FORM S-1

General form of registration statement for all companies including face-amount certificate companies

Filing Date: **1998-07-22**
SEC Accession No. 0000950135-98-004341

FILER

EXCHANGE APPLICATIONS INC
CIK:**1065857**| IRS No.: **043338916** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **S-1** | Act: **33** | File No.: **333-59613** | Film No.: **98669890**

Mailing Address
89 SOUTH STREET
BOSYON MA 02111

Business Address
89 SOUTH STREET
BOSTON MA 02111
6177372244

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 22, 1998

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

EXCHANGE APPLICATIONS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>
<S> <C> <C>

DELAWARE	7373	04-3338916
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBERS)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

</TABLE>

89 SOUTH STREET
BOSTON, MASSACHUSETTS 02111
(617) 737-2244
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

ANDREW J. FRAWLEY
CHAIRMAN OF THE BOARD, PRESIDENT
AND CHIEF EXECUTIVE OFFICER
EXCHANGE APPLICATIONS, INC.
89 SOUTH STREET
BOSTON, MASSACHUSETTS 02111
(617) 737-2244
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

---

with copies to:

<TABLE>
<S> <C>

NEIL W. TOWNSEND, ESQ. BINGHAM DANA LLP 150 FEDERAL STREET BOSTON, MASSACHUSETTS 02110 (617) 951-8000 FACSIMILE NO. (617) 951-8736	DAVID C. CHAPIN, ESQ. ROPES & GRAY ONE INTERNATIONAL PLACE BOSTON, MASSACHUSETTS 02110 (617) 951-7000 FACSIMILE NO. (617) 951-7050

</TABLE>

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, as amended, 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 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

<TABLE>
<CAPTION>

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
<S>	<C>	<C>	<C>	<C>
Common Stock, $0.001 par value per share.....	3,450,000	$16.00	$55,200,000	$16,284

</TABLE>

(1) Includes 450,000 shares subject to the Underwriters' over-allotment option. See "Underwriting."

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457 under the Securities Act of 1933, as amended.

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

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED JULY 22, 1998

3,000,000 SHARES

[EXCHANGE APPLICATION LOGO]

COMMON STOCK
(PAR VALUE $.001 PER SHARE)

Of the 3,000,000 shares of Common Stock offered hereby, 2,000,000 shares are being sold by the Company and 1,000,000 shares are being sold by the Selling Stockholders. See "Principal and Selling Stockholders". The Company will not receive any of the proceeds from the sale of the shares being sold by the Selling Stockholders.

Prior to this Offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price per share will be between $14.00 and $16.00. For factors considered in determining the initial public offering price, see "Underwriting".

SEE "RISK FACTORS" COMMENCING ON PAGE 4 FOR CERTAIN CONSIDERATIONS RELEVANT TO AN INVESTMENT IN THE COMMON STOCK.

The Company intends to apply for quotation and trading of the Common Stock on the Nasdaq National Market under the symbol "EXAP".

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

<TABLE>
<CAPTION>

	INITIAL PUBLIC OFFERING PRICE	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)	PROCEEDS TO SELLING STOCKHOLDERS
<S>	<C>	<C>	<C>	<C>
Per Share.....	$	$	$	$
Total(3).....	$	$	$	$

</TABLE>

---

(1) The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.
(2) Before deducting estimated expenses of $1,000,000 payable by the Company.
(3) The Company has granted the Underwriters an option for 30 days to purchase up to an additional 450,000 shares at the initial public offering price per share, less the underwriting discount, solely to cover over-allotments. If such option is exercised in full, the total initial public offering price, underwriting discount and proceeds to Company will be $, $ and $, respectively. See "Underwriting".

The shares offered hereby are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that certificates for the shares will be ready for delivery in New York, New York on or about , 1998, against payment therefor in immediately available funds.

GOLDMAN, SACHS & CO.

BT ALEX. BROWN

HAMBRECHT & QUIST

The date of this Prospectus is , 1998.

CONTINUOUS CUSTOMER MANAGEMENT
OPTIMIZING CUSTOMER VALUE THROUGH PROCESS, APPLICATIONS & TECHNOLOGY

[ART WORK]

[This graphic is a series of diagrams showing the VALEX architecture interfacing with customer databases and customer touchpoints surrounded by figures depicting the functional benefits of VALEX.]

Continuous Customer Management (CCM) is Exchange Applications' enterprise-wide offering for customer optimization. The CCM solution, including the Company's VALEX software and related consulting and integration services, enables businesses to:

- analyze enterprise-wide databases of customer information
- conduct customer planning to prioritize for opportunity identification investment
- execute targeted, real-time and event-triggered customer communication
- select the most effective methods of customer interaction
- perform measurement and analysis to continuously evaluate and refine marketing campaigns and their impact on customer profitability

The Company intends to furnish to its stockholders annual reports containing audited financial statements examined by its independent auditors.

CERTAIN PERSONS PARTICIPATING IN THE OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK, INCLUDING OVER-ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN SUCH SECURITIES AND THE IMPOSITION OF A PENALTY BID, IN CONNECTION WITH THE OFFERING. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING".

OPTIMIZING CUSTOMER VALUE THROUGH CONTINUOUS CUSTOMER MANAGEMENT

MANAGING CUSTOMER RELATIONSHIPS OVER TIME

Exchange Applications' Continuous Customer Management solution enables businesses to maximize the profitability of their customer relationships. Full potential is achieved by

[ART WORK]
[This graphic is a representation of the three aspects of the Company's Continuous Customer Management offering. The graphic is a dramatization of the use of VALEX to acquire new customers, expand purchasing of existing customers and retain customers longer thereby optimizing customer value.]

allocating marketing investments to most effectively aquire new customers, expand the profitability of existing customers and retain customers longer.

[ART WORK]

Businesses use VALEX to run campaigns that maximize profitability by focusing on key elements of a customer relationship. In the "ACQUIRE" cycle, a prospect is contacted via direct mail, resulting in the acquisition of a new customer. In the "EXPAND" cycle, VALEX identifies high potential cross-selling opportunities to expand customer relationships with additional product sales. In the "RETAIN" cycle, VALEX automatically executes a statistical model, notifying a customer-care organization that the customer is at risk of leaving, and enabling that customer to be contacted and encouraged to stay. Customer optimization is achieved by simultaneously executing hundreds of these campaigns and continuously monitoring customers to maximize their profitability across the enterprise.

PROSPECTUS SUMMARY

The following summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information and the Consolidated Financial Statements and Notes thereto appearing elsewhere in this Prospectus. Except as otherwise noted, all information in this Prospectus, including share and per share information, assumes: (i) the mandatory conversion into Common Stock of all outstanding shares of Series B Redeemable Convertible Preferred Stock and Series C Convertible Preferred Stock (the "Convertible Preferred Stock") upon the consummation of the Offering; (ii) the cancellation of all outstanding shares of Series A Redeemable Preferred Stock (the "Series A Preferred Stock") upon consummation of the Offering; (iii) no exercise of stock options after June 30, 1998; (iv) no exercise of the Underwriters' over-allotment option; and (v) the amendment and restatement of the Company's Certificate of Incorporation and By-laws immediately prior to the consummation of the Offering. See "Description of Capital Stock" and "Underwriting".

THE COMPANY

Exchange Applications, Inc. (the "Company") is a leading provider of customer optimization software and solutions that enable businesses to maximize profitability and revenue growth from new and existing customers through marketing automation and enterprise-wide customer management. The Company's Continuous Customer Management ("CCM") solution, including its VALEX software and related consulting and integration services, enables businesses to profitably retain and expand existing customer relationships and acquire new customers by: (i) analyzing enterprise-wide databases of customer information to identify profitable growth opportunities; (ii) planning and prioritizing investments in high potential customers; (iii) creating targeted, real-time and event-triggered marketing campaigns and other customer communications; (iv) selecting the most effective channels for customer communications, such as direct mail, call centers, sales forces and the Internet; and (v) continuously evaluating the impact of these marketing campaigns and other communications on profitability. CCM allows businesses to measure the value of these campaigns against their associated costs, and to use this information to make investment decisions that maximize customer profitability. The Company has deployed CCM and VALEX across multiple industries, with installations in over 40 businesses in North America and Europe. Its customers include Federal Express, Fleet Bank, NatWest Bank (U.K.) and US West. The Company's products and services are distributed through its direct sales force, through re-seller relationships with IBM, NCR and others, and through co-marketing arrangements with companies such as Compaq, Ernst & Young, KPMG Peat Marwick, PricewaterhouseCoopers, SAS Institute and Sun Microsystems.

While enterprise resource planning ("ERP"), supply chain management and

other software applications aimed at reducing costs have generally been successful, businesses have begun to invest in a new class of applications designed to increase profitability through revenue growth. Many of these new applications are aimed at enabling businesses to increase revenue by acquiring new customers and retaining and expanding relationships with existing customers. These applications facilitate cross-selling and the marketing of bundled products, new service offerings and differentiated service relationships. The success of these efforts depends on the ability of businesses to allocate resources based not only on functional area and product profitability, but also on current and potential customer profitability. The Company believes there are significant opportunities in many industries for solutions that realign businesses' existing marketing and customer management capabilities with new technologies and processes that utilize complete economic profiles of customers to optimize customer relationships across the enterprise.

The Company believes that CCM and VALEX represent a fundamentally new approach to customer optimization. VALEX enables businesses to maximize profitability by: (i) providing a complete view of the relationship between a business and its customers; (ii) leveraging a range of data mining, reporting and modeling products to identify high-value customers; (iii) providing powerful marketing automation and campaign management software that lets end users define and

execute targeted customer communication streams; and (iv) integrating with customer interaction software ("CIS") and data warehouses to perform enterprise-wide customer management. Through its consulting and integration services, the Company provides assistance in adopting the CCM solution across business functions and in rapidly implementing the core VALEX modules. The Company also provides Metrics Repository, a custom software application that leverages VALEX to track the success or failure of marketing campaigns across customer segments and across the enterprise.

The Company's objective is to be the leading provider of customer optimization software and solutions globally. Key elements of the Company's strategy include extending VALEX, developing additional customer optimization solutions, expanding vertical industry focus, broadening distribution channels and building alliances, and increasing direct sales globally.

The Company commenced operations in November 1994 and was incorporated in Delaware in November 1996. Unless the context otherwise requires, references in this Prospectus to the Company refer to Exchange Applications, Inc. and its subsidiaries. The Company's principal executive offices are located at 89 South Street, Boston, Massachusetts 02111, and its telephone number is (617) 737-2244.

THE OFFERING

Common Stock offered by the Company	2,000,000 shares
Common Stock offered by the Selling Stockholders	1,000,000 shares
Common Stock outstanding after the Offering(1)	9,716,740 shares
Proposed Nasdaq National Market symbol	"EXAP"
Use of Proceeds	For general corporate purposes, including working capital, possible reduction of indebtedness and potential acquisitions.

---

(1) Excludes 2,085,408 shares of Common Stock issuable upon exercise of options outstanding at July 15, 1998 with exercise prices ranging from $0.65 to $14.50 per share and with a weighted average exercise price of $3.10 per share. See "Management -- 1996 Stock Incentive Plan" and Note 13 of Notes to Consolidated Financial Statements.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1995(1)	1996(1)	1997	1997	1998

<S>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Total revenues	$1,693	$ 6,034	$12,669	$ 4,822	$10,418
Gross profit	681	1,939	5,735	1,662	6,987
Loss from operations	(507)	(1,411)	(2,624)	(1,450)	(1,108)
Net loss	(554)	(1,606)	(2,599)	(1,460)	(1,079)
Net loss applicable to common stockholders	(554)	(1,606)	(3,283)	(2,025)	(1,199)
Pro forma basic and diluted net loss per share(2)(3)	$(0.19)	$ (0.55)	$ (0.48)	$ (0.31)	$ (0.15)
Pro forma basic and diluted weighted average common shares outstanding(2)(3)	2,925	2,930	5,391	4,683	7,377

</TABLE>

<TABLE>
<CAPTION>

	AS OF JUNE 30, 1998		
	ACTUAL	PRO FORMA(3)	PRO FORMA AS ADJUSTED (3)(4)
<S>	<C>	<C>	<C>
CONSOLIDATED BALANCE SHEET DATA:			
Cash, cash equivalents, and marketable securities	$ 4,182	$ 4,182	$31,082
Working capital	3,515	3,515	30,415
Total assets	12,134	12,134	39,034
Long-term debt, net of current portion	128	128	128
Redeemable preferred stock	7,208	--	--
Stockholders' equity (deficit)	(1,836)	5,372	32,272

</TABLE>

---

(1) The Consolidated Statement of Operations Data for the years ended December 31, 1995 and 1996 include the operations of the Company on a carve-out basis prior to November 15, 1996. During this period, the Company operated as a separate and substantially independent division of Grant & Partners, Inc. and Grant & Partners Limited Partnership, and focused on developing VALEX and providing integration and consulting services. See Note 1 of Notes to Consolidated Financial Statements.

(2) Computed on the basis described in Note 2(c) of the Notes to Consolidated Financial Statements.

(3) Reflects the reclassification of the Series A Preferred Stock to $3,209,000 of additional paid-in capital, the conversion of all outstanding shares of the Series B Convertible Preferred Stock, at a redemption value of $3,999,000, into 2,555,556 shares of Common Stock and the conversion of all outstanding shares of Series C Convertible Preferred Stock, at $0.001 par value per share, to 1,223,954 shares of Common Stock upon the closing of this Offering.

(4) Adjusted to reflect the sale of 2,000,000 shares of Common Stock offered by the Company at an assumed initial public offering price of $15.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company.

RISK FACTORS

In addition to the other information in this Prospectus, prospective purchasers of the Common Stock offered hereby should carefully consider the following factors in evaluating the Company and its business.

LIMITED OPERATING HISTORY; HISTORY OF LOSSES

The Company began operations in 1994, was incorporated in 1996 and has never achieved profitability. The Company began commercial shipment of its initial VALEX product in July 1996 and, since such time, has transitioned its primary business focus from providing services to selling software products. As a result, the Company and its operations are subject to all of the risks inherent in the establishment of a new business enterprise. The Company's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly in new and rapidly evolving markets. To address these risks, the Company must, among other things, respond to competitive developments, continue to upgrade its products and continue to attract, retain and motivate qualified personnel. There can be no assurance that the Company will be successful in addressing such risks, that the Company's revenues will continue to grow, that the Company will achieve profitability or, if it does, that the Company will be

able to maintain such profitability on a quarterly or annual basis. See "-- Dependence Upon Key Personnel", "-- Rapid Technological Change and New Products" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

POTENTIAL FOR SIGNIFICANT FLUCTUATIONS IN QUARTERLY RESULTS

The Company's quarterly revenues, expenses and operating results have varied significantly in the past and are likely to vary significantly from quarter to quarter in the future. Because purchase of the Company's products and services generally involves a significant commitment of capital (ranging from approximately $100,000 to $3,000,000 in 1997), the length of the sales cycle is unpredictable and subject to a number of factors over which the Company has little or no control, including customers' budgetary constraints, timing of budget cycles and concerns about the introduction of new products by the Company or its competitors. As a result of these and other factors, the timing of significant orders may be delayed. A substantial portion of the Company's revenues in any quarter are typically derived from a limited number of non-recurring license sales and, like many software companies, the Company tends to record a significant portion of its software license fee revenues in the last month of a quarter. In addition, the amount of revenues associated with a particular license can vary significantly based upon the size of the customer databases and other factors, including the number of users of the software. The Company may experience from time to time large, individual license sales which can cause substantial variations in quarterly license revenues. Moreover, small delays in customer orders can cause significant variability in the Company's license revenues and results of operations for any particular period. The Company establishes its expenditure levels for product development, sales and marketing and other operating activities based, in large part, on its expected future revenues. As a result, if revenues fall below expectations, operating results are likely to be adversely and disproportionately affected because only a small portion of the Company's expenses vary with its revenues.

Quarterly fluctuations also result from factors such as increased competition, the timing of new releases of the Company's software products and market acceptance of such releases, changes in pricing policies of the Company or its competitors, changes in operating expenses, foreign currency exchange rate fluctuations and general economic factors. Based upon these and all of the factors described above, the Company believes that its quarterly revenues, expenses and operating results are likely to vary significantly in the future, that period-to-period comparisons of its results of operations are not necessarily meaningful and that, as a result, such comparisons should not be relied upon as indications of future performance. Moreover, although the Company's revenues have increased in recent periods, there can be no assurance that revenues will continue to grow at past

rates, if at all, or that the Company will achieve and sustain profitability on a quarterly or annual basis. As a result, the Company's operating results may fall below market analysts' expectations in some future quarters, which would have a material adverse effect on the market price of the Common Stock. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

PRODUCT CONCENTRATION; DEPENDENCE ON EMERGING MARKET FOR CUSTOMER OPTIMIZATION SOFTWARE AND SERVICES

The Company currently derives all of its revenues from VALEX licenses and services related to its Continuous Customer Management ("CCM") solution. The Company expects that VALEX-related revenues, including CCM services and maintenance contracts, will continue to account for substantially all of the Company's revenues for the foreseeable future. As a result, the Company's future operating results are dependent upon continued market acceptance of VALEX and CCM and enhancements thereto. There can be no assurance that VALEX and CCM will achieve continued market acceptance. A decline in demand or market acceptance as a result of competition, technological change or other factors would have a material adverse effect on the Company's business, operating results and financial condition.

Although demand for VALEX and similar products has grown in recent years, the market for customer optimization software applications is still emerging and there can be no assurance that it will continue to grow or that, even if the market does grow, businesses will continue to adopt VALEX and CCM. The Company has spent, and intends to continue to spend, considerable resources educating potential customers about customer optimization software and services in general and about the features and functions of VALEX and CCM in particular. However, there can be no assurance that such expenditures will enable VALEX and CCM to achieve any additional degree of market acceptance. If the market for VALEX and CCM fails to grow or grows more slowly than the Company currently anticipates, the Company's business, operating results and financial condition would be materially adversely affected.

CUSTOMER CONCENTRATION; DEPENDENCE ON CERTAIN INDUSTRIES

In fiscal 1997 and for the six months ended June 30, 1998, the Company's top five customers accounted for 74.9% and 53.6% of total revenues, respectively. There can be no assurance that these or other customers of the Company will continue to purchase the Company's products or services. The Company's failure to add new customers that make significant purchases of the Company's products and services would have a material adverse effect on the Company's business, financial condition and results of operations.

A substantial portion of the Company's revenues have been derived from sales to large financial institutions and telecommunications companies. There can be no assurance that the Company will be successful in achieving significant market acceptance or penetration in additional vertical markets targeted by the Company. Failure to penetrate additional vertical markets could have a material adverse effect on the Company's future growth, financial condition and results of operations.

MANAGEMENT OF GROWTH

The Company's business has grown rapidly, with total revenues increasing from $1.7 million in 1995 to $6.0 million in 1996 and to $12.7 million in 1997. The Company's recent expansion has resulted in substantial growth in the number of its employees (from 47 at December 31, 1996 to 91 at December 31, 1997 and to 129 at June 30, 1998), the scope of its operating and financial systems and the geographic distribution of its operations and customers. This recent rapid growth has placed, and if sustained will continue to place, a significant strain on the Company's management and operations. Accordingly, the Company's future operating results will depend on the ability of its

officers and other key employees to continue to implement and improve its operational, customer support and financial control systems, and to expand, train and manage its employee base. There can be no assurance that the Company will be able to manage any future expansion successfully, and any inability to do so would have a material adverse effect on the Company's business, operating results and financial condition.

DEPENDENCE UPON KEY PERSONNEL

The Company's future operating results depend in significant part upon the continued services of a relatively small number of key technical and senior management personnel, including Andrew Frawley, its Chairman, President and Chief Executive Officer, David McFarlane, its Executive Vice President, Worldwide Sales and Services, and Michael McGonagle, its Vice President, Product Development, none of whom is bound by an employment agreement. The Company's future success also depends on its continuing ability to attract and retain other highly qualified technical, sales and managerial personnel. Competition for such personnel is intense, and the Company has at times in the past experienced difficulty in recruiting qualified personnel. There can be no assurance that the Company will retain its key technical, sales and managerial employees or that it will be successful in attracting, assimilating and retaining other highly qualified technical, sales and managerial personnel in the future. The loss of any member of the Company's key technical, sales and senior management personnel or the inability to attract and retain additional qualified personnel could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Employees" and "Management".

RAPID TECHNOLOGICAL CHANGE AND NEW PRODUCTS

The market for the Company's software products is characterized by rapid technological advances, evolving industry standards in computer hardware and software technology, changes in customer requirements and frequent new product introductions and enhancements. The Company's future success will depend upon its ability to continue to enhance its current product line and to develop and introduce new products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. There can be no assurance that the Company will be successful in developing and marketing, on a timely and cost-effective basis, fully functional product enhancements or new products that respond to technological advances by others, or that its new products will achieve market acceptance. Failure to successfully develop and market product enhancements or new products could have a material adverse effect on the Company's business, operating results and financial condition.

As a result of the complexities inherent in client/server computing environments and the broad functionality and performance demanded by customers for customer optimization software products, major new products and product enhancements can require long development and testing periods. The Company has on occasion experienced delays in the scheduled introduction of new and enhanced products. In addition, software programs as complex as those offered by the

Company may contain undetected errors or "bugs" when first introduced or as new versions are released that, despite testing by the Company, are discovered only after a product has been installed and used by customers. To date the Company's business has not been materially adversely affected by delays or the release of products containing errors. There can be no assurance, however, that errors will not be found in future releases of the Company's software, or that any such errors will not impair the market acceptance of these products and adversely affect the Company's business, operating results and financial condition.

While the Company generally takes steps to avoid the interruptions of sales often associated with the pending availability of new products, customers may delay their purchasing decisions in anticipation of the general availability of new or enhanced VALEX products, which could have a material adverse effect on the Company's business and operating results. Moreover, significant delays in the general availability of such new releases, significant problems in the installation or

implementation of such new releases, or customer dissatisfaction with such new releases, could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Products" and "Product Development".

COMPETITION

The market for customer optimization software and related services is highly competitive. There can be no assurance that the Company will maintain its competitive position against current and potential competitors, especially those with significantly greater financial, marketing, service, support, technical and other resources. Current and potential competitors fall into the following categories: (i) database marketing vendors, such as Harte Hanks, Metromail (a division of Great Universal Stores) and Harland, which provide a combination of service bureau capabilities and software; (ii) small independent software companies that are creating or are attempting to create offerings similar to the VALEX product; (iii) enterprise resource planning ("ERP") and customer interaction software ("CIS") vendors such as SAP, Baan, Oracle, Siebel and Vantive, that may broaden their product lines to include applications with competitive functionality; and (iv) internal corporate technology departments that attempt to build their own systems. The Company believes that many of these competitors are focusing significant resources on increasing the functionality of their products and services. Ultimately, competitors may be able to offer products and services with functionality comparable or superior to that of VALEX. Many of the Company's competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition, and larger customer bases than the Company. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements and to devote greater resources to the promotion and sale of their products and services than the Company. If these companies were to introduce products and services that effectively competed with the Company's products and services, they could be in a position to substantially lower the price of their customer optimization products and services or to bundle such products and services with their other products and services, which could give them competitive advantages over the Company. In order to be successful in the future, the Company must continue to respond promptly and effectively to the challenges of technological change and competitors' innovations. There can be no assurance that the Company will be able to compete successfully with existing or new competitors. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which would materially and adversely affect the Company's business, operating results and financial condition. See "Business -- Competition".

INCREASING RELIANCE ON INDIRECT DISTRIBUTION CHANNELS

Although direct sales to date have accounted for a majority of the Company's software revenues, the Company expects that it will increasingly distribute its products to end users through various indirect distribution channels, including re-seller agreements with IBM, NCR and others and co-marketing arrangements with companies such as Compaq, Ernst & Young, KPMG Peat Marwick, PricewaterhouseCoopers, SAS Institute and Sun Microsystems. The Company's relationships with many of these organizations have been established within the last twelve months, and the Company is unable to predict the extent to which these channel partners will be successful in distributing the Company's products. The Company is dependent on the marketing and sales efforts of these organizations, many of whom also market and sell competitive products or are able, under the terms of their agreements, to market and sell competitive products. One of the Company's channel partners accounted for approximately 24% of the Company's consolidated revenues for the six months ended June 30, 1998. The loss of one or more of the Company's relationships with these organizations, without replacement, either to competitive products offered by other companies or products developed internally by these organizations, could have a material adverse effect on the Company's business, operating results and financial condition. The Company's future performance will also depend, in part, on its

ability to attract organizations that will be able to market and support the Company's product effectively, especially in markets in which the Company has not previously

distributed its products. None of the agreements governing the re-seller or co-marketing relationships with these organizations includes any commitments on the part of these organizations to effect any minimum number of sales of VALEX, or otherwise to provide the Company with business. There can be no assurance that revenues arising from the Company's relationships with these organizations that accounted for significant revenues in past periods will continue, or if continued will reach or exceed historical levels. See "Business -- Sales and Marketing".

INTELLECTUAL PROPERTY RIGHTS; USE OF LICENSED TECHNOLOGY

The Company relies primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect its proprietary rights. In addition, the Company generally licenses VALEX to end users in object code (machine-readable) format, and the Company's license agreements generally allow the use of VALEX solely by the customer for internal purposes without the right to sublicense or transfer VALEX. The Company believes that the foregoing measures afford only limited protection. Certain customers have required the Company to maintain a source code escrow account with a third-party software escrow agent, and a failure by the Company to perform its obligations under any of the license and maintenance agreements, or the insolvency of the Company, could conceivably cause the release of the Company's source code to such customers. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to be a problem. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as the laws of the United States. Furthermore, there can be no assurance that the Company's competitors will not independently develop technology similar to that of the Company. The Company may increasingly be subject to claims of intellectual property infringement as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Although the Company is not aware that any of its products infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not claim infringement by the Company with respect to current or future products. Any such claims, with or without merit, could be time-consuming to address, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, might not be available on terms acceptable to the Company or at all, which could have a material adverse effect upon the Company's business, operating results and financial condition.

The Company has in the past and may in the future re-sell certain software that it licenses from third parties. There can be no assurance that these third party software licenses will continue to be available to the Company on commercially reasonable terms. The loss of or inability to maintain or obtain any of these software licenses could result in delays or reductions in product shipments until equivalent software could be identified, licensed and integrated, which could materially adversely affect the Company's business, operating results and financial condition. See "Business -- Products" and "-- Proprietary Rights and Licenses".

INTERNATIONAL OPERATIONS

The Company derived approximately 22% of its total revenues from sales outside the United States in the six months ended June 30, 1998. The Company opened sales offices in the United Kingdom in July 1997 and in Australia in January 1998, and believes that continued growth and profitability will require expansion of its sales in international markets. In order to successfully expand international sales, the Company must establish additional foreign operations and hire additional personnel. To the extent that the Company is unable to do so in a timely and effective manner, any growth in international sales will be limited, and the Company's business, operating

results and financial condition could be materially adversely affected. In addition, even if international operations are successfully expanded, there can be no assurance that the Company will be able to maintain or increase international market demand for its products.

The Company's international operations are subject to the risks inherent in

any international business activities, including, in particular, management of an organization spread over various countries, longer accounts receivable payment cycles in certain countries, compliance with a variety of foreign laws and regulations, unexpected changes in regulatory requirements, overlap of different tax structures, foreign currency exchange rate fluctuations and general economic conditions. Other risks associated with international operations include import and export licensing requirements, trade restrictions and changes in tariff rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- Sales and Marketing".

CONTROL BY EXISTING STOCKHOLDERS

Upon completion of the Offering, the current officers, directors and principal stockholders will beneficially own approximately 69.1% of the Company's outstanding Common Stock (64.5% if the Underwriters' over-allotment option is exercised in full). Consequently, such persons, as a group, will be able to control the outcome of all matters submitted for stockholder action, including the election of members to the Company's Board of Directors and the approval of significant change in control transactions, and will effectively control the management and affairs of the Company, which may have the effect of delaying or preventing a change in control of the Company. While the Company intends to increase the size of its Board of Directors from four to six members, representatives of the existing stockholders will nonetheless constitute three of the six directors and will therefore have significant influence in directing the actions of the Board of Directors. See "Management" and "Principal and Selling Stockholders".

PRODUCT LIABILITY

While the Company's license agreements with its customers typically contain provisions designed to limit the Company's exposure to potential product liability claims, it is possible that such limitation of liability provisions may not be effective under the laws of certain jurisdictions. Although the Company has not experienced any product liability claims to date, there can be no assurance that the Company will not be subject to such claims in the future. A successful product liability claim brought against the Company could have a material adverse effect on the Company's business, operating results and financial condition. Moreover, defending such a suit, regardless of its merits, could entail substantial expense and require the time and attention of key management personnel, either of which could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Products -- VALEX" and "-- Product Development".

YEAR 2000 COMPLIANCE

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field. Beginning in the year 2000, these date code fields 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 may need to be upgraded to comply with such "Year 2000" requirements. Significant uncertainty exists in the software industry concerning the potential effects associated with the failure to comply with such requirements. Although all of the products currently offered by the Company are designed to be Year 2000 compliant, there can be no assurance that the Company's products contain all necessary date code changes, or that, in the year 2000, the Company's products will be compatible with third-party software that may be integrated or used in conjunction with the Company's products. In addition, there can be no assurance that the Company's current and potential customers or third-party distributors will not experience Year 2000 problems or that any such problems would not have a material adverse effect

on the Company's business, operating results and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Impact of Year 2000 Issue".

NO PRIOR MARKET FOR THE COMMON STOCK; POSSIBLE VOLATILITY OF SHARE PRICE

Prior to the Offering, there has been no public market for the Common Stock, and there can be no assurance that an active trading market will develop upon completion of the Offering or, if it does develop, that such market will be sustained. The initial public offering price of the Common Stock has been determined by negotiation among the Company, the Selling Stockholders and the representatives of the Underwriters, and may not be representative of the price that will prevail in the open market. See "Underwriting" for a discussion of the factors considered in determining the initial public offering price.

The market price of the Common Stock after the Offering may be affected significantly by factors such as quarterly variations in the Company's results of operations, the announcement of new products or product enhancements by the Company or its competitors, technological innovation by the Company or its

competitors and general market conditions or market conditions specific to particular industries. In particular, the stock prices for many companies in the technology and emerging growth sectors have experienced wide fluctuations which have often been unrelated to the operating performance of such companies. Such fluctuations may adversely affect the market price of the Common Stock.

ANTI-TAKEOVER PROVISIONS

The Company's Amended and Restated Certificate of Incorporation (the "Charter"), and Amended and Restated By-laws (the "By-laws"), contain certain provisions that may have the effect of discouraging, delaying or preventing a change in control of the Company or unsolicited acquisition proposals that a stockholder might consider favorable. Such provisions include authorizing the issuance of "blank check" preferred stock; providing for a Board of Directors with staggered, three-year terms; requiring super-majority voting to effect certain amendments to the Charter and By-laws; limiting the persons who may call special meetings of stockholders; prohibiting stockholder action by written consent; and establishing advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted upon at stockholders meetings. Certain provisions of Delaware law and the Company's 1996 Stock Incentive Plan (the "1996 Plan") and 1998 Stock Incentive Plan (the "1998 Plan") may also have the effect of discouraging, delaying or preventing a change in control of the Company or unsolicited acquisition proposals. See "Management -- Stock Incentive Plans" and "Description of Capital Stock -- Certain Anti-Takeover, Limited Liability and Indemnification Provisions".

SHARES ELIGIBLE FOR FUTURE SALE; REGISTRATION RIGHTS

Sales of substantial amounts of Common Stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the Common Stock or the ability of the Company to raise capital through a public offering of its equity securities. Upon completion of the Offering, the Company will have outstanding 9,716,740 shares of Common Stock (not including shares issuable upon exercise of outstanding stock options). Under agreements entered into between the representatives of the Underwriters and each of the Company's officers, directors, principal stockholders and their respective affiliates (the "Lock-Up Agreements") who beneficially hold, in the aggregate, shares of Common Stock (which includes shares acquired in 1998 upon the exercise of stock options) prior to the Offering, no shares held by such holders will be eligible for sale in the public market for a period of 180 days following the date of this Prospectus. The Company intends to file a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), covering the sale of Common Stock reserved for issuance under the 1996 Plan. As of July 15, 1998, there were options outstanding under the 1996 Plan to purchase an aggregate of 2,085,408 shares and no other options

outstanding; all shares acquired upon exercise of the options within 180 days of the Offering are or will be subject to Lock-Up Agreements as required under the 1996 Plan. Following the expiration of the 180-day term of the Lock-Up Agreements, 5,651,892 shares, including the 3,000,000 shares offered hereby and approximately 537,304 shares subject to options that will be exercisable on or before the end of such term, will be eligible for sale in the public market subject, in some cases, to the requirements of Rule 144 or Rule 701 under the Securities Act. Goldman, Sachs & Co. in its sole discretion and at any time without notice, may release all or any portion of the securities subject to the Lock-Up Agreements. Any such decision to release securities would likely be based upon individual stockholder circumstances, prevailing market conditions and other relevant factors. Any such release could have a material adverse effect upon the price of the Common Stock. See "Underwriting".

After the Offering, holders of 6,025,310 shares of Common Stock are currently entitled to certain demand and piggy-back registration rights with respect to such shares. If the Company were required to register the shares held by such holders pursuant to the exercise of their demand or piggy-back registration rights, such sales could have an adverse effect upon the Company's ability to raise needed capital. See "Shares Eligible for Future Sale".

IMMEDIATE SUBSTANTIAL DILUTION

The initial public offering price is substantially higher than the book value per share of the outstanding Common Stock. As a result, investors purchasing Common Stock in the Offering will incur immediate substantial dilution. In addition, the Company has issued options to acquire Common Stock at prices significantly below the initial public offering price. To the extent such outstanding options are exercised, there will be further dilution. See "Dilution" and "Shares Eligible for Future Sale".

USE OF PROCEEDS

Based on an assumed initial public offering price of $15.00 per share, the Company will receive approximately $26,900,000 from the sale of shares of Common Stock to be sold by the Company pursuant to the Offering after deducting the underwriting discount and estimated offering expenses payable by the Company.

The principal purposes of the Offering are to increase the Company's equity capital, to create a public market for the Common Stock, to facilitate future access by the Company to public equity markets, to provide liquidity for certain of the Company's existing stockholders and to provide increased visibility of the Company in a marketplace where many of its competitors are publicly held companies.

The Company currently intends to use the net proceeds of the Offering for working capital and general corporate purposes, including financing accounts receivable and capital expenditures made in the ordinary course of its business, and the possible reduction of indebtedness. The Company may also apply a portion of the net proceeds of the Offering to acquire businesses, products and technologies that are complementary to those of the Company. Although the Company has not identified any specific businesses, products or technologies that it may acquire and as of the date of this Prospectus is not engaged in any agreements or negotiations with respect to any such transactions, the Company from time to time evaluates such opportunities. Pending such uses, the net proceeds will be invested in government securities and other short-term, investment-grade, interest-bearing instruments. The Company will not receive any proceeds from the sale of Common Stock by the Selling Stockholders.

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on its capital stock and does not intend to pay any cash dividends on its Common Stock in the foreseeable future. Future dividends, if any, will be determined by the Board of Directors.

CAPITALIZATION

The following table sets forth the capitalization of the Company at June 30, 1998, (i) on an actual basis, (ii) on a pro forma basis to reflect the reclassification of Series A Preferred Stock to $3,209,000 of additional paid-in capital, and the conversion of all outstanding shares of Series B Convertible Preferred Stock and Series C Convertible Preferred Stock to a total of 3,779,510 shares of Common Stock upon the closing of this Offering and (iii) on a pro forma as adjusted basis to give effect to the sale of 2,000,000 shares of Common Stock offered by the Company at an assumed initial public offering price of $15.00 per share after deducting the underwriting discount and estimated offering expenses payable by the Company. This information should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes thereto appearing elsewhere in this Prospectus.

<TABLE>
<CAPTION>

	AS OF JUNE 30, 1998		
	ACTUAL	PRO FORMA(1)	PRO FORMA AS ADJUSTED(1)(2)
		(IN THOUSANDS)	
<S>	<C>	<C>	<C>
Long-term debt, net of current portion.....	$ 128	$ 128	$ 128
Redeemable Preferred Stock:			
Series A Preferred Stock.....	3,209	--	--
Series B Convertible Preferred Stock.....	3,999	--	--
Total Redeemable Preferred Stock.....	7,208	--	--
Stockholders' equity (deficit):			
Preferred Stock, $.001 par value; 10,000,000 shares authorized.....	--	--	--
Series C Convertible Preferred Stock, $.001 par value; 1,223,954 shares designated, issued and outstanding, actual; 1,223,954 authorized, none issued, pro forma and pro forma as adjusted....	1	--	--
Common Stock, $.001 par value, 30,000,000 shares authorized, pro forma and pro forma as adjusted 4,298,305 shares issued, actual, 8,077,815 shares issued, pro forma; 10,077,815 shares issued, pro forma as adjusted(3).....	4	8	10
Additional paid-in capital.....	4,878	12,083	38,981
Accumulated deficit.....	(6,649)	(6,649)	(6,649)

Due from officer	(125)	(125)	(125)
Cumulative translation adjustment	50	50	50
Unrealized gain on marketable securities	5	5	5
Treasury stock, 361,075 shares at cost	--	--	--
Total stockholders' equity (deficit)	(1,836)	5,372	32,272
Total capitalization	$ 5,500	$ 5,500	$32,400

</TABLE>

---

(1) Gives effect to the reclassification of the Series A Preferred Stock to $3,209,000 of additional paid-in capital, the conversion of all outstanding shares of Series B Convertible Preferred Stock, at a redemption value of $3,999,000, into 2,555,556 shares of Common Stock, and the conversion of all outstanding shares of Series C Convertible Preferred Stock, at $.001 par value per share, into 1,223,954 shares of Common Stock upon the closing of the Offering.

(2) Gives effect to the sale of 2,000,000 shares of Common Stock offered by the Company and the application of the net proceeds therefrom.

(3) Excludes 2,085,408 shares of Common Stock issuable pursuant to stock options outstanding at July 15, 1998 (of which 324,232 options are exercisable as of July 15, 1998). See "Management -- Stock Plans" and Note 13 of Notes to Consolidated Financial Statements.

DILUTION

The pro forma net tangible book value of the Company as of June 30, 1998 was $5,372,000, or $0.70 per share of Common Stock, after giving effect to the automatic conversion of all outstanding shares of Convertible Preferred Stock and the reclassification of the value of Series A Preferred Stock to additional paid-in capital. Pro forma net tangible book value per share is determined by dividing the pro forma net tangible book value of the Company (total tangible assets less total liabilities) by the total pro forma number of shares of Common Stock outstanding, including shares of Common Stock resulting from the conversion of the Convertible Preferred Stock. After giving effect to the sale of the 2,000,000 shares of Common Stock offered by the Company hereby at an assumed initial public offering price of $15.00 per share, and after deducting estimated underwriting discounts and commissions and offering expenses payable by the Company (resulting in estimated net proceeds of $26,900,000), the adjusted pro forma net tangible book value of the Company as of June 30, 1998, would have been $32,272,000, or $3.32 per share. This represents an immediate increase in the pro forma net tangible book value of $2.62 per share to existing stockholders and an immediate dilution of $11.68 per share to new investors. The following table illustrates the per share dilution:

<TABLE>

<S>	<C>	<C>
Assumed initial public offering price per share		$15.00
Pro forma net tangible book value per share as of June 30, 1998	$0.70	
Pro forma increase attributable to new investors	2.62	
Pro forma net tangible book value per share after the Offering		3.32
Pro forma dilution per share to new investors(1)		$11.68

</TABLE>

The following table summarizes, on a pro forma basis as of June 30, 1998, the difference between the number of shares of Common Stock purchased from the Company, the total consideration paid to the Company and the average price per share paid by the existing stockholders and by the new investors (at an assumed initial public offering price of $15.00 per share before deduction of estimated underwriting discounts and commissions and offering expenses):

<TABLE>
<CAPTION>

	SHARES PURCHASED		TOTAL CONSIDERATION(1)		
	NUMBER	PERCENT	AMOUNT	PERCENT	AVERAGE PRICE PER SHARE
<S>	<C>	<C>	<C>	<C>	<C>
Existing stockholders(1)(2)	7,716,740	79.4%	$11,334,000	27.4%	$ 1.47
New investors(1)	2,000,000	20.6	30,000,000	72.6	15.00
Total	9,716,740	100.0%	$41,334,000	100.0%	

</TABLE>

---

(1) The foregoing table assumes no exercise of the Underwriters' over-allotment option and no exercise of stock options outstanding at June 30, 1998. As of July 15, 1998, the Company had 5,277,283 shares of Common Stock reserved for issuance under the Company's stock plans of which 2,085,408 shares were subject to outstanding stock options at a weighted average exercise price of $3.10 per share. To the extent any outstanding options are exercised, there will be further dilution to new investors. If all of the outstanding options were exercised in full, the dilution per share to new investors in this Offering would be increased by $0.04 per share to a total of $11.72 per share and the average price per share paid by the Company's existing shareholders would be $1.82. See "Capitalization", "Management -- Stock Option Plans" and Notes 12 and 13 of Notes to Consolidated Financial Statements.

(2) The net effect of sales by the Selling Stockholders in the Offering will be to reduce the number of shares held by existing stockholders to 6,716,740 shares, or 69.1% of the total number of shares of Common Stock outstanding after the Offering, and to increase the number of shares held by new investors to 3,000,000 shares, or 30.9% of the total number of shares of Common Stock outstanding after the Offering.

SELECTED CONSOLIDATED FINANCIAL DATA

The following historical selected consolidated financial data of the Company is qualified by reference to and should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere herein. The selected consolidated financial data set forth below for each of the fiscal years ended December 31, 1995, 1996 and 1997 are derived from consolidated financial statements of the Company audited by Arthur Andersen LLP, independent public accountants, which are included elsewhere in this Prospectus. The selected consolidated financial data for the six months ended June 30, 1997 and 1998 are derived from the unaudited consolidated financial statements of the Company, which are included elsewhere in this Prospectus. The selected consolidated financial data for the period from inception (November 1, 1994) through December 31, 1994 are derived from the unaudited consolidated financial statements of the Company, which are not included in this Prospectus. The unaudited consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for a fair presentation. The results of operations for the six months ended June 30, 1998 are not necessarily indicative of results to be expected for any future period. The data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Prospectus.

<TABLE>
<CAPTION>

	PERIOD FROM INCEPTION (NOVEMBER 1, 1994) THROUGH DECEMBER 31,	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1994(1)	1995(1)	1996(1)	1997	1997	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED STATEMENT OF OPERATIONS DATA:						
Revenues:						
Software license fees	$ --	$ --	$ 1,500	$ 5,765	$ 1,793	$ 5,816
Services and maintenance	--	1,693	4,534	6,904	3,029	4,602
Total revenues	--	1,693	6,034	12,669	4,822	10,418
Cost of revenues:						
Software license fees	--	--	890	1,707	863	129
Services and maintenance	--	1,012	3,205	5,227	2,297	3,302
Total cost of revenues	--	1,012	4,095	6,934	3,160	3,431
Gross profit	--	681	1,939	5,735	1,662	6,987
Operating expenses:						
Sales and marketing	--	128	1,007	3,602	1,268	4,163
Research and development	--	708	1,325	2,599	1,031	2,716
General and administrative	7	352	1,018	2,158	813	1,216
Total operating expenses	7	1,188	3,350	8,359	3,112	8,095
Loss from operations	(7)	(507)	(1,411)	(2,624)	(1,450)	(1,108)

Interest income (expense), net.....	--	(47)	(195)	25	(10)	29
Net loss.....	(7)	(554)	(1,606)	(2,599)	(1,460)	(1,079)
Accretion of discount and dividends on preferred stock.....	--	--	--	(684)	(565)	(120)
Net loss applicable to common stockholders.....	$ (7)	$ (554)	$(1,606)	$(3,283)	$(2,025)	$(1,199)
Basic and diluted net loss per share applicable to common stockholders.....	$(0.01)	$(0.46)	$ (1.33)	$ (1.12)	$ (0.82)	$ (0.33)
Basic and diluted weighted average common shares outstanding.....	1,200	1,200	1,205	2,920	2,478	3,598
Pro forma basic and diluted net loss per share(2) (3).....	$ --	$(0.19)	$ (0.55)	$ (0.48)	$ (0.31)	$ (0.15)
Pro forma basic and diluted weighted average common shares outstanding(2) (3).....	2,925	2,925	2,930	5,391	4,683	7,377

</TABLE>

19

<TABLE>
<CAPTION>

	AS OF DECEMBER 31,				AS OF JUNE 30, 1998	
	1994(1)	1995(1)	1996	1997	ACTUAL	PRO FORMA(2)
			(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED BALANCE SHEET DATA:						
Cash, cash equivalents, and marketable securities.....	$ --	$ 500	$ 361	$ 5,475	$ 4,182	$ 4,182
Working capital (deficit).....	(120)	(1,224)	(853)	5,249	3,515	3,515
Total assets.....	113	2,514	4,189	11,400	12,134	12,134
Long-term debt, net of current portion.....	--	38	2,368	237	128	128
Redeemable preferred stock.....	--	--	--	7,088	7,208	--
Stockholders' equity (deficit).....	(7)	(560)	(1,295)	(728)	(1,836)	5,372

</TABLE>

---

(1) The Consolidated Balance Sheet Data as of December 31, 1994 and 1995 and consolidated statement of operations data for the period from inception to December 31, 1994, and for the years ended December 31, 1995 and 1996 include the operations of the Company on a carve-out basis prior to November 15, 1996. During this period, the Company operated as a separate and substantially independent division of Grant & Partners, Inc. and Grant & Partners Limited Partnership, and focused on developing VALEX and providing integration and consulting services. See Note 1 of Notes to Consolidated Financial Statements.

(2) Gives effect to the reclassification of Series A Preferred Stock to $3,209,000 of additional paid-in capital, the conversion of all outstanding shares of the Series B Convertible Preferred Stock, at a redemption value of $3,999,000, into 2,555,556 shares of Common Stock, and the conversion of all outstanding shares of Series C Convertible Preferred Stock, at $.001 par value per share, into 1,223,954 shares of Common Stock upon the closing of the Offering.

(3) Computed on the basis described in Note 2(c) of Notes to Consolidated Financial Statements.

20

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto included elsewhere in this Prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this Prospectus.

OVERVIEW

The Company is a leading provider of customer optimization software and

solutions that enable businesses to maximize profitability and revenue growth from new and existing customers through marketing automation and enterprise-wide customer management. The Company's Continuous Customer Management ("CCM") offering is principally comprised of VALEX, the Company's open enterprise software application, and the Company's proprietary consulting and integration services.

