

ONSALE, Inc. (NASDAQ: ONSL)

Initiating Coverage: Hold
Adding the Effects of atCost

February 23, 1999

KEY CONSIDERATIONS

- We believe the Company maintains a leading position as an online retail auction pioneer and continues to successfully promote its brand name.
- The new atCost business model represents a major fee-based orientation that is likely to make up a substantial portion of future revenues, functioning alongside the atAuction site.
- Partnership agreements such as with Yahoo! Auction and Tech Data are part of an overall strategy of diversification and competitiveness.
- Investors enthusiasm for e-commerce drove the price to \$108 during the last pre-Christmas season. The current price reflects notable competition effects on revenues growth rates and the uncertainty of atCost's future performance.
- We project modest revenue growth rates through 1999. Positive earnings are expected in the fiscal year 2000. The price of \$34.50 is 2.4X projected 1999 revenues and represents a fair value.
- Competition from existing and new online auction houses and retailers, however, threaten ONSALE's market share, pricing and retail leadership.

Price 2/23/99	\$34.5
52WK Low	\$32.5
52WK High	\$108.0
P/E	N/A
P/Book	12.2
P/Sales	3.5
Market Capitalization	\$662.0 million
Shares Outstanding	19.2 million
Float	6.5 million
Daily Volume	2.82 million
(3-month Average)	
EPS	
1998	(.76)
1Q99	(.23)
2Q99	(.22)
3Q99	(.16)
4Q99	(.15)
1999E	(.76)
Financials	
Current Ratio	4.11
Total Debt to Equity	0.00
LT Debt	0.00
Total Cash	\$47 million

COMPANY PROFILE

ONSALE is a leading online retailer, pioneering an efficient interactive auction. It was founded July 1994, began Internet auctions May 1995, and became public April 1997. In October 1997, it completed a second offering for \$60 million. The company sells online excess merchandise and services, including personal computers, consumer electronics, household goods, sports and fitness equipment, and vacation packages. Goods and services are sold through an auction format, and at fixed prices. The Company is headquartered in Menlo Park, California.

ONE-YEAR PRICE AND VOLUME GRAPH



Courtesy of Yahoo! Inc.

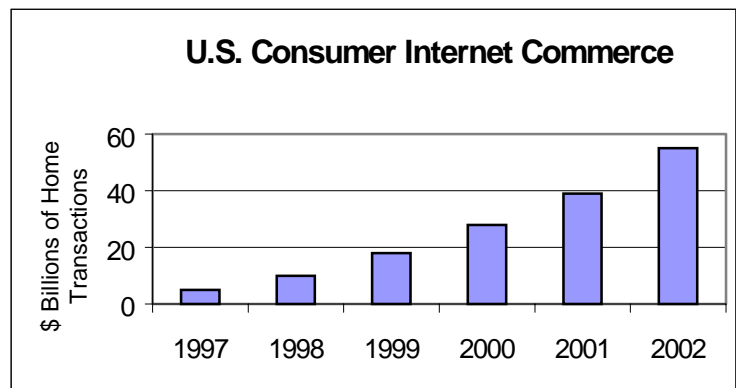
ONLINE RETAIL INDUSTRY

Online commerce and companies competing for market share are growing rapidly. By the year 2001, online retail transactions are expected to reach \$40 billion. Although virtually any retailer or auctioneer can establish an online presence, not all companies are able to successfully use the new medium. The companies that tend to do well appear to sell effectively products and services in the leading sales categories of computers, software, entertainment, books, and travel packages. This trend has caused many leading and pure online retailers to diversify their product lines to those popular categories.

In order to compete for consumers effectively, online retailers are investing heavily in advertising and marketing. Particularly for online-dependent retailers, companies must provide a recognizable brand name that consumers trust and to which they return. Thus, there is a marked drive for market share among many retailers and auction sites. Companies are also likely to lack profitability in their adolescent stage of development. Many of the leading retailers, however, are rapidly growing sales. Thus, we believe that the distinguishing characteristics of successful online retailers include rapidly growing sales, brand-name recognition, customer loyalty, and an adaptable management style.

The online retail market is showing alliance-building as leading retailers with strong followings emerge. Many current auction sites and retailers are cooperating with portal sites and other companies in order to garner advertising agreements and revenue-generating joint agreements. In this way, market leaders will further increase their reach and strength versus lagging businesses.

