more profitable in 2000 and 2001.

Gross Margin. Gross margin for Egghead were around 5 percent in 1999 and it is projected increase over the next several quarters. The gross margin is currently expected to be approximately 6%to 8%for the second quarter, 7%to 9% for the third quarter and 8% to 10% for the fourth quarter. As stated previously gross margins is expected to rise up to 9%in and up to 11% in 2001.

Cash. Having substantial cash is essential to sustain continued losses and keep investing in new business areas that offer the opportunity for large future returns off a relatively minimal investment base. Egghead.com management believes that the cash currently available, \$63.8 million at the end of the first quarter, is adequate to finance the ongoing business plan.

Investment Opinion

Egghead.com is one of the best known and most recognizable brand names in the Internet; thus we believe that the company will maintain its leading position in the online business and will enjoy the expected 40% to

50% revenue growth in the next two years. However, the market seems not to trust e-commerce companies with large losses and not enough cash to cover them while continuing growing. Also, given the actual low level of Egghead.com's stock two different perspectives should be taken into consideration. The first is that Egghead might be an attractive acquisition target for a larger company with a better cash position; the second is to consider whether this company would have a higher valuation as a private company (i.e. a leveraged buyout).

We feel that currently the stock might be slightly under-evaluated. Given the negative trend in the NASDAQ, however, it is unlikely that the company will be fairly or over valued in the near future. We expect the stock to move in line with the Internet sector but under-performing the ISDEX due to the low margin and strong competition characteristics of the sector. **We thus give Egghead a HOLD rating.**

	<u>1999</u>	<u>2000E</u>	<u>2001E</u>
Revenue:			
Merchandise	503,171	709,471	993,260
Commission and other revenue	11,633	16,403	22,964
Total Revenue	<u>514,804</u>	<u>725,874</u>	<u>1,016,223</u>
Cost of Revenue	<u>487,177</u>	<u>675,062</u>	<u>924,763</u>
Gross Profit	<u>27,627</u>	<u>50,811</u>	<u>91,460</u>
Operating Expenses:			
Sales and marketing	101,753	94,364	101,623
General and administrative	22,017	29,035	35,000
Engineering	15,521	7,259	5,000
Amortization of goodwill	1,534	1,000	1,000
Merger Costs	52,215		
Restructuring and impairment costs	(2,735)		
Total operating expenses	<u>190,305</u>	<u>131,657</u>	<u>142,623</u>
Loss from operation	<u>(162,678)</u>	<u>(80,846)</u>	<u>(51,163)</u>
Equity in net loss of joint venture	(1,001)		
Interest and other income, net	8,750	8,000	8,000
Loss before tax	<u>(154,929)</u>	<u>(72,846)</u>	<u>(43,163)</u>
Provision for income taxes			
Net loss	<u>(154,929)</u>	<u>(72,846)</u>	<u>(43,163)</u>
Net loss per share:			
Basic	<u>(4.29)</u>	<u>(1.82)</u>	<u>(0.98)</u>
Net loss per share excluding merger costs:			
Basic	<u>(2.84)</u>	<u>(1.82)</u>	<u>(0.98)</u>
 Weighted average common shares:			
Basic	<u>36,146</u>	<u>40,000</u>	<u>44,000</u>
 Margin Analysis (%age of revenue)			
Gross Margin	5.37%	7.00%	9.00%
Sales and marketing	19.77%	13.00%	10.00%
General and administrative	4.28%	4.00%	3.44%
Engineering	3.01%	1.00%	0.49%
Operating Margin	-31.60%	-11.14%	-5.03%
Operating Margin excluding merger costs	-21.46%	-11.14%	-5.03%
Net Margin	-31.80%	-10.04%	-4.25%
Net Margin excluding merger costs	-19.95%	-10.04%	-4.25%
 Growth excluding merger costs			
Total Revenue	--	41.00%	40.00%
Gross Profit	--	83.92%	80.00%
Operating Expense	--	-4.66%	8.33%
Net loss	--	-29.08%	-40.75%
Fully diluted EPS	--	35.91%	46.13%