The Company was incorporated in November 1996. Prior to incorporation, the Company operated as a separate division of two entities, Grant & Partners, Inc. ("GPI") and Grant & Partners Limited Partnership ("GPLP"). See Note 1 to Notes to Consolidated Financial Statements. The Company's activities during its early stages of operation focused on the development of software solutions to provide CCM support to businesses. In 1995, the Company began providing professional services in the areas of marketing program design and execution and data warehousing. In March 1997, the Company ceased providing marketing program design services. The Company's development efforts culminated in the introduction to the market in July 1996 of VALEX, the Company's marketing automation software product. Since the introduction of VALEX, the Company has continued to focus significant resources on the development of additional functionality and features of the VALEX software. The Company also has continued to expand its marketing activities, build the Exchange Applications identity, develop the competencies of the professional services group, build international sales and distribution channels and develop its general and administrative infrastructure. The Company has shifted its primary business focus from providing services to selling software products. However, the Company believes that continuing to provide superior professional services will be critical to maximizing its opportunities for future revenues.

The financial results of the Company while it operated as a separate division of GPI and GPLP for the period from inception (November 1, 1994) to November 14, 1996 have been included on a carve-out basis in the Company's Consolidated Financial Statements.

The Company generates revenue from software licenses, professional service arrangements and software maintenance agreements. The Company recognizes software license fee revenues upon execution of a license agreement and delivery of the software, provided that the fee is fixed or determinable and deemed collectible by management. If acceptance of the software by the licensee is required, revenues are only recognized upon satisfaction of the foregoing conditions and acceptance of the software. Revenues from professional service arrangements are recognized on either a time and materials or percentage-of-completion basis as the services are performed, provided that amounts due from customers are fixed or determinable and deemed collectible by management. Revenues related to software maintenance agreements are recognized ratably over the term of the maintenance period. Amounts collected or billed prior to satisfying the above revenue recognition criteria are reflected as deferred revenue or as customer deposits.

Pricing for a VALEX software license is based on the number of customer records included in a business' data warehouse and certain other factors, including the number of users of the software. Professional services are generally priced on a time and materials or fixed-fee basis. Annual maintenance, which is typically purchased in conjunction with the licensing of VALEX, is a separate component that is offered for a fee generally equal to 20% of the license fee at the time of execution

of the maintenance contract and upon each renewal. Maintenance contracts typically include telephone support and rights to unspecified product updates and maintenance releases. The Company recommends that its customers enter into and renew their maintenance contracts and, to date, all customers have done so. As the Company continues to develop additional features and enhanced functionality in unspecified future product updates, the Company believes that most of its customers will continue to renew their maintenance contracts. As the Company effects more sales of its software products through its re-seller relationships, the Company plans to have the re-sellers provide certain of the consulting and maintenance services associated with these sales. By using the services resources of the re-sellers, the Company plans to allocate its own professional services resources to direct-sale customers, to the projects that require unique expertise or familiarity with the VALEX product and to other profitable opportunities.

Licenses originate principally from the Company's direct sales force. Sales and marketing personnel from indirect sales channels, including re-sellers and co-marketers, provide the Company with valuable introductions to potential customers, work with the Company's sales force to complete sales and, in some cases, effect sales of the Company's products virtually independently. The Company expects that a significant portion of its revenues over the next several quarters will be made with some participation from one or more of the Company's re-sellers or co-marketers.

Because the Company has only recently begun to sell its products,

period-to-period comparisons of its operating results are not meaningful. Although the Company has experienced significant revenue growth recently, there can be no assurance that such growth rates are sustainable and they should not be relied upon as predictive of future performance. In addition, the timing of license revenues is difficult to predict because of the length and variability of the Company's sales cycle. The Company's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development, particularly in new and rapidly evolving markets. There can be no assurance that the Company will be successful in addressing such risks and difficulties or that it will achieve profitability. See "Risk Factors -- Limited Operating History; History of Losses".

RECENT ACCOUNTING PRONOUNCEMENT

SOP 97-2, "Software Revenue Recognition", was issued in October 1997 and supercedes the guidance of SOP 91-1 for recognizing revenue from software arrangements. The Company adopted the provisions of SOP 97-2 for the year ended December 31, 1997, and the Company believes its revenue recognition policies and practices comply with the requirements of SOP 97-2. However, SOP 97-2 includes restrictive provisions regarding specific terms of software arrangements which, if present, require deferral of revenue recognition beyond the point of delivery of the software. Future competitive conditions could necessitate changes in the Company's business practices and the contract terms of its software arrangements. Such changes might require deferral of revenue recognition, which could materially adversely affect periodic operating results.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage of total revenues represented by certain items from the Company's Consolidated Statements of Operations.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1995	1996	1997	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Software license fees	--%	24.9%	45.5%	37.2%	55.8%
Services and maintenance	100.0	75.1	54.5	62.8	44.2
Total revenues	100.0	100.0	100.0	100.0	100.0
Cost of revenues:					
Software license fees	--	14.8	13.4	17.9	1.2
Services and maintenance	59.8	53.1	41.3	47.6	31.7
Total cost of revenues	59.8	67.9	54.7	65.5	32.9
Gross margin	40.2	32.1	45.3	34.5	67.1
Operating expenses:					
Sales and marketing	7.5	16.7	28.5	26.3	39.9
Research and development	41.8	21.9	20.5	21.4	26.1
General and administrative	20.8	16.9	17.0	16.9	11.7
Total operating expenses	70.1	55.5	66.0	64.6	77.7
Loss from operations	(29.9)	(23.4)	(20.7)	(30.1)	(10.6)
Interest income (expense), net	(2.8)	(3.2)	0.2	(0.2)	0.2
Net loss	(32.7)%	(26.6)%	(20.5)%	(30.3)%	(10.4)%

</TABLE>

SIX MONTHS ENDED JUNE 30, 1997 AND 1998

REVENUES

The Company's total revenues increased 116% from $4.8 million in the six months ended June 30, 1997 to $10.4 million in the six months ended June 30, 1998. A number of factors contributed to the increase in total revenues, including an increase in the Company's sales force, sales resulting from the establishment of key strategic re-seller and co-marketing relationships in late 1997 and the first six months of 1998, increased international sales resulting from the opening of a U.K. sales office during July 1997 and the growing contribution of maintenance revenues from the larger installed base of the Company's products.

Software license fee revenues increased 224% from $1.8 million, or 37.2% of

total revenues, in the six months ended June 30, 1997 to $5.8 million, or 55.8% of total revenues, in the six months ended June 30, 1998. The significant increase in software license fee revenues was attributable primarily to the growing market awareness and acceptance of the Company's products, particularly in the telecommunications industry, the expansion of the Company's sales force, and the establishment of key strategic re-seller and co-marketing relationships in late 1997 and the first six months of 1998.

Services and maintenance revenues increased 52% from $3.0 million, or 62.8% of total revenues, in the six months ended June 30, 1997 to $4.6 million, or 44.2% of total revenues, in the six months ended June 30, 1998. The growth of services and maintenance revenues resulted from professional services engagements associated with the growing sales of the Company's software products, increased maintenance revenues from the larger installed base of software license customers and increased training revenues. The decrease in services and maintenance revenues as a percentage of total revenues was primarily attributable to market acceptance of VALEX and

increases in sales of VALEX by re-sellers and co-marketers that provided certain of the related services.

For the six months ended June 30, 1997, the Company's top five customers accounted for 90.6% of total revenues, while the Company's three largest customers accounted for 39.7%, 22.2% and 13.7%, respectively, of total revenues during this same period. This compares to 53.6% for the Company's top five customers and 24.1%, 9.9% and 7.3% for the Company's three largest customers, respectively, for the six months ended June 30, 1998. In the six-month period ended June 30, 1998, revenues from the largest customer were comprised of sales through a single re-seller to multiple end-user businesses. The Company believes that the loss of any one of these customers would not have a material adverse effect upon the Company's business, operating results or financial condition.

All of the Company's revenues for the six months ended June 30, 1997 were from sales to customers in North America; however, international operations were significantly expanded in late 1997 and 1998 and represent an increasing source of the Company's revenues. Revenues from customers outside North America were $1.6 million for the six months ended June 30, 1998, representing approximately 15.4% of total revenues.

COST OF REVENUES

Total cost of revenues consists of costs associated with software license fees and costs associated with services and maintenance. Total cost of revenues as a percentage of total revenues declined from 65.5% in the six months ended June 30, 1997 to 32.9% in the six months ended June 30, 1998. The decrease in cost of revenues as a percentage of total revenues in 1998 was primarily a result of the fact that capitalized software development costs under Statement of Financial Accounting Standards No. 86 ("SFAS 86") was fully amortized as of December 1997. The results for the six months ended June 30, 1997 include approximately $641,000 in SFAS 86 capitalized software amortization.

Cost of software license fees as a percentage of total revenues decreased from 17.9% to 1.2% for the six months ended June 30, 1997 and 1998, respectively. Cost of software license fees as a percentage of software license fee revenues decreased from 48.1% to 2.2% for the six months ended June 30, 1997 and 1998, respectively. Cost of software license fees for the six months ended June 30, 1997 consisted primarily of amortization of software development expenses capitalized under SFAS 86 and royalty payments made to a third party for licensed intellectual property included in the Company's VALEX product. The entire capitalized software balance was fully amortized as of December 31, 1997. Cost of software license fees for the six months ended June 30, 1998 consisted primarily of royalty payments for licensed software and costs associated with software packaging and distribution. The Company's primary royalty obligation for licensed intellectual property, which required the Company to pay royalties to a third party on the first $10 million of revenues from VALEX sales, was fully paid during the second quarter of 1998. No further royalties will be paid to this third party and other current royalty obligations are not material to the Company's financial position. If the effect of the SFAS 86 amortization and royalties for licensed software were not included, gross margin on software revenues would have been 96.5% for the six months ended June 30, 1997, versus 99.3% for the six months ended June 30, 1998. As the Company adds additional components to its software products, the Company may choose to license software from third parties. The cost of such licenses may increase the cost of software license fees.

Cost of services and maintenance consists primarily of personnel, facility and system costs incurred in providing professional consulting services, training, and customer support services. Cost of services and maintenance revenues as a percentage of total revenues was 47.6% and 31.7% during the six months ended June 30, 1997 and 1998, respectively. Cost of services and maintenance as a percentage of services and maintenance revenues was 75.8% and

71.8% for the six months ended June 30, 1997 and June 30, 1998, respectively. The decrease was attributable

primarily to the increased contribution of higher margin maintenance revenues from the Company's increased installed base. As the Company effects more sales of its software products through its re-seller relationships, the Company plans to have the re-sellers provide certain of the consulting and maintenance services associated with these sales. By using the services resources of the re-sellers, the Company plans to allocate its own professional services resources to direct-sale customers, to the projects that require unique expertise or familiarity with the VALEX product and to other more profitable opportunities.

Overall gross margin increased from 34.5% for the six months ended June 30, 1997 to 67.1% for the six months ended June 30, 1998 due primarily to the completion of SFAS 86 amortization, increased sales of VALEX and the expiration of the Company's royalty obligations for licensed intellectual property. As software license fee revenues continue to grow and maintenance revenues increase as a percentage of total services and maintenance revenues, the Company expects that overall gross margin will remain constant or increase slightly in future periods.

OPERATING EXPENSES

Sales and Marketing. Sales and marketing expenses consist primarily of salaries for sales and marketing personnel, commissions, travel and promotional expenses. Sales and marketing expenses increased from $1.3 million, or 26.3% of total revenues, for the six months ended June 30, 1997, to $4.2 million, or 39.9% of total revenues, for the six months ended June 30, 1998. This increase reflects the hiring of additional sales and marketing personnel, increased promotional programs, and increased sales commissions associated with higher revenues. While the Company expects sales and marketing expenses to continue to grow in absolute dollars, the Company expects these expenses to remain approximately the same as a percentage of total revenues due to increased contribution from its indirect sales channels.

Research and Development. Research and development expenses consist primarily of employee salary and benefits, consultant costs, and equipment and purchased software depreciation costs associated with new product development, enhancement of existing products and quality assurance activities. Research and development expenses increased from $1.0 million, or 21.4% of total revenues, in the six months ended June 30, 1997 to $2.7 million, or 26.1% of total revenues, in the six months ended June 30, 1998. This increase reflects the hiring of additional personnel and additional investments in the Company's VALEX product. Software development costs were expensed as incurred in the six months ended June 30, 1998, since software development costs were primarily related to product enhancements and product maintenance. The Company anticipates that research and development expenses will continue to increase in absolute dollars but decrease on a percentage basis as the Company continues to commit substantial resources to enhancing existing product functionality and to developing new products.

General and Administrative. General and administrative expenses consist primarily of salaries and related costs, outside professional fees, provision for bad debts, and equipment and software depreciation costs associated with the finance, legal, human resources, information systems, and administrative functions of the Company. General and administrative expenses increased from $813,000, or 16.9% of total revenues, for the six months ended June 30, 1997 to $1.2 million, or 11.7% of total revenues, for the six months ended June 30, 1998. Expenses increased in absolute dollars as the Company added personnel to its finance, information systems, and human resource departments and increased its spending on outside legal services, but declined as a percentage of total revenues, due primarily to economies of scale. The Company expects general and administrative expenses to continue to grow in absolute dollars but to decrease on a percentage basis as the Company implements additional management information systems, continues its international expansion and incurs costs incident to being a publicly held company.

PROVISION FOR INCOME TAXES

No provision for federal or state income taxes has been recorded as the Company incurred net operating losses for all periods presented. The Company has recorded a full valuation allowance against the deferred tax asset generated as a result of these net operating loss carryforwards as the Company believes it is more likely than not that these assets will not be realized.

YEARS ENDED DECEMBER 31, 1995, 1996 AND 1997

REVENUES

The Company's total revenues increased 256% from $1.7 million in 1995 to $6.0 million in 1996, reflecting significant software license fee revenues related to the commercial introduction of the Company's VALEX product in July 1996. The Company's total revenues increased 110% to $12.7 million in 1997 as the Company sold its products and services to a greater number of customers and expanded its business internationally.

Software license fee revenues increased from zero in 1995 to $1.5 million, or 24.9% of total revenues, in 1996 and grew 284% to $5.8 million, or 45.5% of total revenues, in 1997. The increase in software license fee revenues, both in absolute dollars and as a percentage of total revenues, reflected increased market awareness and acceptance of the Company's VALEX product, the continued growth of indirect channel revenues, and expansion of international sales resources.

Services and maintenance revenues increased 168% from $1.7 million, or 100.0% of revenues, in 1995 to $4.5 million, or 75.1% of total revenues in 1996, and grew 52% to $6.9 million, or 54.5% of total revenues, in 1997 primarily due to growth in the providing of professional services associated with VALEX and, to a lesser extent, to an increase in maintenance revenues. The Company expects services and maintenance revenues to decline as a percentage of total revenues as the parties with whom the Company has undertaken re-seller and co-marketing relationships perform more of the professional services associated with the Company's software licenses sold through these channels. However, the Company expects services and maintenance revenues to increase in absolute dollars as the installed base of the Company's products continues to increase.

In 1997, the Company's top five customers accounted for 74.9% of total revenues, while the Company's three largest customers accounted for 33.0%, 23.1% and 7.6%, respectively, of the Company's total revenues during this same period. In 1997, revenues from the largest customer were comprised of sales through a single re-seller to multiple end-user businesses. During 1996, the Company's top five customers accounted for 57.7% of total revenues, while the Company's three largest customers accounted for 20.5%, 10.7% and 10.2%, respectively, of total revenues. In 1995, the Company's top five customers accounted for 87.8% of total revenues, while the Company's three largest customers accounted for 37.7%, 17.3% and 13.0%, respectively, of the Company's total revenues during this same period. The Company believes that the loss of any one of these customers would not have a material adverse effect upon the Company's business, operating results or financial condition. In 1995 and 1996, the Company's revenues consisted primarily of the sale and delivery of the Company's professional services in the area of customer optimization and data warehousing.

COST OF REVENUES

Total cost of revenues, as a percentage of total revenues, increased from 59.8% in 1995 to 67.9% in 1996, and then declined to 54.7% in 1997. The increase in 1996 reflected six months of amortization of software development costs previously capitalized in accordance with the guidelines of SFAS 86, which amortization began in July 1996 upon general release of the Company's VALEX product. The decline in the total cost of revenues as a percentage of total revenues in 1997 reflected the increasing contribution of higher-margin software license sales of VALEX, which was first shipped in July 1996.

Cost of software license fees as a percentage of total revenues was 14.8% in 1996 and 13.4% in 1997. There were no revenues derived from software license fees prior to 1996. The cost of software license fees as a percentage of software license fee revenues decreased from 59.3% in 1996 to 29.6% in 1997 due primarily to increased software license sales volume in 1997. This increase offset the additional six months of amortization of capitalized software development costs in 1997 versus 1996, as well as royalties paid to a third party for intellectual property included in VALEX. If the effect of SFAS 86 amortization and royalties for licensed intellectual property were not included, gross margin on software license fee revenues would have been 95.7% and 99.3% for 1996 and 1997, respectively. With the balance of capitalized software development costs fully amortized at the end of 1997 and the primary royalty obligations for licensed intellectual property fully paid as of the second quarter of 1998, the cost of software license fee revenues consists principally of the cost of the software media and other incidental costs.

Cost of services and maintenance as a percentage of total revenues was 59.8%, 53.1% and 41.3% in 1995, 1996 and 1997, respectively. Cost of services and maintenance as a percentage of services and maintenance revenues was 59.8%, 70.7% and 75.7% in 1995, 1996 and 1997, respectively. The increasing cost was due to the costs of building a service organization infrastructure and the

increased use, at higher cost, of subcontracted labor on certain engagements. The Company expects to continue to use subcontractors for the delivery of professional services from time to time.

Overall gross margin decreased from 40.2% in 1995 to 32.1% in 1996 as a result of the Company's investments in its services infrastructure in anticipation of increased VALEX sales and the inclusion of six months of SFAS 86 amortization. In 1997, gross margin increased to 45.3% of total revenues as the Company's contribution of higher-margin software license fees increased from 24.9% of total revenues in 1996 to 45.5% in 1997. In addition, the Company began to realize productive returns from the services infrastructure established in 1996.

OPERATING EXPENSES

Sales and Marketing. Sales and marketing expenses were $128,000, $1.0 million, and $3.6 million, representing 7.5%, 16.7% and 28.5% of total revenues, in 1995, 1996 and 1997, respectively. These increases were due primarily to the increase in the Company's sales and marketing personnel and overall infrastructure to support VALEX and expand internationally. The Company's international expansion included the opening of its first international sales office in the U.K. in July 1997. The Company expects to continue to expand its direct sales force and marketing staff, increase its international presence, and continue to develop its indirect sales channels and increase promotional activity.

Research and Development. Research and development expenses were $708,000, $1.3 million, and $2.6 million, representing 41.8%, 21.9%, and 20.5% of total revenues, in 1995, 1996 and 1997, respectively. The increase in absolute dollars was attributable primarily to the hiring of additional technical personnel engaged in software development activities. The decline in research and development expenses on a percentage basis was due primarily to the greater growth in revenues.

General and Administrative. General and administrative expenses were $352,000, $1.0 million and $2.2 million, representing 20.8%, 16.9% and 17.0% of total revenues, in 1995, 1996 and 1997, respectively. General and administrative expenses grew in absolute dollars as the Company added personnel to all administrative areas, but declined on a percentage basis due primarily to economies of scale.

INTEREST INCOME (EXPENSE), NET

Interest expense, net increased from $47,000 in 1995 to $195,000 in 1996 as a result of interest charges on the Company's demand note payable to related parties as well as finance charges

related to the Company's capital lease obligations. The Company reported net interest income of $25,000 in 1997 as a result of the elimination of the related party demand notes payable concurrent with the March 1997 venture capital financing transaction, as well as the related interest income generated from the proceeds of the March 1997 and December 1997 financing transactions.

PROVISION FOR INCOME TAXES

No provision for federal or state income taxes has been recorded as the Company incurred net operating losses for all periods presented. The Company has recorded a full valuation allowance against the deferred tax asset generated as a result of these net operating loss carryforwards, as the Company currently believes it is more likely than not that these assets will not be realized.

SELECTED QUARTERLY RESULTS OF OPERATIONS

The following tables present unaudited quarterly consolidated statement of operations data for each quarter in the six quarters ended June 30, 1998, as well as such data expressed as a percentage of the Company's total revenues for the periods indicated. This data has been derived from unaudited consolidated financial statements that have been prepared on the same basis as the audited consolidated financial statements and include all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair

presentation of such information. The Company believes quarter-to-quarter comparisons of its financial results should not be relied upon as an indication of future performance, and operating results may fluctuate from quarter to quarter in the future.

<TABLE>
<CAPTION>

	QUARTER ENDED					
	MARCH 31, 1997	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MARCH 31, 1998	JUNE 30, 1998
	(IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED STATEMENT OF OPERATIONS DATA:						
Revenues:						
Software license fees	$ 472	$1,321	$1,616	$2,356	$2,711	$3,105
Services and maintenance	1,657	1,372	1,711	2,164	2,080	2,522
Total revenues	2,129	2,693	3,327	4,520	4,791	5,627
Cost of revenues:						
Software license fees	430	433	449	395	84	45
Services and maintenance	1,237	1,060	1,257	1,673	1,635	1,667
Total cost of revenues	1,667	1,493	1,706	2,068	1,719	1,712
Gross profit	462	1,200	1,621	2,452	3,072	3,915
Operating expenses:						
Sales and marketing	568	700	871	1,463	1,735	2,428
Research and development	453	578	646	922	1,207	1,509
General and administrative	385	428	402	943	537	679
Total operating expenses	1,406	1,706	1,919	3,328	3,479	4,616
Loss from operations	(944)	(506)	(298)	(876)	(407)	(701)
Interest income (expense), net	(39)	29	7	28	23	6
Net loss	$ (983)	$ (477)	$ (291)	$ (848)	$ (384)	$ (695)

</TABLE>

<TABLE>
<CAPTION>

	QUARTER ENDED					
	MARCH 31, 1997	JUNE 30, 1997	SEPT. 30, 1997	DEC. 31, 1997	MARCH 31, 1998	JUNE 30, 1998
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AS A PERCENTAGE OF TOTAL REVENUES:						
Revenues:						
Software license fees	22.2%	49.1%	48.6%	52.1%	56.6%	55.2%
Services and maintenance	77.8	50.9	51.4	47.9	43.4	44.8
Total revenues	100.0	100.0	100.0	100.0	100.0	100.0
Cost of revenues:						
Software license fees	20.2	16.1	13.5	8.7	1.8	0.8
Services and maintenance	58.1	39.3	37.8	37.0	34.1	29.6
Total cost of revenues	78.3	55.4	51.3	45.7	35.9	30.4
Gross margin	21.7	44.6	48.7	54.3	64.1	69.6
Operating expenses:						
Sales and marketing	26.7	26.0	26.2	32.4	36.2	43.2
Research and development	21.3	21.5	19.4	20.4	25.2	26.8
General and administrative	18.1	15.9	12.1	20.8	11.2	12.1
Total operating expenses	66.1	63.4	57.7	73.6	72.6	82.1
Loss from operations	(44.4)	(18.8)	(9.0)	(19.3)	(8.5)	(12.5)
Interest income (expense), net	(1.8)	1.1	0.2	0.6	0.5	0.1
Net loss	(46.2)%	(17.7)%	(8.8)%	(18.7)%	(8.0)%	(12.4)%

</TABLE>

The Company's revenues have increased in all quarters presented as a result of increased market acceptance of the VALEX product, the continued growth of indirect channel revenues, and expansion of international sales resources. Cost of revenues on a percentage basis decreased throughout the quarters presented as a result of an increase in software license fees in the

Company's revenue mix, the completion of the amortization of capitalized software development costs in the fourth quarter of 1997 and the completion of software royalty obligations in the second quarter of 1998. No assurances can be given that the shift in revenue mix will continue. Gross profit for any quarter will be affected by the revenue mix in that quarter.

Operating expenses have increased in each of the quarters presented. Sales and marketing expenses have increased as a result of increased sales and marketing personnel and increased commissions associated with higher revenues. Research and development expenses generally have increased as a result of continued enhancements to the VALEX technology. General and administrative expenses have increased primarily due to additional personnel, professional fees and facilities and other infrastructure costs. General and administrative expenses in the quarter ended December 31, 1997 included one-time charges associated with the decision to relocate the Company's executive offices, as well as noncash compensation expense associated with the Company's 1996 Stock Incentive Plan.

The Company's quarterly and annual operating results have varied significantly in the past and are expected to do so in the future. Accordingly, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as predictors of future performance. See "Risk Factors -- Potential for Significant Fluctuations in Quarterly Results".

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has financed its operations primarily through the sale of equity securities in private placements and the issuance of notes payable to related parties. In March 1997, the Company received $3,888,000 in net cash proceeds from the sale of its Series B Preferred Stock; and in December 1997, the Company received $3,987,000 in net cash proceeds from the sale of its Series C Preferred Stock. In addition, in December 1997, the Company entered into a $2,000,000 revolving note agreement with Fleet National Bank. The note bears interest at the bank's prime rate plus 0.75% per annum, payable monthly in arrears, and expires on May 31, 1999.

As of June 30, 1998, the Company had $4.2 million of cash, cash equivalents and short-term investments. The Company believes that the net proceeds of this Offering, along with its existing balance of cash, cash equivalents and short-term investments, will be sufficient to meet the Company's working capital and anticipated capital expenditure needs for at least the next 12 months. Thereafter, the Company may require additional sources of funds to continue to support its business. There can be no assurance that such capital, if needed, will be available or will be available on terms acceptable to the Company.

Cash provided by financing activities of $6.8 million in 1997 consisted primarily of the proceeds from the issuance of Convertible Preferred Stock and has been invested in short-term investments. Purchases of computer equipment used in conducting the Company's business represented the primary component of cash used in investing activities.

Cash and cash equivalents for the six months ended June 30, 1998 decreased $1.3 million from the December 31, 1997 ending balance. Net cash used for operations of approximately $429,000 for the six months ended June 30, 1998 resulted primarily from a net operating loss before depreciation expense of $851,000 less an approximately $422,000 decrease in working capital. The decrease in working capital was primarily attributable to an increase in accounts payable and deferred revenue, partially offset by an increase in accounts receivable associated with increased license and services revenue in the second quarter. Net cash used in investing activities for the six months ended June 30, 1998 was a result of property and equipment purchases related to the increase in headcount, the move to new operating facilities and the acquisition of hardware and software for development and internal operating systems. Net cash used in financing activities of $69,000 consisted of approximately $110,000 for the repayment of capital lease obligations, offset by cash inflow of $41,000 from the exercise of stock options under the 1996 Plan.

The Company had net operating loss carryforwards of approximately $792,000 at December 31, 1997 to reduce future income taxes, if any. These carryforwards expire through 2013 and are subject to review and possible adjustment by the Internal Revenue Service. The Tax Reform Act of 1986 contains provisions that may limit the amount of net operating loss and credit carryforwards that the Company may utilize in any one year in the event of certain cumulative changes in ownership over a three-year period in excess of 50% as defined. The Company believes that it has experienced a change in ownership in excess of 50%. The Company does not believe that this change will significantly impact the Company's ability to utilize its net operating loss carryforwards.

The Company currently intends to use the net proceeds of the Offering for working capital and general corporate purposes, including financing accounts receivable and capital expenditures made in the ordinary course of business, as well as for possible reduction of indebtedness and for potential acquisitions of businesses, products and technologies that are complementary to those of the Company. Although the Company has not identified any specific businesses, products or technologies that it may acquire, or entered into any current agreements or negotiations with respect to any such transactions, the Company from time to time evaluates such opportunities. Pending such uses, the net proceeds will be invested in government securities and other short-term, investment-grade, interest-bearing instruments.

IMPACT OF YEAR 2000 ISSUE

The Year 2000 issue results from computer programs written using two digits rather than four to define the applicable year. Any of the Company's computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities.

The Company is in the process of conducting an assessment of its computer information systems and is beginning to take the necessary steps to determine the nature and extent of the work required to make its systems Year 2000 compliant, where necessary. These steps may require the Company to modify, upgrade or replace some of its internal financial and operational systems. The Company is currently in the process of upgrading its accounting and customer care software with software warranted to be Year 2000 compliant. The Company continues to evaluate the estimated cost of bringing all internal systems, equipment and operations into Year 2000 compliance, but has not yet finished determining the total cost of these compliance efforts. Although management does not expect, based on currently available information, that Year 2000 issues will have a material adverse effect on the Company's business, operating results or financial condition, there can be no assurance that there will not be interruptions of operations, other limitations of system or product functionality or that the Company will not incur significant costs to avoid such interruptions or limitations.

The Company also intends to determine the extent to which it may be vulnerable to any failures by its current and potential customers and distributors to remedy their own Year 2000 issues, and is in the process of initiating formal communications with these parties. At this time, the Company is unable to estimate the nature or extent of any potential adverse impact resulting from the failure of current and potential customers or third party distributors to achieve Year 2000 compliance, although the Company does not currently anticipate that it will experience any material sales delays from its major distributors or current and potential customers due to Year 2000 issues. However, there can be no assurance that these third parties will not experience Year 2000 problems or that any problems would not have a material effect on the Company's product distribution channels. Because the cost and timing of Year 2000 compliance by third parties such as customers and distributors is not within the Company's control, no assurance can be given with respect to the cost or timing of such efforts or any potential adverse effects on the Company of any failure by these third parties to achieve Year 2000 compliance.

BUSINESS

INTRODUCTION

Exchange Applications, Inc. (the "Company") is a leading provider of customer optimization software and solutions that enable businesses to maximize profitability and revenue growth from new and existing customers through marketing automation and enterprise-wide customer management. The Company's Continuous Customer Management ("CCM") solution, including its VALEX software and related consulting and integration services, enables businesses to profitably retain and expand existing customer relationships and acquire new customers by: (i) analyzing enterprise-wide databases of customer information to identify profitable growth opportunities; (ii) planning and prioritizing investments in high potential customers; (iii) creating targeted, real-time and event-triggered marketing campaigns and other customer communications; (iv) selecting the most effective channels for customer communications, such as direct mail, call centers, sales forces and the Internet; and (v) continuously evaluating the impact of these marketing campaigns and other communications on profitability. CCM allows businesses to measure the value of marketing campaigns and other customer communications against their associated costs and to use this information to make investment decisions that maximize customer profitability.

The principal components of the Company's CCM offering are VALEX, its open

enterprise software application, and the Company's proprietary consulting and integration services. The Company has deployed CCM and VALEX across multiple industries, with installations in over 40 businesses in North America and Europe. Its customers include Federal Express, Fleet Bank, NatWest Bank (U.K.) and US West. The Company's products and services are distributed through its direct sales force, through re-seller relationships with IBM, NCR and others, and through co-marketing arrangements with companies such as Compaq, Ernst & Young, KPMG Peat Marwick, PricewaterhouseCoopers, SAS Institute and Sun Microsystems.

BACKGROUND

Today's increasingly competitive business environment has forced many businesses to reduce costs in order to improve overall profitability. Enterprise resource planning ("ERP") and supply chain management software and other technologies have played a key role in helping businesses cut costs through the automation of business and administrative functions such as accounting, purchasing and inventory control, and human resources. While applications aimed at cost reduction have generally been successful, businesses have realized that these initiatives are only part of the solution to improve profitability and have begun to invest in a new class of applications designed to increase profitability through revenue growth. In the face of growing business challenges, such as the high cost of attracting new customers, the proliferation of customer purchasing options, increased customer sophistication and decreased customer loyalty, revenue growth initiatives have become significantly more difficult and more important to execute successfully.

Many of these new applications are aimed at enabling businesses to grow revenue by acquiring new customers and retaining and expanding relationships with existing customers. These applications facilitate cross-selling and the marketing of bundled products, new service offerings and differentiated service relationships. To maximize the profitability of these efforts, businesses need to allocate resources based not only on functional area and product profitability, but also on current or potential customer profitability. To enable this focus on customers, businesses need: (i) an investment allocation methodology to identify profitable customer opportunities; (ii) the ability to access and analyze large amounts of customer information; (iii) marketing automation and campaign management applications to design and implement effective marketing campaigns; (iv) technologies to manage interactions with customers; and (v) the ability to evaluate the effectiveness of investments on current and potential customer profitability.

To this end, businesses have begun over the past several years to realign existing marketing and customer management capabilities with new technologies and processes that optimize customer relationships across the enterprise. This evolution can be summarized in three phases, as follows:

PHASE 1 -- TRADITIONAL APPROACH. With traditional approaches, businesses develop marketing campaigns that solicit broad customer segments with infrequent and static offers. To manage these campaigns, businesses typically use proprietary software provided by third-party commercial service bureaus to access customer information maintained in large external databases. These solutions have provided valuable information to businesses, but have had significant limitations:

- LIMITED ABILITY TO DEVELOP AND REFINE MARKETING CAMPAIGNS. Traditional approaches are severely limited in the number and complexity of marketing campaigns that can be supported without manual intervention, increasing cycle time and cost and forcing businesses to run less targeted and less timely campaigns.

- INABILITY TO ACCESS THE COMPLETE CUSTOMER RELATIONSHIP. Traditional approaches use fixed data structures that store only a limited amount of information about each customer, forcing businesses to make decisions based on a limited portion of available customer information.

- LIMITED ABILITY TO MEASURE PERFORMANCE. Most traditional solutions use response rates and other basic metrics which do not provide the necessary information required to effectively measure campaign performance or to allocate marketing resources to those campaigns and other communications with the most positive impact on customer profitability.

- POOR INTEGRATION WITH OTHER APPLICATIONS. Many traditional solutions are limited by closed architectures and therefore require time-consuming, manual processes to be integrated with analytical tools, such as online analytical processing ("OLAP") and data mining tools, or customer touchpoint applications.

PHASE 2 -- MARKETING AUTOMATION AND CAMPAIGN MANAGEMENT. Recognizing the competitive value of more active management of customer relationships, businesses are transitioning from traditional approaches to more automated

marketing environments that enable businesses to target refined customer segments, implement more customized offers on a timely basis, and measure the effectiveness of offers with metrics such as return on investment. Central to this approach are data warehouses which contain a more complete view of the customer relationship, tools that predict customer behavior and software applications that automate the design and execution of marketing campaigns. Through marketing automation and campaign management, businesses benefit from more timely access to, and robust analysis of, customer information, more frequent and targeted campaigns, and more comprehensive measurement of the effectiveness of investments. This results in increased return on investment, reduced customer acquisition costs and reduced marketing cycle time.

PHASE 3 -- ENTERPRISE-WIDE CUSTOMER MANAGEMENT. Marketing automation and campaign management solutions alone provide significant value. However, their lack of integration with customer interaction software ("CIS") products, such as sales force automation, call center, customer service, help desk and Internet products, and other customer-related aspects of the business limits the ability to plan and optimize customer relationships across the enterprise. In addition, most CIS, marketing automation and campaign management solutions collectively fail to provide a common customer management methodology. Enterprise-wide customer management solutions integrate marketing automation and campaign management software with data warehouses and CIS products in an environment in which all aspects of the customer relationship are considered. This results in more consistent messages to customers, greater penetration of potential high-profit customers and the ability to employ lower cost communication channels to optimize customer profitability.

THE CUSTOMER OPTIMIZATION OPPORTUNITY

The Company believes that customer optimization software and solutions represent a significant opportunity across many industries. Businesses are adopting these technologies at different rates based on their access to customer information, their level of database marketing sophistication, the marginal economic impact of changes in the behavior of their customers and the degree of competitiveness within their industry. The Company believes that the demand for these technologies will grow rapidly as additional industries increasingly recognize enterprise-wide customer management as a competitive requirement. Significant opportunities exist for solutions that enable businesses to transition from the traditional service bureau approach to marketing automation and campaign management solutions and to enterprise-wide customer management environments. These transitions require highly-automated marketing and campaign management solutions that integrate people, processes and technology across the enterprise to insure adherence to a common customer management methodology.

According to an April 1997 Gartner Group report, overall spending on service bureaus, marketing automation and campaign management, which Gartner collectively refers to as database marketing, will be $1.3 billion in 1998, growing at an annual rate of 35% over the next several years. Furthermore, as evidence of the shift from traditional service bureau applications to marketing automation and campaign management solutions, Gartner estimates that spending on campaign management and marketing automation applications will be approximately $220 million in 1998, increasing at an annual rate of approximately 100% to nearly $900 million in 2000. Independent research analysts have reported that marketing automation and campaign management efforts represent a major area of focus for businesses today and note that many businesses are shifting to such solutions. An earlier Gartner survey states that "database marketing appeared in almost every industry as a high-payback, data-intensive application with potentially significant returns".

Other leading analysts believe that the transition to enterprise-wide customer management represents an even greater opportunity than the earlier shift to automated campaign management solutions. For example, Palo Alto Management Group projects that the market for enterprise-wide customer management software solutions will be $2.9 billion in 2002.

THE EXCHANGE APPLICATIONS SOLUTION

The Company believes that its Continuous Customer Management solution, implemented through its VALEX software and proprietary consulting and integration services, represents a fundamentally new approach to customer optimization that addresses the opportunities described above. CCM delivers customer optimization solutions that allow a business to maximize the profitability and revenue growth from new and existing customers through marketing automation and campaign management that can evolve to enterprise-wide customer management.

VALEX enables businesses to optimize customer value by: (i) providing a complete view of the relationship between a business and its customers; (ii) leveraging a range of data mining, reporting and modeling products to identify high-value customers; (iii) providing powerful marketing automation and campaign management software that lets end-users define and execute targeted customer

communication streams; and (iv) integrating with CIS products and data warehouses to perform enterprise-wide customer management. VALEX further enhances the value of information stored in data warehouses by allowing non-technical marketing professionals to design, execute and continuously evaluate and refine targeted marketing campaigns.

The Company's consulting and integration services include: (i) development of processes that allow organizations to adopt the CCM solution across business functions, including Value Exchange Optimization ("VEO"), a methodology for allocating marketing investments based on expected return; (ii) Metrics Repository, a custom software application that allows VALEX to track the success or failure of marketing campaigns across business segments and across the enterprise;

and (iii) VALEX Rapid Implementation, designed to quickly implement the core VALEX modules, allowing access to data warehouse environments and campaign execution in a matter of weeks.

Through CCM and VALEX, businesses gain an understanding of the economics of customer relationships, measure customer value and provide incentives through campaigns that influence and optimize customer behavior. The Exchange Applications solution offers the following key benefits:

IMPROVED PROFITABILITY AND REVENUE GROWTH. VALEX and CCM enable businesses to retain and increase the value of existing customers and acquire new customers by focusing investment resources on those customers with the greatest current and potential value. Through the use of the Company's solution, businesses have achieved increased retention rates, lower acquisition costs, more efficient cross-selling and better customer satisfaction due to more relevant, less intrusive communications.

COMPREHENSIVE SOLUTION. The Company's products and services provide a complete solution for customer optimization. The Company believes that its combined offering of software, proprietary methodologies and consulting services help businesses implement marketing automation and campaign management software and improve customer profitability quickly and with little risk.

ENTERPRISE-WIDE CUSTOMER VIEW. VALEX enables organizations to access and use all types of information stored in data warehouses. Businesses are therefore not restricted in the scope or type of information used to design customer optimization strategies.

INCREASED MARKETING VELOCITY. VALEX creates continuous, fully-automated marketing campaigns, allowing multiple end users to develop customized communications triggered by customer characteristics (e.g., age, income, buying behavior), specific events (e.g., changes in spending patterns, births of children, changes in economic status) or dates (e.g., birth dates, contract renewal dates). VALEX allows businesses to reduce dramatically the cycle time from planning through design, execution and measurement of campaigns, to better respond to competitive and market pressures and to quickly evaluate new campaigns.

OPEN, EXTENSIBLE ARCHITECTURE. VALEX is designed to be open, easy-to-use and scaleable across a wide variety of computing environments. The VALEX architecture conforms to many current industry standards (OLE, COM, DCOM, CORBA, ODBC) and can be integrated with existing hardware and software environments allowing businesses to leverage their investments in CIS products and data warehouse technologies.

STRATEGY

The Company's objective is to be the leading provider of customer optimization software and solutions globally. The Company's strategy for achieving this objective includes:

EXTEND VALEX. The Company has developed unique technical solutions that enable businesses to optimize customer relationships. The Company is currently developing product extensions that will enhance the ability of its existing products and services to directly integrate with data mining products and link communications to customers with changes in their behavior. Further, the Company is developing a local campaign management product to enable satellite offices and remote users to design and execute independent campaigns while coordinating with the central marketing function. The Company may also acquire businesses or technologies that would provide the Company with extended product or service offerings across the various aspects of a CCM implementation and/or specialized knowledge or tailored software for selected vertical industries.

DEVELOP ADDITIONAL CUSTOMER OPTIMIZATION SOLUTIONS. The Company intends to develop additional products to provide automation and business intelligence to improve a business's ability to perform enterprise-wide customer management. The Company's future products and services will be designed to optimize and control

communications across CIS environments and enhance business planning and forecasting solutions based on customer and channel economics.

35

EXPAND VERTICAL INDUSTRY FOCUS. The Company currently targets the telecommunications and financial services industries as well as other database marketing intensive businesses that seek to develop customized marketing campaigns. The Company intends to expand its focus to other industries as the demand for its customer optimization solution grows. The Company's experience has been that the rate of adoption of its solutions is driven by competitiveness within a given industry, the level of database marketing sophistication, access to customer information and the marginal economic impact of changes in customer behavior. The Company is currently considering sales efforts focused on the retail/catalog, energy/utility and insurance industries.

BROADEN DISTRIBUTION CHANNELS AND BUILD ALLIANCES. The Company will continue to develop indirect distribution channels. The Company maintains global re-seller agreements for VALEX with IBM, NCR and others to leverage these partners' extensive marketing and distribution channels. The Company also has co-marketing relationships with companies such as Compaq, Ernst & Young, KPMG Peat Marwick, PricewaterhouseCoopers, SAS Institute and Sun Microsystems, enabling it to utilize their extensive customer relationships and, in certain cases, their products and services. The Company plans to leverage the professional services resources of these re-seller and co-marketing organizations to provide certain non-proprietary professional services required in connection with the implementation of CCM and VALEX. This strategy will allow the Company to provide and expand its professional services offerings to most effectively complement its CCM methodology and software applications, and will help increase the efficient implementation of CCM solutions in anticipation of increased demands on the Company's services resources.

INCREASE DIRECT SALES GLOBALLY. The Company currently maintains and is aggressively expanding its direct sales forces in North America, the U.K. and Australia. In the future, the Company plans to expand further in Europe and the Pacific Rim, with particular attention to territories or industries experiencing trends advantageous to the adoption of the Company's solution, such as industry deregulation.

PRODUCTS -- VALEX

The Company's customer optimization software product, VALEX, allows end users to select targeted customer segments, design time- and event-triggered customized marketing campaigns and continuously execute and measure the effectiveness of such marketing campaigns. VALEX may be implemented quickly with a broad range of processes, databases and CIS environments.

VALEX implementations range in size and complexity. A small implementation may include data for 400,000 customers in a 50-100 gigabyte data warehouse, with 10 business users accessing the system. The price range for VALEX for this size configuration is $200,000-$250,000. A large implementation may have 20,000,000 customers, a multi-terabyte data warehouse, and more than 100 users. The price for VALEX in this configuration is typically more than $800,000.

36

The principal VALEX components are listed and described in the following table:

COMPONENT	DESCRIPTION
Desktop.....	Allows users to define their core process steps for CCM and then to organize VALEX components and associated applications into those process steps.
Segment.....	Allows users to segment the database into groups of customers for a particular marketing campaign or analysis.
Profile.....	Allows users to analyze the characteristics of individual customers within a segment.
Campaign.....	Allows users to define and execute targeted campaigns that run continuously and contain event triggers that respond to customer behavior or inactivity.
Schedule.....	Allows users to schedule VALEX components and to automate campaign execution and tracking.
Extract.....	Allows users to select information from the data

warehouse and export this information to other applications and CIS technologies.

Admin..... Allows users to interface VALEX with data warehouses and provide configuration settings.

Filter..... Allows users to capture and analyze lists and descriptions of customers and their characteristics in the data warehouse.

The figure below depicts VALEX and CCM as part of an enterprise-wide solution.

[A series of diagrams showing the VALEX architecture interfacing with customer databases and customer touchpoints.]

37

A VALEX USER CASE. The following description and diagram illustrate how VALEX is used to create, evaluate and refine marketing campaigns for enterprise-wide customer management.

- DESKTOP. A user first selects a "work group", which directs a user to the database to be accessed and the process steps to be performed. A simplified marketing process may include identifying and planning opportunities, and then designing, executing and continuously evaluating and refining campaigns.

- SEGMENT AND PROFILE. During the opportunity identification stage, a user employs VALEX Segment to define desired groups of customers to be targeted in a particular campaign. The VALEX Profile component is then used to further analyze each segment by other attributes in the database (such as purchasing patterns, demographics, prior campaign history). In the example pictured below, three segments are defined. The "Targeted Prospects" segment comprises a group of prospective customers selected for a direct mail campaign. The "Cross Sell Opportunities" segment identifies a group of current customers whose purchase behavior indicates a likelihood of buying certain additional products. The "Likely to Leave" segment, derived using a statistical model, identifies customers with a high probability of attrition based on their behavioral and demographic characteristics.

[A COMPUTER SCREEN DIAGRAM OF VALEX CAMPAIGN DECISION TREE.]

- CAMPAIGN. Once the user has decided on segments to be targeted for a particular campaign, he or she moves to the campaign design stage of the process. In this stage, a user employs VALEX Campaign to define the structure of the campaign. The user starts by specifying the campaign universe, and then defining all customers eligible to participate in the campaign. In this example, the user then creates three contact segments that branch off from the campaign universe. Groups are created by linking a query defined in VALEX Segment to

38

the database of potential contacts and by specifying rules that determine whether each customer or prospect meets the campaign selection criteria. Rules are specified through database queries or data mining routines and can establish "triggers" that respond to customer behavior. Once a group of contacts is identified, it can be subdivided into smaller random groups that receive different communications. Subdivisions allow the user to test the relative effectiveness of various communication strategies, comparing different messages, offers and/or channels against a control group. In the example above, the user further divides the "Cross Sell Opportunities" contact group in order to test two different offers -- "Product Upgrade" and "Discounted Enrollment" -- against a control group which will not receive any offers. The behavior of all three "splits" of the "Cross Sell Opportunities" contact group will be evaluated to improve future campaigns.

- EXTRACT AND SCHEDULE. After a campaign has been created, the user links each element of the campaign to VALEX Extract. The physical destination of the targeted list of customers and the information content to be delivered to the customer touchpoint are defined as Extracts. In the pictured campaign, the "Mail House" extract is formatted for the generation of personalized direct mail. "Sales Agents", "Call Center" and

"Service Center" extracts directly feed the appropriate system for each touchpoint. The "Promotional History" extract creates a record for each customer or prospect included in the campaign with information about that individual's contact group, offer and channel. This record, stored in a history table in the data warehouse, is used to measure campaign effectiveness and drive future communications. Through VALEX Schedule, campaign execution can be highly automated, reducing or eliminating human intervention. For instance, VALEX Schedule could automatically generate a nightly list of the best potential contacts for a cross-sell campaign or a weekly list of new customers to receive a welcome package through the mail.