Finally, projections for online retail success presuppose consumer confidence in online transactions. Commerce on the Internet requires secure and safe means of paying for and processing orders. Today, 20 million people buy products and services online according to Nielsen Media Research and CommerceNet studies. Thus, there is a basic trust in online transactions. Many of the largest retailers have seen only minor attacks to their systems. Investment in security technology is a business necessity and a long-term issue for any online retail company.



Courtesy of IDC Research

LIVE AUCTION

- Interactive online auctions are an increasingly popular medium for online retail sales. Over 80 web sites maintain an auction format of some kind. Many focus on a single product area such as rare coins or sporting goods. Others provide a variety of consumer goods and services. The advantage for an online auctioneer over traditional auctions is that they can amass bidders more rapidly, have lower rents, and process sales more quickly. The advantage that auctions have over the direct sales methods is that the customer has complete price validation through an auction. Meaning, the customer sets the price he is willing to pay for a product. These advantages are also the reason the number of online auctions is increasing rapidly. The barriers to entry are low. Thus, popular items and pricing will likely be available at multiple web sites. Auctions online would have to distinguish themselves in terms of interactivity, service, and reliability.
- ONSALE runs daily auctions and posts tens of thousands of items in a typical week at its atAuction site. Over 8 million bids have been made on those items. The auction proceeds with bidders registering their personal information and placing bids after a credit card number is provided. The

item up for bid is described in detail. A minimum bid is shown. If there are several of an item available, the several highest bids at the time the auction on the item closes will receive the item after orders are confirmed by e-mail and items shipped to the bidders. Customers can use an autobid tool that allows a bidder to have a bid to be raised up to a limit set by the bidder so that the auction itself does not need to be followed as frequently. The overall process is engaging. The company has a sophisticated knowledge of the auction format, focusing on ways in which products can be sold most efficiently. Transactions are secure and agreements with shipping companies allow rapid transport of goods sold.

- In September 1998, ONSALE began to provide the technology behind Yahoo! Auctions, a person-to-person auction. The new auction follows an open reserve format where sellers are not obligated to sell an item for below a minimum bid price. Yahoo! Auction does not attain fees for their services. Thus, the auction is free, unlike the fee-based auction site, eBay. We anticipate the new site will grow rapidly in popularity due to Yahoo! Auction's no-fee approach. The increase in popularity would benefit ONSALE because of its revenue-sharing agreement with Yahoo!, Inc.
- The Company also sells items at fixed prices under its Quick Buy section. This section was added to accommodate the needs of consumers and small businesses that prefer to buy staple items immediately rather than go through an auction process. We believe this represents the Company's willingness to adapt readily to the needs of its customers.

<u>Computer Products</u>	<u>Home & Office</u>	<u>Sports & Fitness Equipment</u>	<u>Travel & Leisure</u>
Desktops	Video	Golf & Tennis	Mexico
Notebooks	Digital Cameras	Health & Fitness	Caribbean
Servers	Camcorders & Photo	Games	Central & South America
Apple & Mac OS	TV & Video	Outdoor	Europe
Memory	Movies & Video Games	Team Sports	Cruises
Monitors	Audio	Bicycles	Air Travel
Printers	Hi Fi Home Audio	Binoculars & Optics	
Mass Storage	Mobile Electronics	Memorabilia	
Modems	Home Office	Just for Kids	
Networking	Copiers & Fax		
Scanners	Cordless Phones		
Multimedia	Business Phones		
Input Devices	PDAs & Organizers		
Upgrades/Accessories	Office Equipment		
Software	Home		
	Hardware		
	Housewares		
	Watches		

FEE-BASED SERVICE

- On January 19, 1999, the Company launched ONSALE atCost, offering businesses, and consumers computer-related products at wholesale prices, verified by PricewaterhouseCoopers LLP. In partnership with Tech Data, a distributor, products from well-known vendors are supplied. The Company earns a small fee for each transaction as well as charging for processing and handling. However, it is the distributor who sources, handles, and ships the goods. This new model is, thus, different from the atAuction site. Whereas the auction site entails the sale of goods acquired by ONSALE, the wholesale-priced site is more service-oriented in that ONSALE acts more as an agent, allowing the distributor to take on more traditional retailing responsibilities. The new model is expected to make up a greater percentage of the Company's business over time. In addition, the Company is expected to sell non-computer related items as the business evolves.