- METRICS REPOSITORY. After executing a campaign, VALEX and Metrics Repository are used to analyze the campaign and refine it for the next cycle. Metrics Repository enables users to: (i) define campaign history tables, which update the data warehouse with information about customers or prospects selected in the campaign and capture information about each customer at the time they were contacted; (ii) establish test versus control groups to verify the incremental performance of a new message or segmentation technique; (iii) track each iteration of a campaign over time; (iv) define a "response" to a marketing action (e.g., a purchase of the offered product within two weeks of the start of the campaign); and (v) link responses to campaign promotions, providing the information foundation for measuring marketing effectiveness. Because the measurement needs of businesses vary widely, Metrics Repository is customized to meet the requirements of each individual business.

VALEX ARCHITECTURE. VALEX is an open enterprise software solution that can operate on a variety of platforms in a multi-tiered environment, thereby providing businesses maximum flexibility in the deployment of the software. For some smaller installations, both the database and the application server can be installed on one server with input from a separate client console. Larger installations may require a three-tiered environment, with separate client, data-warehouse and application servers. The software has been developed in Visual C++ and Java and is object oriented. Parallel operation of VALEX enables it to exploit database and hardware capabilities to operate in large database environments. VALEX supports many of the common relational databases in use today, and has been designed to generate structured query languages ("SQL") that leverage the unique capabilities of the relational database systems ("RDBMS") platforms. The following diagram represents an overview of VALEX and the platforms it supports.

39

[The graphic depicts a series of diagrams showing the VALEX architecture interfacing with customer databases and the platforms that VALEX supports.]

Designed to be flexible and scaleable, VALEX uses industry standard capabilities and interfaces, such as SQL, ODBC, COM, DCOM, MFC and CORBA, to integrate closely with data warehouse and CIS environments. The Company is also developing external interfaces to VALEX that will allow consultants, partners or customers to quickly and easily add their own functional extensions to the software while maintaining compatibility with future VALEX releases. The Company believes that VALEX represents the most comprehensive combination of functionality, scalability and openness in the marketplace today.

40

SERVICES

The Company maintains its own integration services consulting group. The group delivers capabilities to VALEX customers that include data warehouse design and infrastructure development, business process design capabilities and all aspects of the CCM implementation. Key service offerings include:

CONSULTING

PROCESS DESIGN. A central part of the CCM solution is the design and customization of processes for customer optimization. This includes process templates in planning, campaign execution, measurement and continuous learning. The Company's Value Exchange Optimization ("VEO") methodology describes a process for businesses to allocate marketing investments based on the likely return of a particular marketing campaign or customer communication. Through VEO, businesses can make investments based on current and potential customer profitability and allocate resources to customers with high profit potential through more frequent and better targeted campaigns and differentiated service offerings. VEO utilizes the data generated by VALEX to track overall campaign performance as well as individual customer responses to campaigns. This allows a

business to discern more readily which customers are most likely to respond to particular campaigns.

VEO identifies gaps between the current and potential profitability of customers. Companies can then employ VALEX to execute strategies to reduce those gaps. Through VALEX and VEO, companies gain an understanding of the economics of customer relationships, measure customer value and provide incentives through campaigns that influence and optimize customer behavior.

METRICS REPOSITORY. The Company's Metrics Repository offering is a custom application development project that enables a business to measure and visualize the impact of its investments across customers and campaigns. Measurement is accomplished through the CCM process steps, which require businesses to establish a consistent measurement baseline and adopt a process-driven view for managing and optimizing the value of its customer relationships. The Metrics Repository is typically implemented through integration of OLAP tools with the data warehouse and VALEX.

VALEX RAPID IMPLEMENTATION. With VALEX Rapid Implementation, the Company implements the core VALEX components and integrates them with existing data warehouse environments within a matter of weeks through a structured, tightly-managed methodology. Rapid Implementation includes advising on campaign structures and customer management strategies, training the first series of users on VALEX and supporting and guiding users through the initial days of operation.

CUSTOMER SUPPORT AND SERVICE

The Company believes that superior customer support and service are critical to successful implementation of CCM and VALEX. The Company is committed to providing high-quality customer support and to maintaining a qualified customer support and service team. Ongoing customer support and service are provided on a 24-hour-a-day, 7-day-a-week basis.

TRAINING

The Company offers complete training for its customers and partners. This training includes end-user interaction with VALEX, administration of VALEX and best practices in CCM.

MAINTENANCE AND PRODUCT UPGRADES

The Company provides ongoing product support services under its license and maintenance agreements. Maintenance contracts are typically sold to customers for one-year terms commencing on the date of the initial VALEX license and may be renewed for additional periods. The Company also provides product updates to VALEX free of charge for customers with a maintenance

agreement. Customers who do not purchase a maintenance agreement but would like to receive product updates must purchase them from the Company.

PRODUCT DEVELOPMENT

The Company originally introduced VALEX in July 1996 and has subsequently made a number of product revisions and enhancements. The Company has adopted a strategy of continuously reevaluating the needs of customers and marketplace trends to develop new products. The Company's ongoing product development efforts are focused on:

- RELEASE 2.1-2.2 -- These releases of VALEX will include extensions to its existing functionality, a new component that links communications to changes in customer behavior and an improved interface with leading analytical applications.

- RELEASE 3.0 -- This release will include open interfaces to the VALEX objects that will allow partners and customers to extend the software directly, further broadening the base functionality of VALEX.

- ADAPTING VALEX FOR DIFFERENT LANGUAGES -- The Company is modifying VALEX to support multilingual databases and to permit translation into other languages.

- DELIVERING A LOCAL CAMPAIGN MANAGEMENT CAPABILITIES -- This new module will enable satellite offices and remote users to design and execute independent campaigns while coordinating with the central marketing function.

Each of these capabilities is expected to enter beta testing within the next 12 months. Subsequent improvements and extensions will include a more automated customer planning and forecasting capability and improved interfaces to customer touchpoint applications. There can be no assurance that the Company

will not experience difficulties that could delay or prevent successful development, introduction and sales of these products or that its new products and enhancements will adequately meet the requirements of the marketplace and achieve market acceptance. See "Risk Factors -- Rapid Technological Change and New Products".

SALES AND MARKETING

The Company markets its software and services through its direct sales force of 11 quota-carrying sales representatives and indirectly through re-sellers and co-marketers. As of June 30, 1998, the Company had sales offices in Boston, Denver, London, England and Sydney, Australia. The Company's sales force consists of teams made up of sales executives, managers and pre-sale engineers organized by vertical industry. The Company currently has sales teams focused on financial services and telecommunications and is currently evaluating adding sales teams for other vertical industries, which may include retail/catalog, utilities/energy and insurance.

The Company currently has re-seller relationships with IBM, NCR and others, which grants these companies the right to re-market VALEX and utilize the Company's marketing materials. In addition, the Company has co-marketing arrangements with companies such as Compaq, Ernst & Young, KPMG Peat Marwick, PricewaterhouseCoopers, SAS Institute and Sun Microsystems to generate leads and participate in sales efforts. None of the agreements governing the re-seller or co-marketing relationships with these organizations includes any commitments on the part of these organizations to effect any minimum number of sales of VALEX, or to otherwise provide the Company with business. No assurances can be given that any revenue will be realized by the Company from any of these relationships.

CUSTOMERS

The Company focuses on selling its CCM solution to leading businesses in targeted vertical industries. The Company also has made significant sales to other database-marketing intensive

businesses that seek to develop customized marketing campaigns. Following are selected large customers in the financial services and telecommunications vertical markets, as well as certain customers from other industries.

<TABLE>
<CAPTION>

FINANCIAL SERVICES	TELECOMMUNICATIONS	OTHER
<S>	<C>	<C>
First USA	BC TELECOM	Aid Association for Lutherans
Fleet Bank	British SKY Broadcasting	Dutch Railways
INVESCO Funds Group	NEXTEL	Federal Express Corporation
KeyCorp	Sprint	Guidepost
Mellon Bank	US WEST	New England Business Services

</TABLE>

CUSTOMER CASE STUDIES:

FEDERAL EXPRESS CORPORATION, MEMPHIS

Federal Express over the last four years has re-engineered its database marketing process -- from marketing and campaign planning to customer segmentation, campaign execution, evaluation and refinement. VALEX has been instrumental in Federal Express' efforts to automate and accelerate its database marketing process.

Federal Express reports the following accomplishments:

- A dramatic time reduction in direct-marketing campaign cycles; and

- A major improvement in "prospecting" campaigns.

For its application of VALEX, Federal Express won both the 1997 "Best Data Warehouse Application" award from the Data Warehouse Institute and the 1997 "Excellence Award" from the National Center for Database Marketing.

KEYCORP, CLEVELAND

In 1996, KeyCorp implemented a customer-centric data warehouse in an IBM mainframe environment. KeyCorp began to develop sophisticated plans and concepts around managing customer relationships over their financial services life cycle, but found that the basic reporting and OLAP tools that were part of the data warehouse did not have the capability to translate their strategic plans into actual campaigns. As a result, KeyCorp's ability to execute campaigns was

constrained by the need for programmers to custom-develop each campaign, an approach that is expensive, time-consuming and error-prone.

The Company installed VALEX, enabling KeyCorp to access its data warehouse directly and more quickly and effectively than before. In addition, the Company provided CCM process optimization services to enable KeyCorp to implement a more efficient and targeted methodology for planning, executing and measuring campaigns.

KeyCorp has reported increased campaign success rates due to automation of customer segmenting and campaign testing and modeling. Profitability has also increased due to better cross-selling and increased customer retention.

BC TELECOM, VANCOUVER

In 1997, BC TELECOM, Canada's second largest telecommunications company, faced many challenges in marketing its services, including a need to shift its focus from product marketing to customer-centric marketing, a lack of automation in managing customer relationships across their lifecycles and limited capabilities to allocate marketing dollars to customers presenting the greatest potential value. Although BC TELECOM had made a major investment in a multi-terabyte data warehouse, it believed that its business processes and marketing systems were not sufficiently linked to the information available, and that its large investment was therefore not generating optimal returns.

To solve BC TELECOM's significant integration problems and its need for quick action, Exchange Applications provided VALEX, Rapid Implementation and CCM process optimization services in 1997. Within three months of implementation, BC TELECOM had achieved significant results from highly targeted marketing campaigns aimed at its 1.7 million residential customers.

COMPETITION

The market for customer optimization software and related services is highly competitive. There can be no assurance that the Company will maintain its competitive position against current and potential competitors, especially those with significantly greater financial, marketing, service, support, technical and other resources. The Company's products and services are targeted at the emerging market for customer optimization software solutions. The Company's competitors are diverse in their orientation and history. The Company's current and potential competitors fall into the following categories: (i) database marketing vendors such as Harte Hanks, Metromail (a division of Great Universal Stores) and Harland, which provide a combination of service bureau capabilities and proprietary software; (ii) small independent software companies that have created or are attempting to create offerings similar to the VALEX product; (iii) ERP and CIS vendors such as SAP, Baan, Oracle, Siebel and Vantive, that may have an interest in broadening their product lines to include applications with competitive functionality; and (iv) internal information technology departments that attempt to build their own systems.

The principal competitive factors that favor the Company include: domain expertise and intellectual property in customer optimization process management; reputation of the Company and its employees and products; open and flexible architecture; strong marketing automation and campaign management functionality; and speed and ease of implementation and use. However, there can be no assurance that the Company will be able to compete successfully with existing or new competitors or that competition will not have a material adverse effect on the Company's business, operating results and financial condition. See "Risk Factors -- Competition".

PROPRIETARY RIGHTS AND LICENSES

The Company relies primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect its proprietary rights. In addition, the Company generally licenses VALEX to end users in object code (machine readable) format, and the Company's license agreements generally allow the use of VALEX solely by the customer for internal purposes without the right to sublicense or transfer VALEX. However, certain customers have required the Company to maintain a source code escrow account with a third-party software escrow agent, and a failure by the Company to perform its obligations under the related license and maintenance agreements or the insolvency of the Company could conceivably cause the release of the Company's source code to such customers for certain limited purposes. The Company believes that the foregoing measures afford only limited protection. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to

44

which piracy of its software products exists, software piracy is a viable risk. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as the laws of the United States. Furthermore, there can be no assurance that the Company's competitors will not independently develop technology similar to that of the Company. The Company may increasingly be subject to claims of intellectual property infringement as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Although the Company is not aware that any of its products infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not claim infringement by the Company with respect to current or future products. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, might not be available on terms acceptable to the Company or at all, which could have a material adverse effect upon the Company's business, operating results and financial condition. See "Risk Factors -- Intellectual Property Rights; Use of Licensed Technology".

The Company has in the past and may in the future resell certain software, which it licenses from third parties. There can be no assurance that these third party software licenses will continue to be available to the Company on commercially reasonable terms. The loss of or inability to maintain or obtain any of these software licenses could result in delays or reductions in product shipments until equivalent software could be identified, licensed and integrated, which could adversely affect the Company's business, operating results and financial condition.

EMPLOYEES

As of June 30, 1998, the Company had 129 full-time employees, including 33 primarily engaged in research and development and 40 in sales and marketing. The Company's future success depends in significant part upon the continued service of its key technical and senior management personnel and its continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for such personnel is intense and there can be no assurance that the Company can retain its key managerial and technical employees or that it can attract, assimilate or retain other highly qualified technical and managerial personnel in the future. None of the Company's employees is represented by collective bargaining units and the Company, to date, has not experienced a work stoppage. The Company believes that its employee relations are good.

FACILITIES

The Company's primary offices are located in approximately 40,000 square feet in Boston, Massachusetts pursuant to a lease expiring in June 1, 2003. The Company also leases space for its sales offices in Denver, Colorado and London, England.

45

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Set forth below is certain information concerning the directors and executive officers of Company.

<TABLE>
<CAPTION>

NAME	AGE	POSITION(S)
<S>	<C>	<C>
Andrew J. Frawley	35	Chairman of the Board, President, Chief Executive Officer and Director
John G. O'Brien	47	Vice President, Chief Financial Officer, Treasurer and Secretary
David G. McFarlane	35	Executive Vice President, Worldwide Sales and Services
David L. Fitzgerald	42	Vice President, North American Sales and Alliances
Michael D. McGonagle	46	Vice President, Product Development
Patrick A. McHugh	35	Vice President, Marketing and Business Development
N. Wayne Townsend	34	Vice President, Integration Services
Ramanan Raghavendran	29	Director

Jeffrey Horing	34	Director
Dean F. Goodermote	45	Director

Mr. Frawley founded the Company in November 1994 and has served as its President and Chief Executive Officer since its incorporation in November 1996. Mr. Frawley was elected Chairman of the Board of Directors of the Company in January 1998. From July 1993 until founding the Company, Mr. Frawley served as a principal of Grant & Partners Limited Partnership, a management consulting company. From May 1989 to July 1993, Mr. Frawley held various positions at MarketPulse, a subsidiary of Praxis International Inc. and developer and provider of database marketing products, including serving as Vice President of North American Operations. Mr. Frawley holds a B.S. in accounting from the University of Maine and an M.B.A. from Babson College. Mr. Frawley has more than 10 years of experience in the high technology industry.

Mr. O'Brien joined the Company in September 1997 as Vice President, Chief Financial Officer and Secretary and was elected Treasurer of the Company in July 1998. From November 1996 to April 1997, Mr. O'Brien served as Vice President, Finance and Chief Financial Officer of Advanced Modular Solutions, a computer hardware manufacturing company. From August 1993 to November 1996, Mr. O'Brien served as Corporate Controller of Avid Technology, Inc., a computerized film editing system manufacturing company. From February 1991 to August 1993, Mr. O'Brien served as Assistant Corporate Controller at Wang Laboratories, Inc., a computer hardware and office automation system manufacturing company. Mr. O'Brien is a C.P.A., holds a B.S. in accounting from Northeastern University, and an M.B.A. from the Wharton School of the University of Pennsylvania. Mr. O'Brien has more than 15 years of experience in the high technology industry. As part of the settlement of Mr. O'Brien's recent divorce proceeding, Mr. O'Brien voluntarily filed a bankruptcy petition under Chapter 13 of the federal bankruptcy code. The Company does not believe that the filing of such petition or the related circumstances reflects on Mr. O'Brien's ability or integrity as an executive officer of the Company.

Mr. McFarlane joined the Company in June 1997 as Executive Vice President, Worldwide Sales and Services. From January 1988 until joining the Company, Mr. McFarlane held various positions at Project Software & Development, Inc., a publicly traded software company that develops and markets high value capital asset software for processing plants and production equipment, most recently serving as Vice President, International and Alliances. Mr. McFarlane holds a B.Sc. in

electrical engineering and a Masters degree in electrical engineering from the University of Bath in the U.K. Mr. McFarlane has more than 10 years of experience in the high technology industry.

Mr. Fitzgerald joined the Company in July 1998 as Vice President, North American Sales and Alliances. From June 1996 until joining the Company, Mr. Fitzgerald was the Group Vice President, Eastern Region of The Vantive Corporation, an application software company. From April 1995 to April 1996, Mr. Fitzgerald served as Vice President of Sales of Salesoft, Inc., a start-up company specializing in sales force automation software. From March 1991 to April 1995, Mr. Fitzgerald served as President of PowerCurve Corporation, a company which he founded that specializes in systems integration and ERP implementation services. Mr. Fitzgerald holds a B.S. in engineering from the University of Massachusetts. Mr. Fitzgerald has more than 15 years of experience in the high technology industry.

Mr. McGonagle joined the Company upon its founding in November 1994 and has served as Vice President, Product Development since its incorporation in November 1996. From November 1993 until joining the Company, he was Vice President, Research and Development at MarketPulse. From August 1991 to November 1993, he served as Director of Client-Server Development at Praxis International Inc. Mr. McGonagle holds a B.A. in mathematics from the University of Massachusetts (Lowell) and a Masters degree in mathematics from Brown University. Mr. McGonagle has more than 20 years of experience in the high technology industry.

Mr. McHugh joined the Company in February 1996 and has served as Vice President, Marketing and Business Development since March 1998. Mr. McHugh served in various other capacities with the Company between February 1996 and March 1998, including serving as Vice President, Sales and Vice President, Marketing. From June 1995 until joining the Company, Mr. McHugh was the Eastern Region Manager of Stanford Technology Group, a software development company. From October 1994 to June 1995 he was Northeast Regional Manager of Siemens Nixdorf, a computer systems manufacturing company, and from October 1993 to October 1994 he was Northeast Regional Manager of Kendall Square Research, a computer systems manufacturing company. Mr. McHugh holds a B.S. in marketing and a B.S. in finance from Northeastern University. Mr. McHugh has more than 10 years of experience in the high technology industry.

Mr. Townsend joined the Company in April 1996 as Vice President, Integration Services. From April 1994 until joining the Company, Mr. Townsend was a Project Director at Epsilon, a database marketing services company. From May 1990 to April 1994, he was a consultant at Andersen Consulting, a management consulting company. Mr. Townsend holds a B.S. in mechanical engineering from the Massachusetts Institute of Technology and an M.S. in mechanical engineering from the University of Dayton. Mr. Townsend has more than 10 years of experience in the systems integration industry.

Mr. Raghavendran has served as a Director of the Company since March 1997. Mr. Raghavendran has served as a managing member of Insight Capital Partners, a private equity investment firm, since January 1997. From 1992 to 1996, Mr. Raghavendran was employed at General Atlantic Partners, an investment firm. Mr. Raghavendran also serves on the boards of directors of several privately held companies.

Mr. Horing has served as a Director of the Company since March 1997. Mr. Horing has served as a managing member of Insight Capital Partners, a private equity investment firm, since January 1995. From 1990 to 1994, Mr. Horing was employed at E.M. Warburg Pincus, an investment firm. Mr. Horing also serves on the boards of directors of several privately held companies.

Mr. Goodermote has been a Director of the Company since January 1998. Mr. Goodermote has been the President and Chief Executive Officer of Process Software Corporation, a software development company, since August 1996. From August 1986 to August 1996, Mr. Goodermote held various positions at Project Software and Development, Inc., including President and Chief Operating Officer and most recently as Chairman of the Board of Directors. Mr. Goodermote also

serves on the boards of directors of several privately held companies. Mr. Goodermote holds a B.A. in history from the University of Rochester and a M.A. in Law and Diplomacy from the Fletcher School of Law and Diplomacy of Tufts University. Mr. Goodermote has more than 15 years of experience in the high technology industry.

BOARD OF DIRECTORS

The Charter and By-laws provide that the size of the Board of Directors of the Company (the "Board") shall be determined by resolution of the Board.

The Charter provides for classification of the Board into three classes, with the members of the respective classes serving for staggered three-year terms. The first class will consist of Mr. Horing, the second of Mr. Goodermote and the third of Mr. Frawley and Mr. Raghavendran, with the initial terms of the directors comprising the classes expiring upon the election and qualification of the directors at the annual meetings of the stockholders held following the fiscal years of the Company ending December 31, 1998, 1999 and 2000, respectively. At each annual meeting of stockholders, directors will be re-elected or elected for full three-year terms. See "Description of Capital Stock -- Certain Provisions of the Company's Amended and Restated Certificate of Incorporation and By-laws".

The Board has established a Compensation Committee and an Audit Committee. The members of the Compensation Committee are Jeffrey Horing and Dean Goodermote, and the members of the Audit Committee are Ramanan Raghavendran and Dean Goodermote.

The current and continuing directors of the Company were nominated and elected in accordance with the Amended and Restated Stockholders Agreement, dated as of December 4, 1997, which will terminate upon the closing of this Offering.

Executive officers of the Company are appointed by the Board and serve until their successors have been duly elected and qualified. There are no family relationships among any of the executive officers or directors of the Company.

On January 30, 1998, the Company granted to Dean Goodermote an option to purchase 20,000 shares of Common Stock at an exercise price of $1.35 per share, vesting over a four-year period. Prior to the Offering, no other directors of the Company have received compensation for their services in such capacity. The Directors' Stock Option Plan provides for the grant of stock options to non-employee directors. The Company anticipates that, following the Offering, directors who are employees of the Company will not be paid any fees or additional compensation for service as members of the Board or any committee thereof and the Company will enter into customary arrangements with respect to fees and other compensation (including expense reimbursement) for directors who are not employees of the Company or any of its subsidiaries. The Company maintains directors' and officers' liability insurance and its By-laws provide for mandatory indemnification of directors and officers to the fullest extent permitted by Delaware law. In addition, the Charter limits the liability of

directors of the Company to the Company or its stockholders for breaches of the directors' fiduciary duties to the fullest extent permitted by Delaware law. See "Description of Capital Stock -- Certain Anti-Takeover, Limited Liability and Indemnification Provisions".

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

In March 1997, the Board established a compensation committee responsible for determining compensation of officers of the Company. Prior to March 1997, the Company had no compensation committee or other committee of the Board performing similar functions. Andrew Frawley's salary during such year was established by the Board and decisions concerning compensation of other executive officers were made during such year by Mr. Frawley.

EMPLOYMENT CONTRACTS

The officers serve at the discretion of the Board. The Company does not presently have an employment contract in effect with any of its officers.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth certain information concerning the compensation earned by the Company's Chief Executive Officer and the other executive officers of the Company (collectively, "Named Officers") whose total salary and bonus exceeded $100,000 for services rendered in capacities to the Company and its subsidiaries during 1997. For disclosure regarding terms of the stock options, see "Management -- Stock Option Plans".

<TABLE>
<CAPTION>

	ANNUAL COMPENSATION(1)		LONG-TERM COMPENSATION OPTIONS	
NAME AND PRINCIPAL POSITION(S)	SALARY	BONUS	(NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED)	ALL OTHER COMPENSATION
<S>	<C>	<C>	<C>	<C>
Andrew J. Frawley..... Chairman of the Board, President and Chief Executive Officer	$200,000	$100,000	151,200	--
David G. McFarlane(2)..... Executive Vice President, Worldwide Sales and Services	78,757	47,500	300,000	--
Michael D. McGonagle..... Vice President, Product Development	131,000	30,000	58,000	--
Patrick A. McHugh..... Vice President, Marketing	110,000	175,089	80,000	--
N. Wayne Townsend..... Vice President, Integration Services	125,000	85,000	74,000	--

</TABLE>

---

(1) Excludes certain perquisites and other benefits the amount of which did not exceed 10% of the employee's total salary and bonus.

(2) Mr. McFarlane joined the Company in June 1997 and his salary and bonus reflect compensation earned in the latter half of 1997.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth certain information concerning stock options granted to each of the Named Officers during 1997. No stock appreciation rights were granted to these individuals during such year.

<TABLE>
<CAPTION>

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1997	EXERCISE PRICE PER SHARE	EXPIRATION DATE	GRANT DATE VALUE(1)

Andrew J. Frawley	151,200	10.4%	$0.72	7/31/02	$ 59,053
David G. McFarlane	250,000	17.3	0.65	7/31/07	100,861
David G. McFarlane	50,000	3.5	0.65	7/18/06	20,172
Michael D. McGonagle	18,000	1.2	0.65	7/31/07	7,262
Michael D. McGonagle	40,000	2.8	0.65	7/18/06	16,138
Patrick A. McHugh	30,000	2.1	0.65	7/31/07	12,103
Patrick A. McHugh	50,000	3.5	0.65	7/18/06	20,172
N. Wayne Townsend	18,000	1.2	0.65	7/31/07	7,262
N. Wayne Townsend	56,000	3.9	0.65	7/18/06	22,593

---

(1) Represents the estimated fair value of the options as of the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) expected volatility of 79%; (ii) expected life of four years; and (iii) risk-free interest rate of 5.96%. No dividends on common stock were assumed for purposes of this estimate.

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth certain information concerning option exercises during 1997 and option holdings at December 31, 1997 with respect to each of the Named Officers.

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1997(1)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1997(2)	
NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	EXERCISABLE(3)(4)	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Andrew J. Frawley	--	--	151,200	--	$95,256	$ --
David G. McFarlane	--	--	25,000	275,000	17,500	192,500
Michael D. McGonagle	--	--	9,000	49,000	6,300	34,400
Patrick A. McHugh	--	--	15,000	65,000	10,500	45,500
N. Wayne Townsend	--	--	9,000	65,000	6,300	45,500

---

(1) "Exercisable" refers to those options which were both exercisable and vested, while "Unexercisable" refers to those options which were unvested.

(2) Value is determined by subtracting the exercise price from the fair market value of the Common Stock at December 31, 1997 ($1.35 per share), as determined by the Company's Board of Directors, multiplied by the number of shares underlying the options.

(3) In March 1998, the Company granted stock options, none of which is currently exercisable, to the following Named Officers to purchase the corresponding number of shares of Common Stock at an option exercise price of $3.50 per share: (i) David G. McFarlane, 30,000 shares of Common Stock; (ii) Michael D. McGonagle, 9,000 shares of Common Stock; (iii) Patrick A. McHugh, 10,000 shares of Common Stock; and (iv) N. Wayne Townsend, 11,500 shares of Common Stock. In addition, in March 1998, the Company granted Andrew J. Frawley options to purchase 105,000 shares of Common Stock at an exercise price of $3.85 per share.

(4) On June 12, 1998 (i) David G. McFarlane exercised options to purchase 25,000 shares of Common Stock at an exercise price of $0.65 per share for an aggregate exercise price of $16,250, (ii) Patrick A. McHugh exercised options to purchase 15,000 shares of Common Stock at an exercise price of $0.65 per share for an aggregate purchase price of $9,750, and (iii) N. Wayne Townsend exercised options to purchase 9,000 shares of Common Stock at an exercise price of $0.65 per share for an aggregate purchase price of $5,850.

STOCK OPTION PLANS

1998 Stock Incentive Plan. The Company's 1998 Stock Incentive Plan (the "1998 Plan") was approved by the Board on July 15, 1998 and was adopted by the Company's stockholders on July 15, 1998. The aggregate number of shares of Common Stock available for awards under the 1998 Plan is 2,700,000 shares. The 1998 Plan provides for the grant or award of stock options ("Stock Options") to purchase shares of Common Stock of the Company. Stock Options granted under the 1998 Plan may be incentive stock options or non-statutory options. The purpose of the 1998 Plan is to attract and retain outstanding employees through the incentives of stock ownership. Any employee of the Company (including officers),

and any consultant to and any director of the Company, is eligible to receive Stock Options under the 1998 Plan. As of July 15, 1998, none of the shares reserved for issuance under the 1998 Plan was subject to outstanding Stock Options.

The 1998 Plan is administered by the Board. Subject to the provisions of the 1998 Plan, the Board has the authority to designate participants and to determine whether Stock Options granted are incentive stock options or not, the number of shares to be covered by each Stock Option, the exercise price of the Stock Option, the period of time over which Stock Options are exercisable or may be settled, the method of payment and any other terms and conditions of the awards. All Stock Options are evidenced by Stock Option Agreements between the Company and the participant.

While the Board determines the prices at which Stock Options may be exercised under the 1998 Plan, the exercise price of an incentive Stock Option under the 1998 Plan shall be at least 100% of the fair market value (as determined under the terms of the 1998 Plan) (or 110% of the fair market value if the grantee is deemed to own 10% or more of the outstanding voting stock of the Company) of a share of Common Stock on the date of grant. Stock Options must be exercised by the tenth anniversary of the date of grant, or if the grantee owns 10% or more of the outstanding voting stock of the Company, by the fifth anniversary of the date of the grant.

1996 Stock Incentive Plan. The Company's 1996 Stock Incentive Plan (the "1996 Plan"), effective November 15, 1996, was approved by the Board of Directors on November 15, 1996 and adopted by the Company's stockholders in March 1997. The 1996 Plan provides for the grant or award of Stock Options, which may be incentive stock options or non-statutory stock options, and for the direct purchase of shares of Common Stock of the Company ("Restricted Common Stock"). The purpose of the 1996 Plan is to attract and retain outstanding employees through the incentives of stock ownership. Any employee of the Company (including officers), and any consultant to and any director of the Company, is eligible to receive Stock Options and to purchase Restricted Common Stock under the 1996 Plan. As of July 15, 1998, the Company had 2,277,283 shares of Common Stock reserved for issuance remaining under the 1996 Plan, of which 2,085,408 shares were subject to outstanding stock options at a weighted average exercise price of $3.10 per share.

The 1996 Plan is administered by the Board. Subject to the provisions of the 1996 Plan, the Board has the authority to designate participants and to determine whether Stock Options granted are incentive stock options or not, the number of shares to be covered by each Stock Option, the price of the exercise of the Stock Option and the purchase price of the Restricted Common Stock, the time at which Stock Options are exercisable or may be settled, whether restrictions such as repurchase options are to be imposed on shares subject to the Stock Options and to the Restricted Common Stock, the method of payment and any other terms and conditions of the awards. All Stock

Options and Restricted Common Stock are evidenced by Stock Option Agreements and Restricted Stock Agreements, respectively, between the Company and the participant.

While the Board determines the prices at which Stock Options may be exercised under the 1996 Plan, the exercise price of an incentive Stock Option under the 1996 Plan shall be at least 100% of the fair market value (as determined under the terms of the 1996 Plan) (or 110% of the fair market value if the grantee is deemed to own 10% or more of the outstanding voting stock of the Company) of a share of Common Stock on the date of grant. Stock Options must be exercised by the tenth anniversary of the date of grant, or if the grantee owns 10% or more of the outstanding voting stock of the Company, by the fifth anniversary of the date of the grant.

In the event that the Company is consolidated with or acquired by another person or entity in a merger, sale of stock, sale of all or substantially all of the Company's assets or otherwise (other than a merger or consolidation of the Company with, or the sale of all or substantially all of the assets of the Company to, any entity if 50% or more of the aggregate voting power of such entity is held immediately after such transaction by persons who were stockholders of the Company immediately prior to such transaction) (an "Acquisition"), each outstanding Stock Option held by an executive officer of the Company shall accelerate so as to be fully exercisable for all of the shares subject to such Stock Option. The foregoing option acceleration provisions may have the effect of discouraging, delaying or preventing a change in control of the Company or unsolicited acquisition proposals that a stockholder might consider favorable, and as a result, such provisions may have an adverse effect upon the market price for the Common Stock. There are no option acceleration provisions with respect to Stock Options held by any person other than executive officers of the Company.

Shares underlying Stock Options generally vest over a four-year period.

However, shares underlying certain Stock Options vest as of the ninth anniversary of the date of the grant of such options, but vesting of up to 25% of the original amount of such shares may accelerate and may become exercisable at the end of each calendar year commencing with 1998 upon satisfaction of certain performance criteria determined by the Board and the Chief Executive Officer of the Company.

Restricted Common Stock generally vests over a three-year period. However, vesting may accelerate in the event of (i) the direct or indirect acquisition by any person of 50% or more of the aggregate voting power of the Company, or (ii) the sale of all or substantially all of the assets of the Company (other than a merger or consolidation of the Company with, or the sale of all or substantially all of the assets of the Company to, any entity if 50% or more of the aggregate voting power of such entity is held immediately after such transaction by persons who were stockholders of the Company immediately prior to such transaction). Upon grant the recipient has full voting and dividend rights with respect to all shares granted. The shares are subject to a purchase option of the Company and are subject to restrictions on transfer.

401(k) SAVINGS PLAN

The Company has established a tax-qualified cash or deferred profit sharing plan (the "401(k) Savings Plan") covering all of the Company's eligible full-time employees. The Company adopted the 401(k) Savings Plan effective June 1, 1998. Under the plan, participants may elect to contribute, through salary reductions, up to 15.0% of their annual compensation subject to a statutory maximum. The Company does not currently provide additional matching contributions under the 401(k) Savings Plan, but may do so in the future. The 401(k) Savings Plan is designed to qualify under Section 401 of the Internal Revenue Code of 1986, as amended, so that contributions by employees or by the Company to the plan, and income earned on plan contributions, are not taxable to employees until withdrawn from the 401(k) Savings Plan, and so that contributions by the Company, if any, will be deductible by the Company when made. The trustee under the plan, at the

direction of each plan participant, currently invests the assets of the 401(k) Savings Plan in eight investment options.

Director Stock Option Plan. The Company's 1998 Director Stock Option Plan (the "Directors' Plan") was approved by the Board on July 15, 1998. The Directors' Plan will be administered by the Compensation Committee of the Board. Under the Directors' Plan, on the business day immediately following each annual meeting of the stockholders of the Company, commencing with the first annual meeting of stockholders after December 31, 1998, each person who is then a non-employee director of the Company will be eligible to receive an option to purchase such number of shares of Common Stock as determined by the Compensation Committee at an exercise price equal to the fair market value of the Common Stock on the date the option is granted. A total of 100,000 shares of Common Stock have been reserved for issuance under the Directors' Plan. The Directors' Plan is intended to help the Company attract and retain non-employee directors on the Company's Board.

Employee Stock Purchase Plan. The Company's 1998 Employee Stock Purchase Plan (the "Stock Purchase Plan") was approved by the Board on July 15, 1996. The Stock Purchase Plan will be administered by the Compensation Committee of the Board. The Stock Purchase Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The Compensation Committee may grant options to purchase shares of Common Stock to employees eligible under the Stock Purchase Plan who may acquire shares of the Company's Common Stock through payroll deductions. The purchase price for the Company's Common Stock purchased under the Stock Purchase Plan is 85% of the lesser of the fair market value of the shares on the date the option was granted or the date the option is exercised. A total of 200,000 shares of Common Stock have been reserved for issuance under the Stock Purchase Plan. The Stock Purchase Plan is intended to help the Company attract and retain outstanding employees through the incentives of stock ownership.

CERTAIN TRANSACTIONS

PREFERRED STOCK ISSUANCE

Pursuant to a Securities Purchase Agreement, dated as of December 4, 1997, Insight Capital Partners II, L.P. and Wexford Insight LLC each purchased 611,977 shares of Series C Convertible Preferred Stock of the Company for an aggregate purchase price, in each case, of $2,000,000, or $3.268 per share.

Pursuant to a Stock Purchase and Waiver Agreement (the "Stock Purchase

Agreement"), dated as of December 4, 1997, GAP Coinvestment Partners, L.P. ("GAP") sold an aggregate of 246,006 shares of Series B Convertible Preferred Stock of the Company to the following purchasers for an aggregate purchase price of $803,947.58 or $3.268 per share: Andrew J. Frawley, David McFarlane, Daniel Cox, Patrick McHugh, Michael McGonagle, Stewart Vassie, Steven Feldman, Patrick D. Brady, Gregory P. Shlopak, David H. Brault, Ted L. Axelrod, Terry B. Angstadt, James T. Brady, Dominic F. Mammola, James A. Dooley, Diane K. Green, and Insight Venture Partners I, L.P.

Pursuant to the Securities Purchase Agreement, dated as of March 18, 1997 (the "Securities Purchase Agreement") (i) Insight Venture Partners II, L.P. purchased 1,154,775 shares of Series B Preferred Stock from the Company for an aggregate purchase price of $1,807,222.88, or $1.565 per share; (ii) Wexford Insight LLC purchased 1,154,775 shares of Series B Preferred Stock from the Company for an aggregate purchase price of $1,807,222.88, or $1.565 per share; (iii) GAP purchased 246,006 shares of Series B Preferred Stock from the Company for an aggregate purchase price of $384,999.39, or $1.565 per share; (iv) GPLP converted 2,300,000 shares of Series A Convertible Preferred Stock ("Old Preferred Stock") to 1,725,000 shares of Common at a conversion price of $3.01333; (v) GPLP purchased 377,408 shares of Series A Preferred Stock from the Company in consideration of the cancellation of certain indebtedness owed by the Company to GPLP; (vi) Cyrk purchased 2,522,592 shares of Series A Preferred Stock from the Company in consideration of the cancellation of certain indebtedness owed by the Company to Cyrk and (vii) the Company paid to Cyrk $1,000,000 to discharge certain indebtedness.

REGISTRATION RIGHTS AGREEMENT

Pursuant to an Amended and Restated Registration Rights Agreement, dated as of December 4, 1997, the Company granted registration rights to certain stockholders of the Company, including Insight Venture Partners I, L.P., Insight Capital Partners II, L.P., Insight Capital Partners (Cayman) II, L.P., Wexford Management LLC, Cyrk, Inc. ("Cyrk"), Grant & Partners Limited Partnership ("GPLP"), Andrew J. Frawley, Michael J. Feldman, Michael McGonagle, David McFarlane, Daniel Cox, Patrick McHugh, Stewart Vassie, Steven Feldman, Patrick D. Brady, Gregory P. Shlopak, David H. Brault, Ted L. Axelrod, Terry B. Angstadt, James T. Brady, Dominic F. Mammola, James A. Dooley and Diane K. Green. See "Shares Eligible for Future Sale -- Registration Rights".

CONTRACT WITH EXCHANGE MARKETING GROUP

Pursuant to several Termination Agreements dated as of March 18, 1997, the Company and each of Michael J. Feldman, a former director and employee of the Company, and six other employees of the Company terminated their employment arrangements with the Company. The Company repurchased an aggregate of 341,125 shares of Common Stock from the departing employees for an aggregate purchase price of $341.13. Upon termination, Mr. Feldman formed Exchange Marketing Group, LLC ("EMG"), a marketing consulting company. The Company engaged EMG to provide consulting services to certain of the Company's customers pursuant to a Consulting Agreement, dated as of March 18, 1997. As evidenced by a Promissory Note (the "EMG Note"), dated as of March 18, 1997, the Company loaned to EMG $350,000. On February 5, 1998, the entire principal and interest outstanding under the EMG Note was repaid. In addition, in connection with the transactions contemplated by the Consulting Agreement, EMG licensed from

the Company certain intellectual property to be used in its marketing consulting business and the Company and EMG entered into mutual non-compete agreements.

FOUNDER'S LOANS

As evidenced by a Promissory Note (the "Note"), dated as of December 4, 1997, in the original principal amount of $124,997.73, the Company loaned to Mr. Frawley the total amount of the purchase price for the 38,249 shares of Series B Convertible Preferred Stock purchased by Mr. Frawley under the Stock Purchase Agreement. The Note bears interest at 8% per annum and is secured by 38,249 shares of Series B Convertible Preferred Stock owned by Mr. Frawley. As of June 30, 1998, the outstanding balance of the indebtedness under the Note was $130,764.74.

SEPARATION FROM GPLP

Pursuant to an Assignment and Assumption Agreement, dated as of November 15, 1996, the Company purchased certain assets, including, without limitation, cash, accounts receivable, fixed assets and certain intangible property, from GPLP, and the Company issued 2,300,000 shares of Series A Convertible Preferred Stock to GPLP and assumed certain liabilities of GPLP, including, without limitation, indebtedness owed to Cyrk, indebtedness under leasing arrangements, indebtedness with respect to employee benefits and accounts payable. In addition, in connection with the transactions contemplated by the Assignment and Assumption Agreement, each of Andrew J. Frawley and Michael J. Feldman entered into mutual releases of claims with Cyrk, GPLP, Alan Grant and GPI, and the

Company entered into a fully paid-up perpetual license with GPLP pursuant to which the Company licensed from GPLP certain intellectual property.

LEGAL SERVICES

The Company has, with respect to this Offering and from time to time, retained the services of the law firm of Bingham Dana LLP. The Company anticipates that legal fees to be paid to Bingham Dana LLP for 1998 will exceed $300,000. Neil W. Townsend, a partner at Bingham Dana LLP, is the brother of N. Wayne Townsend, Vice President, Integration Services of the Company.

FUTURE AFFILIATE TRANSACTIONS

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

55

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information regarding beneficial ownership of the Company's Common Stock as of June 30, 1998, and as adjusted to reflect the sale of shares offered hereby, by (i) each person who is known by the Company to own beneficially more than five percent of the Company's Common Stock; (ii) each of the Company's directors and Named Officers; (iii) all current executive officers and directors as a group; and (iv) each of the Selling Stockholders. Unless otherwise indicated, the address for the following stockholders is 89 South Street, Boston, Massachusetts 02111.

<TABLE>
<CAPTION>

	SHARES BENEFICIALLY OWNED BEFORE OFFERING(1)		NUMBER OF SHARES	SHARES BENEFICIALLY OWNED AFTER OFFERING(1)(2)	
BENEFICIAL OWNER	NUMBER	PERCENTAGE	OFFERED	NUMBER	PERCENTAGE
<S>	<C>	<C>	<C>	<C>	<C>
Entities affiliated with Insight Venture Associates, LLC(3).....	3,557,783	46.1%	--	3,557,783	36.6%
Cyrk, Inc.(4).....	1,150,000	14.9	460,026	689,974	7.1
Grant & Partners Limited Partnership(5).....	575,000	7.5	230,058	344,942	3.5
Michael J. Feldman(6).....	530,250	6.9	212,104	318,146	3.3
Andrew J. Frawley(7).....	1,038,249	13.2	57,162	981,087	9.9
David G. McFarlane(8).....	126,009	1.6	17,800	108,209	1.1
David J. Fitzgerald.....	--	--	--	--	--
John G. O'Brien(9).....	10,000	*	--	10,000	*
Michael D. McGonagle(10).....	114,000	1.5	8,600	105,400	*
Patrick A. McHugh(11).....	75,000	*	7,500	67,500	*
N. Wayne Townsend(12).....	59,000	*	6,750	52,250	*
Ramanan Raghavendran(13)(14).....	3,557,783	46.1	--	3,557,783	36.6
Jeffrey Horing(15).....	3,557,783	46.1	--	3,557,783	36.6
Dean F. Goodermote(16).....	--	--	--	--	--
All directors and executive officers as a group (ten persons).....	4,980,041	62.5	97,812	4,882,229	49.0

</TABLE>

---

* Indicates less than 1% of the outstanding shares of Common Stock.

(1) Beneficial ownership is calculated 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 ownership of that person, shares of Common Stock subject to options held by that person that are currently exercisable or become exercisable within 60 days following June 30, 1998 are deemed outstanding. However, such shares are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated in the footnotes to this table, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

(2) Assumes no exercise of the Underwriters' over-allotment option.

(3) Includes 1,209,054 shares held by Insight Venture Partners I, L.P., 520,779 shares held by Insight Capital Partners II, L.P. and 61,198 shares held by Insight Capital Partners (Cayman) II, L.P., each of which is under common control with Insight Venture Partners I, L.P. Also includes 1,766,752

shares held by Wexford Insight LLC. Pursuant to a consulting agreement dated as of June 1, 1996 (the "Insight Consulting Agreement") between Insight Venture Management Inc. and Wexford Insight LLC, Insight Venture Partners I, L.P. may vote all of the shares held by Wexford Insight LLC for certain matters until six months after the completion of this Offering. As a result, Insight Venture Associates, LLC and its affiliates may be deemed to be the beneficial owners of all of the shares held by Wexford Insight LLC. The address of the Insight entities is 122 East 42nd Street, Ste 2300, New York, New York 10168, and the address of Wexford Insight LLC 411 West Putnam Avenue, Suite 125, Greenwich, Connecticut 06830.

(4) Does not include 2,900,000 shares of Series A Preferred Stock which are eliminated upon consummation of the Offering. In addition to the number of shares shown as offered for sale in the table, Cyrk, Inc. intends to grant the Underwriters the right to purchase up to an additional 229,455 shares pursuant to the Underwriters' over-allotment option. The address of Cyrk, Inc. is 3 Pond Road, Gloucester, Massachusetts 01930.

(5) In addition to the number of shares shown as offered for sale in the table, Grant & Partners Limited Partnership intends to grant the Underwriters the right to purchase up to an additional 114,750 shares pursuant to the Underwriters' over-allotment option. The address of Grant & Partners Limited Partnership is 150 Federal Street, Boston, Massachusetts 02110.

(6) Includes 30,000 shares held by Smith Barney IRA f/b/o Michael Feldman. In addition to the number of shares shown as offered for sale in the table, Mr. Feldman intends to grant the Underwriters the right to purchase up to an additional 105,795 shares pursuant to the Underwriters' over-allotment option.

(7) Includes 151,200 shares subject to options that currently are exercisable. Includes 848,800 shares of Restricted Common Stock, 141,495 shares of which are unvested and therefore subject to a repurchase option in favor of the Company.

(8) Includes 75,000 shares subject to options that currently are exercisable.

(9) Includes 10,000 shares subject to options that currently are exercisable.

(10) Includes 9,000 shares subject to options that currently are exercisable. Includes 100,000 shares of Restricted Common Stock which are subject to a repurchase option in favor of the Company.

(11) Includes 50,000 shares of Restricted Common Stock which are subject to a repurchase option in favor of the Company.

(12) Includes 50,000 shares of Restricted Common Stock which are subject to a repurchase option in favor of the Company.

(13) Includes 1,209,054 shares held by Insight Venture Partners I, L.P., 520,779 shares held by Insight Capital Partners II, L.P., 61,198 shares held by Insight Capital Partners (Cayman) II, L.P. and 1,766,752 shares held by Wexford Insight LLC. Mr. Raghavendran is a managing member of Insight Capital Partners and as such he may be deemed to be a beneficial owner of all of the shares held by entities affiliated with Insight Capital Partners. In addition, Insight Venture Partners I, L.P., Insight Capital Partners II, L.P. and Insight Capital Partners (Cayman) II, L.P. may be deemed to be beneficial owners of all of the shares held by Wexford Insight LLC (see Notes 3, 4 and 5), and as a managing member of Insight Capital Partners, Mr. Raghavendran may be deemed to be a beneficial owner of all of the shares held by Wexford Insight LLC.

(14) The address of Mr. Raghavendran and Mr. Horing is c/o Insight Venture Associates, LLC, 122 East 42nd Street, Ste 2300, New York, New York 10168.

(15) Includes 1,209,054 shares held by Insight Venture Partners I, L.P., 520,779 shares held by Insight Capital Partners II, L.P., 61,198 shares held by Insight Capital Partners (Cayman) II, L.P. and 1,766,752 shares held by Wexford Insight LLC. Mr. Horing is a managing member of Insight Capital Partners and as such he may be deemed to be a beneficial owner of all of the shares held by entities affiliated with Insight Capital Partners. In addition, Insight Venture Partners I, L.P., Insight Capital Partners II, L.P. and Insight Capital Partners (Cayman) II, L.P. may be deemed to be beneficial owners of all of the shares held by Wexford Insight LLC (see Notes 3, 4 and 5), and as a managing member of Insight Capital Partners, Mr. Horing may be deemed to be a beneficial owner of all of the shares held by Wexford Insight LLC.

(16) Does not include 20,000 shares subject to options that are not exercisable within 60 days of June 30, 1998.

57

DESCRIPTION OF CAPITAL STOCK

AUTHORIZED AND OUTSTANDING CAPITAL STOCK

The authorized capital stock of the Company consists of 30,000,000 shares of Common Stock, par value $.001 per share, and 10,000,000 shares of preferred stock, par value $.001 per share ("Preferred Stock"). Upon consummation of the Offering, no shares of Preferred Stock and 9,716,740 shares of Common Stock (10,166,740 shares if the Underwriters' over-allotment option is exercised in full) will be outstanding. The following summary is qualified in its entirety by reference to the Company's Charter and By-laws.

COMMON STOCK

As of June 30, 1998, there were 7,716,740 shares of Common Stock outstanding held of record by 68 stockholders, assuming the conversion of all shares of Convertible Preferred Stock into an aggregate of 3,779,510 shares of Common Stock upon closing of this Offering. The holders of Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding Preferred Stock, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board out of funds legally available therefor. In the event of liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of Preferred Stock, if any, then outstanding. The Common Stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and nonassessable, and the shares of Common Stock offered by the Company in the Offering will, when issued, be fully paid and nonassessable.

PREFERRED STOCK

The Board has the authority to issue the 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, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the Company's stockholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company and may adversely affect the voting and other rights of the holders of Common Stock. At present, the Company has no plans to issue any shares of Preferred Stock.

CERTAIN ANTI-TAKEOVER, LIMITED LIABILITY AND INDEMNIFICATION PROVISIONS

DELAWARE LAW AND CERTAIN CHARTER AND BY-LAW PROVISIONS

The Charter provides for the division of the Board into three classes as nearly equal in size as practicable with staggered three-year terms, effective upon consummation of this Offering. See "Management -- Board of Directors". A director may be removed only for cause and then only by the vote of a majority of the shares entitled to vote for the election of directors.

The Charter empowers the Board of Directors, when considering a tender offer or merger or acquisition proposal, to take into account factors in addition to potential economic benefits to stockholders. Such factors may include (i) comparison of the proposed consideration to be received by stockholders in relation to the then current market price of the Company's capital stock, the estimated current value of the Company in a freely negotiated transaction or the estimated future value of the Company as an independent entity and (ii) the impact of such a transaction on the employees, suppliers and customers of the Company and its effect on the communities in which the Company operates.

58

The Charter and By-laws provide that, effective upon consummation of the Offering, any action required or permitted to be taken by the stockholders of the Company may be taken only at a duly called annual or special meeting of the stockholders and that special meetings may be called only by the Chairman of the Board, the President or a majority of the entire Board. These provisions could have the effect of delaying until the next annual stockholders meeting stockholder actions which are favored by the holders of a majority of the outstanding voting securities of the Company, including actions to remove directors. These provisions may also discourage another person or entity from making a tender offer for the Company's Common Stock, because such person or

entity, even if it acquired all or a majority of the outstanding voting securities of the Company, would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders meeting, and not by written consent.

The Delaware General Corporation Law ("DGCL") provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or by-laws, unless a corporation's certificate of incorporation or by-laws, as the case may be, requires a greater percentage. The Charter requires the affirmative vote of a majority of the entire Board and the holders of at least 66 2/3% of the outstanding voting stock of the Company to amend or repeal any of the foregoing Charter provisions or to reduce the number of authorized shares of Common Stock and Preferred Stock. A 66 2/3% vote is also required to amend or repeal the Company's By-laws. Such stockholder vote would in either case be in addition to any separate class vote that might in the future be required pursuant to the terms of any Preferred Stock that might be outstanding at the time any such amendments are submitted to stockholders. The By-laws may also be amended or repealed by a majority vote of the Board of Directors.

The By-laws provide that for nominations for the Board or for other business to be properly brought by a stockholder before an annual meeting of stockholders, the stockholder must first have given timely notice thereof in writing to the Secretary of the Company. To be timely, a stockholder's notice generally must be delivered not later than 120 days in advance of the first anniversary of the date that the Company's proxy statement to stockholders is delivered in connection with the prior year's annual meeting of stockholders or 90 days prior to the date of the meeting if no such proxy statement was delivered to the stockholders. The notice must contain, among other things, certain information about the stockholder delivering the notice and, as applicable, background information about each nominee or a description of the proposed business to be brought before the meeting. Business transacted at a special meeting is limited to the purposes for which the meeting is called.

The foregoing 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, control of the Company. See "Risk Factors -- Effect of Anti-takeover Provisions".

The Charter contains certain provisions permitted under the DGCL relating to the liability of directors. These provisions eliminate a director's liability for monetary damages for a breach of fiduciary duty, except in certain circumstances involving certain wrongful acts, such as the breach of a director's duty of loyalty or acts or omissions which involve intentional misconduct or a knowing violation of law. The Charter and By-laws also contain provisions indemnifying the directors and officers of the Company to the fullest extend permitted by the DGCL. The Company expects to obtain, prior to the consummation of the Offering, a directors and officers liability insurance policy which provides for indemnification of its directors and officers against certain liabilities incurred in their capacities as such, which may include liabilities under the Securities Act of 1933, as amended (the "Securities Act"). The Company believes that these provisions will assist the Company in attracting and retaining qualified individuals to serve as directors.

The Company is subject to the provisions of Section 203 of the DGCL. Subject to certain exceptions, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the interested stock-

holder attained such status with the approval of the Board or unless the business combination is approved in a prescribed manner. A "business combination" includes certain mergers, assets sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with his or her affiliates and associates, owns, or owned within three years prior 15% or more of the corporation's voting stock.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is BankBoston, N.A.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this Offering, the Company will have 9,716,740 shares of Common Stock outstanding (assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding options under the Company's 1996 Plan or other options after June 30, 1998). Of such shares, the 3,000,000 shares sold in this Offering will be freely transferable without restriction or further registration under the Securities Act, except for any shares held by an existing "affiliate" of the Company, as that term is defined by the Securities

Act (an "Affiliate"), which shares will be subject to the resale limitations of Rule 144 adopted under the Securities Act. As of the date of this Prospectus, 7,716,740 "restricted shares" as defined in Rule 144 will be outstanding. Of such shares, and without consideration of the contractual restrictions described below, no shares would be available for immediate sale in the public market without restriction pursuant to Rule 144(k). Beginning 90 days after the date of this Prospectus, and without consideration of the contractual restrictions described below, 939,067 shares would be eligible for sale in reliance upon Rule 144 promulgated under the Securities Act and 1,330,595 shares would be eligible for sale in reliance upon Rule 701 promulgated under the Securities Act.

In general, under Rule 144 as currently in effect, beginning 90 days after the Offering, a person (or persons whose shares are aggregated) who owns shares that were purchased from the Company (or any Affiliate) at least one year previously, including a person who may be deemed an Affiliate of the Company, is entitled to sell within any three-month period a number of shares that does not exceed the greater of (i) 1% of the then outstanding shares of the Common Stock (approximately 97,167 shares immediately after the Offering) or (ii) the average weekly trading volume of the Common Stock on the Nasdaq National Market during the four calendar weeks preceding the date on which notice of the sale is filed with the Securities and Exchange Commission (the "Commission"). Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. Any person (or persons whose shares are aggregated) who is not deemed to have been an Affiliate of the Company at any time during the 90 days preceding a sale, and who owns shares within the definition of "restricted securities" under Rule 144 under the Securities Act that were purchased from the Company (or any Affiliate) at least two years previously, would be entitled to sell such shares under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements.

Subject to certain limitations on the aggregate offering price of a transaction and other conditions, Rule 701 may be relied upon with respect to the resale of securities originally purchased from the Company by its employees, directors, officers, consultants or advisers prior to the date the issuer becomes subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), pursuant to written compensatory benefit plans or written contracts relating to compensation of such persons. In addition, the Commission has indicated that Rule 701 will apply to the typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Exchange Act, along with the shares acquired upon exercise of such options (including exercises after the date of this Prospectus). Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above,

beginning 90 days after the date of this Prospectus, may be sold (i) by persons other than Affiliates, subject only to the manner of sale provisions of Rule 144, and (ii) by Affiliates under Rule 144 without compliance with its one-year holding period requirement.

All stockholders of the Company, including the officers, directors and Selling Stockholders, have agreed not to sell any of their shares of Common Stock for 180 days after the date of this Prospectus without the prior written consent of the representatives of the Underwriters. As a result of these contractual restrictions and subject to the provisions of Rules 144(k), 144 and 701, as applicable, 2,651,892 shares subject to restriction will be eligible for sale upon expiration of the Lock-Up Agreements 180 days after the date of this Prospectus. See "Underwriting".

The Company has agreed not to offer, sell or otherwise dispose of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or any rights to acquire Common Stock for a period of 180 days after the date of this prospectus, without the prior written consent of the Representatives of the Underwriters, subject to certain limited exceptions. See "Underwriting".

After the Offering, the holders of 6,025,310 shares of Common Stock or their respective transferees, would be entitled to certain rights with respect to the registration of such shares under the Securities Act. Registration of such shares under the Securities Act would result in such shares becoming freely tradable without restriction under the Securities Act (except for shares purchased by Affiliates) immediately upon the effectiveness of such registration.

The Company intends to file a registration statement under the Securities Act covering all shares of Common Stock subject to outstanding stock options as well as all shares of Common Stock reserved for issuance under the Company's Stock Plans. Such registration statement is expected to be filed within 90 days after the date of this Prospectus and will automatically become effective upon filing. Following such filing, shares registered under such registration statement will, subject to the Lock-Up Agreements, Rule 144 volume limitation

applicable to Affiliates and the lapsing of the Company's repurchase rights, be available for sale in the open market upon the exercise of vested options 90 days after the effective date of this Prospectus. At July 15, 1998, options to purchase 2,085,408 shares were issued and outstanding under the 1996 Plan and no options were issued and outstanding outside of the 1996 Plan.

LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed upon for the Company by Bingham Dana LLP, Boston, Massachusetts. Certain legal matters in connection with the Offering will be passed upon for the Underwriters by Ropes & Gray, Boston, Massachusetts.

EXPERTS

The consolidated financial statements of Exchange Applications, Inc. as of December 31, 1996 and 1997, and for each of the three years in the period ended December 31, 1997 included in this Prospectus and Registration Statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and included herein in reliance upon the authority of said firm as experts in giving said reports.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission"), 450 Fifth Street, N.W., Washington, D.C. 20549, a Registration Statement on Form S-1 (Reg. No. 333-01752) (the "Registration Statement") under the Securities Act with respect to the Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits to the Registration Statement. For further information

with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits filed as part of the Registration Statement. Statements contained in this Prospectus concerning the contents of any contract or any other document are not necessarily complete; reference is made in each instance to the copy of such contract or any other document filed as an exhibit to the Registration Statement. Each such statement is qualified in all respects by such reference to such exhibit. The Registration Statement, including exhibits thereto, may be inspected without charge at the Commission's principal office in Washington, D.C., and copies of all or any part thereof may be obtained from such office after payment of fees prescribed by the Commission.

EXCHANGE APPLICATIONS, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

</TABLE>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Exchange Applications, Inc. and subsidiaries:

We have audited the accompanying consolidated balance sheets of Exchange Applications, Inc., a Delaware corporation, and subsidiaries as of December 31, 1996 and 1997, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Exchange Applications, Inc. and subsidiaries as of December 31, 1996 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Boston, Massachusetts
June 16, 1998 (Except with
respect to the matters discussed
in Note 17, as to which the
date is July 15, 1998)

EXCHANGE APPLICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

<TABLE>
<CAPTION>

	DECEMBER 31,		JUNE 30, 1998	
	1996	1997	ACTUAL	PRO FORMA (NOTE 3)
			(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>
ASSETS				
Current assets:				
Cash and cash equivalents	$ 361	$ 5,273	$ 3,977	$ 3,977
Marketable securities	--	202	205	205
Accounts receivable, less allowance for doubtful accounts of $43, $206 and $212 at December 31, 1996 and 1997 and June 30, 1998, respectively	2,002	3,848	5,240	5,240
Prepaid expenses and other current assets	--	729	727	727
Total current assets	2,363	10,052	10,149	10,149
Property and equipment, net	606	913	1,627	1,627
Software development costs, net	1,211	--	--	--
Other assets	9	435	358	358
Total assets	$ 4,189	$ 11,400	$ 12,134	$ 12,134
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Current portion of obligations under capital leases	$ 22	$ 212	$ 232	$ 232
Current portion of notes payable to related parties	1,000	--	--	--
Accounts payable	535	422	1,234	1,234
Accrued expenses	1,313	3,247	3,445	3,445
Deferred revenue	346	922	1,723	1,723
Total current liabilities	3,216	4,803	6,634	6,634
Obligations under capital leases, net of current portion	34	237	128	128
Notes payable to related parties, net of current portion	2,234	--	--	--
Commitments (Note 9)				
Redeemable Preferred Stock (Notes 10 and 11)	--	7,088	7,208	--
Stockholders' equity (deficit):				
Preferred Stock; $.001 par value -- 10,000,000 shares authorized; 2,300,000 shares issued and outstanding at December 31, 1996	2	--	--	--
Series C Preferred Stock, $.001 par value -- 1,223,954 shares designated, issued and outstanding at December 31, 1997 and June 30, 1998, actual	--	1	1	--
Common Stock, $.001 par value -- 12,078,698 shares authorized; 2,484,375, 4,234,971, 4,298,305 shares issued at December 31, 1996 and 1997 and June 30, 1998, actual, respectively, and 8,077,815 shares issued on a pro forma basis at June 30, 1998	2	4	4	8
Additional paid-in capital	868	4,837	4,878	12,083
Accumulated deficit	(2,167)	(5,450)	(6,649)	(6,649)

Due from officer	--	(125)	(125)	(125)
Cumulative translation adjustment	--	2	50	50
Unrealized gain on marketable securities	--	3	5	5
Treasury stock, at cost; 354,825 shares at December 31, 1997 and 361,075 shares at June 30, 1998, actual and pro forma	--	--	--	--
Total stockholders' equity (deficit)	(1,295)	(728)	(1,836)	5,372
Total liabilities and stockholders' equity (deficit)	$ 4,189	$ 11,400	$ 12,134	$ 12,134

</TABLE>

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

EXCHANGE APPLICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1995	1996	1997	1997	1998
	(NOTE 1)	(NOTE 1)		(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Software license fees	$ --	$ 1,500	$ 5,765	$ 1,793	$ 5,816
Services and maintenance	1,693	4,534	6,904	3,029	4,602
Total revenues	1,693	6,034	12,669	4,822	10,418
Cost of revenues:					
Software license fees	--	890	1,707	863	129
Services and maintenance	1,012	3,205	5,227	2,297	3,302
Total cost of revenues	1,012	4,095	6,934	3,160	3,431
Gross profit	681	1,939	5,735	1,662	6,987
Operating expenses:					
Sales and marketing	128	1,007	3,602	1,268	4,163
Research and development	708	1,325	2,599	1,031	2,716
General and administrative	352	1,018	2,158	813	1,216
Total operating expenses	1,188	3,350	8,359	3,112	8,095
Loss from operations	(507)	(1,411)	(2,624)	(1,450)	(1,108)
Interest income (expense):					
Interest income	--	2	89	39	56
Interest expense	(47)	(197)	(64)	(49)	(27)
Total interest income (expense)	(47)	(195)	25	(10)	29
Net loss	(554)	(1,606)	(2,599)	(1,460)	(1,079)
Accretion of discount and dividends on preferred stock	--	--	(684)	(565)	(120)
Net loss applicable to common stockholders	$ (554)	$ (1,606)	$ (3,283)	$ (2,025)	$ (1,199)
Net loss per share (Note 2(c)):					
Basic and diluted net loss per share applicable to common stockholders	$ (0.46)	$ (1.33)	$ (1.12)	$ (0.82)	$ (0.33)
Basic and diluted weighted average common shares outstanding	1,200,016	1,205,041	2,919,775	2,477,683	3,597,711
Pro forma net loss per share (Note 2(c)):					
Pro forma basic and diluted net loss per share	$ (0.19)	$ (0.55)	$ (0.48)	$ (0.31)	$ (0.15)
Pro forma basic and diluted weighted average common shares outstanding	2,925,016	2,930,041	5,390,779	4,682,560	7,377,221

</TABLE>

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

EXCHANGE APPLICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

<TABLE>
<CAPTION>

	NET PARENT COMPANY INVESTMENT	PREFERRED STOCK NUMBER OF SHARES	PREFERRED STOCK $.001 PAR VALUE	SERIES C PREFERRED STOCK NUMBER OF SHARES	SERIES C PREFERRED STOCK $.001 PAR VALUE
<S>	<C>	<C>	<C>	<C>	<C>
Balance, January 1, 1995	$ (7)	--	$--	--	$--
Net loss	(554)	--	--	--	--
Comprehensive net loss for the year ended December 31, 1995	--	--	--	--	--
Balance, December 31, 1995	(561)	--	--	--	--
Net loss prior to incorporation of the Company	(2,093)	--	--	--	--
Capitalization of the Company	2,654	--	--	--	--
Issuance of Preferred Stock	--	2,300,000	2	--	--
Issuance of common stock	--	--	--	--	--
Net income after incorporation of the Company	--	--	--	--	--
Comprehensive net loss for the year ended December 31, 1996	--	--	--	--	--
Balance, December 31, 1996	--	2,300,000	2	--	--
Issuance costs relating to the sale of Series B Preferred Stock	--	--	--	--	--
Conversion of Preferred Stock to common stock	--	(2,300,000)	(2)	--	--
Compensation expense relating to stock options	--	--	--	--	--
Sale of Series C Preferred Stock, net of issuance costs of $13	--	--	--	1,223,954	1
Accretion of discount and dividends on Series A Preferred Stock	--	--	--	--	--
Loan to officer	--	--	--	--	--
Issuance of common stock	--	--	--	--	--
Exercise of common stock options	--	--	--	--	--
Cumulative translation adjustment	--	--	--	--	--
Unrealized gain on marketable securities	--	--	--	--	--
Net loss	--	--	--	--	--
Comprehensive net loss for the year ended December 31, 1997	--	--	--	--	--
Balance, December 31, 1997	--	--	--	1,223,954	1
Accretion of dividends on Series A Preferred Stock	--	--	--	--	--
Exercise of common stock options	--	--	--	--	--
Cumulative translation adjustment	--	--	--	--	--
Unrealized gain on marketable securities	--	--	--	--	--
Net loss	--	--	--	--	--
Comprehensive net loss for the six months ended June 30, 1998	--	--	--	--	--
Balance, June 30, 1998 (unaudited)	--	--	--	1,223,954	1
Cancellation of Series A Preferred Stock	--	--	--	--	--
Conversion of Series B Preferred Stock to common stock	--	--	--	--	--
Conversion of Series C Preferred Stock to common stock	--	--	--	(1,223,954)	(1)
Pro Forma Balance, June 30, 1998 (unaudited) (Note 3)	$ --	--	$--	--	$--

<CAPTION>

	COMMON STOCK NUMBER OF SHARES	COMMON STOCK $.001 PAR VALUE	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	DUE FROM OFFICER	CUMULATIVE TRANSLATION ADJUSTMENT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, January 1, 1995	--	$--	$ --	$ --	$ --	$--
Net loss	--	--	--	--	--	--
Comprehensive net loss for the year ended December 31,						

1995	--	--	--	--	--	--
Balance, December 31, 1995	--	--	--	--	--	--
Net loss prior to incorporation of the Company	--	--	--	--	--	--
Capitalization of the Company	--	--	--	(2,654)	--	--
Issuance of Preferred Stock	--	--	868	--	--	--
Issuance of common stock	2,484,375	2	--	--	--	--
Net income after incorporation of the Company	--	--	--	487	--	--
Comprehensive net loss for the year ended December 31, 1996	--	--	--	--	--	--
Balance, December 31, 1996	2,484,375	2	868	(2,167)	--	--
Issuance costs relating to the sale of Series B Preferred Stock	--	--	(111)	--	--	--
Conversion of Preferred Stock to common stock	1,725,000	2	--	--	--	--
Compensation expense relating to stock options	--	--	77	--	--	--
Sale of Series C Preferred Stock, net of issuance costs of $13	--	--	3,986	--	--	--
Accretion of discount and dividends on Series A Preferred Stock	--	--	--	(684)	--	--
Loan to officer	--	--	--	--	(125)	--
Issuance of common stock	15,500	--	10	--	--	--
Exercise of common stock options	10,096	--	7	--	--	--
Cumulative translation adjustment	--	--	--	--	--	2
Unrealized gain on marketable securities	--	--	--	--	--	--
Net loss	--	--	--	(2,599)	--	--
Comprehensive net loss for the year ended December 31, 1997	--	--	--	--	--	--
Balance, December 31, 1997	4,234,971	4	4,837	$(5,450)	(125)	2
Accretion of dividends on Series A Preferred Stock	--	--	--	(120)	--	--
Exercise of common stock options	63,334	--	41	--	--	--
Cumulative translation adjustment	--	--	--	--	--	48
Unrealized gain on marketable securities	--	--	--	--	--	--
Net loss	--	--	--	(1,079)	--	--
Comprehensive net loss for the six months ended June 30, 1998	--	--	--	--	--	--
Balance, June 30, 1998 (unaudited)	4,298,305	4	4,878	(6,649)	(125)	50
Cancellation of Series A Preferred Stock	--	--	3,209	--	--	--
Conversion of Series B Preferred Stock to common stock	2,555,556	3	3,996	--	--	--
Conversion of Series C Preferred Stock to common stock	1,223,954	1	--	--	--	--
Pro Forma Balance, June 30, 1998 (unaudited) (Note 3)	8,077,815	$8	$12,083	$(6,649)	$(125)	$50

<CAPTION>

<S>	UNREALIZED GAIN ON MARKETABLE SECURITIES <C>	TOTAL <C>	COMPREHENSIVE INCOME (LOSS) <C>
Balance, January 1, 1995	$--	$ (7)	$ --
Net loss	--	(554)	(554)
Comprehensive net loss for the year ended December 31, 1995	--	--	$ (554)
Balance, December 31, 1995	--	(561)	
Net loss prior to incorporation of the Company	--	(2,093)	$(2,093)
Capitalization of the Company	--	--	
Issuance of Preferred Stock	--	870	
Issuance of common stock	--	2	
Net income after incorporation of the Company	--	487	487
Comprehensive net loss for the year ended December 31, 1996	--	--	$(1,606)
Balance, December 31, 1996	--	(1,295)	
Issuance costs relating to the sale of Series B Preferred Stock	--	(111)	
Conversion of Preferred Stock to common stock	--	--	
Compensation expense relating to stock options	--	77	
Sale of Series C Preferred Stock, net of issuance costs of $13	--	3,987	
Accretion of discount and dividends on Series A Preferred Stock	--	(684)	
Loan to officer	--	(125)	
Issuance of common stock	--	10	
Exercise of common stock options	--	7	

Cumulative translation adjustment	--	2	$ 2
Unrealized gain on marketable securities	3	3	3
Net loss	--	(2,599)	(2,599)

Comprehensive net loss for the year ended December 31, 1997	--	--	$(2,594)
	--	-------	=======
Balance, December 31, 1997	3	(728)	
Accretion of dividends on Series A Preferred Stock	--	(120)	
Exercise of common stock options	--	41	
Cumulative translation adjustment	--	48	$ 48
Unrealized gain on marketable securities	2	2	2
Net loss	--	(1,079)	(1,079)

Comprehensive net loss for the six months ended June 30, 1998	--	--	$(1,029)
	--	-------	=======
Balance, June 30, 1998 (unaudited)	5	(1,836)	
Cancellation of Series A Preferred Stock	--	3,209	
Conversion of Series B Preferred Stock to common stock	--	3,999	
Conversion of Series C Preferred Stock to common stock	--	--	
	--	-------	
Pro Forma Balance, June 30, 1998 (unaudited) (Note 3)	$5	$ 5,372	
	==	=======	

</TABLE>

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

EXCHANGE APPLICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1995	1996	1997	1997	1998
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities:					
Net loss	$ (554)	$(1,606)	$(2,599)	$(1,460)	$(1,079)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities --					
Amortization of software development costs	--	712	1,211	641	--
Depreciation and other amortization	49	176	275	99	228
Noncash compensation expense	--	--	77	36	--
Changes in operating assets and liabilities --					
Accounts receivable	(452)	(1,549)	(1,846)	(5)	(1,392)
Prepaid expenses and other current assets	--	--	(476)	(232)	2
Accounts payable	150	385	(113)	(296)	812
Accrued expenses	525	872	2,105	181	198
Deferred revenue	418	(72)	576	(54)	802
Net cash provided by (used in) operating activities	136	(1,082)	(790)	(1,090)	(429)
Cash flows from investing activities:					
Purchase of marketable securities	--	--	(200)	--	--
Purchases of property and equipment	(303)	(441)	(102)	(102)	(923)
Increase in software development costs	(1,107)	(703)	--	--	--
Increase (decrease) in other assets	(6)	(3)	(679)	(599)	77
Net cash used in investing activities	(1,416)	(1,147)	(981)	(701)	(846)
Cash flows from financing activities:					
Proceeds from notes payable to related parties	1,800	2,100	--	--	--
Payments of notes payable to related parties	--	--	(1,000)	(1,000)	--
Repayments under capital leases	(20)	(12)	(86)	(10)	(110)
Due from officer	--	--	(125)	--	--
Exercise of common stock options	--	--	7	--	41
Issuance of common stock	--	2	10	--	--
Issuance of Series B Preferred Stock, net of offering costs	--	--	3,888	3,888	--
Issuance of Series C Preferred Stock, net of offering					

costs	--	--	3,987	--	--
Net cash provided by financing (used in) activities	1,780	2,090	6,681	2,878	(69)
Effect of exchange rate changes on cash and cash equivalents	--	--	2	--	48
Net increase (decrease) in cash and cash equivalents	500	(139)	4,912	1,087	(1,296)
Cash and cash equivalents, beginning of period	--	500	361	361	5,273
Cash and cash equivalents, end of period	$ 500	$ 361	$ 5,273	$ 1,448	$ 3,977
Supplemental disclosure of cash flow information --					
Cash paid for interest	$ 35	$ 155	$ 19	$ 4	$ 13
Cash paid for income taxes	$ --	$ --	$ 476	$ 198	$ --
Supplemental disclosure of noncash financing and investing activities:					
Equipment acquired under capital leases	$ 81	$ 35	$ 479	$ 186	$ 20
Conversion of amounts due to a related party to Preferred Stock	$ --	$ 870	$ --	$ --	$ --
Conversion of Preferred Stock to common stock	$ --	$ --	$ 2	$ 2	$ --
Conversion of notes payable to related parties to Series A Preferred Stock	$ --	$ --	$ 2,405	$ 2,405	$ --
Accretion of discount and dividends on preferred stock	$ --	$ --	$ 684	$ 565	$ 120

</TABLE>

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

EXCHANGE APPLICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(INCLUDING DATA APPLICABLE TO UNAUDITED PERIODS)

(1) BACKGROUND AND BASIS OF PRESENTATION

Exchange Applications, Inc. and its subsidiaries (the "Company") is a leading provider of customer optimization software and solutions that enable businesses to maximize the economic value of their customers. The Company's Continuous Customer Management ("CCM") solution, including its VALEX software and related consulting and integration services, enables businesses to retain and expand existing profitable customer relationships and to acquire new customers by: (i) analyzing enterprise-wide databases of customer information; (ii) identifying and prioritizing opportunities; (iii) creating customized streams of targeted, real-time, event-triggered customer communications, such as special offers, follow-up communications, special discounts, new products or service offerings and other marketing campaigns; (iv) selecting the most effective channels through which to communicate with customers, such as direct mail, call centers, the Internet and sales forces; and (v) continuously evaluating the impact of individual and collective customer communications on marketing strategies and customer profitability.

The Company was incorporated in Delaware on November 7, 1996. Prior to incorporation, the Company operated as a division of two entities, Grant & Partners, Inc. ("GPI") and Grant & Partners L.P. ("GPLP").

GPI was incorporated in June 1993 and was primarily engaged in providing management consulting services. In November 1994, the Company began operations when it acquired the rights to certain intellectual property and hired employees to commence the development of the VALEX software product.

On March 28, 1995, GPI entered into a limited partnership agreement with Cyrk, Inc. ("Cyrk") to form GPLP. GPI, as the general partner, contributed all of its assets and liabilities to GPLP for a 50% limited partnership interest. Cyrk purchased the remaining 50% limited partnership interest in GPLP. Upon entering into the partnership agreement, GPI became a holding company, with no substantial operations.

GPLP was established to provide marketing and customer management services for companies in a wide range of industries including retailing, transportation, banking and manufacturing. GPLP operated as two separate divisions, Exchange Applications ("EA") and Exchange Partners ("EP"). EA's focus was marketing

program design and execution and customer database and technology development. EP's focus was providing a variety of management consulting services for marketing organizations.

On November 15, 1996, the Company and GPLP entered into an assignment and assumption agreement whereby GPLP contributed EA to the Company in exchange for 2,300,000 shares of preferred stock ("Preferred Stock") of the Company. In addition, the Company issued 2,484,375 shares of common stock to certain employees. The Preferred Stock held by GPLP contained voting rights equal to two votes for each share of common stock into which the Preferred Stock would convert. As a result, GPLP held approximately 70% of the voting rights of the Company, thereby retaining a controlling interest over the Company.

In March 1997, the Company restructured its ownership interests through the conversion of the 2,300,000 shares of Preferred Stock into 1,725,000 shares of common stock, the conversion of notes payable to related parties (Cyrk and GPLP) into 2,900,000 shares of Series A redeemable preferred stock ("Series A Preferred Stock") (see Note 10), the payment of $1,000,000 to discharge certain indebtedness to Cyrk, and the sale of 2,555,556 shares of Series B redeemable convertible preferred stock ("Series B Preferred Stock") to venture capital investors. As a result of the issuance of Series B Preferred Stock, GPLP and Cyrk's ownership of the Company decreased

to approximately 11% and 38%, respectively, on an as-converted basis. Accordingly, neither GPLP nor Cyrk retained a controlling interest in the Company.

The accompanying consolidated financial statements prior to the formation of the Company represent the financial results of the EA division as included in the consolidated financial statements of GPI from January 1, 1995 to March 27, 1995 and of GPLP from March 28, 1995 to November 14, 1996.

General corporate overhead costs related to corporate headquarters and shared administrative support were allocated by GPI and GPLP to EA based on a number of factors, including, for example, personnel and space utilized. Management believes these allocations were reasonable and the costs of the services charged to the Company were not materially different from the costs that would have been incurred if the Company had performed these functions as a standalone entity.

(2) SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements reflect the application of certain significant accounting policies as described in this note and elsewhere in the accompanying consolidated financial statements and notes.

(a) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances have been eliminated in consolidation.

(b) INTERIM FINANCIAL STATEMENTS

The accompanying consolidated financial statements as of June 30, 1997 and 1998 are unaudited but, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of results of operations for the interim period. Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted with respect to the six-month periods, although the Company believes that the disclosures included are adequate to make the information presented not misleading. The results for the six months ended June 30, 1998 are not necessarily indicative of the results that may be expected for the entire year.

(c) NET LOSS PER SHARE

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings per Share, basic and diluted net loss per common share is calculated by dividing the net loss applicable to common stockholders by the weighted average number of vested common shares outstanding (See Note 12(b)) for all periods presented. For the year ended December 31, 1995 and for the period from January 1, 1996 to November 14, 1996 (representing the period prior to the Company's incorporation), the calculation of basic and diluted net loss per share applicable to common

stockholders includes the number of shares of common stock that were vested upon issuance (November 15, 1996) as if those shares had been outstanding for the entire period. Pro forma basic and diluted net loss per share is calculated by dividing net loss by the weighted average number of vested shares of common stock and preferred stock, on an as-converted basis, outstanding during the period. For the years ended

December 31, 1995 and for the period from January 1, 1996 to November 14, 1996 (representing the period prior to the Company's formation), the calculation of pro forma net loss per share includes 1,725,000 shares of common stock issued in March 1997 upon the conversion of the 2,300,000 shares of Preferred Stock that were issued on November 15, 1996 (See Note 10) as if those shares had been outstanding for the entire period.

The Company has applied the provisions of SFAS No. 128 retroactively to all periods presented. In accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 98, the Company has determined that there were no nominal issuances of potential common stock in the twelve months prior to the Company's planned initial public offering. The dilutive effect of potential common shares, consisting of outstanding stock options and convertible preferred stock, is determined using the treasury stock method and the as-converted method, respectively, in accordance with SFAS No. 128. The following table reconciles the weighted average common shares outstanding to the shares used in the computation of basic and diluted and pro forma basic and diluted weighted average common shares outstanding:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1995	1996	1997	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
Weighted average common shares outstanding.....	2,484,375	2,484,375	3,575,244	3,283,947	3,889,609
Less: Weighted average unvested common shares outstanding.....	1,284,359	1,279,334	655,469	806,264	291,898
Basic and diluted weighted average common shares outstanding.....	1,200,016	1,205,041	2,919,775	2,477,683	3,597,711
Add: Weighted average common shares issuable upon conversion of preferred stock.....	1,725,000	1,725,000	2,471,004	2,204,877	3,779,510
Pro forma basic and diluted weighted average common shares outstanding.....	2,925,016	2,930,041	5,390,779	4,682,560	7,377,221

</TABLE>

Diluted weighted average shares outstanding for all periods presented exclude the potential common shares from stock options, unvested common stock and convertible preferred stock, because to include such shares would have been antidilutive. As of December 31, 1996 and 1997, and June 30, 1998, 3,004,334, 5,598,003 and 5,886,927 potential common shares were outstanding, respectively.

(d) CASH EQUIVALENTS AND MARKETABLE SECURITIES

The Company accounts for cash equivalents and marketable securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Cash equivalents are short-term, highly liquid investments with original maturity dates of three months or less. Cash equivalents are carried at cost, which approximates fair market value. The Company's marketable securities are classified as available-for-sale and are recorded at fair value with any unrealized gain or loss recorded as an element of stockholders' equity (deficit).

As of December 31, 1997 and June 30, 1998, the Company's marketable securities consisted of investment-grade corporate bonds. As of December 31, 1997 and June 30, 1998, the Company had recorded unrealized gains of approximately $3,000 and $5,000, respectively.

(e) LONG-LIVED ASSETS

In accordance with the provisions of SFAS No. 121, Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of, the Company evaluates the realizability of its long-lived assets at each reporting period based on projected future cash flows. As of December 31, 1996 and 1997 and June 30, 1998, the Company has determined that no material adjustment was required to the carrying value of its long-lived assets.

(f) SOFTWARE DEVELOPMENT COSTS

The Company's VALEX software is highly technical and required a significant engineering and development effort. In accordance with SFAS No. 86, Accounting for the Costs of Computer Software To Be Sold, Leased or Otherwise Marketed, during 1994, 1995 and 1996, the Company capitalized certain software development costs relating to VALEX incurred from the date technological feasibility of the software development project had been established through June 1996. These costs were amortized over an estimated useful life of 18 months commencing with the general availability of the product in July 1996. For the years ended December 31, 1995, 1996 and 1997 and the six months ended June 30, 1997, the Company charged approximately $0, $712,000, $1,211,000 and $641,000, respectively, to cost of software license fee revenues for the amortization of these costs. As of December 31, 1997, capitalized software development costs were fully amortized.

The software development costs incurred subsequent to the commercial release of VALEX were primarily related to product enhancements and product maintenance. Consequently, software development costs that would otherwise be capitalized were not material and, therefore, were expensed as incurred.

(g) INCOME TAXES

The Company accounts for income taxes in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes. This statement requires the Company to recognize a current tax liability or asset for current taxes payable or refundable and to record a deferred tax asset or liability for the estimated future tax effects of temporary differences and carryforwards to the extent they are realizable. A deferred tax provision or benefit results from the net change in deferred tax assets and liabilities during the year. A deferred tax valuation allowance is required if it is "more likely than not" that all or a portion of recorded deferred tax assets will not be realized.

(h) FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosure About Fair Value of Financial Instruments, requires disclosures about the fair value of financial instruments. Financial instruments consist principally of cash equivalents, marketable securities, accounts receivable, accounts payable, notes payable to related parties and redeemable preferred stock. The estimated fair value of these financial instruments approximates their carrying value.

(i) CONCENTRATION OF CREDIT RISK

SFAS No. 105, Disclosure of Information About Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk, requires disclosure of any significant off-balance-sheet and credit risk concentrations. The Company has no significant off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements. Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash equivalents, marketable securities and accounts receivable. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom the Company makes substantial sales. The Company performs periodic credit

evaluations of its customers and has recorded allowances for estimated losses.

The following table summarizes the number of customers that individually comprise greater than 10% of total revenue and/or total accounts receivable and their aggregate percentage of the Company's total revenues and accounts receivable.

<TABLE>
<CAPTION>

	REVENUE		ACCOUNTS RECEIVABLE	
	NUMBER OF CUSTOMERS	PERCENT OF TOTAL REVENUE	NUMBER OF CUSTOMERS	PERCENT OF TOTAL TRADE RECEIVABLES
<S>	<C>	<C>	<C>	<C>
Year Ended --				
December 31, 1995	4	78%	3	48%
December 31, 1996	3	41	4	74
December 31, 1997	2	56	2	66
Six Months Ended --				
June 30, 1997	3	76	3	86
June 30, 1998	3	41	2	28

</TABLE>

(j) FOREIGN CURRENCY

The functional currencies of the Company's wholly owned subsidiaries in the United Kingdom and Australia are the local currencies. The financial statements of the subsidiaries are translated to United States dollars using period-end exchange rates for assets and liabilities and average exchange rates during the corresponding period for revenues, cost of revenues and expenses. Translation gains and losses are deferred and accumulated as a component of stockholders' equity (deficit). Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations and were not significant during the periods presented.

(k) REVENUE RECOGNITION

The Company generates revenue from licensing the rights to use its software to end users and certain re-sellers. The Company also generates service and maintenance revenues from integrating its software with its customers' operating environments, the sale of maintenance services and the sale of certain other consulting and development services.

The Company has recognized revenue in accordance with the provisions of Statement of Position ("SOP") No. 91-1, Software Revenue Recognition. In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued SOP 97-2, Software Revenue Recognition, which supercedes SOP 91-1 and is effective for transactions entered into for fiscal

years beginning after December 15, 1997. The Company adopted the provisions of SOP 97-2 for the year ended December 31, 1997. The adoption of this statement did not have a material impact on the Company's results of operations or financial position.

Revenues from software license fee agreements are recognized upon execution of a license agreement and delivery of the software, provided that the fee is fixed or determinable and deemed collectible by management. If conditions for acceptance are required subsequent to delivery, revenues are recognized upon customer acceptance. Revenues from software maintenance agreements are recognized ratably over the term of the maintenance period, which is typically one year. Revenues from professional service arrangements are recognized on either a time and materials or percentage-of-completion basis as the services are performed, provided that amounts due from customers are fixed or determinable and deemed collectible by management. Amounts collected or billed prior to satisfying the above revenue recognition criteria are reflected as deferred revenue or as customer deposits.

Cost of software license fee revenues consists of costs to distribute the product, including the cost of the media on which it is delivered and royalty payments to third party vendors, as well as the amortization of software development costs. Cost of service and maintenance revenues consists primarily of consulting and support personnel salaries and related

costs.

(l) ACCOUNTING FOR STOCK-BASED COMPENSATION

In 1996, the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation. As permitted by SFAS No. 123, the Company has continued to account for employee stock options in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and has included the pro forma disclosures required by SFAS No. 123 for all periods presented.

(m) NEW ACCOUNTING STANDARDS

In April 1998, the AICPA issued SOP 98-5, Reporting on the Costs of Start-Up Activities, which requires that all nongovernmental entities expense the costs of start-up activities, including organizational costs, as those costs are incurred. The Company has historically recorded all such costs as expense, in the period incurred.

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 requires disclosure of all components of comprehensive income on an annual and interim basis. Comprehensive income is defined as the change in stockholders' equity (deficit) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. The Company adopted SFAS No. 130, effective January 1, 1998, and has disclosed comprehensive income (loss) for all periods presented in the accompanying consolidated statements of stockholders' equity (deficit).

In July 1997, the FASB issued SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. SFAS No. 131 requires certain financial and supplementary information to be disclosed on an annual and interim basis for each reportable segment of an enterprise. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. Unless impracticable, companies would be required to restate prior period information upon adoption. The Company does not believe the adoption of this accounting pronouncement will have a significant impact on the Company's financial statements.

(n) POSTRETIREMENT BENEFITS

The Company has no obligations for postretirement benefits.

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

(3) PRO FORMA CONVERSION AND RETIREMENT OF PREFERRED STOCK

On July 15, 1998, the Board of Directors of the Company authorized management to pursue an initial public offering ("IPO") of the Company's common stock. Upon closing of the Company's proposed IPO, all of the Company's Series B and C Preferred Stock will automatically convert into 3,779,510 shares of common stock. In addition, based on the terms of the redemption preference of the Series A Preferred Stock, Series A Preferred Stock will be cancelled and the Company will not be required to pay the redemption preference of $3,209,000. As a result, such amount will be reclassified to additional paid-in capital (see Note 10). The pro forma effect of the conversion and cancellation of the preferred stock on stockholders' equity (deficit) has been presented separately in the Company's accompanying consolidated balance sheets and consolidated statements of stockholders' equity (deficit) and Note 11, assuming the conversion and cancellation had occurred as of June 30, 1998.

(4) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation and amortization. The Company provides for depreciation and amortization using the straight-line method to allocate the cost of property and equipment over their estimated useful lives. Property and equipment, at cost, and their estimated useful lives are as follows:

<TABLE>
<CAPTION>

	ESTIMATED USEFUL LIFE	DECEMBER 31, 1996	DECEMBER 31, 1997	JUNE 30, 1998
		(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
Computers and equipment	4 years	$ 621	$ 912	$1,322
Furniture and fixtures	10 years	156	307	557
Purchased software	3 years	45	60	292
Leasehold improvements	Life of the lease	8	39	89
		830	1,318	2,260
Less -- Accumulated depreciation and amortization		224	405	633
		$ 606	$ 913	$1,627

</TABLE>

Depreciation and amortization expense for the years ended December 31, 1995, 1996 and 1997 and the six months ended June 30, 1997 and 1998 was approximately $49,000, $176,000, $275,000, $99,000 and $228,000, respectively.

EXCHANGE APPLICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(INCLUDING DATA APPLICABLE TO UNAUDITED PERIODS)

(5) ACCRUED EXPENSES

Accrued expenses at December 31, 1996 and 1997 and June 30, 1998 consisted of the following:

<TABLE>
<CAPTION>

	DECEMBER 31, 1996	DECEMBER 31, 1997	JUNE 30, 1998
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Payroll and related costs	$ 859	$1,508	$1,474
Royalties	153	283	--
Other	301	1,456	1,971
	$1,313	$3,247	$3,445

</TABLE>

(6) INCOME TAXES

No provision for federal or state income taxes has been recorded, as the Company incurred net operating losses for all periods presented. The Company had net operating loss carryforwards of approximately $792,000 at December 31, 1997 to reduce future income taxes, if any. These carryforwards expire through 2013 and are subject to review and possible adjustment by the Internal Revenue Service ("IRS").

The Tax Reform Act of 1986 contains provisions that may limit the amount of net operating loss and credit carryforwards that the Company may utilize in any one year in the event of certain cumulative changes in ownership over a three-year period in excess of 50%, as defined. The Company believes it has experienced a change in ownership in excess of 50%. The Company does not believe that this change in ownership will significantly impact the Company's ability to utilize its net operating loss carryforwards.

The approximate tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets are as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1996	DECEMBER 31, 1997
	(IN THOUSANDS)	
<S>	<C>	<C>
Nondeductible expenses and reserves	$ 365	$ 465
Net operating loss carryforwards	--	318

</TABLE>

	365	783
Less -- Valuation allowance	(365)	(783)
Net deferred tax asset	$ --	$ --

</TABLE>

It is the Company's objective to become a profitable enterprise and to realize the benefits of its deferred tax assets. However, in evaluating the realizability of these deferred tax assets, management has considered the Company's short operating history, the volatility of the market in which it competes, the operating losses incurred to date, and believes that given the significance of this evidence, a full valuation reserve against its deferred tax assets is required as of December 31, 1996 and 1997. The increase in the valuation allowance during these periods relates primarily to the Company's operating results.

(7) REVOLVING NOTE AGREEMENT

In December 1997, the Company entered into a $2,000,000 revolving note agreement (the "Note") with a bank. Borrowings and the face amount of outstanding letters of credit are limited to 75% of qualified receivables. As of December 31, 1997 and June 30, 1998, letters of credit totaling $945,000 and $971,000, respectively, were outstanding. Borrowings under the Note bear interest at the bank's prime rate (8.5% at June 30, 1998) plus .75% per annum, payable monthly in arrears. The Note, which expires May 31, 1999, is secured by substantially all assets of the Company. As of December 31, 1997 and June 30, 1998, no borrowings were outstanding under the Note.

Under the Note agreement as amended, the Company must comply with certain restrictive financial covenants. As of December 31, 1997 and June 30, 1998, the Company had received waivers from the bank for all events of default.

(8) RELATED PARTY TRANSACTIONS

(a) NOTES PAYABLE

As of December 31, 1996, the Company had outstanding demand notes payable totaling $2,960,000 to Cyrk and $274,000 to GPLP. These notes bore interest at the prime rate payable monthly in arrears. Interest expense on the demand notes payable amounted to approximately $41,000, $193,000 and $43,000 for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997, respectively. On March 18, 1997, $1,000,000 of principal and accrued interest was repaid and the remaining principal balance on the Notes was converted into 2,900,000 shares of Series A Preferred Stock (see Note 11).

(b) TRANSACTIONS WITH GPLP

As discussed in Note 1, on November 15, 1996, the Company and GPLP entered into an assignment and assumption agreement whereby the Company received the EA business from GPLP in exchange for 2,300,000 shares of the Company's convertible preferred stock. At the date of transfer, the total liabilities of the EA business exceeded its total assets by approximately $1,700,000. GPLP contributed $870,000 of its advances to EA to the capital of the Company.