Desktops	Mass Storage	Multimedia	Power Supplies
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Notebooks	Printers	Networking	Input Devices
Servers	Monitors	Memory	Accessories
Software	Scanners	Modems	Consumer Electronics

BUSINESS STRATEGY

ONSALE is maintaining a leading position online by diversifying its product line, increasing its brand-name awareness and strengthening its vendor relationships. As an online auction pioneer, the Company has had competitive advantage for promoting its name ahead of newer auction sites. The Company has also been able to establish strong and early relationships with vendors. We also believe ONSALE has shown an ability to adjust to consumer preferences quickly.

- **Innovation.** A substantial portion of ONSALE's business has recently shifted to atCost, selling goods to consumers at confirmed wholesale prices. This shift is part of a pattern of innovation that has helped the Company remain competitive in a quickly changing online retail environment. The Company continuously monitors consumer preferences electronically and through surveys. Management heeds the data, adjusting their selling approach accordingly. The recent shift to atCost is an attempt to provide competitive prices to consumer, and subsequently, remaining in a contending position. An overall approach of adaptability bodes well for the Company's online success.
- **Cross-Selling.** ONSALE is expanding and diversifying the array of products and services it offers online. A major strategy is to cross-sell to customers so that, for instance, a person buying a VCR may return to the site before a holiday to purchase a vacation package. This approach is an advantage over competitors who focus on a specialized market and depend on selling a narrow range of products. As ONSALE's brand name is more widely recognized, its superior order-processing and innovative auction style will likely bring more repeat customers. Originally, ONSALE focused on computers and electronic equipment. Computer-related products still account for up to 80% of sales. Now, however, the Company sells sports equipment, travel packages and household goods. Minimum bids are as low as \$9. Currently, a majority of customers are repeat customers.
- **Brand Name.** The company has formed relationships with and advertises on leading Web sites and conducts an ongoing public relations campaign. The Company intends to continue to build relationships with leading online content providers and commerce companies to drive traffic to its Web site, and secure merchandise supply. So far, ONSALE has succeeded in brand-name awareness. For instance, a co-branding agreement with Yahoo! Auction has resulted in an ONSALE link and logo throughout the pages of the joint site.

RECENT PARTNERSHIPS

The Company's recent major agreements penetrate new markets and enhance their cross-selling strategy. These agreements will affect operations in the months ahead. The company will likely gain greater revenues through these new channels.

- **Tech Data.** ONSALE partnered with Tech Data, a distributor of computer-related products, to create the ONSALE atCost web site. This partnership represents a new business model where ONSALE acts as a service-oriented agent who receives a fee for the goods handled by Tech Data. The computer-related goods at the new site are sold at confirmed wholesale prices to consumers and small businesses. In the first three weeks of operation begun in January 1999, the new site has managed 22 percent of ONSALE's revenues. Revenues from the site are generated through a small transaction fee, a payment processing fee, shipping charges, and advertising.

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- **Yahoo! Auction.** ONSALE is providing to Yahoo!, Inc. through a revenue sharing agreement, the technology originally produced for ONSALE Exchange's person-to-person auction. The Yahoo! Auction site began operations in September 1998. ONSALE ended its ONSALE Exchange program in lieu of the new agreement. The new site allows individuals to sell goods and services amongst each other without fees. The co-branding of the two companies improves the brand-name recognition of ONSALE as well as provide an increasingly significant revenue stream.
 - **ONSALE Japan.** ONSALE's technology and brand awareness has been combined with SoftBank, which has knowledge of the Japanese consumer market, in a joint venture to conduct online auctions in Japanese. Though there are early costs associated with the set-up of this arrangement, we believe ONSALE will obtain notable revenue through this channel sometime in the second quarter of 1999.