(c) EXCHANGE MARKETING GROUP

In March 1997, the Company entered into an employment termination agreement with an officer of the Company. Upon termination, the officer established Exchange Marketing Group ("EMG"). The Company repurchased 341,125 shares of common stock from the officer and six other employees who also terminated their employment with the Company.

In March 1997, the Company loaned EMG $350,000, as evidenced by a note receivable. This note accrued interest at 9% per annum with quarterly interest payments due commencing June 30, 1997. This note and all accrued interest were repaid in February 1998.

(9) COMMITMENTS

(a) LEASE OBLIGATIONS

The Company leases certain equipment under agreements that are accounted for as capital leases and expire at various dates through year

2000. Interest rates on these leases range from 12.0% to 14.5%.

The Company has certain noncancellable operating leases for facilities and equipment. The operating leases expire at various dates through the year 2003. The Company has letters of credit outstanding with a bank (see Note 7) for $971,000 as collateral on its leased facilities and certain equipment. Total rent expense under these agreements was approximately $17,000, $239,000, $399,000, $155,000 and $254,000 for the years ended December 31, 1995, 1996 and 1997 and the six months ended June 30, 1997 and 1998, respectively.

At December 31, 1997, the minimum lease commitments for all leased facilities and equipment with an initial or remaining term in excess of one year are as follows:

<TABLE>
<CAPTION>

	CAPITAL LEASES	OPERATING LEASES
	(IN THOUSANDS)	
<S>	<C>	<C>
1998	$ 258	$1,409
1999	196	1,412
2000	62	1,407
2001	--	1,293
2002	--	1,080
Thereafter	--	450
Total minimum payments	516	$7,051
Less -- Amount representing interest	67	
Principal obligation	449	
Less -- Current portion	212	
	$ 237	

</TABLE>

As of December 31, 1997, the Company had entered into two sublease agreements that will reduce rent expense by approximately $275,000, $550,000, $355,000 and $236,000 for the years ended December 31, 1998, 1999, 2000, and 2001, respectively.

(b) ROYALTY

The Company licensed certain intellectual property from a third party, which has been integrated with VALEX, under a royalty-bearing agreement. Under the terms of the license agreement, the Company is required to pay royalties to the licensor totaling approximately $656,000 on the first $10,000,000 of cumulative VALEX license fees. For the years ended December 31, 1995, 1996 and 1997 and the six months ended June 30, 1997 and 1998, the Company charged royalties of approximately $0, $114,000, $456,000 $160,000 and $86,000, respectively, to the cost of software license fees relating to this agreement. As of June 30, 1998, the aggregate sales of VALEX had exceeded the $10,000,000 limit. Accordingly, the Company has no further royalty obligation under this agreement.

(10) PREFERRED STOCK

At incorporation on November 7, 1996, the Company authorized 10,000,000 shares of $.001 par value Preferred Stock for future issuance in one or more series. On November 15, 1996, the Company issued 2,300,000 shares of Preferred Stock to GPLP in consideration for a capital contribution of $870,000, as discussed in Note 1 and Note 8(b).

On March 18, 1997, the Company converted all of its previously outstanding shares of Preferred Stock into 1,725,000 shares of common stock. The Company

then amended its certificate of incorporation to reduce the number of authorized shares of its $.001 par value preferred stock to 5,455,556 shares, of which 2,900,000 shares were designated as Series A Preferred Stock and 2,555,556 shares were designated Series B Preferred Stock. The 2,900,000 shares of Series A Preferred Stock were issued upon the conversion of $2,405,000 of notes payable to the related parties, as discussed in Note 8(a). The 2,555,556 shares of Series B Preferred Stock were sold to venture capital investors at a price of $1.565 per share, with net proceeds to the Company of $3,888,000.

On December 4, 1997, the Company authorized an additional 1,223,954 shares of $.001 par value Preferred Stock and designated these shares as Series C Convertible Preferred Stock (Series C Preferred Stock). The 1,223,954 shares of the Series C Preferred Stock were sold to venture capital investors at a price of $3.268 per share, with net proceeds to the Company of $3,987,000.

The Company loaned $125,000 to an officer for the purchase of approximately 38,000 shares of Series B Preferred Stock from another stockholder. The loan is evidenced by a note that bears interest at the prime rate and is secured by the 38,000 shares of Series B Preferred Stock the officer purchased. The Company has accounted for this loan as a stock subscription receivable classified as Due from Officer in the accompanying consolidated statements of stockholders' equity (deficit) as of December 31, 1997 and June 30, 1998.

The rights and preferences of the Company's preferred stock are as follows:

DIVIDENDS

Each outstanding share of Series A Preferred Stock accrues a cumulative annual dividend of 8.25%. Holders of Series B Preferred Stock and Series C Preferred Stock are entitled to a proportionate share of any cash or noncash common stock dividend as though they were holders of the number of shares of common stock into which their shares were convertible as of the date declared. To date, no dividends have been declared. The Company has provided for Series A Preferred Stock cumulative dividends by accreting charges against the accumulated deficit with corresponding increases to the carrying value of the Series A Preferred Stock. Such increases aggregated approximately $189,000, $70,000 and $120,000 for the year ended December 31, 1997 and the six months ended June 30, 1997 and 1998, respectively.

LIQUIDATION PREFERENCE

Upon liquidation, the holders of Series C Preferred Stock are entitled to receive $3.268 per share, plus all accrued or declared but unpaid dividends, prior to any distribution to any holder of any share of any other class or series of capital stock. If available assets are sufficient to permit payment of the full preferential amounts on the Series C Preferred Stock, then holders of Series B Preferred Stock are entitled to receive out of any additional assets up to $1.565 per share, plus all accrued or declared but unpaid dividends, and then holders of Series A Preferred Stock are entitled to receive out of any additional assets up to $1.00 per share, plus all accrued or declared but unpaid dividends. If the assets available for distribution with respect to any such series of capital stock are insufficient to permit the payment of the full preferential amount on such series, as described above, then the holders of such series shall share ratably on the distribution of assets within that series of stock. If the remaining assets of the Company permit a distribution to common stockholders, then holders of Series B Preferred Stock are entitled to

share ratably in such distribution with the holders of common stock as if their shares had been converted to common stock.

REDEMPTION

The Company may at any time redeem all or any portion of the shares of Series A Preferred Stock then outstanding at $1.00 per share, plus all accrued or declared but unpaid dividends. The number of shares to be redeemed by each holder shall be equal to each specific holder's pro rata share of the total amount outstanding.

If upon any redemption of Series A Preferred Stock the assets available for redemption are insufficient to pay to the holders of Series A Preferred Stock the full redemption value, the holders of a majority of Series A Preferred Stock may elect (i) that no redemption be made (in which event all rights in respect of the shares to be redeemed shall continue in

full force and effect) or (ii) that the holders shall share ratably in the redemption according to the respective amounts which would have been payable to them.

Upon an IPO with gross proceeds of at least $20,000,000 at an offering price per common share such that the amount obtained by multiplying such offering price by the number of common stock equivalents, as defined, outstanding immediately after such offering would be at least $130,000,000 (a "Qualified Offering"), all shares of Series A Preferred Stock shall be automatically canceled and the shares outstanding prior to such closing shall no longer be deemed to be outstanding.

In the event that the Company completes an IPO that is not a Qualified Offering, holders of Series A Preferred Stock have the option to redeem all shares held for $1.00 per share. All shares surrendered under such redemption shall be canceled. Subsequent to redemption, all rights in respect of the Series A Preferred Stock, except the right to receive the liquidation preference, shall cease and terminate, and such shares shall no longer be deemed to be outstanding.

Upon an IPO, all shares of Series B Preferred Stock will automatically convert into shares of common stock. In the event that the Company completes an IPO that is not a Qualified Offering, the Company, in addition to converting such Series B Preferred Stock to Common Stock, shall pay to each holder of Series B Preferred Stock being thereby converted, $1.565 per share, prior and in preference to any distribution to any holder of any class or series of capital stock of the Company.

Upon the closing of a qualified sale of the Company, as defined, holders of Series B Preferred Stock not selling shares as part of the sale of the Company may redeem their Series B Preferred Stock at the liquidation preference or convert all or any part of such shares into shares of common stock. Subsequent to redemption, all rights in respect of the Series B Preferred Stock, except the right to receive the liquidation preference, shall cease and terminate, and such shares shall no longer be deemed to be outstanding.

In connection with the proposed IPO, the Company expects to satisfy the conditions of a Qualified Offering. Accordingly, upon the closing of the IPO, Series A Preferred Stock will be reclassified to $3,209,000 of additional paid-in capital and the Series B Preferred Stock, at a redemption value of $3,999,000, will be converted into 2,555,556 shares of Common Stock without any cash payment required to be made to the holders of Series B Preferred Stock.

The Company has presented the Series A and Series B Preferred Stock outside of stockholders' equity (deficit) due to the existence of redemption rights beyond the control of the Company. A summary of the activity of Series A and Series B Preferred Stock is provided in Note 11.

VOTING

Holders of Series A Preferred Stock do not have voting rights. Each share of Series B and Series C Preferred Stock votes ratably with the common stockholders as if their shares had been converted to common stock.

CONVERSION

Holders of Series B and Series C Preferred Stock have the option to convert any such shares into common shares at any time. Upon a conversion of each share of Series B and Series C Preferred Stock the number of common shares to be issued is an amount equal to (i) their respective liquidation preferences divided by (ii) the product of the number of shares being converted and the conversion price at that time, as defined.

The conversion price shall initially be the respective per share liquidation preference for each series of preferred stock and is subject to adjustment in the event that common stock or common stock equivalents are issued for less per share than the conversion price, subject to certain exceptions.

Upon closing of any IPO, all outstanding shares of preferred stock shall be automatically converted into that number of shares of common stock as would have been the case in the event of an optional conversion. All rights with respect to the preferred stock shall be deemed automatically waived upon such conversion.

In connection with the proposed IPO, the Company expects to satisfy the conditions of a Qualified Offering. Accordingly, upon the closing of the IPO, all 2,555,556 outstanding shares of Series B Preferred Stock will be converted into 2,555,556 shares of common stock, and all 1,223,954 outstanding shares of Series C Preferred Stock will be converted into 1,223,954 shares of common stock.

(11) REDEEMABLE PREFERRED STOCK

The following is a summary of the activity for the Series A and Series B Preferred Stock:

<TABLE>
<CAPTION>

	SERIES A REDEEMABLE PREFERRED STOCK		SERIES B CONVERTIBLE REDEEMABLE PREFERRED STOCK		TOTAL
	NUMBER OF SHARES	REDEMPTION VALUE	NUMBER OF SHARES	REDEMPTION VALUE	REDEMPTION VALUE
	(IN THOUSANDS, EXCEPT SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, DECEMBER 31, 1996.....	--	$ --	--	$ --	$ --
Conversion of notes payable to related parties into Series A Preferred Stock.....	2,900,000	2,405	--	--	2,405
Issuance of Series B Preferred Stock.....	--	--	2,555,556	3,999	3,999
Accretion of discount and dividends on Series A Preferred Stock.....	--	684	--	--	684
BALANCE, DECEMBER 31, 1997.....	2,900,000	3,089	2,555,556	3,999	7,088
Accretion of dividends on Series A Preferred Stock.....	--	120	--	--	120
BALANCE, JUNE 30, 1998 (UNAUDITED).....	2,900,000	3,209	2,555,556	3,999	7,208
Pro forma effect of proposed IPO:					
Retirement of Series A Preferred Stock.....	(2,900,000)	(3,209)	--	--	(3,209)
Conversion of Series B Preferred Stock to common stock.....	--	--	(2,555,556)	(3,999)	(3,999)
PRO FORMA BALANCE, JUNE 30, 1998 (UNAUDITED) (Note 3).....	--	$ --	--	$ --	$ --

</TABLE>

During 1997, the Company issued Series A Preferred Stock at a discount of $495,000 from its redemption value. The Company accreted this discount to the Series A Preferred Stock through a charge to accumulated deficit upon issuance.

(12) STOCKHOLDERS' EQUITY (DEFICIT)

(a) COMMON STOCK

At incorporation, the Company authorized 10,000,000 shares of $.001 par value common stock. In March 1997 and December 1997, the Company amended its certificate of incorporation to increase the number of authorized shares of $.001 par value common stock to a total of 12,078,698 shares.

The Company has reserved 3,779,510 shares of common stock for the potential conversion of Series B and Series C Preferred Stock into common stock. The Company also has reserved 3,124,963 shares of common stock for the issuance of stock options under the 1996 Stock Incentive Plan. Subsequent to June 30, 1998, the Company reserved additional shares of common stock in connection with the adoption of the 1998 Stock Incentive Plan, an Employee Stock Purchase Plan and a Directors' Stock Option Plan. (See Note 17).

(b) RESTRICTED COMMON STOCK

At incorporation, the Company issued 2,484,375 shares of common stock to the Company's founders and employees at $.001 per share, the fair market value as determined by the Board of Directors at the time of issuance.

In connection with the issuance of common stock, the Company and two of its founders signed a Founder Restricted Stock Agreement (the Founder Agreement). These shares vested 50% immediately with the balance vesting ratably on an annual basis through January 1, 1999.

As provided in the Founder Agreement, if the employment of the founders is terminated, the Company has the option (the Company Option) to purchase their unvested stock. This Company Option shall be exercisable by the Company at a price equal to the lesser of the issue price or the fair market value of the stock as determined by the Board of Directors. In March 1997, one of the founders terminated employment, resulting in the Company's repurchase of unvested common shares (see Note 8(c)).

In addition, on November 15, 1996, the Company and all of its employees holding common stock, excluding the two founders, signed restricted stock agreements (the Restricted Stock Agreements) providing for shares issued from the 1996 Stock Incentive Plan to vest retroactively, 25% on the respective employee's date of hire with an additional 25% on each anniversary thereafter.

According to the Restricted Stock Agreements, if an employee ceases to provide services to the Company either as a consultant or employee prior to the third anniversary of the date of hire, the Company has the right to repurchase the unvested stock from the employee at the price paid by the employee.

In the event of a change of control, as defined, all remaining unvested stock held by the founders and employees issued under the Founder Agreement and Restricted Stock Agreements shall be deemed vested and the Company's options to repurchase unvested shares of restricted common stock shall immediately terminate.

During 1997, the Company repurchased 341,125 shares of unvested common stock at $.001 per share from an officer and six employees who terminated their employment with the Company. (See Note 8(c)). The Company also repurchased 13,700 shares and 6,250 shares of unvested common stock at $.001 per share in July 1997 and June 1998, respectively, from other terminated employees.

(13) STOCK OPTIONS

In November 1996, the Company adopted the 1996 Stock Incentive Plan (the 1996 Plan), which provides for the grant of incentive stock options, nonqualified stock options and restricted common stock to officers, employees and directors who are also employees of the Company. Nonemployee directors and outside consultants to the Company are eligible to receive nonqualified options and restricted common stock only.

The 1996 Plan is administered by the Board of Directors, which determines the fair market value and the purchase price for such options. Options generally vest over a four-year period and expire 10 years from the date of grant. Restricted common stock awards entitle recipients to purchase shares of the Company's common stock subject to restrictions concerning the sale, transfer and other disposition of the shares issued until such shares are vested. The shares subject to options

that expire or are not exercised for other reasons, or any restricted common stock that is repurchased by the Company will be available for future grant under the 1996 Plan.

In addition, the 1996 Plan provides for the granting of time accelerated incentive stock options. During 1997 and 1998, approximately 590,000 time accelerated incentive stock options were granted to certain employees. These options vest and become exercisable 25% annually upon the achievement of certain performance criteria (the Criteria) as approved by the Company on an annual

basis, or after nine years from the date of grant. The Criteria, which are set each year by the Board of Directors, allows for vesting upon the achievement of the Criteria as of December 31 for that year.

Stock option activity from the 1996 Plan's inception through June 30, 1998 is as follows:

<TABLE>
<CAPTION>

	NUMBER OF SHARES	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>
Outstanding, December 31, 1995.....	--	$ --	$ --
Granted.....	968,575	0.001	0.001
Exercised.....	(968,575)	0.001	0.001
Outstanding, December 31, 1996.....	--	--	--
Granted.....	1,449,475	0.65 - 1.35	0.74
Exercised.....	(10,096)	0.65	0.65
Canceled.....	(40,154)	0.65 - 0.85	0.66
Outstanding, December 31, 1997.....	1,399,225	0.65 - 1.35	0.74
Granted.....	572,000	1.35 - 14.50	4.51
Exercised.....	(63,334)	0.65 - 0.85	0.65
Canceled.....	(23,333)	0.65 - 3.50	1.31
Outstanding, June 30, 1998 (unaudited).....	1,884,558	$ 0.65 - $14.50	$ 1.88
Exercisable, June 30, 1998 (unaudited).....	324,232	$ 0.65 - $ 1.35	$ 0.72

</TABLE>

Subsequent to June 30, 1998, the Company granted options to purchase 200,850 shares of common stock at $14.50 per share.

The Company has computed the pro forma disclosures required under SFAS No. 123 for options granted during 1996 and 1997 using the Black-Scholes option pricing model prescribed by SFAS No. 123. The weighted average assumptions used were as follows:

<TABLE>
<CAPTION>

	1996	1997
<S>	<C>	<C>
Risk-free interest rate.....	6.3%	5.96%
Expected dividend yield.....	--	--
Expected lives.....	4 years	4 years
Expected volatility.....	76%	79%
Weighted average grant date fair value.....	$.002	$.46
Weighted average remaining contractual life of options outstanding.....	9.9 years	9.1 years

</TABLE>

Had compensation expense for the Company's stock option plans been determined consistent with SFAS No. 123, net loss and net loss per share would have been approximately as follows:

<TABLE>
<CAPTION>

	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
<S>	<C>	<C>
As reported --		
Net loss applicable to common stockholders.....	$(1,606)	$(3,283)
Basic and diluted net loss per share.....	$ (1.33)	$ (1.12)
Pro forma --		
Net loss applicable to common stockholders.....	$(1,607)	$(3,455)
Basic and diluted net loss per share.....	$ (1.33)	$ (1.18)

</TABLE>

(14) EMPLOYEE BENEFIT PLAN

The Company has a qualified 401(k) savings plan (the 401(k) Plan) covering all of the Company's eligible full-time employees. Under this plan, participants may elect to defer a portion of their compensation, subject to certain IRS limitations. The Company does not currently provide employer matching contributions under the 401(k) Plan.

(15) GEOGRAPHIC INFORMATION

Revenues by geographic destination as a percentage of total revenues are as follows:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1995	1996	1997	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
United States	81%	96%	86%	100%	78%
United Kingdom	--	--	5	--	14
Canada	19	4	8	--	7
Other	--	--	1	--	1
	100%	100%	100%	100%	100%

</TABLE>

(16) ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary of the allowance for doubtful accounts is as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,			JUNE 30,
	1995	1996	1997	1998
		(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
Balance, beginning of period	$ --	$ 75	$ 43	$206
Provision for doubtful accounts	121	99	180	55
Write-offs	(46)	(131)	(17)	(49)
Balance, end of period	$ 75	$ 43	$206	$212

</TABLE>

(17) STOCK PLANS AND AMENDMENT TO CERTIFICATE OF INCORPORATION

On July 15, 1998, the Board of Directors and stockholders approved (i) the adoption of the 1998 Stock Incentive Plan pursuant to which 2,700,000 additional shares of the Company's common stock have been reserved for future issuance, (ii) the adoption of an Employee Stock Purchase Plan pursuant to which 200,000 shares of the Company's common stock have been reserved for future issuance, (iii) the adoption of a Directors' Stock Option Plan pursuant to which 100,000 shares of the Company's common stock have been reserved for future issuance, (iv) an increase in the number of authorized shares of common stock to 30,000,000 shares and (v) the authorization of 10,000,000 shares of $.001 par value preferred stock, of which the Board of Directors has full authority to issue and fix the voting powers, preferences, rights, qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, redemption privileges and liquidation preferences and the number of shares constituting any series or designation of such series.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Company and the Selling Stockholders have agreed to sell to each of the

Underwriters named below, and each of such Underwriters, for whom Goldman, Sachs & Co., BT Alex. Brown Incorporated and Hambrecht & Quist LLC are acting as representatives, has severally agreed to purchase from the Company and the Selling Stockholders, the respective number of shares of Common Stock set forth opposite its name below:

<TABLE>
<CAPTION>

UNDERWRITER	NUMBER OF SHARES OF COMMON STOCK
<S>	<C>
Goldman, Sachs & Co.	
BT Alex. Brown Incorporated.....	
Hambrecht & Quist LLC.....	
Total.....	

</TABLE>

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and pay for all of the shares offered hereby, if any are taken.

The Underwriters propose to offer the shares of Common Stock in part directly to the public at the initial public offering price set forth on the cover page of this Prospectus, and in part to certain securities dealers at such price less a concession of $ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain brokers and dealers. After the shares of Common Stock are released for sale to the public, the offering price and other selling terms may from time to time be varied by the representatives.

Certain of the Selling Stockholders have granted the Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to an aggregate of 450,000 additional shares of Common Stock solely to cover over-allotments, if any. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of shares to be purchased by each of them, as shown in the foregoing table, bears to the 3,000,000 shares of Common Stock offered.

The Company, the Selling Stockholders and certain other stockholders have agreed that, during the period beginning from the date of this Prospectus and continuing to and including the date 180 days after the date of this Prospectus, they will not offer, sell, contract to sell or otherwise dispose of any securities of the Company (other than pursuant to employee stock option plans existing, or on the conversion or exchange of convertible or exchangeable securities outstanding, on the date of this Prospectus) which are substantially similar to the shares of Common Stock or which are convertible or exchangeable into securities which are substantially similar to the shares of Common Stock without the prior written consent of the representatives except for the shares of Common Stock offered in connection with the Offering and shares of Common Stock acquired in the public market after the date of this Prospectus. The representatives have informed the Company that the Underwriters have no current intention to release shares from the Lock-Up Agreements prior to expiration of the [180] -day term of such agreements. Any request for release would be evaluated by the representatives, and the decision whether or not to permit early release of shares would be made dependent upon the facts and circumstances existing at the time of the request.

The representatives of the Underwriters have informed the Company that they do not expect sales to accounts over which the Underwriters exercise discretionary authority to exceed five percent of the total number of shares of Common Stock offered by them.

Prior to the Offering, there has been no public market for the shares of Common Stock. The initial public offering price was negotiated among the Company, the Selling Stockholders and the representatives. Among the factors considered in determining the initial public offering price of the Common Stock, in addition to prevailing market conditions, were the Company's historical performance, estimates of the business potential and earnings prospects of the Company, an assessment of the Company's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

The Common Stock has been approved for quotation on the Nasdaq National Market under the symbol "EXAP," subject to official notice of issuance.

The Company and the Selling Stockholders have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act.

88

BUILDING A CAMPAIGN WITH VALEX

1. VALEX Desktop allows users to define the core CCM process steps needed to to run a campaign. Users quickly structure and schedule campaigns with the time and event triggers by selecting "Campaign Management" to bring up the applications associated with designing customer communication streams.

[Back page Graphic]

2. In this example, users drag and drop icons to design a three-branch campaign. The first branch targets prospects; the middle branch targets existing customers ripe for cross-selling; the third branch attempts to retain customers likely to defect. Each branch connects to the most appropriate touch point for delivery of the customer communication stream. Promotion history is captured for all three branches in order to measure campaign effectiveness.

[Back page Graphic]

3. Users can easily schedule dates and times to run campaigns. In this example, the user has set the "Likely to Leave" campaign to run every third day, at which time VALEX automatically selects the appropriate customers and delivers information to the selected customer touchpoint.

[Back page Graphic]

[ART WORK]

[A graphic depicting a recreation of screens from a desktop PC showing the VALEX Campaign decision tree.]

89

==========

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SUCH SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

TABLE OF CONTENTS

<TABLE>
<CAPTION>

THROUGH AND INCLUDING , 1998 (THE 25TH DAY AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

==========

3,000,000 SHARES

EXCHANGE
APPLICATIONS, INC.

COMMON STOCK
(PAR VALUE $.001 PER SHARE)

[EXCHANGE APPLICATION LOGO]

GOLDMAN, SACHS & CO.
BT ALEX. BROWN
HAMBRECHT & QUIST
REPRESENTATIVES OF THE UNDERWRITERS

==========

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. Other Expenses of Issuance and Distribution

Expenses of the Registrant in connection with the issuance and distribution of the securities being registered, other than the underwriting discount, are estimated as follows:

	TOTAL
SEC Registration Fee	$16,284.00
NASD Fees	$ 6,020.00
NASDAQ Listing Fees	$22,250.00
Printing and Engraving Expenses	$ *
Legal Fees and Expenses	$ *
Accountants' Fees and Expenses	$ *
Expenses of Qualification Under State Securities Laws, Including Attorneys' Fees	$ *
Transfer Agent and Registrar's Fees	$ *
Miscellaneous Costs	$ *
Total	$ *

---

* To be provided by amendment.

ITEM 14. Indemnification of Directors, Officers and Employees

Section 145 of the Delaware General Corporation law empowers a Delaware corporation to indemnify its officers and directors and certain other persons to the extent and under the circumstances set forth therein.

The Amended and Restated Certificate of Incorporation of the Company and the Amended and Restated By-laws of the Company, copies of which are filed as Exhibits 3.1 and 3.2, provide for indemnification of officers and directors of the Company and certain other persons against liabilities and expenses incurred by any of them in certain stated proceedings and under certain stated conditions.

ITEM 15. Recent Sales of Unregistered Securities

On November 15, 1996, in connection with the organization of the Registrant, the Registrant entered into Restricted Stock Agreements dated as of such date (Restricted Stock Agreements) with certain key employees of the Registrant. Pursuant to the Restricted Stock Agreements, the Registrant issued 968,575 shares of restricted Common Stock under the Registrant's 1996 Stock Incentive Plan to such employees for an aggregate consideration of $968.58 at a purchase price of $.001 per share.

On November 15, 1996, in addition to the shares of restricted Common Stock issued pursuant to the Registrant's 1996 Stock Incentive Plan, (i) the Registrant issued 848,800 shares of restricted Common Stock to Andrew J. Frawley for an aggregate consideration of $848.80 pursuant to a Restricted Stock Agreement entered into between the Registrant and Andrew J. Frawley, and (ii) the Registrant issued 667,000 shares of restricted Common Stock to Michael J. Feldman for an aggregate consideration of $667.00 pursuant to a Restricted Stock Agreement entered into between the Registrant and Michael J. Feldman.

The Registrant has, from time to time, repurchased an aggregate of 361,075 shares of Common Stock from its employees for an aggregate consideration of $361.08.

On November 15, 1996, in connection with the organization of the Registrant, the Registrant entered into an Assignment and Assumption Agreement dated as of such date (Assignment Agreement) with Grant & Partners Limited Partnership (GPLP) pursuant to which the Registrant issued 2,300,000 shares of Series A Convertible Preferred Stock to GPLP and assumed certain liabilities of GPLP in exchange for certain assets of GPLP.

On March 18, 1997, the Registrant entered into a Securities Purchase Agreement dated as of such date (Securities Purchase Agreement) with certain of its existing stockholders and certain new investors. Pursuant to the Securities Purchase Agreement, (i) the Registrant issued 1,154,775 shares of Series B Preferred Stock to Insight Venture Partners II, L.P. for an aggregate consideration of $1,807,222.88, (ii) the Registrant issued 1,154,775 shares of Series B Preferred Stock to Wexford Insight LLC for an aggregate consideration of $1,807,222.88, (iii) the Registrant issued 246,006 shares of Series B Convertible Preferred Stock to GAP Coinvestment Partners, L.P. for an aggregate consideration of $384,999.39, (iv) the Registrant converted 2,300,000 shares of Series A Convertible Preferred Stock held by GPLP to 1,725,000 shares of Common Stock, (v) the Registrant issued 377,408 shares of a newly designated Series A Preferred Stock to GPLP in consideration of the cancellation of certain indebtedness owed by the Registrant to GPLP, and (vi) the Registrant issued 2,522,592 shares of Series A Preferred Stock to Cyrk, Inc. (Cyrk) in consideration of the cancellation of certain indebtedness owed by the Registrant to Cyrk.

On October 3, 1997, the Registrant entered into a Subscription Agreement dated as of such date with Michael Caccavale pursuant to which the Registrant issued 15,500 shares of Common Stock to Michael Caccavale for an aggregate consideration of $13,175.

On December 4, 1997, the Registrant entered into a Securities Purchase Agreement dated as of such date with Insight Capital Partners II, L.P. and Wexford Insight LLC pursuant to which (i) the Registrant issued 611,977 shares of Series C Convertible Preferred Stock to Insight Capital Partners II, L.P. for an aggregate consideration of $2,000,000, and (ii) the Registrant issued 611,977 shares of Series C Convertible Preferred Stock to Wexford Insight LLC for an aggregate consideration of $2,000,000.

The Registrant has, from time to time, issued an aggregate of 73,430 shares of restricted Common Stock to various employees upon the exercise of options granted pursuant to the Registrant's 1996 Stock Incentive Plan for an aggregate consideration of $47,979.50 at an average exercise price of $0.65 per share.

No underwriters were involved in the foregoing sales of securities. Such sales were made in reliance upon an exemption from the registration provisions of the Securities Act set forth in Section 4(2) thereof relating to sales by an issuer not involving any public offering or the rules and regulations thereunder, or, in the case of certain restricted shares, options to purchase Common Stock and shares issuable upon the exercise of such options, Rule 701 of the Act. All of the foregoing securities are deemed restricted securities for purposes of the Act.

ITEM 16. Exhibits and Financial Statement Schedules

(a) The following is a list of exhibits filed as a part of this

registration statement:

<TABLE>
<CAPTION>
EXHIBITS

<C> <S>

1.1	Form of Underwriting Agreement.
3.1	Form of Amended and Restated Certificate of Incorporation of the Registrant.
3.2	Form of Amended and Restated By-laws of the Registrant.
4.1*	Specimen Certificate for Shares of the Registrant's Common Stock, $0.001 par value.
5.1*	Opinion of Bingham Dana LLP with respect to the legality of the shares being registered.
10.1*	Form of 1998 Stock Incentive Plan, with related forms of stock option agreements.
10.2	1996 Stock Incentive Plan, as amended, with related forms of stock option agreements and form of restricted stock agreement.
10.3	Form of 1998 Director Stock Option Plan, with related form of stock option agreement.
10.4	Form of 1998 Employee Stock Purchase Plan.
10.5	401(k) Plan.
10.6	Employment Agreement, dated November 15, 1996, between the Registrant and Andrew J. Frawley.
10.7	Restricted Stock Agreement, dated November 8, 1996, between the Registrant and Andrew J. Frawley.
10.8	Consulting Agreement, dated March 18, 1997, between the Registrant and Exchange Marketing Group, LLC.
10.9	Securities Purchase Agreement, dated March 18, 1997.
10.10	Securities Purchase Agreement, dated December 4, 1997.
10.11	Stock Purchase and Waiver Agreement, dated December 4, 1997.
10.12	Promissory Note, dated December 4, 1997, by Andrew J. Frawley payable to the Registrant.
10.13	Amended and Restated Stockholders Agreement dated December 4, 1997.
10.14	Amended and Restated Registration Rights Agreement dated December 4, 1997.
10.15	Letter Agreement, dated December 22, 1997, between the Registrant and Fleet National Bank, as amended, and the related Promissory Note.
10.16	Stock Purchase Agreement, dated June 25, 1998, and the related Waiver Agreement to the Amended and Restated Stockholders Agreement, dated June 25, 1998.
10.17	Office lease for 89 South Street, Boston, Massachusetts.
21.1	Subsidiaries of Registrant.
23.1	Consent of Arthur Andersen LLP.
23.2*	Consent of Bingham Dana LLP, counsel to Registrant (included in Exhibit 5.1).
24.1	Power of Attorney (included in signature page to Registration Statement).
27.1	Financial Data Schedule (6 months ended June 30, 1998)
27.2	Financial Data Schedule (12 months ended December 31, 1997)
27.3	Financial Data Schedule (12 months ended December 31, 1996)

</TABLE>

---
* To be filed by amendment

(b) Financial Statement Schedules

93

SCHEDULES

All schedules have been omitted because either they are not required, are not applicable or the information is otherwise set forth in the Consolidated Financial Statements and notes thereto.

ITEM 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14 hereof, 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 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:

(1) To provide the Underwriter at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriter to permit prompt delivery to each purchaser.

(2) That 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.

(3) That 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, Exchange Applications, Inc., certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Boston, Commonwealth of Massachusetts, on this 22nd day of July, 1998.

EXCHANGE APPLICATIONS, INC.

By: /s/ ANDREW J. FRAWLEY

Andrew J. Frawley
Chairman of the Board, President
and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby appoints Andrew J. Frawley and John G. O'Brien, each of them severally, acting alone and without the other, his/her true and lawful attorney-in-fact with the authority to execute in the name of each such person, and to file with the Securities and Exchange Commission, together with any exhibits thereto and other documents therewith, any and all amendments (including without limitation post-effective amendments) to this Registration Statement necessary or advisable to enable the Registrant to comply with the Securities Act of 1933, as amended (the "Act"), and any rules, regulations and requirements of the Securities and Exchange Commission in respect thereof, and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Act, which amendments may make such other changes in the Registration Statement as the aforesaid attorney-in-fact executing the same deems appropriate.

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

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<C>	<S>	<C>
/s/ ANDREW J. FRAWLEY Andrew J. Frawley	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	July 22, 1998
/s/ DEAN F. GOODERMOTE Dean F. Goodermote	Director	July 22, 1998
/s/ JEFFREY HORING	Director	July 22, 1998

Jeffrey Horing			
/s/ RAMANAN RAGHAVENDRAN Ramanan Raghavendran		Director	July 22, 1998
/s/ JOHN G. O'BRIEN John G. O'Brien		Vice President, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	July 22, 1998

</TABLE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NO.	DESCRIPTION
<C>	<S>
1.1	Form of Underwriting Agreement.
3.1	Form of Amended and Restated Certificate of Incorporation of the Registrant.
3.2	Form of Amended and Restated By-laws of the Registrant.
4.1*	Specimen Certificate for Shares of the Registrant's Common Stock, $0.001 par value.
5.1*	Opinion of Bingham Dana LLP with respect to the legality of the shares being registered.
10.1*	Form of 1998 Stock Incentive Plan, with related forms of stock option agreements.
10.2	1996 Stock Incentive Plan, as amended, with related forms of stock option agreements and form of restricted stock agreement.
10.3	Form of 1998 Director Stock Option Plan, with related form of stock option agreement.
10.4	Form of 1998 Employee Stock Purchase Plan.
10.5	401(k) Plan.
10.6	Employment Agreement, dated November 15, 1996, between the Registrant and Andrew J. Frawley.
10.7	Restricted Stock Agreement, dated November 8, 1996, between the Registrant and Andrew J. Frawley.
10.8	Consulting Agreement, dated March 18, 1997, between the Registrant and Exchange Marketing Group, LLC.
10.9	Securities Purchase Agreement, dated March 18, 1997.
10.10	Securities Purchase Agreement, dated December 4, 1997.
10.11	Stock Purchase and Waiver Agreement, dated December 4, 1997.
10.12	Promissory Note, dated December 4, 1997, by Andrew J. Frawley payable to the Registrant.
10.13	Amended and Restated Stockholders Agreement dated December 4, 1997.
10.14	Amended and Restated Registration Rights Agreement dated December 4, 1997.
10.15	Letter Agreement, dated December 22, 1997, between the Registrant and Fleet National Bank, as amended, and the related Promissory Note.
10.16	Stock Purchase Agreement, dated June 25, 1998, and the related Waiver Agreement to the Amended and Restated Stockholders Agreement, dated June 25, 1998.
10.17	Office lease for 89 South Street, Boston, Massachusetts.
21.1	Subsidiaries of Registrant.
23.1	Consent of Arthur Andersen LLP.
23.2*	Consent of Bingham Dana LLP, counsel to Registrant (included in Exhibit 5.1).
24.1	Power of Attorney (included in signature page to Registration Statement).
27.1	Financial Data Schedule (6 months ended June 30, 1998)
27.2	Financial Data Schedule (12 months ended December 31, 1997)
27.3	Financial Data Schedule (12 months ended December 31, 1996)

</TABLE>

---

* To be filed by amendment

Draft of July 21, 1998 Exhibit 1.1

EXCHANGE APPLICATIONS, INC.

Common Stock
(par value $0.001 per share)

UNDERWRITING AGREEMENT

_____ __, 1998

Goldman, Sachs & Co.,
BT Alex. Brown
Hambrecht & Quist LLC
As representatives of the several Underwriters
named in Schedule I hereto,
c/o Goldman, Sachs & Co.
85 Broad Street
New York, New York 10004

Ladies and Gentlemen:

Exchange Applications, Inc., a Delaware corporation (the "Company"), proposes, subject to the terms and conditions stated herein, to issue and sell to the Underwriters named in Schedule I hereto (the "Underwriters") an aggregate of 2,000,000 shares of Common Stock (par value $0.001 per share) ("Stock") of the Company and the stockholders of the Company named in Schedule II hereto (the "Selling Stockholders") propose, subject to the terms and conditions stated herein, to sell to the Underwriters an aggregate of 1,000,000 shares and, at the election of the Underwriters, up to 450,000 additional shares of stock. The aggregate of 3,000,000 shares to be sold by the Company and the Selling Stockholders is herein called the "Firm Shares" and the aggregate of 450,000 additional shares to be sold by the Company and the Selling Stockholders is herein called the "Optional Shares". The Firm Shares and the Optional Shares that the Underwriters elect to purchase pursuant to Section 2 hereof are herein collectively called the "Shares".

1. (a) The Company represents and warrants to, and agrees with, each of the Underwriters that:

(i) A registration statement on Form S-1 (File No. 333-....) (the "Initial Registration Statement") in respect of the Shares has been filed with the Securities and

Exchange Commission (the "Commission"); the Initial Registration Statement and any post effective amendment thereto, each in the form heretofore delivered to you, and, excluding exhibits thereto, to you for each of the other

Underwriters, have been declared effective by the Commission in such form; other than a registration statement, if any, increasing the size of the offering (a "Rule 462(b) Registration Statement"), filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "Act"), which became effective upon filing, no other document with respect to the Initial Registration Statement has heretofore been filed with the Commission; no stop order suspending the effectiveness of the Initial Registration Statement, any post-effective amendment thereto or the Rule 462(b) Registration Statement, if any, has been issued and no proceeding for that purpose has been initiated or threatened by the Commission (any preliminary prospectus included in the Initial Registration Statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the Act is hereinafter called a "Preliminary Prospectus"; the various parts of the Initial Registration Statement and the Rule 462(b) Registration Statement, if any, including all exhibits thereto and including the information contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 5(a) hereof and deemed by virtue of Rule 430A under the Act to be part of the Initial Registration Statement at the time it was declared effective, each as amended at the time such part of the Initial Registration Statement became effective or such part of the Rule 462(b) Registration Statement, if any, became or hereafter becomes effective, are hereinafter collectively called the "Registration Statement"; and such final prospectus, in the form first filed pursuant to Rule 424(b) under the Act, is hereinafter called the "Prospectus");

(ii) No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission, and each Preliminary Prospectus, at the time of filing thereof, conformed in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein or by a Selling Stockholder expressly for use in the preparation of the answers therein to Items 7 and 11(l) of Form S-1;

(iii) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus will conform, in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder and do not and will not, as of the applicable effective date as to the Registration Statement and any amendment thereto, and as of the applicable filing date as to the Prospectus and any amendment or supplement thereto, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make

3

the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein or by a Selling Stockholder expressly for use in the preparation of the answers therein to Items 7 and 11(l) of Form S-1;

(iv) Neither the Company nor any of its subsidiaries has sustained since the date of the latest audited financial statements included in the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any material adverse change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus;

(v) The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries;

(vi) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with power and authority (corporate and other) to own its properties and conduct its business as described in the Prospectus, and has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification, or is subject to no material liability or disability by reason of the failure to be so qualified in any such jurisdiction; and each subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation;

(vii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description of the Stock contained in the Prospectus; and all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly

authorized and issued, are fully paid and non-assessable and (except for directors' qualifying shares) are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims;

(viii) The unissued Shares to be issued and sold by the Company to the Underwriters hereunder have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued and fully paid and non-assessable and will conform to the description of the Stock contained in the Prospectus;

(ix) The issue and sale of the Shares by the Company and the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties; and no consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Shares or the consummation by the Company of the transactions contemplated by this Agreement, except the registration under the Act of the Shares and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters;

(x) Neither the Company nor any of its subsidiaries is in violation of its Certificate of Incorporation or By-laws or in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound;

(xi) The statements set forth in the Prospectus under the caption "Description of Capital Stock", insofar as they purport to constitute a summary of the terms of the Stock and under the

caption "Underwriting", insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair;

(xii) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a material adverse effect on the current or future

consolidated financial position, stockholders' equity or results of operations of the Company and its subsidiaries; and, to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(xiii) The Company owns or has the right to use pursuant to license, sublicense, agreement, or permission all patents, patent applications, trademarks, service marks, trade names, copyrights, trade secrets, confidential information and proprietary rights and processes ("Intellectual Property") necessary or desirable for the operation of the business of the Company as presently conducted and as presently proposed to be conducted. The Company has taken all necessary and desirable action to maintain and protect each item of Intellectual Property that the Company owns or uses. To the knowledge of the Company, no third party has interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of the Company.

The Company has not interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of third parties, and there has never been any charge, complaint, claim, demand, or notice alleging any such interference, infringement, misappropriation, or violation (including any claim that the Company must license or refrain from using any Intellectual Property rights of any third party). The Company will not interfere with, infringe upon, misappropriate, or otherwise come into conflict with, any Intellectual Property rights of third parties as a result of the continued operation of its business as presently conducted.

(xiv) The Company is not and, after giving effect to the offering and sale of the Shares, will not be an "investment company" or an entity "controlled" by an "investment company", as such terms are defined in the Investment Company Act of 1940, as amended (the "Investment Company Act");

(xv) Neither the Company nor any of its affiliates does business with the government of Cuba or with any person or affiliate located in Cuba within the meaning of Section 517.075, Florida Statutes; and

(xvi) Arthur Andersen LLP, who have certified certain financial

statements of the Company and its subsidiaries, are independent public accountants as required by the Act and the rules and regulations of the Commission thereunder.

(b) Each of the Selling Stockholders severally represents and warrants to, and agrees with, each of the Underwriters and the Company that:

(i) All consents, approvals, authorizations and orders necessary for the execution and delivery by such Selling Stockholder of this Agreement and the Power of Attorney and the Custody Agreement hereinafter referred to, and for the sale and delivery of the Shares to be sold by such Selling Stockholder hereunder, have been obtained; and such Selling Stockholder has full right, power and authority to enter into this

Agreement, the Power-of-Attorney and the Custody Agreement and to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder hereunder;

(ii) The sale of the Shares to be sold by such Selling Stockholder hereunder and the compliance by such Selling Stockholder with all of the provisions of this Agreement, the Power of Attorney and the Custody Agreement and the consummation of the transactions herein and therein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any statute, indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which such Selling Stockholder is a party or by which such Selling Stockholder is bound or to which any of the property or assets of such Selling Stockholder is subject, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of such Selling Stockholder if such Selling Stockholder is a corporation, the Partnership Agreement of such Selling Stockholder if such Selling Stockholder is a partnership or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over such Selling Stockholder or the property of such Selling Stockholder;

(iii) Such Selling Stockholder has, and immediately prior to each Time of Delivery (as defined in Section 4 hereof) such Selling Stockholder will have, good and valid title to the Shares to be sold by such Selling Stockholder hereunder, free and clear of all liens, encumbrances, equities or claims; and, upon delivery of such Shares and payment therefor pursuant hereto, good and valid title to such Shares, free and clear of all liens, encumbrances, equities or claims, will pass to the several Underwriters;

(iv) During the period beginning from the date hereof and continuing to and including the date 180 days after the date of the Prospectus, not to offer, sell contract to sell or otherwise dispose of, except as provided hereunder, any securities of the Company that are substantially similar to the Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Stock or any such substantially similar

securities (other than pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of this Agreement), without your prior written consent;

(v) Such Selling Stockholder has not taken and will not take, directly or indirectly, any action which is designed to or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(vi) To the extent that any statements or omissions made in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto are made in reliance upon and in conformity with written information furnished to the Company by such Selling Stockholder expressly for use therein, such Preliminary Prospectus and the Registration

Statement did, and the Prospectus and any further amendments or supplements to the Registration Statement and the Prospectus, when they become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(vii) In order to document the Underwriters' compliance with the reporting and withholding provisions of the Tax Equity and Fiscal Responsibility Act of 1982 with respect to the transactions herein contemplated, such Selling Stockholder will deliver to you prior to or at the First Time of Delivery (as hereinafter defined) a properly completed and executed United States Treasury Department Form W-9 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof);

(viii) Certificates in negotiable form representing all of the Shares to be sold by such Selling Stockholder hereunder have been placed in custody under a Custody Agreement, in the form heretofore furnished to you (the "Custody Agreement"), duly executed and delivered by such Selling Stockholder to [NAME OF CUSTODIAN], as custodian (the "Custodian"), and such Selling Stockholder has duly executed and delivered a Power of Attorney, in the form heretofore furnished to you (the "Power of Attorney"), appointing the persons indicated in Schedule II hereto, and each of them, as such Selling Stockholder's attorneys-in-fact (the "Attorneys-in-Fact") with authority to execute and deliver this Agreement on behalf of such Selling Stockholder, to determine the purchase price to be paid by the Underwriters to the Selling Stockholders as provided in Section 2 hereof, to authorize the delivery of the Shares to be sold by such Selling Stockholder hereunder and otherwise to act on behalf of such Selling Stockholder in connection with the transactions contemplated by this Agreement and the

Custody Agreement; and

(ix) The Shares represented by the certificates held in custody for such Selling Stockholder under the Custody Agreement are subject to the interests of the Underwriters hereunder; the arrangements made by such Selling Stockholder for such custody, and the appointment by such Selling Stockholder of the Attorneys-in-Fact by the Power of Attorney, are to that extent irrevocable; the obligations of the Selling Stockholders hereunder shall not be terminated by operation of law, whether by the death or incapacity of any individual Selling Stockholder or, in the case of an estate or trust, by the death or incapacity of any executor or trustee or the termination of such estate or trust, or in the case of a partnership or corporation, by the dissolution of such partnership or corporation, or by the occurrence of any other event; if any individual Selling Stockholder or any such executor or trustee should die or become incapacitated, or if any such estate or trust should be terminated, or if any such partnership or corporation should be dissolved, or if any other such event should occur, before the delivery of the Shares hereunder, certificates representing the Shares shall be delivered by or on behalf of the Selling Stockholders in accordance with the terms and conditions of this

Agreement and of the Custody Agreements; and actions taken by the Attorneys-in-Fact pursuant to the Powers of Attorney shall be as valid as if such death, incapacity, termination, dissolution or other event had not occurred, regardless of whether or not the Custodian, the Attorneys-in-Fact, or any of them, shall have received notice of such death, incapacity, termination, dissolution or other event.