LEADING TECHNOLOGY

- **Proprietary software.** The Company has an advantage with its proprietary software that is specifically designed for Internet auctions. This software conducts automated auctions with thousands of customers, processes those customers' orders and payments, coordinates and performs order fulfillment and provides certain customer support functions. Although the barriers to entry for such software is not high, we believe it is at an advanced stage, sophisticated enough to handle millions of bids and slightly superior to those of its competitors. It also provides reasonably secure transactions unlike some sites which have used third-party software.
- **Enhancing software.** The Company intends to enhance its software to provide an even more compelling shopping experience, as well as to streamline its order processing, warehousing and distribution, and customer support functions. Enhancements are necessary to retain consumer interest in the face of growing competition.

STRENGTHENED MANAGEMENT

- Co-founders S. Jerrold Kaplan and Alan S. Fisher continue to lead management in overseeing the company's diversification and expansion. Management's experience in the technology sector and proficiency with the online auction process is a key reason for ONSALE's success. They have managed to obtain key online advertising agreements versus the competition and developed a leading auction format. They also maintain a flexible business approach adapting rapidly to changing customer needs. Furthermore, they have been able to raise around \$60 million in cash to sustain future purchases and weather future losses.
- The management team was strengthened in July 1998, with the addition of John E. Labett as senior vice president and chief financial officer. In October 1998, Jeffrey Sheahan was appointed to the newly created position of chief operating officer. They provide additional internal structure needed to handle growing financial and material projects.

GROWING ONLINE RETAIL COMPETITION

Though ONSALE is a pioneer in online commerce, a growing number of online auction houses and retailers compete either directly or indirectly with ONSALE. The most direct competition comes from other sites that follow the auction format and sell similar products. First Auction, Surplus Auction and UBid, for instance, auction various computer and electronic products. However, ONSALE provides a slightly more sophisticated technology and has amassed nearly 8 million bids since its inception, leading the auction sites. In addition, ONSALE maintains the most diverse product line as part of its cross-selling strategy.

Table 3		Competitors to ONSALE
Online Auctions		Online Retailers
Bid.com		CDW Computer Centers
DealDeal.com		CompUSA
eBay.com		Cyberian Outpost
First Auction		Internet Shopping Network
Internet Liquidators International, Inc.		Micro Warehouse, Inc.
Surplus Auction (Egghead.com)		Surplus Direct (Egghead.com)
UBid		
Webauction (Micro Warehouse, Inc.)		

Another auction site, eBay, acts as a classified-vehicle rather than a retailer. The site brings primarily individuals together to buy and sell goods and services among each other. Revenues are generated through commissions and fees. In contrast, ONSALE mostly resells products supplied by various vendors. Where ONSALE does challenge eBay is through its new person-to-person auction partnership with Yahoo!. Yet, Yahoo! Auction does not charge a commission or fee for posting a product, as does eBay. Revenue is generated through advertising. We believe that this agreement is leading to an increase in brand name awareness and revenues obtained through the new joint site. Nevertheless, eBay may be considered a competing, albeit different, business model that is currently generating substantially higher gross margins and positive earnings.

Other non-auction retailers compete in terms of price and products with ONSALE, especially atCost. CDW Computers Center, for instance, has an established brand name from its history as a leading direct marketer of computers and related products. It also has substantial working capital. ONSALE competes through its interactive and cross-selling approaches via atAuction while providing relatively low prices through atCost. The auctions are engaging for consumers, at times, providing discounts of 40% or more. Also, ONSALE is diversifying the kinds of products, depending less on the personal computer market and establishing a more comprehensive shopping experience. The atCost site provides competitive prices. In particular, one survey noted that computer-related product prices for atCost were 12 to 17 percent below those of a Washington, D.C. CompUSA. Prices were also 8 to 10 percent lower compared to a discount retailer such as Best Buy. However, atCost prices are less competitive with respect to other online retailers. We believe the low barriers to entry online, and the ability of consumers to easily make price comparisons online place ONSALE in a more challenged position.

ONSALE's strengths versus other auction and retail sites, though, include enough working capital to meet its expansion and growing infrastructure needs, and its leading pioneer status in online auctions. Its pioneer status has given the Company an edge in establishing agreements with leaders in other markets such as wholesale and online portals as well as vendors. Sufficient working capital gives the company an edge, particularly over other online auction sites.

Table 4	PUBLICLY-TRADED COMPETITORS 2/23/98				
	ONSALE	CYBERIAN OUTPOST	EBAY	SURPLUS AUCTION	UBID
Symbol	ONSL	COOL	EBAY	EGGS	UBID
Auction/Non-Auction	Auction	Non-Auction	Auction	Auction	Auction
Products	Computers, Electronics, Sports, Travel	Computers	Computers, Electronics, Sports, Collectibles	Computers, Electronics	Computers, Electronics, Sports, Leisure
Strength	Auction Leader, Diversity	Computer Specialist	Popular, Profitable	Name Recognition	Product Diversity
Weakness	Unprofitable	Low Revenues	Auction Fees	Past Losses	Unprofitable

KEY RISK FACTORS

- **Online Retail Competition.** ONSALE faces competition from a growing number of web sites that use the auction format and/or sell similar products and services. Competitors have established or may establish cooperative relationships among themselves or directly with vendors to obtain exclusive or semi-exclusive sources of merchandise. Thus, it is possible that new competitors or alliances among competitors and vendors may emerge and rapidly acquire market share and diminish ONSALE's operating margins and brand franchise.
- **Consumer Loyalty.** In an environment in which consumers can quickly seek better prices and services, the Company must increase its customer base and maintain loyalty. The company has shown a recent record of customer loyalty in that the second and third quarters of 1998 had repeat customers accounting for 77 percent of orders. Over 8 million customers are registered at the auction site as of the third quarter of 1998. However, technical difficulties with respect to consumer use of the auction format on the Company's Web site, and more attractive prices and products from competitors will likely adversely affect operating profits. Thus, especially for online retail companies, consumer loyalty is both critical and uncertain.
- **Vendors Relations.** There is no guarantee current vendors will continue to sell merchandise to the Company or otherwise to provide merchandise for sale in the Company's auctions. The Company also relies on many of its vendors to ship merchandise to customers. The Company has limited control over the shipping procedures of its vendors, and shipments by these vendors have often been subject to delays. In order to reduce the risk, the company has, however, shifted its atAuction focus to the principal sales model in which the company auctions merchandise, bought by ONSALE from vendors, directly to consumers.
- **Internet Sector.** Internet stocks are highly volatile due to shifting public and institutional preferences for online novelties. Rapid technological changes on the Internet leave the future uncertain for many companies who may become obsolete or fall to more innovative companies. It is possible that the auction format and methods of transaction give way to more appealing forms of internet commerce. Internet commerce itself could wane due to consumer concerns about secure transactions and more attractive means of obtaining similar products.

EXPLANATION OF FINANCIALS

Revenue. Commissions and other revenues, obtained through its agent sales model (selling vendors' goods for commission), commissions from Vacations and Travel transactions, and advertising revenue will remain small as a percentage of total revenues for the foreseeable future. The Vacation and Travel transactions should add, however, to an absolute increase in commissions. The principal sales model (sales from merchandise held by ONSALE) predominates atAuction and has driven the increase in total revenues. The new site, atCost will generate revenues that are considered merchandise sales. Merchandise sales are expected to result in total revenues of \$275 million for 1999. Recent and expected increases in revenue come from an increase in ONSALE's customer base, greater auction and merchandise processing efficiency, and product line expansion which offsets any decrease in market demand for personal computers and related products, especially in the second half of 1998. An increasing portion of revenues will come from ONSALE atCost. In the first three weeks of operations, atCost has already garnered 22 percent of overall sales.

The revenue growth rate has been falling over the past few quarters. This is partly due to the law of large numbers. We believe, however, the recent fall in the revenue growth rate from the 2nd quarter to the 4th quarter of 1998, and the expected modest growth rate through 1999, are largely due to competition from other web sites such as Egghead and Ubid. These other sites offer similar services,

products and competitive prices as well as having recognized brand names. Therefore, these newer sites are taking market share away from Onsale. Price, especially, is becoming a determining factor among consumers who can rapidly browse web sites with increasingly similar qualities of retail service, brand names, and security. Growth rates will likely be below 10 percent in the coming quarters. Still, we expect revenue growth of about 32.71 percent for fiscal year 1999.

Gross Profit. The newer sports equipment and travel packages product lines have higher gross margins than those of computer related products. They therefore contribute positively to ONSALE's gross margin. In addition, the cost of revenue is being contained due to a more streamlined process of storing and transporting merchandise. ONSALE's atAuction follows a principal sales model, handling merchandise until sold. On the other hand, the atCost model generates modest fees which are expected to make up a higher percentage of the total revenues in the future. Thus, we expect gross margins below 10 percent through 1999, likely falling slightly.