2. Subject to the terms and conditions herein set forth, (a) the Company and each of the Selling Stockholders agree, severally and not jointly, to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company and each of the Selling Stockholders, at a purchase price per share of $....., the number of Firm Shares (to be adjusted by you so as to eliminate fractional shares) determined by multiplying the aggregate number of Shares to be sold by the Company and each of the Selling Stockholders as set forth opposite their respective names in Schedule II hereto by a fraction, the numerator of which is the aggregate number of Firm Shares to be purchased by such Underwriter as set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the aggregate number of Firm Shares to be purchased by all of the Underwriters from the Company and all of the Selling Stockholders hereunder and (b) in the event and to the extent that the Underwriters shall exercise the election to purchase Optional Shares as provided below, the Company and each of the Selling Stockholders agree, severally and not jointly, to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company and each of the Selling Stockholders, at the purchase price per share set forth in clause (a) of this Section 2, that portion of the number of Optional Shares as to which such election shall have been exercised (to be adjusted by you so as to eliminate fractional shares) determined by multiplying such number of Optional Shares by a fraction the numerator of which is the maximum number of Optional Shares which such Underwriter is entitled to purchase as set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the maximum number of Optional Shares that all

of the Underwriters are entitled to purchase hereunder.

The Company and the Selling Stockholders, as and to the extent indicated in Schedule II hereto, hereby grant, severally and not jointly, to the Underwriters the right to purchase at their election up to 450,000 Optional Shares, at the purchase price per share set forth in the paragraph above, for the sole purpose of covering overallotments in the sale of the Firm Shares. Any such election to purchase Optional Shares shall be made in proportion to the maximum number of Optional Shares to be sold by the Company and each Selling Stockholder as set forth in Schedule II hereto initially with respect to the Optional Shares to be sold by the Company and then among the Selling Stockholders in proportion to the maximum number of Optional Shares to be sold by each Selling Stockholder as set forth in Schedule II hereto. Any such election to purchase Optional Shares may be exercised only by written notice from you to the Company and the Attorneys-in-Fact, given within a period of 30 calendar days after the date of this Agreement and setting forth the aggregate number of Optional Shares to be purchased and the date on which such Optional Shares are to be delivered, as determined by you but in no event earlier than the First Time of Delivery (as defined in Section 4 hereof) or, unless you and the Company and the Attorneys-in-Fact otherwise agree in writing, earlier than two or later than ten business days after the date of such notice.

3. Upon the authorization by you of the release of the Firm Shares, the several Underwriters propose to offer the Firm Shares for sale upon the terms and conditions set forth in the Prospectus.

4. (a) The Shares to be purchased by each Underwriter hereunder, in definitive form, and in such authorized denominations and registered in such names as Goldman, Sachs & Co. may request upon at least forty-eight hours' prior notice to the Company and the Selling Stockholders shall be delivered by or on behalf of the Company and the Selling Stockholders to Goldman, Sachs & Co., through the facilities of the Depository Trust Company ("DTC"), for the account of such Underwriter, against payment by or on behalf of such Underwriter of the purchase price therefor by wire transfer to an account designated by the Company and each of the Selling Stockholders in Federal (same day) funds. The Company and each Selling Stockholder will cause the certificates representing the Shares to be made available for checking and packaging at least twenty-four hours prior to the Time of Delivery (as defined below) with respect thereto at the office of DTC or its designated custodian (the "Designated Office"). The time and date of such delivery and payment shall be, with respect to the Firm Shares, 9:30 a.m., New York City time, on _____ __, 1998 or such other time and date as Goldman, Sachs & Co., the Company and the Selling Stockholders may agree upon in writing, and, with respect to the Optional Shares, 9:30 a.m., New York time, on the date specified by Goldman, Sachs & Co. in the written notice given by Goldman, Sachs & Co. of the Underwriters' election to purchase such Optional Shares, or such other time and date as Goldman, Sachs & Co., the Company and the Selling Stockholders may agree upon in writing. Such time and date for delivery of the Firm Shares is herein called the "First Time of Delivery", such time and date for delivery of the Optional Shares, if not the First Time of Delivery, is herein called the "Second Time of Delivery", and each such time and date for delivery is herein called a "Time of Delivery".

(b) The documents to be delivered at each Time of Delivery by or on behalf of the parties hereto pursuant to Section 7 hereof, including the cross receipt for the Shares and any additional documents requested by the Underwriters pursuant to Section 7(i) hereof, will be delivered at the offices of Ropes & Gray at One International Place, Boston, Massachusetts, 02110 (the "Closing Location"), and the Shares will be delivered at the Designated Office,

all at such Time of Delivery. A meeting will be held at the Closing Location at .....p.m., New York City time, on the New York Business Day next preceding such Time of Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Section 4, "New York Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close.

5. The Company agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by you and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Act; to make no further amendment or any supplement to the Registration Statement or Prospectus which shall be disapproved by you promptly after reasonable notice thereof; to advise you, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to

furnish you with copies thereof; to advise you, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus, of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus or suspending any such qualification, promptly to use its best efforts to obtain the withdrawal of such order;

(b) Promptly from time to time to take such action as you may reasonably request to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Shares, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(c) Prior to 10:00 a.m., New York City time on the New York Business Day next succeeding the date of this Agreement and from time to time, to furnish the Underwriters with copies of the Prospectus in New York City in such quantities as you may reasonably request, and, if the delivery of a prospectus is required at any time prior to the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Shares and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary during such period to amend or supplement the Prospectus in order to comply with the Act, to notify you and upon your request to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as you may from time to time reasonably request of an

amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any Underwriter is required to deliver a prospectus in connection with sales of any of the Shares at any time nine months or more after the time of issue of the Prospectus, upon your request but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many copies as you may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(d) To make generally available to its securityholders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Act), an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations thereunder (including, at the option of the Company, Rule 158);

(e) During the period beginning from the date hereof and continuing to and including the date 180 days after the date of the Prospectus, not to offer, sell, contract to sell or otherwise dispose of, except as provided hereunder any securities of the Company that are substantially similar to the Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Stock or any such substantially similar

securities (other than pursuant to employee or director stock option, stock purchase or stock incentive plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of this Agreement), without your prior written consent;

(f) To furnish to its stockholders as soon as practicable after the end of each fiscal year an annual report (including a balance sheet and statements of income, stockholders' equity and cash flows of the Company and its consolidated subsidiaries certified by independent public accountants) and, as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the effective date of the Registration Statement), consolidated summary financial information of the Company and its subsidiaries for such quarter in reasonable detail;

(g) During a period of five years from the effective date of the Registration Statement, to furnish to you copies of all reports or other communications (financial or other) furnished to stockholders, and to deliver to you (i) as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Company is listed; and (ii) such additional information concerning the business and financial condition of the Company as you may from time to time reasonably request (such financial statements to be on a consolidated basis to the extent the accounts of the Company and its subsidiaries are consolidated in reports furnished to its stockholders generally or to the Commission);

(h) To use the net proceeds received by it from the sale of the Shares pursuant to this Agreement in the manner specified in the Prospectus under the caption "Use of Proceeds";

(i) To use its best efforts to list for quotation the Shares on the National Association of Securities Dealers Automated Quotations National Market System ("NASDAQ");

(j) To file with the Commission such information on Form 10-Q as may be

required by Rule 463 under the Act; and

(k) If the Company elects to rely upon Rule 462(b), the Company shall file a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) by 10:00 P.M., Washington, D.C. time, on the date of this Agreement, and the Company shall at the time of filing either pay to the Commission the filing fee for the Rule 462(b) Registration Statement or give irrevocable instructions for the payments of such fee pursuant to Rule 111(b) under the Act.

6. The Company and each of the Selling Stockholders covenant and agree with one another and with the several Underwriters that (a) the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares under the Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, any Preliminary Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing any Agreement among Underwriters, this Agreement, the Blue Sky Memorandum, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Shares; (iii) all expenses in connection with the qualification of the Shares for

offering and sale under state securities laws as provided in Section 5(b) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky survey; (iv) all fees and expenses in connection with listing the Shares on the NASDAQ; (v) the filing fees incident to, and the fees and disbursements of counsel for the Underwriters in connection with, securing any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Shares; (vi) the cost of preparing stock certificates; (vii) the costs and charges of any transfer agent or registrar; and (viii) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section; and (c) such Selling Stockholder will pay or cause to be paid all costs and expenses incident to the performance of such Selling Stockholder's obligations hereunder which are not otherwise specifically provided for in this section, including (i) any fees and expenses of counsel for such Selling Stockholder, (ii) such Selling Stockholder's pro rata share of the fees and expenses of the Attorneys-in-fact and the Custodian, and (iii) all expenses and taxes incident to the sale and delivery of the Shares to be sold by such Selling Stockholder to the Underwriters hereunder. In connection with clause (c) of the preceding sentence, Goldman, Sachs & Co. agrees to pay New York State stock transfer tax, and the Selling Stockholder agrees to reimburse Goldman, Sachs & Co. for associated carrying costs if such tax payment is not rebated on the day of payment and for any portion of such tax payment not rebated. It is understood, however, that the Company shall bear, and the Selling Stockholders shall not be required to pay or reimburse the Company for, the cost of any other matters not directly relating to the sale and purchase of the Shares pursuant to this Agreement, and that, except as provided in this Section, and Sections 8 and 11 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, stock transfer taxes on resale of any of the Shares by them, and any advertising expenses connected with any offers they may make.

7. The obligations of the Underwriters hereunder, as to the Shares to be delivered at each Time of Delivery, shall be subject, in their discretion, to the condition that all representations and warranties and other statements of the Company and of the Selling Stockholders herein are, at and as of such Time

of Delivery, true and correct, the condition that the Company and the Selling Stockholders shall have performed all of its and their obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 5(a) hereof; if the Company has elected to rely upon Rule 462(b), the Rule 462(b) Registration Statement shall have become effective by 10:00 p.m., Washington, D.C. time, on the date of this Agreement; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to your reasonable satisfaction;

(b) Ropes & Gray, counsel for the Underwriters, shall have furnished to you such opinion or opinions (a draft of such opinion is attached as Annex II(a) hereto), dated such Time of Delivery, with respect to the matters covered in paragraphs (i), (ii), (vii), (xi) and (xiii) of subsection (c) below as well as such other related matters as you may reasonably request, and such counsel

shall have received such papers and information as they may reasonably request to enable them to pass upon such matters;

(c) Bingham Dana, LLP, counsel for the Company, shall have furnished to you their written opinion (a draft of such opinion is attached as Annex II(B) hereto), dated such Time of Delivery, in form and substance satisfactory to you, to the effect that:

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own its properties and conduct its business as described in the Prospectus;

(ii) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company (including the Shares being delivered at such Time of Delivery) have been duly and validly authorized and issued and are fully paid and non-assessable; and the Shares conform in all material respects to the description of the Stock contained in the Prospectus;

(iii) The Company has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or to such counsel's knowledge conducts any business so as to require such qualification or is subject to no material liability or disability by reason of failure to be so qualified in any such jurisdiction (such counsel being entitled to rely in respect of the opinion in this clause upon opinions of local counsel and in respect of matters of fact upon certificates of officers of the Company, provided that such counsel shall state that they believe that both you and they are justified in relying upon such opinions and certificates);

(iv) Each domestic subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation; and all of the issued shares of capital stock of each such subsidiary have been duly and validly authorized and issued, are fully paid and non-assessable, and (except for directors' qualifying shares and except as otherwise set forth in the Prospectus) are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims (such counsel being entitled to rely in respect of the opinion in this clause upon opinions of local counsel and in respect to matters of fact upon certificates of officers of the Company or its subsidiaries, provided that such counsel shall state that they believe that both you and they are justified in relying upon such opinions and certificates);

(v) To the best of such counsel's knowledge and other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a material adverse effect on the current or future consolidated financial position, stockholders' equity or results of operations of the Company and its subsidiaries;

and, to the best of such counsel's knowledge, no such proceedings are threatened by governmental authorities or others;

(vi) This Agreement has been duly authorized, executed and delivered by the Company;

(vii) The issue and sale of the Shares being delivered at such Time of Delivery to be sold by the Company and the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Company or any statute or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties;

(viii) No consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Shares or the consummation by the Company of the transactions contemplated by this Agreement, except the registration under the Act of the Shares, and such consents, approvals,

authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters;

(ix) Neither the Company nor any of its subsidiaries is in violation of its Certificate of Incorporation or By-laws or in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument which is filed as an exhibit to, or referred to, in the Registration Statement;

(x) The statements set forth in the Prospectus under the caption "Description of Capital Stock", insofar as they purport to constitute a summary of the terms of the Stock, and under the caption "Underwriting", insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair;

(xi) The Company is not an "investment company" or an entity "controlled" by an "investment company", as such terms are defined in the Investment Company Act; and

(xii) The Registration Statement and the Prospectus and any further amendments and supplements thereto made by the Company prior to such Time of Delivery (other than the financial statements, notes to financial statements, related schedules and other financial date contained therein, as to which such counsel need express no

opinion) comply as to form in all material respects with the requirements of the Act and the rules and regulations thereunder. Such counsel shall also state that although they do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus, except for those referred to in the opinion in subsection (x) of this section 7(c), no facts have come to their attention that have caused them to believe that, as of its effective date, the Registration Statement or any further amendment thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules and other financial data therein, as to which such counsel need express no opinion) contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that, as of its date, the Prospectus or any further amendment or supplement thereto made by the Company prior such Time of Delivery (other than the financial statements and related schedules and other financial data therein, as to which such counsel need express no opinion) contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading or that, as of such Time of Delivery, either the Registration Statement or the Prospectus or any further amendment or supplement thereto made by the Company prior to such Time of

Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and they do not know of any amendment to the Registration Statement required to be filed or of any contracts or other documents of a character required to be filed as an exhibit to the Registration Statement or required to be described in the Registration Statement or the Prospectus which are not filed or described as required;

(d) The respective counsel for each of the Selling Stockholders, as indicated in Schedule II hereto, each shall have furnished to you their written opinion with respect to each of the Selling Stockholders for whom they are acting as counsel (a draft of each such opinion is attached as Annex II(c) hereto), dated the Time of Delivery, in form and substance satisfactory to you, to the effect that:

(i) A Power-of-Attorney and a Custody Agreement have been duly executed and delivered by such Selling Stockholder and constitute valid and binding agreements of such Selling Stockholder in accordance with their terms;

(ii) This Agreement has been duly executed and delivered by or on behalf of such Selling Stockholder; and the sale of the Shares to be sold by such Selling Stockholder hereunder and the compliance by such Selling Stockholder with all of the provisions of this Agreement, the Power-of-Attorney and the Custody Agreement and the consummation of the transactions herein and therein contemplated will not conflict with or result in a breach or violation of any terms or provisions of, or constitute a default under, any statute, indenture, mortgage, deed

of trust, loan agreement or other agreement or instrument known to such counsel to which such Selling Stockholder is a party or by which such Selling Stockholder is bound or to which any of the property or assets of such Selling Stockholder is subject, nor will such action result in any violation of the provisions of [the Certificate of Incorporation or By-laws of such Selling Stockholder if such Selling Stockholder is a corporation[[,] [the Partnership Agreement of such Selling Stockholder if such Selling Stockholder is a partnership] or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over such Selling Stockholder or the property of such Selling Stockholder;

(iii) No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated by this Agreement in connection with the Shares to be sold by such Selling Stockholder hereunder, except such as have been obtained under the Act and such as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of such Shares by the Underwriters;

(iv) Immediately prior to such Time of Delivery, such Selling Stockholder had good and valid title to the Shares to be sold at Time of Delivery by such Selling Stockholder under this Agreement, free and clear of all liens, encumbrances, equities or claims, and full right, power and authority to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder hereunder; and

(v) Good and valid title to such Shares, free and clear of all liens, encumbrances, equities or claims, has been transferred to each of the several Underwriters who have purchased such Shares in good faith and without notice of any such lien, encumbrance, equity or claim or any other adverse claim within the meaning of the Uniform Commercial Code.

In rendering the opinion in paragraph (iv), such counsel may rely upon a certificate of such Selling Stockholder in respect of matters of fact as to ownership of, and liens, encumbrances, equities or claims on, the Shares sold by such Selling Stockholder, provided that such counsel shall state that they believe that both you and they are justified in relying upon such certificate;

(e) On the date of the Prospectus at a time prior to the execution of this Agreement, at 9:30 a.m., New York City time, on the effective date of any post-effective amendment to the Registration Statement filed subsequent to the date of this Agreement and also at each Time of Delivery, Arthur Andersen LLP shall have furnished to you a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to you, to the effect set forth in Annex I hereto;

(f) (i) Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus, and (ii) since the respective dates as of which information is given in the Prospectus there shall not have been any change in the capital stock or

long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in Clause (i) or (ii), is in the judgment of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(g) On or after the date hereof (i) no downgrading shall have occurred in the rating accorded the Company's debt securities by any "nationally recognized statistical rating organization", as that term is defined by the Commission for purposes of Rule 436(g)(2) under the Act, and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities;

(h) On or after the date hereof there shall not have occurred any of

the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange or on NASDAQ; (ii) a suspension or material limitation in trading in the Company's securities on NASDAQ; (iii) a general moratorium on commercial banking activities declared by Federal, New York State or Massachusetts State authorities; or (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war, if the effect of any such event specified in this Clause (iv) in the judgment of the Representatives makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(i) The Shares to be sold at such Time of Delivery shall have been duly listed for quotation on NASDAQ;

(j) The Company has obtained and delivered to the Underwriters executed copies of an agreement from each [LIST APPROPRIATE STOCKHOLDERS OF THE COMPANY], substantially to the effect set forth in Subsection 5(e) hereof in form and substance satisfactory to you;

(k) The Company shall have complied with the provisions of Section 5(c) hereof with respect to the furnishing of prospectuses on the New York Business Day next succeeding the date of this Agreement; and

(l) The Company and the Selling Stockholders shall have furnished or caused to be furnished to you at such Time of Delivery certificates of officers of the Company and the Selling Stockholders, respectively satisfactory to you as to the accuracy of the representations and warranties of the Company and the Selling Stockholders, respectively herein at and as of such Time of Delivery, as to the performance by the Company and the Selling Stockholders of all of their respective obligations hereunder to be performed at or prior to such Time of Delivery, as to the matters set forth in subsections (a) and (f) of this Section and as to such other matters as you may reasonably request.

8. (a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the Company and the Selling Stockholders shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Goldman, Sachs & Co. expressly for use therein.

(b) Each of the Selling Stockholders will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or

several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that such Selling Stockholder shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished by any Underwriter through Goldman, Sachs & Co. expressly for use therein; provided, further, that the liability of a Selling Stockholder pursuant to this subsection (b) shall not exceed the product of the number of Shares sold by such Selling Stockholder and the initial public offering price of the Shares as set forth in the Prospectus.

(c) Each Underwriter will indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company

by such Underwriter through Goldman, Sachs & Co. expressly for use therein; and will reimburse the Company and each Selling Stockholder for any legal or other expenses reasonably incurred by the Company or such Selling Stockholder in connection with investigating or defending any such action or claim as such expenses are incurred.

(d) Promptly after receipt by an indemnified party under subsection (a), (b) or (c) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party

of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(e) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a), (b) or (c) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and the Selling Stockholders on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company and the Selling Stockholders bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page

of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Selling Stockholders on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, each of the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (e) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (e). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (e) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (e), no Underwriter shall be

required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (e) to contribute are several in proportion to their respective underwriting obligations and not joint.

(f) The obligations of the Company and the Selling Stockholders under this Section 8 shall be in addition to any liability which the Company and the respective Selling Stockholders may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 8 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company (including any person who, with his or her consent, is named in the Registration Statement as about to become a director of the Company) and to each person, if any, who controls the Company or any Selling Stockholder within the meaning of the Act.

9. (a) If any Underwriter shall default in its obligation to purchase the Shares which it has agreed to purchase hereunder at a Time of Delivery, you may in your discretion arrange for you or another party or other parties to purchase such Shares on the terms contained herein. If within thirty-six hours after such default by any Underwriter you do not arrange for the purchase of such Shares, then the Company and the Selling Stockholders shall be entitled to a further period of thirty-six hours within which to procure another party or other parties satisfactory to you to purchase such Shares on such terms. In the event that, within the respective prescribed periods, you notify the Company and the Selling Stockholders that you have so arranged for the purchase of such Shares, or the Company notify you that they have so arranged for the purchase of such Shares, you or the Company and the Selling Stockholders shall have the right to postpone such Time of Delivery for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in your opinion may thereby be made necessary. The term

"Underwriter" as used in this Agreement shall include any person substituted under this Section with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company and the Selling Stockholders as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased does not exceed one-eleventh of the aggregate number of all the Shares to be purchased at such Time of Delivery, then the Company and the Selling Stockholders shall have the right to require each non-defaulting Underwriter to purchase the number of shares which such Underwriter agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for

which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company and the Selling Stockholders as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased exceeds one-eleventh of the aggregate number of all the Shares to be purchased at such Time of Delivery, or if the Company and the Selling Stockholders shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to purchase Shares of a defaulting Underwriter or Underwriters, then this Agreement or, with respect to the Second Time of Delivery, the obligations of the Underwriters to purchase and of the Company and the Selling Stockholders to sell the Optional Shares) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company or the Selling Stockholders, except for the expenses to be borne by the Company and the Selling Stockholders and the Underwriters as provided in Section 6 hereof and the indemnity and contribution agreements in Section 8 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

10. The respective indemnities, agreements, representations, warranties and other statements of the Company, the Selling Stockholders and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Company, or any of the Selling Shareholders or any officer or director or controlling person of the Company, and shall survive delivery of and payment for the Shares.

11. If this Agreement shall be terminated pursuant to Section 9 hereof, neither the Company nor the Selling Stockholders shall then be under any liability to any Underwriter except as provided in Sections 6 and 8 hereof; but, if for any other reason, any Shares are not delivered by or on behalf of the Company and the Selling Stockholders as provided herein, the Company and each of the Selling Stockholders pro rata (based on the number of Shares to be sold by the Company and such Selling Stockholder hereunder) will reimburse the Underwriters through you for all out-of-pocket expenses approved in writing by you, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery

of the Shares not so delivered, but the Company and the Selling Stockholders shall then be under no further liability to any Underwriter except as provided in Sections 6 and 8 hereof.

12. In all dealings hereunder, you shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by you jointly or by Goldman, Sachs & Co. on behalf of you as the representatives; and in all dealings with any Selling Stockholder hereunder, you and the Company shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of such Selling Stockholder made or given by any or all of the Attorneys-in-Fact for such Selling Stockholder.

All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail, telex or facsimile transmission to you as the representatives in care of Goldman, Sachs & Co., 32 Old Slip, 9th Floor, New York, New York 10004, Attention: Registration

Department; and if to any Selling Stockholder shall be delivered or sent by mail, telex or facsimile transmission to counsel for such Selling Stockholder at its address set forth in Schedule II hereto; and if to the Company shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Secretary; provided, however, that any notice to an Underwriter pursuant to Section 8(d) hereof shall be delivered or sent by mail, telex or facsimile transmission to such Underwriter at its address set forth in its Underwriters' Questionnaire, or telex constituting such Questionnaire, which address will be supplied to the Company or the Selling Stockholders by you upon request. Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

13. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Company and, to the extent provided in Sections 8 and 10 hereof, the officers and directors of the Company and each person who controls the Company, any Selling Stockholder or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

14. Time shall be of the essence of this Agreement. As used herein, the term "business day" shall mean any day when the Commission's office in Washington, D.C. is open for business.

15. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

16. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding, please sign and return to us eight counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this letter and such acceptance hereof shall constitute a binding agreement among each of the Underwriters, the Company and each of the Selling Stockholders. It is understood that your acceptance of this letter on behalf of each of the Underwriters is pursuant to the authority set forth in a form of Agreement among Underwriters, the form of which shall be submitted to the Company and the Selling Stockholders for examination upon request, but without warranty on your part as to the authority of the signers thereof.

Any person executing and delivery this Agreement as Attorney-in-Fact for a Selling Stockholder represents by so doing that he has been duly appointed as Attorney-in-Fact by such Selling Stockholder pursuant to a validly existing and binding Power-of-Attorney which authorizes such Attorney-in-Fact to take such action.

Very truly yours,

Exchange Applications, Inc.

By:

Name:
Title:

Cyrk, Inc.
Grant & Partners Limited Partnership
Michael J. Feldman
Andrew J. Frawley
David G. McFarlane
Michael D. McGonagle
Patrick A. McHugh
N. Wayne Townsend

By:

Name:
Title:

As Attorney-in-Fact acting on behalf of each
of the Selling Stockholders named in
Schedule II to this Agreement

Accepted as of the date hereof:
Goldman, Sachs & Co.
BT Alex. Brown
Hambrecht & Quist LLC

By:

(Goldman, Sachs & Co.)

On behalf of each of the Underwriters

24

SCHEDULE I

	Total Number of Firm Shares to be Purchased	Number of Optional Shares to be Purchased if Maximum Option Exercised by Underwriter
Goldman, Sachs & Co.		
BT Alex. Brown		
Hambrecht & Quist LLC		
[NAMES OF OTHER UNDERWRITERS]		

SCHEDULE II

<TABLE>
<CAPTION>

NAME	TOTAL NUMBER OF FIRM SHARES TO BE SOLD	NUMBER OF OPTIONAL SHARES TO BE SOLD IF MAXIMUM OPTION EXERCISED
<S>	<C>	<C>
The Company	2,000,000	--
The Selling Stockholders:		
Cyrk, Inc.(a)	460,026	229,455
Grant & Partners Limited Partnership(b)	230,058	114,750
Michael J. Feldman(c)	212,104	105,795
Andrew J. Frawley(d)	57,162	--
David G. McFarlane(e)	17,800	--
Michael D. McGonagle(f)	8,600	--
Patrick A. McHugh(g)	7,500	--
N. Wayne Townsend(h)	6,750	--
Total	3,000,000	450,000

</TABLE>

(a) This Selling Stockholder is represented by [NAME AND ADDRESS OF COUNSEL] and has appointed [NAMES OF ATTORNEYS-IN-FACT (NOT LESS THAN TWO)], and each of them, as the Attorneys-in-Fact for such Selling Stockholder.

(b) This Selling Stockholder is represented by [NAME AND ADDRESS OF COUNSEL] and has appointed [NAMES OF ATTORNEYS-IN-FACT (NOT LESS THAN TWO)], and each of them, as the Attorneys-in-Fact for such Selling Stockholder.

(c) This Selling Stockholder is represented by [NAME AND ADDRESS OF COUNSEL] and has appointed [NAMES OF ATTORNEYS-IN-FACT (NOT LESS THAN TWO)], and each of them, as the Attorneys-in-Fact for such Selling Stockholder.

(d) This Selling Stockholder is represented by [NAME AND ADDRESS OF COUNSEL] and has appointed [NAMES OF ATTORNEYS-IN-FACT (NOT LESS THAN TWO)], and each of them, as the Attorneys-in-Fact for such Selling Stockholder.

(e) This Selling Stockholder is represented by [NAME AND ADDRESS OF COUNSEL] and has appointed [NAMES OF ATTORNEYS-IN-FACT (NOT LESS THAN TWO)], and each of them, as the Attorneys-in-Fact for such Selling Stockholder.

(f) This Selling Stockholder is represented by [NAME AND ADDRESS OF COUNSEL] and has appointed [NAMES OF ATTORNEYS-IN-FACT (NOT LESS THAN TWO)], and each of them, as the Attorneys-in-Fact for such Selling Stockholder.

(g) This Selling Stockholder is represented by [NAME AND ADDRESS OF COUNSEL] and has appointed [NAMES OF ATTORNEYS-IN-FACT (NOT LESS THAN TWO)], and each of them, as the Attorneys-in-Fact for such Selling Stockholder.

(h) This Selling Stockholder is represented by [NAME AND ADDRESS OF COUNSEL] and has appointed [NAMES OF ATTORNEYS-IN-FACT (NOT LESS THAN TWO)], and each of them, as the Attorneys-in-Fact for such Selling Stockholder.

ANNEX I

DESCRIPTION OF COMFORT LETTER

Pursuant to Section 7(d) of the Underwriting Agreement, the accountants shall furnish letters to the Underwriters to the effect that:

(i) They are independent certified public accountants with respect to the Company and its subsidiaries within the meaning of the Act and the applicable published rules and regulations thereunder;

(ii) In their opinion, the financial statements and any supplementary financial information and schedules (and, if applicable, financial forecasts and/or pro forma financial information) examined by them and included in the Prospectus or the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations thereunder; and, if applicable, they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited consolidated interim financial statements, selected financial data, pro forma financial information, financial forecasts and/or condensed financial statements derived from audited financial statements of the Company for the periods specified in such letter, as indicated in their reports thereon, copies of which have been furnished to the representatives of the Underwriters (the "Representatives") and are attached hereto;

(iii) They have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited condensed consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus as indicated in their reports thereon copies of which are attached hereto and on the basis of specified procedures including inquiries of officials of the Company who have responsibility for financial and accounting matters regarding whether the unaudited condensed consolidated financial statements referred to in paragraph (vi)(A)(i) below comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations, nothing came to their attention that caused them to believe that the unaudited condensed consolidated financial statements do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations;

(iv) The unaudited selected financial information with respect to the consolidated results of operations and financial position of the Company for the five most recent fiscal years included in the Prospectus agrees with the corresponding amounts (after restatements where applicable) in the audited consolidated financial statements for such five fiscal years which were included or incorporated by reference in the Company's Annual Reports on Form 10-K for such fiscal years;

(v) They have compared the information in the Prospectus under selected captions with the disclosure requirements of Regulation S-K and on the basis of limited procedures specified in such letter nothing came to their attention as a result of the foregoing procedures that caused them to believe that this information does not conform in all

27

material respects with the disclosure requirements of Items 301, 302, 402 and 503(d), respectively, of Regulation S-K;

(vi) On the basis of limited procedures, not constituting an examination in accordance with generally accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, a reading of the latest available interim financial statements of the Company and its subsidiaries, inspection of the minute books of the Company and its subsidiaries since the date of the latest audited financial statements included in the Prospectus, inquiries of officials of the Company and its subsidiaries responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) (i) the unaudited consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations, or (ii) any material modifications should be made to the unaudited condensed consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus for them to be in conformity with generally accepted accounting principles;

(B) any other unaudited income statement data and balance sheet items included in the Prospectus do not agree with the corresponding items in the unaudited consolidated financial statements from which such data and items were derived, and any such unaudited data and items were not determined on a basis substantially consistent with the basis for the corresponding amounts in the audited consolidated financial statements included in the Prospectus;

(C) the unaudited financial statements which were not included in the Prospectus but from which were derived any unaudited condensed financial statements referred to in Clause (A) and any unaudited income statement data and balance sheet items included in the Prospectus and referred to in Clause (B) were not determined on a basis substantially consistent with the basis for the audited consolidated financial statements included in the Prospectus;

(D) any unaudited pro forma consolidated condensed financial statements included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements;

(E) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the consolidated capital stock (other than issuances of capital stock upon exercise of options and stock appreciation rights, upon earn-outs of performance shares and upon conversions of convertible securities, in each case which were outstanding on

the date of the latest financial statements included in the Prospectus) or any increase in the consolidated long-term debt of the Company and its subsidiaries, or any decreases in consolidated net current assets or stockholders' equity or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with amounts shown in the latest balance sheet included in the Prospectus, except in each case for

28

changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(F) for the period from the date of the latest financial statements included in the Prospectus to the specified date referred to in Clause (E) there were any decreases in consolidated net revenues or operating profit or the total or per share amounts of consolidated net income or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified by the Representatives, except in each case for decreases or increases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(vii) In addition to the examination referred to in their report(s) included in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraphs (iii) and (vi) above, they have carried out certain specified procedures, not constituting an examination in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified by the Representatives, which are derived from the general accounting records of the Company and its subsidiaries, which appear in the Prospectus, or in Part II of, or in exhibits and schedules to, the Registration Statement specified by the Representatives, and have compared certain of such amounts, percentages and financial information with the accounting records of the Company and its subsidiaries and have found them to be in agreement.

EXHIBIT 3.1

FORM OF
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
EXCHANGE APPLICATIONS, INC.

Incorporated pursuant to a Certificate of
Incorporation filed with the Secretary of State
of the state of Delaware on November 7, 1996

EXCHANGE APPLICATIONS, INC. (the "CORPORATION"), a Delaware corporation, hereby certifies that this Amended and Restated Certificate of Incorporation, which amends the authorized capital stock and the number and term of the members of the Board of Directors, has been duly adopted in accordance with the provisions of Sections 228, 242, and 245 of the General Corporation Law of the State of Delaware:

FIRST: The name of the Corporation is Exchange Applications, Inc.

SECOND: The address of the Corporation's registered office in the State of Delaware is 1013 Centre Road, in the City of Wilmington, County of New Castle, Delaware 19805. The name of the Corporation's registered agent is Corporation Service Company The address of the Corporation's principal office in The Commonwealth of Massachusetts is 89 South Street, Boston, Massachusetts 02111.

THIRD: The purposes of the Corporation are to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of all classes of capital stock that the Corporation shall have authority to issue is 40,000,000, consisting solely of:

30,000,000 shares of common stock, $.001 par value per share ("COMMON STOCK"); and

10,000,000 shares of Preferred Stock, $.001 par value per share ("PREFERRED STOCK").

A. PREFERRED STOCK.

The shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized to establish and designate the different series, and to fix and determine the voting powers, designations, preferences, and relative, participating, optional or other special rights, if any, and qualifications, limitations, and restrictions thereof, if any, as shall be stated or expressed in a resolution or resolutions of the Board of Directors providing for the issue of such series of Preferred Stock, which powers, preferences, rights, qualifications, limitations and restrictions need not be uniform among series, and may include, without limitation:

(a) the distinctive serial designation and the number of shares constituting the series;

(b) the dividend rate or rates on share of the series, whether dividends are cumulative and, if so, from which date, the payment date or dates for dividends on shares of the series, and the participating or other special rights, if any, with respect to dividends;

(c) the voting powers, full or limited, if any, of shares of the series;

(d) whether shares of the series are redeemable and, if so, the price or prices at which, and the terms and conditions on which, the shares may be redeemed;

(e) the amount or amounts payable upon the shares in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation prior to any payment or distribution of the assets of the Corporation to any class or series of stock of the Corporation ranking junior to the shares of the series;

(f) whether the shares of the series are entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of shares of the series and, if so entitled, the amount of the fund and the manner of its application, including the price or prices at which the shares may be redeemed or purchased through the application of the fund;

(g) whether the shares are convertible into, or exchangeable for, shares of any other class or classes or of any

other series of the same or any other class or classes of capital stock of the Corporation and, if so convertible or exchangeable, the conversion price or prices, or the rates of exchange, and the adjustments thereof, if any, at which the conversion or exchange may be made, and any other terms and conditions of the conversion or exchange; and

(h) any other preferences, privileges and powers, and relative participating, optional or other special rights, qualifications, limitations or restrictions, as the Board of Directors may deem advisable and as are not inconsistent with the provisions of this Amended and Restated Certificate of Incorporation or applicable law.

Any of the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of any such series of Preferred Stock may be made dependent upon facts ascertainable outside the resolution or resolutions providing for the issue of such series adopted by the Board of Directors, provided that the manner in which such facts shall operate upon the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of such series is clearly and expressly set forth in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors.

Different series of Preferred Stock shall not be construed to constitute different classes of shares for the purposes of voting by classes unless expressly so provided in such resolution or resolutions. No resolution, vote or consent of the holders of the capital stock of the Corporation shall be required in connection with the creation or issuance of any shares of any series of Preferred Stock authorized by and complying with the conditions of this Amended and Restated Certificate of Incorporation, the right to any such resolution, vote, or consent being expressly waived by all present and future holders of the capital stock of the Corporation.

B. COMMON STOCK.

1. DIVIDENDS

The holders of record of shares of Common Stock shall be entitled to receive such dividends as may be declared by the Board of Directors from time to time out of any funds of the Corporation at the time legally available for the payment of dividends, subject to the dividend rights of outstanding shares of the Corporation's Preferred Stock.

2. LIQUIDATION

In the event of any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, the holders of record of shares of Common Stock shall be entitled to receive PRO RATA the assets of the Corporation available for distribution, after the holders of outstanding shares of Preferred Stock shall have received such payment or distribution from the assets of the Corporation as they shall be entitled to receive.

The merger or consolidation of the Corporation into or with any other corporation, the merger of any other corporation into it, or the sale or lease of all or substantially all of the assets of the Corporation shall not be deemed to be a liquidation, dissolution, or winding up of the Corporation for the purposes of this Section B(2).

3. VOTING RIGHTS

Except as otherwise expressly provided by law, and subject to any voting rights that may be granted by the Board of Directors to holders of any class or series of Preferred Stock, all the voting power of the Corporation shall be vested, as to all matters requiring stockholder approval, in the Common Stock. Each holder of record of a share or shares of Common Stock shall have the right to one vote per share.

FIFTH: The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation and for defining and regulating the powers of the Corporation and its directors and stockholders and are in furtherance and not in limitation of the powers conferred upon the Corporation by statute:

(a) The size of the Board of Directors shall be fixed by the Board of Directors from time to time, but in no event shall there be less than three (3) directors, and in no event shall any amendment decreasing the number of directors have the effect of shortening the term of any incumbent director.

(b) From and after the IPO Closing the Board of Directors shall be divided into three classes of directors, such classes to be as nearly equal in number of directors as possible, having staggered three-year terms of office, the term of office of the directors of the first such class ("Class I") to expire as of the first annual meeting of the Corporation's stockholders following the IPO Closing, those of

the

5

second class ("Class II") to expire as of the second annual meeting of the Corporation's stockholders following the IPO Closing, and those of the third class ("Class III") to expire as of the third annual meeting of the Corporation's stockholders following the IPO Closing, such that at each annual meeting of stockholders after the IPO Closing, nominees will stand for election to succeed those directors whose terms are to expire as of such meeting. Any director serving as such pursuant to this paragraph (b) of Article FIFTH may be removed only for cause pursuant to the vote of the holders of a majority of the shares of the Corporation's stock entitled to vote for the election of directors. Those directors in office immediately prior to the IPO Closing shall be allocated among Class I, Class II and Class III as determined by a resolution or resolutions of the Board of Directors, which may have been adopted prior to the effectiveness of this Amended and Restated Certificate of Incorporation.

(c) The Board of Directors shall have the power and authority: (1) to adopt, amend or repeal by-laws of the Corporation, subject only to such limitations, if any, as may be from time to time imposed by other provisions of this Certificate, by law, or by the By-Laws; and (2) to the fullest extent permitted or not prohibited by law, and without the consent of or other action by the stockholders, to authorize or create mortgages, pledges or other liens or encumbrances upon any or all of the assets, real, personal or mixed, and franchises of the Corporation, including after-acquired property, and to exercise all of the powers of the Corporation in connection therewith. In case of any vacancy on the Board of Directors, the vacancies shall be filled by the directors at the time having voting power, as may be prescribed herein and in the By-Laws. Directors need not be stockholders of the Corporation. The election of directors need not be by written ballot.

SIXTH: No director of the Corporation shall be personally liable to the Corporation or to any of its stockholders for monetary damages for breach of fiduciary duty as a director, notwithstanding any provision of law imposing such liability; PROVIDED, HOWEVER, that to the extent required from time to time by applicable law, this Article Sixth shall not eliminate or limit the liability of a director, to the extent such liability is provided by applicable law, (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of Title 8 of the Delaware Code, or (iv) for any transactions from which the director derived an improper personal benefit. No amendment to or repeal of this

Article Sixth shall apply to or have any effect on the liability or alleged

liability of any director for or with respect to any acts or omissions of such director occurring prior to the effective date of such amendment or repeal.

SEVENTH: Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, by reason of being or having been a director or officer of the Corporation or serving or having served at the request of the Corporation as a director, trustee, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action or failure to act in an official capacity as a director, trustee, officer, employee or agent or in any other capacity while serving as a director, trustee, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith, as further provided in the By-Laws.

EIGHTH: The Board of Directors, when considering a tender offer or merger or acquisition proposal, may take into account factors in addition to potential short-term economic benefits to stockholders of the Corporation, including without limitation (A) comparison of the proposed consideration to be received by stockholders in relation to the then current market price of the Corporation's capital stock, the estimated current value of the Corporation in a freely negotiated transaction, and the estimated future value of the Corporation as an independent entity and (B) the impact of such a transaction on the employees, suppliers, and customers of the Corporation and its effect on the communities in which the Corporation operates.

NINTH: Effective from and after the IPO Closing, any action required or permitted to be taken by the stockholders of the Corporation may be taken only at a duly called annual or special meeting of the stockholders, and not by written consent in lieu of such a meeting, and special meetings of stockholders may be called only by the Chairman of the Board of Directors, the President, or a majority of the Board of Directors.

TENTH: Effective from and after the IPO Closing, the affirmative vote of the holders of at least sixty-six and two thirds percent (66 2/3%) of the outstanding voting stock of the Corporation (in addition to any separate class vote that may in the future be required pursuant to the terms of any outstanding

Preferred Stock) shall be required to amend or repeal any of the

provisions of this Amended and Restated Certificate of Incorporation, to amend, adopt or repeal the Company's By-Laws (without, however, limiting the power and authority of the Board of Directors to amend, adopt or repeal By-Laws), or to reduce the numbers of authorized shares of Common Stock or Preferred Stock.

Executed on _____, 1998.

EXCHANGE APPLICATIONS, INC.

By: _____

Title: _____

1

EXHIBIT 3.2

FORM OF
EXCHANGE APPLICATIONS, INC.
AMENDED AND RESTATED BY-LAWS

2

FORM OF
AMENDED AND RESTATED
BY-LAWS OF
EXCHANGE APPLICATIONS, INC.

TABLE OF CONTENTS

<TABLE>
<CAPTION>

<S> <C>

3

4

<TABLE>
<CAPTION>

<S> <C>
Section 7.5. Indemnification of Employees and Agents of the Corporation.....

Article VIII - Amendments.....

Section 8.1. Amendments.....
</TABLE>

FORM OF
AMENDED AND RESTATED
BY-LAWS OF
EXCHANGE APPLICATIONS, INC.

ARTICLE I - GENERAL

1.1. OFFICES. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

1.2. SEAL. The seal of the Corporation shall be in the form of a circle and shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware".

1.3. FISCAL YEAR. The fiscal year of the Corporation shall be the period from January 1 through December 31.

ARTICLE II - STOCKHOLDERS

2.1. PLACE OF MEETINGS. All meetings of the stockholders shall be held at the office of the Corporation in Boston, Massachusetts except such meetings as the Board of Directors expressly determine shall be held elsewhere, in which case meetings may be held upon notice as hereinafter provided at such other place or places within or without the State of Delaware as the Board of Directors shall have determined and as shall be stated in such notice.

2.2. ANNUAL MEETING. The annual meeting of stockholders of the Corporation shall be held on such date and at such place and time as may be fixed by resolution of the Board of Directors and stated in the notice of the meeting, at which they shall elect such members of the Board of Directors as are standing for election at such meeting, as determined by the Corporation's Amended and Restated Certificate of Incorporation, as it may be further amended or amended and restated from time to time ("CERTIFICATE OF INCORPORATION") and shall transact such other business as may properly be brought before the meeting (except as otherwise provided in these by-laws).

2.3. SPECIAL MEETING. Subject to the rights of the holders of any series of stock having a preference over the Common Stock of the Corporation as to dividends upon liquidation ("Preferred Stock") with respect to such series of Preferred Stock, special meetings of the stockholders for any purpose or purposes may only be called by the Chairman of the Board of Directors, the President, or a majority of the total number of directors which the Corporation would have if there were no vacancies (the "Whole Board"). Only such business shall be conducted at a special meeting as shall have been brought before the meeting pursuant to the Corporation's notice of meeting.

2.4. NOTICE OF MEETING. Written notice of any meeting of the stockholders stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting. Notice need not be given to any stockholder who submits a written waiver of notice signed by him before or after the time stated therein. Attendance of a stockholder at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice. Any previously scheduled meeting of the stockholders may be postponed, and (unless the Certificate of Incorporation otherwise provides) any special meeting of the stockholders may be canceled, by resolution of the Board of Directors upon public notice given prior to the date previously scheduled for such meeting of stockholders.

2.5. QUORUM AND ADJOURNMENT. At all meetings of the stockholders the holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum requisite for the transaction of business except as otherwise provided by law, by the Certificate of Incorporation or by these by-laws. The Chairman of the meeting may adjourn the meeting from time to time, whether or not there is such a quorum. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At such adjourned meeting, at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted if the meeting had been held as originally called. The stockholders present at a duly called

meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

2.6. RIGHT TO VOTE; PROXIES. Each holder of a share or shares of capital stock of the Corporation having the right to vote at any meeting shall be entitled to one vote for each such share of stock held by him. Any stockholder entitled to vote at any meeting of stockholders may vote either in person or by proxy, but no proxy which is dated more than three (3) years prior to the meeting at which it is offered shall confer the right to vote thereat unless the proxy provides that it shall be effective for a longer period. A proxy may be granted by a writing executed by the stockholder or his authorized

officer, director, employee or agent or by transmission or authorization of transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, subject to the conditions set forth in Section 212 of the Delaware General Corporation Law, as it may be amended from time to time (the "Delaware GCL").

2.7. VOTING. At all meetings of stockholders, except as otherwise expressly provided for by statute, the Certificate of Incorporation or these by-laws, (i) in all matters other than the election of directors, the affirmative vote of a majority of shares present in person or represented by proxy at the meeting and entitled to vote on such matter shall be the act of the stockholders and (ii) directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Except as otherwise expressly provided by law, the Certificate of Incorporation or these by-laws, at all meetings of stockholders the voting shall be by voice vote, but any stockholder qualified to vote on the matter in question may demand a stock vote, by shares of stock, upon such question, whereupon such stock vote shall be taken by ballot, each of which shall state the name of the stockholder voting and the number of shares voted by him, and, if such ballot be cast by a proxy, it shall also state the name of the proxy.

2.8. NOTICE OF STOCKHOLDER BUSINESS AND NOMINATIONS. (i) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who

was a stockholder of record at the time of giving notice provided for in this By-Law, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this By-Law.