Sales and Marketing. A marketing payment to Cendant Corporation during the second quarter of 1998, related to ONSALE's partnership with Resort Condominiums International, contributed greatly to the loss in that quarter. Such agreements, the need for diversification, and the desire to keep its brand name ahead of those of competitors will likely incur relatively high sales and marketing expenses for the next few quarters. Specifically, sales and marketing expenses are expected to increase the first quarter of 1999, due to the promotion of the new atCost site.

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, but margins will not change significantly through fiscal year 1999.

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, remaining around 2 percent in the near future.

Operating Expenses. Total operating expenses will rise moderately in absolute terms in the next several quarters due to increased spending on promotional, administrative, and programming activities. However, the company is realizing a more stable infrastructure and thus, growth of operating expenses will fall from 152 percent in 1998 to 9.54 percent in 1999.

Operating Income. A loss from operations will continue through 1999 due to the cost of operating activities in relation to gross profits.

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

Net Income. We expect ONSALE will maintain a net loss through 1999. Positive earnings will likely arise in 2000 from the growth in revenues, partly due to diversification of its product lines and a stabilized infrastructure.

Number of shares outstanding. ONSALE relies greatly on issuing shares in order to raise capital. Though management says current cash available will suffice to help meet capital needs for the next twelve months, shares outstanding will likely rise by a few hundred thousand for the next few quarters.

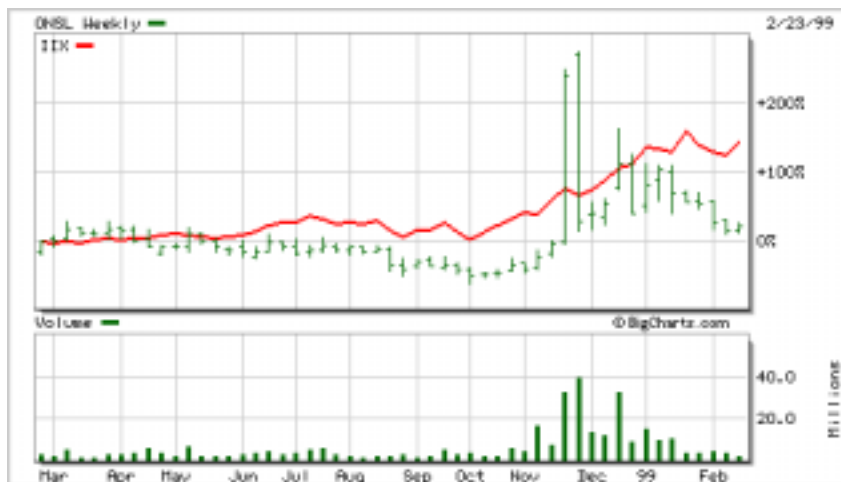
A Relative Approach to Valuation

Many pure online retail companies remain unprofitable 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 valuation 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.

ONSALE vs. Amex Internet Index (IIX)

Internet Sector. The Internet sector as a whole has been volatile with even greater price movements among individual companies. A historical price comparison between ONSALE and the Amex Internet Index (IIX) reveals the former has increased along with the sector, but with greater volatility. In particular, in 1998's pre-Christmas season ONSALE's price run up to \$108 due to investors enthusiasm for e-commerce stocks and in sympathy with U-Bid's successful IPO. More recently, however, the stock has come down to the \$30-\$40 range because of the drastic decrease in revenues growth rate in the 4th



Courtesy of BigCharts

quarter of 1998 and is consolidating in this range due to the uncertainties about the future competition in the sector and the future performance of atCost. As the graph shows, in general, ONSALE has stayed slightly below the price performance of the Amex Internet Index from a strictly technical point of view. Thus, one can say that ONSALE has the potential to increase further from its current price and is not necessarily overvalued relative to the sector.

However, the sector itself may be overvalued as enthusiasm for the new medium continues unabated. More importantly, fundamental factors must be examined in order to measure more solidly the value of the company.