(ii) For nominations for the Board of Directors or for other business to be properly brought by a stockholder before a meeting of stockholders, the stockholder must first have given timely written notice thereof to the Secretary of the Company. To be timely, a notice of nominations or other business to be brought before an annual meeting of stockholders must be delivered to the Secretary not less than 120 and not more than 150 days prior to the first anniversary of the date of the Company's proxy statement delivered to stockholders in connection with the preceding year's annual meeting, or if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary, or if no proxy statement was delivered to stockholders by the Company in connection with the preceding year's annual meeting, such notice must be delivered not earlier than 90 days prior to such annual meeting and not later than the later of (a) 60 days prior to the annual meeting or (b) 10 days following the date on which public announcement of the date of such annual meeting is first made by the Company. With respect to special meetings of stockholders, such notice must be delivered to the Secretary not more than 90 days prior to such meeting and not later than the later of (1) 60 days prior to such meeting or (2) 10 days following the date on which public announcement of the date of such meeting is first made by the Company. Such notice must contain (A) the name and address of the stockholder delivering the notice (B) a statement with respect to the amount of the Company's stock beneficially and/or

legally owned by such stockholder, (C) the nature of any such beneficial ownership of such stock, the beneficial ownership of any such stock legally held by such stockholder but beneficially owned by one or more others, and the length of time for which all such stock has been beneficially and/or legally owned by such stockholder, (D) information about each nominee for election as a director substantially equivalent to that which would be required in a proxy statement pursuant to the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the Securities and Exchange Commission thereunder, (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected) and/or (E) a description of the proposed business to be brought before the meeting, as the case may be, and the reason for conducting such business at the meeting, and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made.

9

2.9. STOCKHOLDERS' LIST. A complete list of the stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order and showing the address of each stockholder, and the number of shares registered in the name of each stockholder, shall be prepared by the Secretary and filed either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held, at least 10 days before such meeting, and shall at all times during the usual hours for business, and during the whole time of said election, be open to the examination of any stockholder for a purpose germane to the meeting.

2.10. NO STOCKHOLDER ACTION BY WRITTEN CONSENT. From and after the closing (or first closing) of the initial registered public offering of securities of the Company (the "IPO Closing"), unless otherwise provided in the Certificate of Incorporation, and subject to the rights of the holders of Preferred Stock with respect to such series of Preferred Stock, any action required or permitted to be taken by the stockholders of the Corporation must be effected at an annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

2.11. INSPECTORS. The Board of Directors by resolutions shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act as the meeting of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the Chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law.

The Chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting

ARTICLE III - DIRECTORS

3.1. GENERAL POWERS. In addition to the powers and authority expressly conferred upon them by these by-laws, the board may exercise all such powers of the Corporation and do all such lawful acts and things

as are not by statute or by the Certificate of Incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

3.2. QUALIFICATIONS OF DIRECTORS. A director need not be a stockholder, a citizen of the United States, or a resident of the State of Delaware.

3.3. NUMBER OF DIRECTORS; VACANCIES.

(a) Until the IPO Closing: The size of the Board of Directors shall be fixed from time to time pursuant to a resolution adopted by a majority of the Whole Board of Directors or by the stockholders. The Board of Directors shall hold office until the annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation or removal. Any director may resign at any time upon written notice to the corporation. Except as the General Corporation Law of Delaware may otherwise require, in the interim between annual meetings of stockholders or of special meetings of stockholders called for the election of directors and/or for the removal of one or more directors and for the filling of any vacancy in that connection, any vacancies in the Board of Directors, including unfilled vacancies resulting from the removal of directors for cause or without cause, may be filled by the vote of a majority of the remaining directors then in office, although less than a quorum, or by the sole remaining director, or by the stockholders.

(b) Effective from and after the IPO Closing: The number of directors constituting the full Board of Directors shall be fixed from time to time exclusively pursuant to a resolution adopted by a majority of the Whole Board of Directors. The Board of Directors shall be divided into three classes of directors, such classes to be as nearly equal in number of directors as possible, having staggered three-year terms of office, the term of office of the directors of the first such class to expire as of the first annual meeting of the Corporation's stockholders following the IPO Closing, those of the second class to expire as of the second annual meeting of the Corporation's stockholders following the IPO Closing, and those of the third class as of the third annual meeting of the Corporation's stockholders following the IPO Closing, such that at each annual meeting of stockholders after such IPO Closing, nominees will stand for election for three-year terms to succeed those directors whose terms are to expire as of such meeting. Members of the Board of Directors shall hold office until the annual meeting of stockholders at which their respective successors are elected and qualified or until their earlier death, incapacity, resignation, or removal. Except as the General Corporation Law of Delaware may otherwise require, in the interim between annual meetings

of stockholders or special meetings of stockholders called for the election of directors and/or for the removal of one or more directors and for the filling of any vacancy in that connection, any vacancies or new directorships in the Board of Directors, including unfilled vacancies or new directorships resulting from the removal of directors for cause or any increase in the number of directors, may be filled only by the vote of a majority of the remaining directors then in office.

3.4. RESIGNATION. Any director of this Corporation may resign at any time by giving written notice to the Chairman of the Board, if any, the President or the Secretary of the Corporation. Such resignation shall take

effect at the time specified therein, at the time of receipt if no time is specified therein and at the time of acceptance if the effectiveness of such resignation is conditioned upon its acceptance. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

3.5. REMOVAL. Except as may otherwise be provided by the General Corporation Law of Delaware or the Corporation's Certificate of Incorporation, as amended and in effect from time to time, prior to the IPO Closing, any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors. Effective from and after the IPO Closing, subject to the rights of the holders of any series of Preferred Stock with respect to such series of Preferred Stock, any director or the entire Board of Directors may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of a majority of the then-outstanding shares entitled to vote thereon, voting together as a class.

3.6. PLACE OF MEETINGS AND BOOKS. The Board of Directors may hold their meetings and keep the books of the Corporation outside The State of Delaware, at such places as they may from time to time determine.

3.7. EXECUTIVE COMMITTEE. There may be an executive committee of one or more directors designated by resolution passed by a majority of the whole board. The act of a majority of the members of such committee shall be the act of the committee. Said committee may meet at stated times or on notice to all by any of their own number, and shall have and may exercise those powers of the Board of Directors in the management of the business affairs of the Company as are provided by law and may authorize the seal of the Corporation to be affixed to all

papers which may require it. Vacancies in the membership of the committee shall be filled by the Board of Directors at a regular meeting or at a special meeting called for that purpose.

3.8. OTHER COMMITTEES. The Board of Directors may also designate one or more committees in addition to the executive committee, by resolution or resolutions passed by a majority of the whole board; such committee or committees shall consist of one or more directors of the Corporation, and to the extent provided in the resolution or resolutions designating them, shall have and may exercise specific powers of the Board of Directors in the management of the business and affairs of the Corporation to the extent permitted by statute and shall have power to authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

3.9. POWERS DENIED TO COMMITTEES. Committees of the Board of Directors shall not, in any event, have any power or authority to amend the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares adopted by the Board of Directors as provided in Section 151(a) of the Delaware GCL, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series),

adopt an agreement of merger or consolidation, recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommend to the stockholders a dissolution of the Corporation or a revocation of a dissolution or to amend the by-laws of the Corporation. Further, no committee of the Board of Directors shall have the power or authority to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware GCL, unless the resolution or resolutions designating such committee expressly so provides.

3.10. SUBSTITUTE COMMITTEE MEMBER. In the absence or on the disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of such

13

absent or disqualified member. Any committee shall keep regular minutes of its proceedings and report the same to the board as may be required by the board.

3.11. COMPENSATION OF DIRECTORS. The Board of Directors shall have the power to fix the compensation of directors and members of committees of the Board. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors and/or a stated annual fee (some or all of which may be paid in the form of capital stock of the Corporation) as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

3.12. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this By-Law, immediately after, and at the same place as, the Annual Meeting of Stockholders. The Board of Directors may, by resolutions, provide the time and place for the holding of additional regular meetings without other notice than such resolution. Such regular meetings shall be held at such place within or without the State of Delaware as shall be fixed by the Board.

3.13. SPECIAL MEETINGS. Special meetings of the board may be called by any director or the President, on two (2) days notice to each director, or such shorter period of time before the meeting as will nonetheless be sufficient for the convenient assembly of the directors so notified; special meetings shall be called by the Secretary in like manner and on like notice, on the written request of two or more directors.

3.14. QUORUM. At all meetings of the Board of Directors, a majority of the total number of directors shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically permitted or provided by statute, or by the Certificate of Incorporation, or by these By-Laws. If at any meeting of the board there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time until a quorum is obtained, and no further notice thereof need be given other than by announcement at said meeting which shall be so adjourned.

3.15. TELEPHONIC PARTICIPATION IN MEETINGS. Members of the Board of Directors or any committee designated by such board may participate in a meeting of the board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

3.16. ACTION BY CONSENT. Unless otherwise restricted by the Certificate of Incorporation or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if written consent thereto is signed by all members of the board or of such committee as the case may be and such written consent is filed with the minutes of proceedings of the board or committee.

ARTICLE IV - OFFICERS

4.1. SELECTION; STATUTORY OFFICERS. The officers of the Corporation shall be chosen by the Board of Directors. There shall be a President, a Secretary and a Treasurer, and there may be a Chairman of the Board of Directors, one or more Vice Presidents, one or more Assistant Secretaries, and one or more Assistant Treasurers, as the Board of Directors may elect. Any number of offices may be held by the same person, unless the Certificate of Incorporation or these By-Laws otherwise provide.

4.2. TIME OF ELECTION. The officers above named shall be chosen by the Board of Directors at its first meeting after each annual meeting of stockholders. None of said officers need be a director.

4.3. ADDITIONAL OFFICERS. The board may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

4.4. TERMS OF OFFICE. The officers of the Company shall hold office until their successors are chosen and qualify. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors.

4.5. COMPENSATION OF OFFICERS. The Board of Directors (or a duly appointed committee of the Board of Directors) shall have power to fix the compensation of all officers of the Corporation.

4.6. CHAIRMAN OF THE BOARD. The Chairman of the Board, if any, otherwise the President, if a director, or such other director as the Board may choose, shall preside at all meetings of the Board of Directors and of the stockholders of the Corporation. In the absence of the President, or in the event of the President's inability or refusal to act, the Chairman of the Board shall perform the duties and exercise the powers of the President until such vacancy shall be filled in the manner prescribed by these By-Laws or by law. The Chairman of the Board shall have such other powers and perform such other duties as may from time to time be prescribed by the Board of Directors or these By-Laws.

4.7. PRESIDENT. Unless the Board of Directors otherwise determines, the President shall be the chief executive officer and head of the Corporation. Unless there is a Chairman of the Board, the President shall preside at all meetings of directors and stockholders. Under the supervision of the Board of Directors and of the executive committee, the President shall have the general control and management of its business and affairs, subject, however, to the right of the Board of Directors and of the executive committee to confer any specific power, except such as may be by statute exclusively conferred on the President, upon any other officer or officers of the Corporation. The President shall perform and do all acts and things incident to the position of President and such other duties as may be assigned to him or her from time to time by the Board of Directors or the executive committee.

4.8. VICE-PRESIDENTS. The Vice-Presidents shall perform such of the duties of the President on behalf of the Corporation as may be respectively assigned to them from time to time by the Board of Directors or by the executive committee or by the President. The Board of Directors or the executive committee may designate one of the Vice-Presidents as the Executive Vice-President, and in the absence or inability of the President to act, such Executive Vice-President shall have and possess all of the powers and discharge all of the duties of the President, subject to the control of the board and of the executive committee.

4.9. CHIEF FINANCIAL OFFICER. The Chief Financial Officer (if any) shall be a Vice President and act in an executive financial capacity. The Chief Financial Officer shall assist the Chairman of the Board and the President in the general supervision of the Corporation's financial policies and affairs.

4.10. TREASURER. The Treasurer shall have the care and custody of all the funds and securities of the Corporation which may come into his or her hands as Treasurer, and the power and authority to endorse checks,

drafts and other instruments for the payment of money for deposit or collection when necessary or proper and to deposit the same to the credit of the Corporation in such bank or banks or depository as the Board of Directors or the executive committee, or the officers or agents to whom the Board of Directors or the executive committee may delegate such authority, may designate, and he or she may endorse all commercial documents requiring endorsements for or on behalf of the Corporation. He or she may sign all receipts and vouchers for the payments made to the Corporation. He or she shall render an account of his transactions to the Board of Directors or to the executive committee as often as the board or the committee shall require the same. He or she shall enter regularly in the books to be kept by him for that purpose full and adequate account of all moneys received and paid by him on account of the Corporation. He or she shall perform all acts incident to the position of Treasurer, subject to the control of the Board of Directors and of the executive committee. He or she shall when requested, pursuant to vote of the Board of Directors or the executive committee, give a bond to the Corporation conditioned for the faithful performance of his or her duties, the expense of which bond shall be borne by the Corporation.

4.11. SECRETARY. The Secretary shall keep the minutes of all meetings of the Board of Directors and of the stockholders; and shall attend to the giving and serving of all notices of the Corporation. Except as otherwise ordered by the Board of Directors or the executive committee, the Secretary shall attest the seal of the Corporation upon all contracts and instruments executed under such seal and shall affix the seal of the Corporation thereto and

to all certificates of shares of capital stock of the Corporation. The Secretary shall have charge of the stock certificate book, transfer book and stock ledger, and such other books and papers as the Board of Directors or the executive committee may direct. He or she shall, in general, perform all the duties of Secretary, subject to the control of the Board of Directors and of the executive committee.

4.12. ASSISTANT SECRETARY. The Assistant Secretary, or if there be more than one, the assistant secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

4.13. ASSISTANT TREASURER. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or if there be no such determination, then in the

order of their election), shall, in the absence of the Treasurer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

4.14. SUBORDINATE OFFICERS. The Board of Directors may select such subordinate officers as it may deem desirable. Each such officer shall hold office for such period, have such authority, and perform such duties as the Board of Directors may prescribe. The Board of Directors may, from time to time, authorize any officer to appoint and remove subordinate officers and to prescribe the powers and duties thereof.

4.15. REMOVAL. Any officer elected, or agent appointed, by the Board of Directors may be removed by the affirmative vote of a majority of the whole Board whenever, in their judgment, the best interests of the Corporation would be served thereby. Any officer or agent appointed by the Chairman of the Board or the President may be removed by him whenever, in his judgment, the best interests of the Corporation would be served thereby. No elected officer shall have any contractual rights against the Corporation for compensation by virtue of such election beyond the date of the election of his or her successor, his or her death, or his or her resignation or removal, whichever event shall first occur, except as otherwise provided in an employment contract or under an employee deferred compensation plan.

4.16. VACANCIES. A newly created elected office and a vacancy in any elected office because of death, resignation or removal may be filled by the Board of Directors for the unexpired portion of the term at any meeting of the Board of Directors. Any vacancy in an office appointed by the Chairman of the Board or the President because of death, resignation, or removal may be filled by the Chairman of the Board or the President.

ARTICLE V - STOCK CERTIFICATES AND TRANSFERS

5.1. STOCK CERTIFICATES. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of the Company by, the President or a Vice-President and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation.

Any of or all the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to

be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

5.2. LOST, STOLEN OR DESTROYED CERTIFICATES. The Corporation may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

5.3. DIVIDENDS.

(a) POWER TO DECLARE. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, in promissory notes or in shares of the Corporation's capital stock, subject to the provisions of the Certificate of Incorporation and the laws of Delaware.

(b) RESERVES. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE VI - MISCELLANEOUS MANAGEMENT PROVISIONS

6.1. CHECKS, DRAFTS AND NOTES. All checks, drafts or orders for the payment of money, and all notes and acceptances of the Corporation shall be

signed by such officer or officers, agent or agents as the Board of Directors may designate.

6.2. NOTICES.

(a) Whenever, under the provisions of these By-Laws, notice is required to be given to any stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail with postage thereon prepaid. Notice may also be given personally.

(b) Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation of the Corporation of the Corporation or of these by-laws, a written waiver of notice, signed by the person or persons entitled to said notice, whether before or after the time stated therein or the meeting or action to which such notice relates, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

6.3. CONFLICT OF INTEREST. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board of or committee thereof which authorized the contract or transaction, or solely because his or their votes are counted for such purpose, if: (i) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee and the board or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders of the Corporation entitled to

vote thereon, and the contract or transaction as specifically approved in good faith by vote of such stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

6.4. VOTING OF SECURITIES OWNED BY THIS CORPORATION. Subject always to the specific directions of the Board of Directors, (i) any shares or other securities issued by any other Corporation and owned or controlled by this Corporation may be voted in person at any meeting of security holders of such other corporation by the President of this Corporation if he is present at such meeting, or in his absence by the Treasurer of this Corporation if he is present at such meeting, and (ii) whenever, in the judgment of the President, it is desirable for this Corporation to execute a proxy or written consent in respect to any shares or other securities issued by any other Corporation and owned by

this Corporation, such proxy or consent shall be executed in the name of this Corporation by the President, without the necessity of any authorization by the Board of Directors, affixation of corporate seal or countersignature or attestation by another officer, provided that if the President is unable to execute such proxy or consent by reason of sickness, absence from the United States or other similar cause, the Treasurer may execute such proxy or consent. Any person or persons designated in the manner above stated as the proxy or proxies of this Corporation shall have full right, power and authority to vote the shares or other securities issued by such other corporation and owned by this Corporation the same as such shares or other securities might be voted by this Corporation.

6.5. INSPECTION OF BOOKS. The Board of Directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the Corporation.

6.6. MINUTE BOOK. The original, or attested copies, of the Certificate of Incorporation, By-Laws and records of all meetings of incorporators and stockholders, and the stock and transfer records, which shall contain the names of all stockholders and the record address and the amount of stock held by each, shall be kept at the principal office of the Corporation or at an office of its transfer agent or of the Secretary or any Assistant Secretary or of its resident agent or of its legal counsel. Such copies and records need not all be kept in the same office. They shall be available at all reasonable times to the inspection of any stockholder for

any proper purpose but not to secure a list of stockholders or other information for the purpose of selling the same or information or copies thereof or of using the same for a purpose other than in the interest of the applicant, or a stockholder, relative to the affairs of the Corporation.

ARTICLE VII - INDEMNIFICATION

7.1. RIGHT TO INDEMNIFICATION. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of being or having been a director or officer of the Corporation or serving or having served at the request of the Corporation as a director, trustee, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (an "Indemnitee"), whether the basis of such proceeding is alleged action or failure to act in an official capacity as a director, trustee, officer, employee or agent or in any other capacity while serving as a director, trustee, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than permitted prior thereto) (as used in this Article VII, the "Delaware Law"), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such Indemnitee in connection therewith and such indemnification shall continue as to an Indemnitee who has ceased to be a director, trustee, officer, employee or agent and shall inure to the benefit of the Indemnitee's heirs, executors and administrators; provided, however, that, except as provided in ss.7.2 hereof with respect to Proceedings to enforce rights to

indemnification, the Corporation shall indemnify any such Indemnitee in connection with a Proceeding (or part thereof) initiated by such Indemnitee only if such Proceeding (or part thereof) was authorized by the board of directors of the Corporation. The right to indemnification conferred in this Article VII shall be a contract right and shall include the right to be paid by the Corporation the expenses (including attorneys' fees) incurred in defending any such Proceeding in advance of its final disposition (an "Advancement of Expenses"); provided, however, that, if the Delaware Law so requires, an Advancement of Expenses incurred by an Indemnitee shall be made only upon delivery to the Corporation of an undertaking (an "Undertaking"), by or on behalf of such Indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision

from which there is no further right to appeal (a "Final Adjudication") that such Indemnitee is not entitled to be indemnified for such expenses under this Article VII or otherwise.

7.2. RIGHT OF INDEMNITEE TO BRING SUIT. If a claim under ss. 7.1 hereof is not paid in full by the Corporation within sixty days after a written claim has been received by the Corporation, except in the case of a claim for an Advancement of Expenses, in which case the applicable period shall be twenty days, the Indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an Advancement of Expenses pursuant to the terms of an Undertaking, the Indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the Indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the Indemnitee to enforce a right to an Advancement of Expenses) it shall be a defense that, and (ii) in any suit by the Corporation to recover an Advancement of Expenses pursuant to the terms of an Undertaking the Corporation shall be entitled to recover such expenses upon a Final Adjudication that, the Indemnitee has not met the applicable standard of conduct set forth in the Delaware Law. Neither the failure of the Corporation (including its board of directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the Indemnitee is proper in the circumstances because the Indemnitee has met the applicable standard of conduct set forth in the Delaware Law, nor an actual determination by the Corporation (including its board of directors, independent legal counsel, or its stockholders) that the Indemnitee has not met such applicable standard of conduct, shall create a presumption that the Indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the Indemnitee, be a defense to such suit. In any suit brought by the Indemnitee to enforce a right to indemnification or to an Advancement of Expenses hereunder, or by the Corporation to recover an Advancement of Expenses pursuant to the terms of an Undertaking, the burden of proving that the Indemnitee is not entitled to be indemnified, or to such Advancement of Expenses, under this Article VII or otherwise shall be on the Corporation.

7.3. NON-EXCLUSIVITY OF RIGHTS. The rights to indemnification and to the Advancement of Expenses conferred in this Article 7 shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Corporation's Certificate of Incorporation,

By-Law, agreement, vote of stockholders or disinterested directors or otherwise.

7.4. INSURANCE. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under this Article VII or under the Delaware Law.

7.5. INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION. The Corporation may, to the extent authorized from time to time by the board of directors, grant rights to indemnification, and to the Advancement of Expenses, to any employee or agent of the Corporation to the fullest extent of the provisions of this Article VII with respect to the indemnification and Advancement of Expenses of directors and officers of the Corporation.

ARTICLE VIII - AMENDMENTS

8.1. AMENDMENTS. Subject always to any limitations imposed by the Corporation's Certificate of Incorporation, these By-Laws may be altered, amended, or repealed, or new By-Laws may be adopted, only by (i) the affirmative vote of the holders of at least sixty-six and two-thirds (66 2/3%) of the outstanding voting stock of the Corporation (in addition to any separate class vote that may be required pursuant to the terms of any then outstanding preferred stock of the Corporation), or (ii) by resolution of the Board of Directors duly adopted by not less than a majority of the directors then constituting the full Board of Directors.

EXHIBIT 10.2

EXCHANGE APPLICATIONS, INC.

1996 STOCK INCENTIVE PLAN

1. PURPOSE. This Exchange Applications, Inc. 1996 Stock Incentive Plan (the "Plan") is intended to provide incentives (a) to the officers and other employees of Exchange Applications, Inc. (the "Company"), its parent (if any) and any present or future subsidiaries of the Company (collectively, "Related Corporations") by providing them with opportunities to purchase stock in the Company pursuant to options which qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), granted hereunder ("ISO" or "ISOs"); (b) to directors, officers, employees and consultants of the Company and Related Corporations by providing them with opportunities to purchase stock in the Company pursuant to options granted hereunder which do not qualify as ISOs ("Non-Qualified Option" or "Non-Qualified Options"); and (c) to directors, officers, employees and consultants of the Company and Related Corporations by providing them with opportunities to make direct purchases of restricted stock in the Company ("Restricted Stock"). Both ISOs and Non-Qualified options are referred to hereafter individually as an "Option" and collectively as "Options." As used herein, the terms "parent" and "subsidiary" mean "parent corporation" and "subsidiary corporation" as those terms are defined in Section 424 of the Code.

2. ADMINISTRATION OF THE PLAN. (a) The Plan shall be administered by the Board of Directors of the Company (the "Board"). The Board may appoint a Compensation Committee (the "Committee") of two or more of its members to administer the Plan. Subject to ratification of the grant of each option or Restricted Stock by the Board (if so required by applicable state law), and subject to the terms of the Plan, the Committee, if so appointed, shall have the authority to (i) determine the employees of the Company and Related Corporations (from among the class of employees eligible under paragraph 3 to receive ISOs) to whom ISOs may be granted, and to determine (from among the class of individuals and entities eligible under paragraph 3 to receive Non-Qualified Options and Restricted Stock) to whom Non-Qualified options or Restricted Stock may be granted; (ii) determine the time or times at which options or Restricted Stock may be granted; (iii) determine the option price of shares subject to each option, which price with respect to ISOs shall not be less than the minimum specified in paragraph 6, and the purchase price of Restricted Stock; (iv) determine whether each option granted shall be an ISO or a Non-Qualified option; (v) determine (subject

to paragraph 7) the time or times when each option shall become exercisable and the duration of the exercise period; (vi) determine whether restrictions such as repurchase options are to be imposed on shares subject to options and to Restricted Stock, and the nature of such restrictions, if any; and (vii) interpret the Plan and prescribe and rescind rules and regulations relating to it. If the Committee determines to issue a Non-Qualified Option, it shall take whatever actions it deems necessary, under Section 422 of the Code and the regulations promulgated thereunder, to ensure that such Option is not treated as an ISO. The interpretation and construction by the Committee of any provisions of the Plan or of any Option or authorization or agreement for Restricted Stock granted under it shall be final unless otherwise determined by the Board. The Committee may from time to time adopt such rules and regulations for carrying out the Plan as it may deem best. No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option or Restricted Stock granted under it.

(b) The Committee may select one of its members as its chairman, and shall hold meetings at such time and places as it may determine. Acts by a majority of the Committee, or acts reduced to or approved in writing by a majority of the members of the Committee, shall be the valid acts of the Committee. All references in the Plan to the Committee shall mean the Board if there is no Committee so appointed. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause), and appoint new members in substitution therefor, fill vacancies however caused, or remove all members of the Committee and thereafter directly administer the Plan.

3. ELIGIBLE EMPLOYEES AND OTHERS. ISOs may be granted to any officer or other employee of the Company or any Related Corporation. Those directors of the Company who are not employees may not be granted ISOs under the Plan. Non-Qualified Options and Restricted Stock may be granted to any director (whether or not an employee), officer, employee or consultant of the Company or any Related Corporation. The Committee may take into consideration an optionee's individual circumstances in determining whether to grant an ISO or a Non-Qualified Option or Restricted Stock. Granting of any Option or Restricted Stock to any individual or entity shall neither entitle that individual or entity to, nor disqualify him from, participation in any other grant of Options or Restricted Stock.

4. STOCK. The stock subject to options and Restricted Stock shall be

authorized but unissued shares of Common Stock of the Company, $.001 par value per share (the "Common Stock"), or shares of Common Stock re-acquired by the Company in any manner. The aggregate number shares which may be issued pursuant to the Plan is 3,124,963, subject to adjustment as provided in paragraph 13. Any such shares may be issued as ISOs, Non-Qualified Options or Restricted Stock so long as the aggregate number of shares so issued does not exceed such number, as adjusted. If any Option granted under the Plan shall expire, be cancelled or terminate for any reason without having been exercised in full or shall cease for any reason to be exercisable in whole or in part, or if any Restricted Stock shall be reacquired by the Company by exercise of its repurchase option, the shares subject to such expired, terminated or cancelled Option and reacquired shares of Restricted Stock shall again be available for grants of Options or Restricted Stock under the Plan.

5. GRANTS UNDER THE PLAN. Options or Restricted Stock may be granted under the Plan at any time on or after November 15, 1996 and prior to November 14, 2006. Any such grants of ISOs shall be subject to the receipt, within 12 months of November 15, 1996, of the approval of Stockholders as provided in paragraph 17. The date of grant of an Option under the Plan will be the date specified by the Committee at the time it awards the option; provided, however, that such date shall not be prior to the date of award. The Committee shall have the right, with the consent of the optionee, to convert an ISO granted under the Plan to a Non-Qualified Option pursuant to paragraph 15.

6. MINIMUM OPTION PRICE. (a) The price per share specified in the agreement relating to each ISO granted under the Plan shall not be less than the fair market value per share of Common Stock on the date of such grant. In the case of an ISO to be granted to an employee owning stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or any Related Corporation, the price per share specified in the agreement relating to such ISO shall not be less than 110 percent of the fair market value of Common Stock on the date of grant.

(b) In no event shall the aggregate fair market value (determined at the time the option is granted) of Common Stock for which ISOs granted to any employee are exercisable for the first time by such employee during any calendar year (under all stock option plans of the Company and any Related Corporation) exceed $100,000. If the foregoing limitation is exceeded, the balance shall be non-statutory options.

(c) If, at the time an Option is granted under the Plan, the Company's Common Stock is publicly traded, "fair market value" shall be determined as of the last business day for which the prices or quotes discussed in this sentence are available prior to the date such Option is granted and shall mean (i) the

average (on that date) of the high and low prices of the Common Stock on the principal national securities exchange on which the Common Stock is traded, if such stock is then traded on a national securities exchange; or (ii) the last reported sale price (on that date) of the Common Stock on the Nasdaq National Market System, if the Common Stock is not then traded on a national securities exchange; or (iii) the closing bid price (or average of bid prices) last quoted (on that date) by an established quotation service for over-the-counter securities, if the Common Stock is not reported on the Nasdaq National Market System or on a national securities exchange. However, if the Common Stock is not publicly traded at the time an option is granted under the Plan, "fair market value" shall be deemed to be the fair value of the Common Stock as determined by the Committee after taking into consideration all factors which it deems appropriate, including, without limitation, recent sale and offer prices of the Common Stock in private transactions negotiated at arms' length.

7. OPTION DURATION. Subject to earlier termination as provided in paragraphs 9 and 10, each Option shall expire on the date specified by the Committee, but not more than ten years from the date of grant or, in the case of ISOs granted to an employee owning stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or any Related Corporation, not more than five years from date of grant. Subject to earlier termination as provided in paragraphs 9 and 10, the term of each ISO shall be the term set forth in the original instrument granting such ISO, except with respect to any part of such ISO that is converted into a Non-Qualified option pursuant to paragraph 15.

8. EXERCISE OF OPTION. Subject to the provisions of paragraphs 9 through 12, each option granted under the Plan shall be exercisable as follows:

(a) The Option shall either be fully exercisable on the date of grant or shall become exercisable thereafter in such installments as the Committee may specify.

(b) Once an installment becomes exercisable it shall remain exercisable until expiration or termination of the Option, unless otherwise specified by the Committee.

(c) Each Option or installment may be exercised at any time or from time to time, in whole or in part, for up to the total number of shares with respect to which it is then exercisable.

(d) The Committee shall have the right to accelerate the date of exercise of any installment; provided that the Committee shall not accelerate the exercise date of any installment of any Option granted to any employee as an ISO (and not previously converted into a Non-Qualified Option pursuant to

paragraph 15) if such acceleration would violate the annual vesting limitation contained in Section 422(d) of the Code which provides generally that the aggregate fair market value (determined at the time the option is granted) of the stock with respect to which ISOs granted to any employee are exercisable for the first time by such employee during any calendar year (under all plans of the Company and any Related Corporation) shall not exceed $100,000.

9. TERMINATION OF EMPLOYMENT. If an ISO optionee ceases to be employed by the Company or any Related Corporation other than by reason of death or disability as provided in paragraph 10, no further installments of his ISOs shall become exercisable, and his ISOs shall terminate after the passage of 60 days from the date of termination of his employment, but in no event later than on their specified expiration dates except to the extent that such ISOs (or unexercised installments thereof) have been converted into Non-Qualified Options pursuant to paragraph 15. Leave of absence with the written approval of the Committee shall not be considered an interruption of employment under the Plan, provided that such written approval contractually obligates the Company or any Related Corporation to continue the employment of the employee after the approved period of absence. Employment shall also be considered as continuing uninterrupted during any other bona fide leave of absence (such as those attributable to illness, military obligations or governmental service) provided that the period of such leave does not exceed 90 days or, if longer, any period during which such optionee's right to reemployment is guaranteed by statute. Nothing in the Plan shall be deemed to give any grantee of any option or Restricted Stock the right to be retained in employment or other service by the Company or any Related Corporation for any period of time. ISOs granted under the Plan shall not be affected by any change of employment within or among the Company and Related Corporations, so long as the optionee continues to be an employee of the Company or any Related Corporation. In granting any Non-Qualified option, the Committee may specify that such Non-Qualified Option shall be subject to the restrictions set forth herein with respect to ISOs, or to such other termination or cancellation provisions as the Committee may determine.

10. DEATH; DISABILITY; DISSOLUTION. If an optionee ceases to be employed by the Company and all Related Corporations by reason of his death, any Option of his may be exercised, to the extent of the number of shares with respect to which he could have exercised it on the date of his death, by his estate, personal representative or beneficiary who has acquired the option by will or by the laws of descent and distribution, at any time prior to the earlier of the Option's specified expiration date or 180 days from the date of the optionee's death.

If an optionee ceases to be employed by the Company and all Related

Corporations by reason of his disability, he shall have the right to exercise any Option held by him on the date of termination of employment, to the extent of the number of shares with respect to which he could have exercised it on that date, at any time prior to the earlier of the option's specified expiration date or 180 days from the date of the termination of the optionee's employment. For the purposes of the Plan, the term "disability" shall have the meaning assigned to it in Section 22(e)(3) of the Code or any successor statute.

In the case of a partnership, corporation or other entity holding a Non-Qualified Option, if such entity is dissolved, liquidated, becomes insolvent or enters into a merger or acquisition with respect to which such optionee is not the surviving entity, such Option shall terminate immediately.

11. ASSIGNABILITY. No Option shall be assignable or transferable by the optionee except by will or by the laws of descent and distribution, and during the lifetime of the Optionee each Option shall be exercisable only by him.

12. TERMS AND CONDITIONS OF OPTIONS. Options shall be evidenced by instruments (which need not be identical) in such forms as the Committee may from time to time approve. Such instruments shall conform to the terms and conditions set forth in paragraphs 6 through 11 hereof and may contain such other provisions as the Committee deems advisable which are not inconsistent with the Plan, including transfer and repurchase restrictions applicable to shares of Common Stock issuable upon exercise of Options. The Committee may from time to time confer authority and responsibility on one or more of its own members and/or one or more officers of the Company to execute and deliver such instruments. The proper officers of the Company are authorized and directed to take any and all action necessary or advisable from time to time to carry out the terms of such instruments.

13. ADJUSTMENTS. Upon the happening of any of the following described events, an optionee's rights with respect to Options granted to him hereunder shall be adjusted as hereinafter provided:

(a) Subject to any contrary provision contained in any instrument evidencing an option, in the event shares of Common Stock shall be sub-divided or combined into a greater or smaller number of shares or if, upon a merger, consolidation, reorganization, split-up, liquidation, combination, recapitalization or the like of the Company, the shares of Common Stock shall be exchanged for other securities of the Company or of another corporation, each optionee shall be entitled, subject to the conditions herein stated, to purchase such number of shares of common stock or amount of other securities of the Company or such other corporation as were exchangeable for the number of shares of Common Stock which such optionee would have been entitled to purchase except

for such action, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination, or exchange.

(b) In the event the Company shall issue any of its shares as a stock dividend upon or with respect to the shares of stock of the class which shall at the time be subject to option hereunder, each optionee upon exercising an Option shall be entitled to receive (for the purchase price paid upon such exercise) the shares as to which he is exercising his Option and, in addition thereto (at no additional cost), such number of shares of the class or classes in which such stock dividend or dividends were declared or paid, and such amount of cash in lieu of fractional shares, as he would have received if he had been the holder of the shares as to which he is exercising his option at all times between the date of grant of such Option and the date of its exercise.

(c) Notwithstanding the foregoing, any adjustments made pursuant to subparagraph (a) or (b) shall be made only after the Committee, after consulting with counsel for the Company, determines whether such adjustments with respect to ISOs will constitute a "modification" of such ISOs as that term is defined in Section 424 of the Code, or cause any adverse tax consequences for the holders of such ISOs. No adjustments shall be made for dividends paid in cash or in property other than securities of the Company.

(d) No fractional shares shall actually be issued under the Plan. Any fractional shares which, but for this subparagraph (d), would have been issued to an optionee pursuant to an Option, shall be deemed to have

been issued and immediately sold to the Company for their fair market value, and the optionee shall receive from the Company cash in lieu of such fractional shares.

(e) Upon the happening of any of the foregoing events described in subparagraphs (a) or (b) above, the class and aggregate number of shares set forth in paragraph 4 hereof which are subject to options which previously have been or subsequently may be granted under the Plan shall also be appropriately adjusted to reflect the events specified in such subparagraphs. The Committee shall determine the specific adjustments to be made under this paragraph 13, and subject to paragraph 2, its determination shall be conclusive.

14. MEANS OF EXERCISING OPTIONS. An Option (or any part or installment thereof) shall be exercised by giving written notice to the Company at its principal office address. Such notice shall identify the option being exercised and specify the number of shares as to which such Option is being exercised, accompanied by full payment of the purchase price therefor either (i) in United States dollars in cash or by check, or (ii) at the discretion of the Committee, through delivery of shares of Common Stock having fair market value equal as of

the date of the exercise to the cash exercise price of the Option, or (iii) at the discretion of the Committee, by delivery of the optionee's personal recourse note bearing interest payable not less than annually at no less than 100% of the lowest applicable Federal rate, as defined in Section 1274(d) of the Code, or (iv) at the discretion of the Committee, by any combination of (i), (ii) and (iii) above. The holder of an Option shall not have the rights of a shareholder with respect to the shares covered by his option until the date of issuance of a stock certificate to him for such shares. Except as expressly provided above in paragraph 13 with respect to change in capitalization and stock dividends, no adjustment shall be made for dividends or similar rights for which the record date is before the date such stock certificates is issued.

15. CONVERSION OF ISOs INTO NON-QUALIFIED OPTIONS: TERMINATION OF ISOs. The Committee, at the written request of any optionee, may in its discretion take such actions as may be necessary to convert such optionee's ISOs (or any installments or portions of installments thereof) that have not been exercised on the date of conversion into Non-Qualified Options at any time prior to the expiration of such ISOs, regardless of whether the optionee is an employee of the Company or a Related Corporation at the time of such conversion. Such actions may include, but not be limited to, extending the exercise period or reducing the exercise price of the appropriate installments of such Options. At the time of such conversion, the Committee (with the consent of the optionee) may impose

such conditions on the exercise of the resulting Non-Qualified Options as the Committee in its discretion may determine, provided that such conditions shall not be inconsistent with the Plan. Nothing in the Plan shall be deemed to give any optionee the right to have such optionee's ISOs converted into Non-Qualified Options, and no such conversion shall occur until and unless the Committee takes appropriate action. The Committee, with the consent of the optionee, may also terminate any portion of any ISO that has not been exercised at the time of such termination.

16. RESTRICTED STOCK. Each grant of Restricted Stock under the Plan shall be evidenced by an instrument (a "Restricted Stock Agreement") in such form as the Committee shall prescribe from time to time in accordance with the Plan and shall comply with the following terms and conditions, and with such other terms and conditions as the Committee, in its discretion, shall establish:

(a) The Committee shall determine the number of shares of Common Stock to be issued to an eligible person pursuant to the grant of Restricted Stock, and the extent, if any, to which they shall be issued in exchange for cash, other consideration, or both.

(b) Shares issued pursuant to a grant of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise disposed of, except by will or the laws of descent and distribution, or as otherwise determined by the Committee in the Restricted Stock Agreement, for such period as the Committee shall determine, from the date on which the Restricted Stock is granted (the "Restricted Period"). The Company will have the option to repurchase the Common Stock at such price as the Committee shall have fixed in the Restricted Stock Agreement which option will be exercisable (i) if the participant's continuous employment or performance of services for the Company and the Related Corporations shall terminate prior to the expiration of the Restricted Period, (ii) if, on or prior to the expiration of the Restricted Period or the earlier lapse of such repurchase option, the participant has not paid to the Company an amount equal to any federal, state, local or foreign income or other taxes which the Company determines is required to be withheld in respect of such Restricted Stock, or (iii) under such other circumstances as determined by the Committee in its discretion. Such repurchase option shall be exercisable on such terms, in such manner and during such period as shall be determined by the Committee in the Restricted Stock Agreement. Each certificate for shares issued as Restricted Stock shall bear an appropriate legend referring to the foregoing repurchase option and other restrictions; shall be deposited by the stockholder with the Company, together with a

stock power endorsed in blank; or shall be evidenced in such other manner permitted by applicable law as determined by the Committee in its discretion. Any attempt to dispose of any such shares in contravention of the foregoing repurchase option and other restrictions shall be null and void and without effect. If shares issued as Restricted Stock shall be repurchased pursuant to the repurchase option described above, the stockholder, or in the event of his death, his estate, personal representative, or beneficiary who has acquired the Restricted Stock by will or by the laws of descent and distribution, shall forthwith deliver to the Secretary of the Company the certificates for the shares, accompanied by such instrument of transfer, if any, as may reasonably be required by the Secretary of the Company. If the repurchase option described above is not exercised by the Company, such repurchase option and the restrictions imposed pursuant to the first sentence of this subparagraph (b) shall terminate and be of no further force and effect.

(c) If a person who has been in continuous employment or performance of services for the Company or a Related Corporation since the date on which Restricted Stock was granted to him shall, while in such employment or performance of services, die, or terminate such employment or performance of services by reason of disability or by reason of early, normal or deferred retirement under an approved retirement program of the Company or a Related Corporation (or such other plan or arrangement as may be approved by the Committee in its discretion, for this purpose) and any of such events shall

occur after the date on which the Restricted Stock was granted to him and prior to the end of the Restricted Period, the Committee may determine to cancel the repurchase option (and any and all other restrictions) on any or all of the shares of Restricted Stock; and the repurchase option shall become exercisable at such time as to the remaining shares, if any.

17. TERM AND AMENDMENT OF PLAN. This Plan was adopted by the Board on November 14, 1996, subject to approval of the Plan by the holders of a majority of the outstanding voting stock of the Company. The Plan shall expire on November 14, 2006 (except as to options and Restricted Stock outstanding on that date). Subject to the provisions of paragraph 5 above, Options and Restricted Stock may be granted under the Plan by the Committee, prior to the date of stockholder approval of the Plan. If the approval of stockholders is not obtained by November 14, 1997, any grants of options or Restricted Stock under the Plan made prior to that date will be rescinded. The Board may terminate or amend the Plan in any respect at any time, except that, any amendment that (a) increases the total number of shares that may be issued under the Plan (except by adjustment pursuant to paragraph 13), (b) changes the class of

persons eligible to participate in the Plan, or (c) materially increases the benefits to participants under the Plan, shall be subject to approval by stockholders obtained within 12 months before or after the Board adopts a resolution authorizing any of the foregoing amendments, and shall be null and void if such approval is not obtained. Except as provided in the fourth sentence of this paragraph 17, in no event may action of the Board or stockholders alter or impair the rights of an optionee or purchaser of Restricted Stock without his consent, under any Option or Restricted Stock previously granted to him.

18. APPLICATION OF FUNDS. The proceeds received by the Company from the sale of shares pursuant to Options and Restricted Stock authorized under the Plan shall be used for general corporate purposes.

19. GOVERNMENTAL REGULATION. The Company's obligation to sell and deliver shares of the Common Stock under this Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of such shares.

20. WITHHOLDING OF ADDITIONAL INCOME TAXES. The Company, in accordance with the Code, may, upon exercise of a Non-Qualified Option or the purchase of Common Stock for less than its fair market value or the lapse of restrictions on Restricted Stock or the making of a Disqualifying Disposition (as defined in paragraph 21) require the employee to pay additional withholding taxes in respect of the amount that is considered compensation includable in such person's gross income.

21. NOTICE TO COMPANY OF DISQUALIFYING DISPOSITION. Each employee who receives ISOs shall agree to notify the Company in writing immediately after the employee makes a disqualifying disposition of any Common Stock received pursuant to the exercise of an ISO (a "Disqualifying Disposition"). Disqualifying Disposition means any disposition (including any sale) of such stock before the later of (a) two years after the employee was granted the ISO under which he acquired such stock, or (b) one year after the employee acquired such stock by exercising such ISO. If the employee has died before such stock is sold, these holding period requirements do not apply and no Disqualifying Disposition will thereafter occur.

22. GOVERNING LAWS; CONSTRUCTION. The validity and construction of the Plan and the instruments evidencing options and Restricted Stock shall be governed by the laws of the State of Nebraska. In construing this Plan, the singular shall include the plural and the masculine gender shall include the feminine and neuter, unless the context otherwise requires.

EXCHANGE APPLICATIONS, INC.

INCENTIVE STOCK OPTION AGREEMENT
[STANDARD FORM]

INCENTIVE STOCK OPTION AGREEMENT (this "Agreement") by and between Exchange Applications, Inc., a Delaware corporation (the "Company"), and the employee of the Company or a subsidiary of the Company (the "Optionee") specified in Schedule A appended to this Agreement ("Schedule A").

WHEREAS, the Company maintains the Exchange Applications, Inc. 1996 Stock Incentive Plan (the "Plan"); and

WHEREAS, the Optionee renders important services to the Company or a subsidiary of the Company, and the Company desires to grant a stock option to the Optionee; and

WHEREAS, the Board of Directors of the Company (the "Board") or the Compensation Committee of the Board (the "Committee"), acting pursuant to the Plan, has authorized the grant of this Incentive Stock Option to the Optionee subject to the terms and conditions of the Plan and the additional terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Optionee hereby agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee, and the

Optionee hereby accepts, an Incentive Stock Option (the "Option") to purchase from the Company that number of shares of the Company's Common Stock (the "Shares"), specified in Schedule A. This Agreement and the Option hereby granted to the Optionee are subject to all of the terms and conditions of the Plan which are incorporated herein by this reference; any term used herein shall have the meaning assigned thereto in the Plan, unless such term is otherwise specifically defined herein.

This Option is intended to constitute an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. OPTION PRICE; DATE OF GRANT. This Option may be exercised at the option price per Share specified in Schedule A, which the Board or Committee has determined, in accordance with Section 6 of the Plan, is 100% of the fair market value of a Share on the Date of Grant of this Option. The Date of Grant of this option is specified in Schedule A.

3. TERM OF OPTION; VESTING AND EMPLOYMENT REQUIREMENTS. This Option shall expire on the date specified in Schedule A (the "Expiration Date"). This Option shall be exercisable to the extent of the number of Shares vested as of the date of exercise, in accordance with the vesting schedule provided in Schedule A. If exercised in part, the Option may be exercised only once in each calendar quarter, except with the express written consent of the Company. The vesting installments provided in Schedule A are cumulative, and this Option will remain exercisable with respect to all vested but unexercised installments until the option expires on the Expiration Date, unless the option is sooner terminated as provided in Section 7 or Section 8 of this Agreement.

4. OTHER CONDITIONS AND LIMITATIONS. The Option shall not be assignable or transferable by the Optionee otherwise than by will or by the laws of descent and distribution, and the Option shall be exercisable during the lifetime of the Optionee by the Optionee only.

5. EXERCISE OF OPTION. Written notice of the exercise of the Option or any portion thereof shall be given to the Chief Financial Officer of the Company accompanied by the option price in cash or by check.

6. STOCK DIVIDENDS; STOCK SPLITS; STOCK COMBINATIONS; RECAPITALIZATIONS. Appropriate adjustment shall be made in the maximum number of Shares subject to this Option and in the number, kind and option price of Shares covered by this option to the extent it remains outstanding, to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and other similar changes in the capital structure of the Company after the Date of Grant of this Option, as determined by the Board or Committee in accordance with

Section 13 of the Plan.