Revenues and Growth. Sales for ONSALE have grown in excess of 20 percent per quarter until the 3rd quarter of 1998. The slower quarterly growth rate seen recently and expected in the future is explained by the law of large numbers and the increased competition from other companies. Sales will continue to grow, but its rate of growth will remain lower than in past quarters, hovering around 6 percent quarterly. Online competitors to ONSALE also have grown rapidly as well. But ONSALE has been particularly outstanding both in sales and growth of sales.

	\$ Price	Market Cap in Millions	Trailing 12 Month Sales in Millions	P/S	Gross Margin % (TTM)
Onsale, Inc.	33.375	640.43	181.9	3.52	10.63
Cyberian Outpost	17.375	391.88	60.2	6.51	9.48
UBid	59.00	525.69	24.1	21.81	N/A
Egghead.com	17.375	429.19	238.2	1.80	9.30

Price to Sales. We believe the price to sales ratio is a key valuation ratio and one that is relevant to a comparison among online retail companies. The share price for ONSALE is \$34.50. The stock is thus trading around 3.5X 1998 revenues. The multiple, compared to those of related companies is modest. For instance, uBid is trading over 20X revenues. Though many Internet companies such as Yahoo! and Broadcast.com have been trading at 50X revenues, the comparison is best made among like companies with similar business

models. For the online retail sector, the fact is that margins are fairly thin, hovering around 10% for many companies like ONSALE, unlike portals such as Yahoo with gross margins close to 90 percent. Therefore, sales may be high, but that does not necessarily translate into high profitability. The result of this perspective is that multiples under 10 for price to sales is expected in the retail sector. For ONSALE, we believe the price to sales ratio indicates that the current price is at a reasonable level and the company's stock is not overvalued, especially in relation to other online companies.

However, the new atCost model adds uncertainty for the moment until at least the results of the first quarter are known. But due to the promising nature of this recent innovation, we believe the Company is keeping pace with the demands of the rapidly changing online retail environment and that it will participate in the future growth of the e-commerce industry. Thus, we believe that the Company is fairly valued and in view of the significant competitive risks we give it a Hold recommendation even though we expect the company to remain competitive in the long-term.

Margins. Gross margins for ONSALE have been around 10 percent and are projected to decline slightly over the next several quarters. These margins are slightly higher than those of competitors Cyberian Outpost and Egghead.com. The other auction site, eBay, has a wholly different business model. Thus, a true comparison cannot be made.

Cash. ONSALE has substantial cash that is and will be applied to various investments and agreements meant to increase market share and spur growth. However, other competing companies that sell similar products also have a great deal of cash such as Cyberian Outpost and Egghead.com. Other auction sites do not have as much cash and are not as threatening for that reason.

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	1996	1Q1997	2Q1997	3Q1997	4Q1997	1997	1Q1998	2Q1998	3Q1998	4Q1998E	1998E	1Q1999E	2Q1999E	3Q1999E	4Q1999E	1999E
Revenue:																
Merchandise	12,573	11,696	17,860	24,198	32,243	85,997	39,312	50,138	57,196	57,478	204,124	61,055	64,597	68,630	73,420	267,702
Commission and other revenue	1,696	618	715	863	788	2,984	857	658	629	1,483	3,627	1,843	1,981	1,987	2,190	8,001
Total Revenue	14,269	12,314	18,575	25,061	33,031	88,981	40,169	50,796	57,825	58,961	207,751	62,898	66,578	70,617	75,610	275,703
Cost of Revenue	11,539	10,526	16,146	21,735	29,316	77,723	36,678	46,138	51,654	53,624	188,094	57,632	61,050	64,250	68,830	251,762
Gross Profit	2,730	1,788	2,429	3,326	3,715	11,258	3,491	4,658	6,171	5,337	19,657	5,266	5,528	6,367	6,780	23,941
Operating Expenses:																
Sales and Marketing	891	390	948	1,935	2,612	5,885	3,974	4,802	6,493	5,513	20,782	6,450	6,180	5,892	5,750	24,272
General and Administrative	758	789	1,294	1,376	2,412	5,871	3,304	3,357	2,127	2,342	11,130	2,365	2,505	2,650	3,020	10,540
Engineering	714	561	589	765	958	2,873	1,131	1,252	1,318	1,256	4,957	1,320	1,350	1,455	1,450	5,575
Total Operating Expenses	2,363	1,740	2,831	4,076	5,982	14,629	8,409	9,411	9,938	9,111	36,869	10,135	10,035	9,997	10,220	40,387
Income (loss) from operations	367	48	-402	-750	-2,267	-3,371	-4,918	-4,753	-3,767	-3,774	-17,212	-4,869	-4,507	-3,630	-3,440	-16,446
Interest and Other Income, net	37	32	148	167	552	899	727	716	676	627	2,746	380	240	230	210	1,060
Income (loss) before income taxes	404	80	-254	-583	-1,715	-2,472	-4,191	-4,037	(3,291)*	-3,147	-14,466	-4,489	-4,267	-3,400	-3,230	-15,386
Tax Loss Carry Forward Consumed		0	0	0	0	0	0	0	0	0	0	0	0	-3,400	-3,230	-15,386
(Provision) benefit from income taxes	-43	-28	28	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income (loss)	361	52	-226	-583	-1,715	-2,472	-4,191	-4,037	-3,291	-3,147	-14,466	-4,489	-4,267	-3,400	-3,230	-15,386
Fully Diluted EPS	0.03	0.00	-0.01	-0.03	-0.09	-0.16	-0.22	-0.21	-0.17	-0.16	-0.76	-0.23	-0.22	-0.16	-0.15	-0.76
Shares Outstanding	12,090	15,326	16,356	16,782	18,112	15,742	18,698	18,808	19,065	19,242	18,953	19,380	19,500	20,700	21,500	20,270
Margin Analysis (%age of revenue)																
Gross Margin	19,13%	14,52%	13,08%	13,27%	11,25%	12,65%	8,69%	9,17%	10,67%	9,05%	9,46%	8,37%	8,30%	9,02%	8,97%	8,68%
Sales & Marketing	6,24%	3,17%	5,10%	7,72%	7,91%	6,61%	9,89%	9,45%	11,23%	9,35%	10,00%	10,25%	9,28%	8,34%	7,60%	8,80%
General & Administrative	5,31%	6,41%	6,97%	5,49%	7,30%	6,60%	8,23%	6,61%	3,68%	3,97%	5,36%	3,76%	3,76%	3,75%	3,99%	3,82%
Engineering	5,00%	4,56%	3,17%	3,05%	2,90%	3,23%	2,82%	2,46%	2,28%	2,13%	2,39%	2,10%	2,03%	2,06%	1,92%	2,02%
Operating Margin	2,57%	0,39%	-2,16%	-2,99%	-6,86%	-3,79%	-12,24%	-9,36%	-6,51%	-6,40%	-8,28%	-7,74%	-6,77%	-5,14%	-4,55%	-5,97%
Net Margin	2,53%	0,42%	-1,22%	-2,33%	-5,19%	-2,78%	-10,43%	-7,95%	-5,69%	-5,34%	-6,96%	-7,14%	-6,41%	-4,81%	-4,27%	-5,58%
Growth																
Total Revenue	10092,00%	N/A	50,84%	34,92%	31,80%	523,60%	21,61%	26,46%	13,84%	1,96%	133,48%	6,68%	5,85%	6,07%	7,07%	32,71%
Gross Profit	2315,93%	N/A	35,85%	36,93%	11,70%	312,38%	-6,03%	33,43%	32,48%	-13,51%	74,60%	-1,33%	4,98%	15,18%	6,49%	21,79%
Operating Expense	327,31%	N/A	62,70%	43,98%	46,76%	519,09%	40,57%	11,92%	5,60%	-8,32%	152,03%	11,24%	-0,99%	-0,38%	2,23%	9,54%
Operating Income	N/A	N/A	-937,50%	-86,57%	-202,27%	-1018,53%	116,94%	-3,36%	-20,74%	0,19%	410,59%	29,01%	-7,43%	-19,46%	-5,23%	-4,45%
Net Income	N/A	N/A	-534,62%	-157,96%	-194,17%	-784,76%	-144,37%	-3,67%	-18,48%	-4,38%	485,19%	42,64%	-4,95%	-20,32%	-5,00%	6,36%
Fully Diluted EPS	N/A	N/A	N/A	-200,00%	-200,00%	-633,33%	-144,44%	4,55%	17,80%	22,12%	-377,03%	-41,63%	5,53%	24,94%	-8,53%	

* includes \$200,000 loss on investment in joint venture.