7. CAPITAL CHANGES AND BUSINESS SUCCESSIONS. Upon the occurrence of any of the following events, the Optionee's rights with respect to this option shall be adjusted as hereinafter provided:

A. ACQUISITION, CONSOLIDATION OR MERGER. If the Company is to be consolidated with or acquired by another person or entity in a

merger, sale of stock, sale of all or substantially all of the Company's assets or otherwise (other than a merger or consolidation of the Company with, or the sale of all or substantially all of the assets of the Company to, any entity if 50% or more of the aggregate voting power of such entity is held immediately after such transaction by persons who were stockholders of the Company immediately prior to such transaction) (an "Acquisition"), the Board or the Committee or the board of directors of any entity assuming the obligations of the Company hereunder, shall, as to this Option, either (i) make appropriate provision for the continuation of this option by substituting on an equitable basis for the Shares then subject to this Option the consideration payable with respect to the outstanding shares of Common Stock in connection with the Acquisition; or (ii) upon written notice to the Optionee, provide that this Option must be exercised, to the extent exercisable as of the closing of the Acquisition within a specified number of days of the date of such notice, at the end of which period this option shall terminate; or (iii) terminate this Option in exchange for a cash payment equal to the excess of the fair market value of the Shares subject to this option (to the extent exercisable as of the closing of the Acquisition) over the exercise price thereof.

B. RECAPITALIZATION OR REORGANIZATION. In the event of a recapitalization or reorganization of the Company (other than an Acquisition) pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, the Optionee upon exercising this Option shall be entitled to receive for the purchase price paid upon such exercise the securities he would have received if he had exercised this option prior to such recapitalization or reorganization.

C. DISSOLUTION OR LIQUIDATION. In the event of the proposed dissolution or liquidation of the Company, this Option will terminate immediately prior to the consummation of such proposed action or at such other time and subject to such other conditions as shall be determined by the Board or the Committee.

D. ISSUANCES OF SECURITIES. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or

securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to this Option. No adjustments shall be made for dividends paid in cash or in property other than securities of the Company.

15

8. TERMINATION OF OPTION. In the event that the Optionee ceases for any reason to be an employee of the Company, or a subsidiary of the Company, at a time prior to the exercise of this option in full, this Option shall terminate in accordance with the following provisions:

(a) if the Optionee's employment shall have been terminated by the Company involuntarily for cause (as defined below), this Option shall terminate and may no longer be exercised;

(b) if the Optionee's employment shall have been terminated by the Company involuntarily and without cause, or by the Optionee by resignation or other voluntary action, the Optionee may at any time within a period of sixty (60) days after such termination of employment exercise this Option to the extent it was exercisable on the date of termination of the Optionee's employment;

(c) if the Optionee's employment shall have been terminated because of disability within the meaning specified in the Plan, the Optionee may at any time within a period of one hundred eighty (180) days after such termination of employment exercise this Option to the extent that the Option was exercisable on the date of termination of the Optionee's employment; or

(d) if the Optionee's employment shall have been terminated because of his death, the Option, to the extent that the Optionee was entitled to exercise it on the date of death, may be exercised within a period of one hundred eighty (180) days after the Optionee's death by the person or persons to whom the Optionee's rights under the option shall pass by will or by the laws of descent and distribution;

provided, however, that this Option may not be exercised to any extent by anyone after the Expiration Date. For purposes of this Agreement, "cause" shall mean termination of the Optionee's employment by the Company because of (i) a determination by the Board of Directors of the Company that (A) the Optionee has repeatedly and willfully failed or refused to comply with reasonable and explicit directives from the Company, or (B) the Optionee has willfully and repeatedly breached or habitually neglected his material duties or responsibilities as an employee, (ii) the commission by the Optionee of a felony or the perpetration by the Optionee of a dishonest act or fraud or (iii) breach

by the Optionee of any obligations under the Non-Disclosure and Developments Agreement or Non-Competition and Non-Solicitation Agreement, if any, between the Company and the Optionee.

16

9. TAX TREATMENT OF OPTION: NOTICE OF DISPOSITION OF SHARES. Although this option is intended to constitute an "incentive stock option" within the meaning of Section 422 of the Code, the Company makes no representations as to the tax treatment of the Optionee upon the receipt or exercise of this Option or the sale or other disposition of the Shares issued pursuant to this Option. The Optionee shall notify the Company within seven (7) days after the date the Optionee sells or otherwise disposes of any Shares acquired by the exercise of this option within either (a) two (2) years from the Date of Grant or (b) one (1) year after the exercise of this Option for such Shares.

10. COMPLIANCE WITH SECURITIES LAWS. The Company shall not be obligated to sell or issue any Shares pursuant to this Option unless the Shares with respect to which this Option is being exercised are at that time effectively registered or exempt from registration under the Securities Act of 1933, as amended (the "Act"), and any applicable state securities or "blue sky" law ("Blue Sky Law"). In the event Shares or other securities shall be issued which shall not be so registered, the Optionee hereby represents, warrants and agrees that he will receive such Shares or other securities for investment and not with a view to the resale or distribution thereof, and will not transfer such Shares or other securities unless they are effectively registered for such transfer under the Act and any applicable Blue Sky Law or unless an opinion of counsel satisfactory to the Company has been received by the Company to the effect that such registration is not required. The Optionee further agrees that the stock certificate or certificates evidencing such Shares may bear a legend setting forth such restrictions on their transferability.

11. RIGHTS AS A STOCKHOLDER; NO OBLIGATION TO CONTINUE EMPLOYMENT. The Optionee shall have no rights as a stockholder with respect to the Shares subject to the Option until the exercise of the option and the issuance of a stock certificate for the Shares with respect to which the Option shall have been exercised. Nothing herein contained shall impose any obligation on the Company or any of its subsidiaries or the Optionee with respect to the Optionee's continued employment by the Company or any of its subsidiaries. Nothing herein contained shall impose any obligation upon the Optionee to exercise the Option.

12. RELATIONSHIP TO PLAN. The Option contained in this Agreement has been granted pursuant to the Plan, and is in all respects subject to the terms, conditions and definitions of the Plan, as amended from time to time. The

Optionee hereby accepts this option subject to all the terms and provisions of the Plan and agrees that all decisions under and interpretations of the Plan by the Board or Committee shall be final,

17

binding and conclusive upon the Optionee and his permitted heirs, executors, administrators, successors and assigns.

13. RESTRICTIONS ON TRANSFER. Any sale or other disposition of any of the Shares by the Optionee, other than according to the terms of this Section 13, shall be void and transfer no right, title or interest in or to any of such Shares to the purported transferee. For purposes of this Section 13, the term "Shares" shall include all shares of capital stock of the Company held by the Optionee, whether now owned or hereafter acquired. The Optionee agrees to present the certificates representing the Shares hereafter acquired by him or her to the Secretary of the Company and cause the Secretary to stamp on the certificate in a prominent manner the following legend:

> "The sale or other disposition of any of the shares represented by this certificate is restricted by an Incentive Stock Option Agreement, dated as of _____, between the holder of this certificate and the issuer.

If the Optionee desires to sell, transfer or otherwise dispose of any of the Shares, or any interest in such Shares, whether voluntarily or by operation of law, the Optionee shall first deliver written notice (the "Offer") to the Company specifying (i) the name and address of the party to which the Optionee proposes to sell or otherwise dispose of the Shares or an interest in the Shares (the "Offeror"), (ii) the number of Shares the Optionee proposes to sell or otherwise dispose of, (iii) the consideration per Share to be delivered to the Optionee for the proposed sale, transfer, or disposition and (iv) all other material terms and conditions of the proposed transaction.

Upon receipt of the Offer, the Company shall have an option to purchase any or all of such Shares specified in the Offer, such option to be exercised by giving, within 15 days after receipt of the offer, a written counter-notice to Optionee. If the Company elects to purchase any or all of such Shares in accordance with this Section 13, it shall be obligated to purchase, and the Optionee shall be obligated to sell to the Company such Shares at the price and in accordance with the terms indicated in the offer within 60 days from the date of receipt by the Company of the Offer. The Optionee may sell any or all of such Shares which the Company has not so elected to purchase during the 30 days following the expiration of the Offer Period, PROVIDED that such sale is made to the Offeror and only pursuant to the terms set forth in the Offer and, PROVIDED, further, that the purchaser thereof shall have executed a writing satisfactory to the Company, agreeing that such purchaser shall be subject to the

restrictions

18

on transfer set forth in this Section 13. If, however, any or all such Shares are not sold by the Optionee in accordance with the terms set forth in the offer within such 30 days, the restrictions on transfer set forth in this Section 13 shall again become applicable to such unsold Shares. The provisions of this Section 13 shall terminate on (i) the effective date of a registration statement filed by the Company under the Securities Act of 1933, as amended (the "Act"), with respect to an underwritten public offering of the Common Stock or (ii) the closing date of a sale of assets or merger of the Company pursuant to which shareholders of the Company receive securities of a buyer whose shares are publicly traded.

14. MISCELLANEOUS. In case any one or more of the provisions or part of any provision contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision or part of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provision or part of a provision had never been contained herein. This Agreement shall be binding upon and inure to the benefit of the parties hereto, and to their respective heirs, executors, administrators, successors and assigns. This Agreement shall be governed by and construed and administered in accordance with the laws of The Commonwealth of Massachusetts.

19

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the Date of Grant specified in Schedule A.

EXCHANGE APPLICATIONS, INC.

By: _____

Title: _____

_____

Optionee

EXCHANGE APPLICATIONS, INC.
INCENTIVE STOCK OPTION AGREEMENT

SCHEDULE A

This Schedule A sets forth certain information and provisions referred to in the Incentive Stock Option Agreement to which this Schedule A is appended.

1. The Optionee is _____.

2. The number of option Shares is _____.

3. The option price per Share for such option Shares is $ _____.

4. The Date of Grant of the Option is _____.

5. The Expiration Date of the Option is [ten years from date of grant].

6. The Option shall become exercisable by the Optionee as follows: [INSERT VESTING SCHEDULE].

EXCHANGE APPLICATIONS, INC.

INCENTIVE STOCK OPTION AGREEMENT
[EXECUTIVE FORM]

INCENTIVE STOCK OPTION AGREEMENT (this "Agreement") by and between Exchange Applications, Inc., a Delaware corporation (the "Company"), and the employee of the Company or a subsidiary of the Company (the "Optionee") specified in Schedule A appended to this Agreement ("Schedule A").

WHEREAS, the Company maintains the Exchange Applications, Inc. 1996 Stock Incentive Plan (the "Plan"); and

WHEREAS, the Optionee renders important services to the Company or a subsidiary of the Company, and the Company desires to grant a stock option to the Optionee; and

WHEREAS, the Board of Directors of the Company (the "Board") or the Compensation Committee of the Board (the "Committee"), acting pursuant to the Plan, has authorized the grant of this Incentive Stock Option to the Optionee subject to the terms and conditions of the Plan and the additional terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Optionee hereby agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee, and the Optionee hereby accepts, an Incentive Stock Option (the "Option") to purchase from the Company that number of shares of the Company's Common Stock (the "Shares"), specified in Schedule A. This Agreement and the Option hereby granted to the Optionee are subject to all of the terms and conditions of the Plan which are incorporated herein by this reference; any term used herein shall have the meaning assigned thereto in the Plan, unless such term is otherwise specifically defined herein.

This Option is intended to constitute an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. OPTION PRICE; DATE OF GRANT. This Option may be exercised at the option price per Share specified in Schedule A, which the Board or Committee has determined, in accordance with Section 6 of the Plan, is 100% of the fair market value of a Share on the Date of Grant of this Option. The Date of Grant of this option is specified in Schedule A.

3. TERM OF OPTION; VESTING AND EMPLOYMENT REQUIREMENTS. This Option shall expire on the date specified in Schedule A (the "Expiration Date"). This Option shall be exercisable to the extent of the number of Shares vested as of the date of exercise, in accordance with the vesting schedule provided in Schedule A. If exercised in part, the Option may be exercised only once in each calendar quarter, except with the express written consent of the Company. The vesting installments provided in Schedule A are cumulative, and this Option will remain exercisable with respect to all vested but unexercised installments until the option expires on the Expiration Date, unless the option is sooner terminated as provided in Section 7 or Section 8 of this Agreement. Notwithstanding anything to the contrary set forth herein, all unvested

installments shall become immediately vested immediately prior to the closing of any Acquisition (as defined in Section 7A below); PROVIDED, that (i) the Option shall not have otherwise terminated pursuant to the terms hereof prior to the closing of such Acquisition, and (ii) the Optionee's employment shall not have been terminated (whether voluntarily or involuntarily, with or without cause) prior to the closing of such Acquisition.

4. OTHER CONDITIONS AND LIMITATIONS. The Option shall not be assignable or transferable by the Optionee otherwise than by will or by the laws of descent and distribution, and the Option shall be exercisable during the lifetime of the Optionee by the Optionee only.

5. EXERCISE OF OPTION. Written notice of the exercise of the Option or any portion thereof shall be given to the Chief Financial Officer of the Company accompanied by the option price in cash or by check.

6. STOCK DIVIDENDS; STOCK SPLITS; STOCK COMBINATIONS; RECAPITALIZATIONS. Appropriate adjustment shall be made in the maximum number of Shares subject to this Option and in the number, kind and option price of Shares covered by this option to the extent it remains outstanding, to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and other similar changes in the capital structure of the Company after the Date of Grant of this Option, as

determined by the Board or Committee in accordance with Section 13 of the Plan.

7. CAPITAL CHANGES AND BUSINESS SUCCESSIONS. Upon the occurrence of any of the following events, the Optionee's rights with respect to this option shall be adjusted as hereinafter provided:

A. ACQUISITION, CONSOLIDATION OR MERGER. If the Company is to be consolidated with or acquired by another person or entity in a merger, sale of stock, sale of all or substantially all of the Company's assets or otherwise (other than a merger or consolidation of the Company with, or the sale of all or substantially all of the assets of the Company to, any entity if 50% or more of the aggregate voting power of such entity is held immediately after such transaction by persons who were stockholders of the Company immediately prior to such transaction) (an "Acquisition"), the Board or the Committee or the board of directors of any entity assuming the obligations of the Company hereunder, shall, as to this Option, either (i) make appropriate provision for the continuation of this option by substituting on an equitable basis for the Shares then subject to this Option the consideration payable with respect to the outstanding shares of Common Stock in connection with the Acquisition; or (ii)

upon written notice to the Optionee, provide that this Option must be exercised, to the extent exercisable as of the closing of the Acquisition (assuming for this purpose the acceleration of the vesting schedule contemplated by the last sentence of Section 3) within a specified number of days of the date of such notice, at the end of which period this option shall terminate; or (iii) terminate this Option in exchange for a cash payment equal to the excess of the fair market value of the Shares subject to this option (to the extent exercisable as of the closing of the Acquisition) over the exercise price thereof (assuming for this purpose the acceleration of the vesting schedule contemplated by the last sentence of Section 3).

B. RECAPITALIZATION OR REORGANIZATION. In the event of a recapitalization or reorganization of the Company (other than an Acquisition) pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, the Optionee upon exercising this Option shall be entitled to receive for the purchase price paid upon such exercise the securities he would have received if he had exercised this option prior to such recapitalization or reorganization.

C. DISSOLUTION OR LIQUIDATION. In the event of the proposed dissolution or liquidation of the Company, this Option will terminate immediately prior to the consummation of such proposed action

or at such other time and subject to such other conditions as shall be determined by the Board or the Committee.

D. ISSUANCES OF SECURITIES. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to this Option. No adjustments shall be made for dividends paid in cash or in property other than securities of the Company.

8. TERMINATION OF OPTION. In the event that the Optionee ceases for any reason to be an employee of the Company, or a subsidiary of the Company, at a time prior to the exercise of this option in full, this Option shall terminate in accordance with the following provisions:

(a) if the Optionee's employment shall have been terminated by the Company involuntarily for cause (as defined below), this Option shall terminate and may no longer be exercised;

(b) if the Optionee's employment shall have been terminated by the

Company involuntarily and without cause, or by the Optionee by resignation or other voluntary action, the Optionee may at any time within a period of sixty (60) days after such termination of employment exercise this Option to the extent it was exercisable on the date of termination of the Optionee's employment;

(c) if the Optionee's employment shall have been terminated because of disability within the meaning specified in the Plan, the Optionee may at any time within a period of one hundred eighty (180) days after such termination of employment exercise this Option to the extent that the Option was exercisable on the date of termination of the Optionee's employment; or

(d) if the Optionee's employment shall have been terminated because of his death, the Option, to the extent that the Optionee was entitled to exercise it on the date of death, may be exercised within a period of one hundred eighty (180) days after the Optionee's death by the person or persons to whom the Optionee's rights under the option shall pass by will or by the laws of descent and distribution;

provided, however, that this Option may not be exercised to any extent by anyone after the Expiration Date. For purposes of this Agreement, "cause" shall mean termination of the Optionee's employment by the

Company because of (i) a determination by the Board of Directors of the Company that (A) the Optionee has repeatedly and willfully failed or refused to comply with reasonable and explicit directives from the Company, or (B) the Optionee has willfully and repeatedly breached or habitually neglected his material duties or responsibilities as an employee, (ii) the commission by the Optionee of a felony or the perpetration by the Optionee of a dishonest act or fraud or (iii) breach by the Optionee of any obligations under the Non-Disclosure and Developments Agreement or Non-Competition and Non-Solicitation Agreement, if any, between the Company and the Optionee.

9. TAX TREATMENT OF OPTION: NOTICE OF DISPOSITION OF SHARES. Although this option is intended to constitute an "incentive stock option" within the meaning of Section 422 of the Code, the Company makes no representations as to the tax treatment of the Optionee upon the receipt or exercise of this Option or the sale or other disposition of the Shares issued pursuant to this Option. The Optionee shall notify the Company within seven (7) days after the date the Optionee sells or otherwise disposes of any Shares acquired by the exercise of this option within either (a) two (2) years from the Date of Grant or (b) one (1) year after the exercise of this Option for such Shares.

10. COMPLIANCE WITH SECURITIES LAWS. The Company shall not be obligated

to sell or issue any Shares pursuant to this Option unless the Shares with respect to which this Option is being exercised are at that time effectively registered or exempt from registration under the Securities Act of 1933, as amended (the "Act"), and any applicable state securities or "blue sky" law ("Blue Sky Law"). In the event Shares or other securities shall be issued which shall not be so registered, the Optionee hereby represents, warrants and agrees that he will receive such Shares or other securities for investment and not with a view to the resale or distribution thereof, and will not transfer such Shares or other securities unless they are effectively registered for such transfer under the Act and any applicable Blue Sky Law or unless an opinion of counsel satisfactory to the Company has been received by the Company to the effect that such registration is not required. The Optionee further agrees that the stock certificate or certificates evidencing such Shares may bear a legend setting forth such restrictions on their transferability.

11. RIGHTS AS A STOCKHOLDER; NO OBLIGATION TO CONTINUE EMPLOYMENT. The Optionee shall have no rights as a stockholder with respect to the Shares subject to the Option until the exercise of the option and the issuance of a stock certificate for the Shares with respect to which the Option shall have been exercised. Nothing herein contained shall

impose any obligation on the Company or any of its subsidiaries or the Optionee with respect to the Optionee's continued employment by the Company or any of its subsidiaries. Nothing herein contained shall impose any obligation upon the Optionee to exercise the Option.

12. RELATIONSHIP TO PLAN. The Option contained in this Agreement has been granted pursuant to the Plan, and is in all respects subject to the terms, conditions and definitions of the Plan, as amended from time to time. The Optionee hereby accepts this option subject to all the terms and provisions of the Plan and agrees that all decisions under and interpretations of the Plan by the Board or Committee shall be final, binding and conclusive upon the Optionee and his permitted heirs, executors, administrators, successors and assigns.

13. RESTRICTIONS ON TRANSFER. Any sale or other disposition of any of the Shares by the Optionee, other than according to the terms of this Section 13, shall be void and transfer no right, title or interest in or to any of such Shares to the purported transferee. For purposes of this Section 13, the term "Shares" shall include all shares of capital stock of the Company held by the Optionee, whether now owned or hereafter acquired. The Optionee agrees to present the certificates representing the Shares hereafter acquired by him or her to the Secretary of the Company and cause the Secretary to stamp on the certificate in a prominent manner the following legend:

"The sale or other disposition of any of the shares represented by this certificate is restricted by an Incentive Stock Option Agreement, dated as of _____, between the holder of this certificate and the issuer.

If the Optionee desires to sell, transfer or otherwise dispose of any of the Shares, or any interest in such Shares, whether voluntarily or by operation of law, the Optionee shall first deliver written notice (the "Offer") to the Company specifying (i) the name and address of the party to which the Optionee proposes to sell or otherwise dispose of the Shares or an interest in the Shares (the "Offeror"), (ii) the number of Shares the Optionee proposes to sell or otherwise dispose of, (iii) the consideration per Share to be delivered to the Optionee for the proposed sale, transfer, or disposition and (iv) all other material terms and conditions of the proposed transaction.

Upon receipt of the Offer, the Company shall have an option to purchase any or all of such Shares specified in the Offer, such option to be exercised by giving, within 15 days after receipt of the offer, a written counter-

notice to Optionee. If the Company elects to purchase any or all of such Shares in accordance with this Section 13, it shall be obligated to purchase, and the Optionee shall be obligated to sell to the Company such Shares at the price and in accordance with the terms indicated in the offer within 60 days from the date of receipt by the Company of the Offer. The Optionee may sell any or all of such Shares which the Company has not so elected to purchase during the 30 days following the expiration of the Offer Period, PROVIDED that such sale is made to the Offeror and only pursuant to the terms set forth in the Offer and, PROVIDED, further, that the purchaser thereof shall have executed a writing satisfactory to the Company, agreeing that such purchaser shall be subject to the restrictions on transfer set forth in this Section 13. If, however, any or all such Shares are not sold by the Optionee in accordance with the terms set forth in the offer within such 30 days, the restrictions on transfer set forth in this Section 13 shall again become applicable to such unsold Shares. The provisions of this Section 13 shall terminate on (i) the effective date of a registration statement filed by the Company under the Securities Act of 1933, as amended (the "Act"), with respect to an underwritten public offering of the Common Stock or (ii) the closing date of a sale of assets or merger of the Company pursuant to which shareholders of the Company receive securities of a buyer whose shares are publicly traded.

14. MISCELLANEOUS. In case any one or more of the provisions or part of any provision contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision or part of this Agreement, but this Agreement shall be construed as if such invalid, illegal or

unenforceable provision or part of a provision had never been contained herein. This Agreement shall be binding upon and inure to the benefit of the parties hereto, and to their respective heirs, executors, administrators, successors and assigns. This Agreement shall be governed by and construed and administered in accordance with the laws of The Commonwealth of Massachusetts.

28

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the Date of Grant specified in Schedule A.

EXCHANGE APPLICATIONS, INC.

By: _____

Title: _____

_____
Optionee

29

EXCHANGE APPLICATIONS, INC.
INCENTIVE STOCK OPTION AGREEMENT

SCHEDULE A

This Schedule A sets forth certain information and provisions referred to in the Incentive Stock Option Agreement to which this Schedule A is appended.

1. The Optionee is _____.

2. The number of option Shares is _____.

3. The option price per Share for such option Shares is $ _____.

4. The Date of Grant of the Option is _____.

5. The Expiration Date of the Option is [ten years from date of grant].

6. The Option shall become exercisable by the Optionee as follows: [INSERT VESTING SCHEDULE].

EXCHANGE APPLICATIONS, INC.

INCENTIVE STOCK OPTION AGREEMENT
[PERFORMANCE BASED OPTIONS FORM]

INCENTIVE STOCK OPTION AGREEMENT (this "Agreement") by and between Exchange Applications, Inc., a Delaware corporation (the "Company"), and the employee of the Company or a subsidiary of the Company (the "Optionee") specified in Schedule A appended to this Agreement ("Schedule A").

WHEREAS, the Company maintains the Exchange Applications, Inc. 1996 Stock Incentive Plan (the "Plan"); and

WHEREAS, the Optionee renders important services to the Company or a subsidiary of the Company, and the Company desires to grant a stock option to the Optionee; and

WHEREAS, the Board of Directors of the Company (the "Board") or the Compensation Committee of the Board (the "Committee"), acting pursuant to the Plan, has authorized the grant of this Incentive Stock Option to the Optionee subject to the terms and conditions of the Plan and the additional terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Optionee hereby agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee, and the Optionee hereby accepts, an Incentive Stock Option (the "Option") to purchase from the Company that number of shares of the Company's Common Stock (the "Shares"), specified in Schedule A. This Agreement and the Option hereby granted to the Optionee are subject to all of the terms and conditions of the Plan which are incorporated herein by this reference; any term used herein shall have the meaning assigned thereto in the Plan, unless such term is otherwise specifically defined herein.

This Option is intended to constitute an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. OPTION PRICE; DATE OF GRANT. This Option may be exercised at the option price per Share specified in Schedule A, which the Board or Committee has determined, in accordance with Section 6 of the Plan, is 100% of the fair market value of a Share on the Date of Grant of this Option. The Date of Grant of this option is specified in Schedule A.

3. TERM OF OPTION; VESTING AND EMPLOYMENT REQUIREMENTS. This Option shall expire on the date specified in Schedule A (the "Expiration Date"). This Option shall be exercisable to the extent of the number of Shares vested as of the date of exercise, in accordance with the vesting schedule provided in Schedule A. If exercised in part, the Option may be exercised only once in each calendar quarter, except with the express written consent of the Company. The vesting provisions provided in Schedule A are cumulative, and this Option will remain exercisable with respect to all vested but unexercised amounts until the Option expires on the Expiration Date, unless the Option is sooner terminated as provided in Section 7 or Section 8 of this Agreement.

4. OTHER CONDITIONS AND LIMITATIONS. The Option shall not be assignable or transferable by the Optionee otherwise than by will or by the laws of descent and distribution, and the Option shall be exercisable during the lifetime of the Optionee by the Optionee only.

5. EXERCISE OF OPTION. Written notice of the exercise of the Option or any portion thereof shall be given to the Chief Financial Officer of the Company accompanied by the option price in cash or by check.

6. STOCK DIVIDENDS; STOCK SPLITS; STOCK COMBINATIONS; RECAPITALIZATIONS. Appropriate adjustment shall be made in the maximum number of Shares subject to this Option and in the number, kind and option price of Shares covered by this option to the extent it remains outstanding, to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and other similar changes in the capital structure of the Company after the Date of Grant of this Option, as determined by the Board or Committee in accordance with Section 13 of the Plan.

7. CAPITAL CHANGES AND BUSINESS SUCCESSIONS. Upon the occurrence of any of the following events, the Optionee's rights with respect to this Option shall be adjusted as hereinafter provided:

A. ACQUISITION, CONSOLIDATION OR MERGER. If the Company is to be consolidated with or acquired by another person or entity in a merger, sale of stock, sale of all or substantially all of the Company's assets or otherwise

(other than a merger or consolidation of the Company

32

with, or the sale of all or substantially all of the assets of the Company to, any entity if 50% or more of the aggregate voting power of such entity is held immediately after such transaction by persons who were stockholders of the Company immediately prior to such transaction) (an "Acquisition"), the Board or the Committee or the board of directors of any entity assuming the obligations of the Company hereunder, shall, as to this Option, either (i) make appropriate provision for the continuation of this option by substituting on an equitable basis for the Shares then subject to this Option the consideration payable with respect to the outstanding shares of Common Stock in connection with the Acquisition; or (ii) upon written notice to the Optionee, provide that this Option must be exercised, to the extent exercisable as of the closing of the Acquisition within a specified number of days of the date of such notice, at the end of which period this option shall terminate; or (iii) terminate this Option in exchange for a cash payment equal to the excess of the fair market value of the Shares subject to this option (to the extent exercisable as of the closing of the Acquisition) over the exercise price thereof.

B. RECAPITALIZATION OR REORGANIZATION. In the event of a recapitalization or reorganization of the Company (other than an Acquisition) pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, the Optionee upon exercising this Option shall be entitled to receive for the purchase price paid upon such exercise the securities he would have received if he had exercised this option prior to such recapitalization or reorganization.

C. DISSOLUTION OR LIQUIDATION. In the event of the proposed dissolution or liquidation of the Company, this Option will terminate immediately prior to the consummation of such proposed action or at such other time and subject to such other conditions as shall be determined by the Board or the Committee.

D. ISSUANCES OF SECURITIES. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to this Option. No adjustments shall be made for dividends paid in cash or in property other than securities of the Company.

8. TERMINATION OF OPTION. In the event that the Optionee ceases for any reason to be an employee of the Company, or a subsidiary of the

Company, at a time prior to the exercise of this option in full, this Option shall terminate in accordance with the following provisions:

(a) if the Optionee's employment shall have been terminated by the Company involuntarily for cause (as defined below), this Option shall terminate and may no longer be exercised;

(b) if the Optionee's employment shall have been terminated by the Company involuntarily and without cause, or by the Optionee by resignation or other voluntary action, the Optionee may at any time within a period of sixty (60) days after such termination of employment exercise this Option to the extent it was exercisable on the date of termination of the Optionee's employment;

(c) if the Optionee's employment shall have been terminated because of disability within the meaning specified in the Plan, the Optionee may at any time within a period of one hundred eighty (180) days after such termination of employment exercise this Option to the extent that the Option was exercisable on the date of termination of the Optionee's employment; or

(d) if the Optionee's employment shall have been terminated because of his death, the Option, to the extent that the Optionee was entitled to exercise it on the date of death, may be exercised within a period of one hundred eighty (180) days after the Optionee's death by the person or persons to whom the Optionee's rights under the option shall pass by will or by the laws of descent and distribution;

provided, however, that this Option may not be exercised to any extent by anyone after the Expiration Date. For purposes of this Agreement, "cause" shall mean termination of the Optionee's employment by the Company because of (i) a determination by the Board of Directors of the Company that (A) the Optionee has repeatedly and willfully failed or refused to comply with reasonable and explicit directives from the Company, or (B) the Optionee has willfully and repeatedly breached or habitually neglected his material duties or responsibilities as an employee, (ii) the commission by the Optionee of a felony or the perpetration by the Optionee of a dishonest act or fraud or (iii) breach by the Optionee of any obligations under the Non-Disclosure and Developments Agreement or Non-Competition and Non-Solicitation Agreement, if any, between the Company and the Optionee.

9. TAX TREATMENT OF OPTION: NOTICE OF DISPOSITION OF SHARES. Although this option is intended to constitute an "incentive stock option" within the meaning of Section 422 of the Code, the Company makes no

representations as to the tax treatment of the Optionee upon the receipt or exercise of this Option or the sale or other disposition of the Shares issued pursuant to this Option. The Optionee shall notify the Company within seven (7) days after the date the Optionee sells or otherwise disposes of any Shares acquired by the exercise of this option within either (a) two (2) years from the Date of Grant or (b) one (1) year after the exercise of this Option for such Shares.

10. COMPLIANCE WITH SECURITIES LAWS. The Company shall not be obligated to sell or issue any Shares pursuant to this Option unless the Shares with respect to which this Option is being exercised are at that time effectively registered or exempt from registration under the Securities Act of 1933, as amended (the "Act"), and any applicable state securities or "blue sky" law ("Blue Sky Law"). In the event Shares or other securities shall be issued which shall not be so registered, the Optionee hereby represents, warrants and agrees that he will receive such Shares or other securities for investment and not with a view to the resale or distribution thereof, and will not transfer such Shares or other securities unless they are effectively registered for such transfer under the Act and any applicable Blue Sky Law or unless an opinion of counsel satisfactory to the Company has been received by the Company to the effect that such registration is not required. The Optionee further agrees that the stock certificate or certificates evidencing such Shares may bear a legend setting forth such restrictions on their transferability.

11. RIGHTS AS A STOCKHOLDER; NO OBLIGATION TO CONTINUE EMPLOYMENT. The Optionee shall have no rights as a stockholder with respect to the Shares subject to the Option until the exercise of the option and the issuance of a stock certificate for the Shares with respect to which the Option shall have been exercised. Nothing herein contained shall impose any obligation on the Company or any of its subsidiaries or the Optionee with respect to the Optionee's continued employment by the Company or any of its subsidiaries. Nothing herein contained shall impose any obligation upon the Optionee to exercise the Option.

12. RELATIONSHIP TO PLAN. The Option contained in this Agreement has been granted pursuant to the Plan, and is in all respects subject to the terms, conditions and definitions of the Plan, as amended from time to time. The Optionee hereby accepts this option subject to all the terms and provisions of the Plan and agrees that all decisions under and interpretations of the Plan by the Board or Committee shall be final, binding and conclusive upon the Optionee and his permitted heirs, executors, administrators, successors and assigns.

13. RESTRICTIONS ON TRANSFER. Any sale or other disposition of any of the Shares by the Optionee, other than according to the terms of this Section 13, shall be void and transfer no right, title or interest in or to any of such Shares to the purported transferee. For purposes of this Section 13, the term "Shares" shall include all shares of capital stock of the Company held by the Optionee, whether now owned or hereafter acquired. The Optionee agrees to present the certificates representing the Shares hereafter acquired by him or her to the Secretary of the Company and cause the Secretary to stamp on the certificate in a prominent manner the following legend:

> "The sale or other disposition of any of the shares represented by this certificate is restricted by an Incentive Stock Option Agreement, dated as of _____, between the holder of this certificate and the issuer.

If the Optionee desires to sell, transfer or otherwise dispose of any of the Shares, or any interest in such Shares, whether voluntarily or by operation of law, the Optionee shall first deliver written notice (the "Offer") to the Company specifying (i) the name and address of the party to which the Optionee proposes to sell or otherwise dispose of the Shares or an interest in the Shares (the "Offeror"), (ii) the number of Shares the Optionee proposes to sell or otherwise dispose of, (iii) the consideration per Share to be delivered to the Optionee for the proposed sale, transfer, or disposition and (iv) all other material terms and conditions of the proposed transaction.

Upon receipt of the Offer, the Company shall have an option to purchase any or all of such Shares specified in the Offer, such option to be exercised by giving, within 15 days after receipt of the offer, a written counter-notice to Optionee. If the Company elects to purchase any or all of such Shares in accordance with this Section 13, it shall be obligated to purchase, and the Optionee shall be obligated to sell to the Company such Shares at the price and in accordance with the terms indicated in the offer within 60 days from the date of receipt by the Company of the Offer. The Optionee may sell any or all of such Shares which the Company has not so elected to purchase during the 30 days following the expiration of the Offer Period, PROVIDED that such sale is made to the Offeror and only pursuant to the terms set forth in the Offer and, PROVIDED, further, that the purchaser thereof shall have executed a writing satisfactory to the Company, agreeing that such purchaser shall be subject to the restrictions on transfer set forth in this Section 13. If, however, any or all such Shares are not sold by the Optionee in accordance with the terms set forth in the offer within such 30 days, the restrictions on transfer set forth in

this Section 13 shall again become applicable to such unsold Shares. The provisions of this Section 13 shall terminate on (i) the effective date of a registration statement filed by the Company under the Securities Act of 1933, as amended (the "Act"), with respect to an underwritten public offering of the Common Stock or (ii) the closing date of a sale of assets or merger of the Company pursuant to which shareholders of the Company receive securities of a buyer whose shares are publicly traded.

14. MISCELLANEOUS. In case any one or more of the provisions or part of any provision contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision or part of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provision or part of a provision had never been contained herein. This Agreement shall be binding upon and inure to the benefit of the parties hereto, and to their respective heirs, executors, administrators, successors and assigns. This Agreement shall be governed by and construed and administered in accordance with the laws of The Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the Date of Grant specified in Schedule A.

EXCHANGE APPLICATIONS, INC.

By: _____

Title: _____

_____
Optionee

EXCHANGE APPLICATIONS, INC.

INCENTIVE STOCK OPTION AGREEMENT

SCHEDULE A

This Schedule A sets forth certain information and provisions referred to in the Incentive Stock Option Agreement to which this Schedule A is appended.

1. The Optionee is _____.

2. The number of option Shares is _____.

3. The option price per Share for such option Shares is $_____.

4. The Date of Grant of the Option is _____.

5. The Expiration Date of the Option is [ten years from date of grant].

6. The Option shall become exercisable by the Optionee as follows:

   a. All shares governed by the Option shall be vested as of the ninth anniversary of the Date of Grant.

   b. Vesting of 25% of the original number of Shares governed by the Option may be accelerated and may become exercisable upon December 31 of any calendar year, commencing December 31, 1998, upon satisfaction of Performance Criteria for such calendar year. The "Performance Criteria" for any calendar year may (at the discretion of the Board of Directors and the Chief Executive Officer) be determined for such calendar year by the Chief Executive Officer and the Board of Directors on or prior to January 31 of such calendar year. In the absence of such a determination and receipt by Optionee of written confirmation of such determination on or prior to January 31 of any calendar year, there shall be no Performance Criteria for that calendar year, and, consequently, there shall be no

acceleration of the vesting of any Shares during such

calendar year.

40

FORM

EXCHANGE APPLICATIONS, INC.

EMPLOYEE RESTRICTED STOCK AGREEMENT

EMPLOYEE RESTRICTED STOCK AGREEMENT (this "Agreement"), dated as of November 15, 1996, by and between EXCHANGE APPLICATIONS, INC., a Delaware corporation (the "Company"), and _____ (the "Employee") .

W I T N E S S E T H:

WHEREAS, the Company maintains the Exchange Applications, Inc. 1996 Stock Incentive Plan (the "Plan"); and

WHEREAS, the Employee has, since _____ (the "Date of Hire"), been an employee of the Company or its predecessor, and the Company intends by this Agreement to grant the Employee a Restricted Stock Award entitling the Employee to purchase Common Stock of the Company as authorized by the Plan; and

WHEREAS, the Board of Directors of the Company, acting pursuant to the Plan, has authorized the grant of this Restricted Stock Award, subject to the terms of this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Employee hereby agree as follows:

1. RELATIONSHIP TO PLAN; DEFINED TERMS. This Agreement and the Restricted Stock Award authorized hereby are subject to all of the terms and conditions of the Plan, as amended from time to time, which are incorporated herein by this reference.

2. PURCHASE OF STOCK. The Employee hereby agrees to purchase from the Company, and the Company hereby agrees to sell to the Employee, on the date hereof _____ shares of the Company's Common Stock, $.001 par value per share (the "Stock"), for a purchase price of $.001 per share of Stock (the "Issue Price").

41

-2-

3. PURCHASE OPTIONS. All Stock purchased by the Employee pursuant to

the terms of this Agreement shall be subject to the options of the Company with respect to the purchase thereof under circumstances set forth in this Section 3.

(a) If the Employee ceases to provide services to the Company either as a consultant or employee for any reason (including without limitation because of the Employee's death, disability, retirement or termination by the Company with or without Cause (as defined below)) at any time prior to the third anniversary of the Date of Hire, the Company shall have the right, within 60 days after the date of any such termination, to exercise an option to purchase (the "Purchase Option") up to the maximum portion of the Stock determined according to the following table:

<TABLE>
<CAPTION>

If Termination of Employment Occurs:	Portion of the Stock Subject To the Purchase Option:
<S>	<C>
Within one year from the Date of Hire:	75%
From (and including) the first anniversary of the Date of Hire to (but excluding) the second anniversary of the Date of Hire:	50%
From (and including) the second anniversary of the Date of Hire to (but excluding) the third anniversary of the Date of Hire:	25%
On and after the third anniversary of the Date of Hire:	None

</TABLE>

(b) If, at any time, the Employee ceases to provide services to the Company either as a consultant or employee for any reason (including without limitation because of the Employee's death, disability or retirement), except termination by the Company without Cause, the Company shall have the right within 60 days after the date of any such termination, to exercise an option to purchase (the "Additional Purchase Option") up to all of the Vested Stock (as defined below). For purposes hereof, "Cause" shall mean termination of the Employee's employment by the Company because of (i) the Company's good faith determination that the Employee has failed to perform any of his duties, (ii) the commission by the Employee of a felony or the perpetration by the Employee of a dishonest act or fraud or (iii) any breach by the Employee of an obligation

under the employment agreement, if any, between the Company and the Employee.

(c) The Purchase Option shall be exercisable by the Company at a price per share of Stock equal to the lesser of the Issue Price or the fair market value of the Stock of the Employee, as determined by the Board of Directors in good faith after taking into account all relevant considerations, including the options set forth herein (the "Fair Market Value"). The Additional Purchase Option shall be exercisable by the Company at a price per share equal to the Fair Market Value. The Company may assign any or all of its rights to exercise a Purchase Option and/or Additional Purchase Option under this Section 3. If the Company (or its assignee) shall fail to exercise the Purchase Option with respect to any part or all of the Stock subject thereto, such Stock may thereafter be held and transferred by the Employee (or other holder thereof), subject, however, to any transfer or purchase restrictions applicable thereto pursuant to the Company's charter or by-laws or any other agreement relating to the Stock or applicable law. Stock not subject to the Purchase option is herein referred to as "Vested Stock."

(d) Notwithstanding anything to the contrary in this Agreement, in the event of a "Change of Control", all Stock held by the Employee that has been issued under this Agreement, and all securities issued in respect thereof, shall be deemed Vested Stock and the Purchase Option and Additional Purchase Option shall immediately terminate and be of no further force and effect. A "Change of Control" shall mean (i) the direct or indirect acquisition by any person of 50% or more of the aggregate voting power of the Company or (ii) the sale of all or substantially all of the assets of the Company (other than a merger or consolidation of the Company with, or the sale of all or substantially all of the assets of the Company to, any entity if 50% or more of the aggregate voting power of such entity is held immediately after such transaction by persons who were stockholders of the Company immediately prior to such transaction).

4. RESTRICTIONS ON TRANSFER. The Employee shall not sell, transfer, pledge, hypothecate or otherwise dispose of or encumber (other than to the Company pursuant to Section 3 above) any of the Stock that is not Vested Stock. Notwithstanding the foregoing, the Employee may transfer all or any of the Stock to any member of his immediate family (as defined below) or to any trust for the benefit of such family member or the Employee, PROVIDED that such transferee shall agree with the Company in writing, as a condition to such transfer, to be bound by all of the provisions of this Agreement, and PROVIDED, FURTHER, that the Employee's employment (rather than an employment of such transferee) shall

continue to govern for purposes of Section 3. The term "immediate family" shall

mean any parent, spouse, lineal descendant, brother or sister of the Employee.

5. MANNER OF EXERCISE. The Purchase Option and Additional Purchase Option shall each be exercised by written notice signed by an officer of the Company and delivered or mailed to the Employee (or to his personal representative if the Employee is deceased) as provided in Section 14 (a) below. The price for the Stock upon exercise of the Purchase Option or Additional Purchase option, as the case may be, shall be payable, at the option of the Company, by cancellation of all or a portion of any outstanding indebtedness of the Employee to the Company or in cash (by check), or both.

6. APPLICATION TO OTHER PROPERTY. If from time to time during the term of this Agreement, there is any stock dividend or liquidating dividend of cash and/or property, stock split or other change in the character or amount of any of the outstanding securities of the Company, or if there is any consolidation, merger or sale of all, or substantially all, of the assets of the Company, then, in any such event, any and all new, substituted or additional securities or other property to which the Employee is entitled by reason of his ownership of any Stock which then remains subject to the Purchase option and/or the Additional Purchase Option in Section 3 above shall be immediately subject to the Purchase Option and/or the Additional Purchase Option, as the case may be, and shall be included in the word "Stock" for all purposes of the Purchase Option and Additional Purchase Option with the same force and effect as the Stock which then remains subject to the Purchase Option and Additional Purchase Option in Section 3 above. While the total Issue Price for such Stock shall remain the same after each such event, the Issue Price per unit of Stock (or substituted or additional property) upon exercise of the Purchase Option or Additional Purchase Option, as the case may be, shall be appropriately adjusted.

7. INVESTMENT REPRESENTATIONS; TRANSFER LEGENDS.

(a) In connection with his purchase of the Stock, the Employee hereby represents and warrants to the Company as follows:

(i) The Employee is purchasing the Stock solely for his own account for investment and not with a view to or for sale in connection with any distribution of the Stock or any portion thereof and not with any present intention of selling, offering to sell or otherwise disposing of or distributing the Stock or any portion thereof in any

transaction other than a transaction exempt from registration under the Act. The Employee also represents that the entire legal and beneficial interest of the Stock is being purchased, and will be held, for the Employee's account only, and neither in whole or in part for any other person. The Employee either has a

pre-existing business or personal relationship with the Company or its officers, directors or controlling persons or by reason of the Employee's business or financial experience or the business or financial experience of the Employee's professional advisors who are unaffiliated with and who are not compensated by the Company or any affiliate or selling agent of the Company, directly or indirectly, could be reasonably assumed to have the capacity to evaluate the merits and risks of an investment in the Company and to protect the Employee's own interests in connection with this transaction.

(ii) The Employee has heretofore discussed the Company and its plans, operations and financial condition with the Company's officers and has heretofore received all such information as the Employee has deemed necessary and appropriate to enable the Employee to evaluate the financial risk inherent in making an investment in the Stock, and the Employee has received satisfactory and complete information concerning the business and financial condition of the Company in response to all inquiries in respect thereof.

(iii) The Employee realizes that the purchase of the Stock will be a highly speculative investment and involves a high degree of risk, and the Employee is able to hold the Stock for an indefinite period of time and suffer a complete loss on his investment.

(iv) The Employee understands and acknowledges that:

(I) the sale of the Stock has not been registered under the Securities Act of 1933, as amended (the "Act"), and the Stock must be held indefinitely unless subsequently registered under said Act or an exemption from such registration is available and the Company is under no obligation to register the Stock;

(II) the share certificate(s) representing the Stock will be stamped with the legends specified in this Section; and

(III) the Company will make a notation in its records of the aforementioned restrictions on transfer and legends.

(IV) The Employee understands that the Stock constitutes restricted securities within the meaning of Rule 144

promulgated under the Act ("Rule 144"); that the exemption from registration under Rule 144 will not be available in any event for at least two years from the date of purchase and payment for the Stock, and even then will not be available unless (I) a public trading market then exists for the Common Stock, (II) adequate information concerning the Company is then available to the

public, and (III) other terms and conditions of Rule 144 are complied with; and that any sale of the Stock may be made only in limited amounts in accordance with such terms and conditions.

(v) Without in any way limiting his representations set forth above, the Employee further agrees that he shall in no event make any disposition of all or any portion of the Stock unless and until:

(A)(1) there is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with said registration statement; or, (2)(a) the Employee shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, (b) the Employee shall have furnished the Company with an opinion of the Employee's counsel to the effect that such disposition will not require registration of the Stock under the Act, and (c) such opinion of the Employee's counsel shall have been concurred in by counsel for the Company and the Company shall have advised the Employee of such concurrence; and,

(B) The Stock proposed to be transferred is no longer subject to the purchase options set forth herein.

(b) All certificates representing any Stock subject to the provisions of this Agreement shall have endorsed thereon legends substantially in the form set forth below:

(i) "This security may not be sold, assigned, or otherwise transferred or disposed of except in compliance with the conditions specified in the Employee Restricted Stock Agreement, dated as of November __, 1996, between the Corporation and the holder of this security, as amended from time to time, a copy of which will be furnished by the Corporation without charge upon written request."

(ii) "The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or any state securities laws and neither the securities nor any interest therein may be offered, sold, transferred, pledged or otherwise disposed of except pursuant to an effective registration statement under

such Act or such laws or an exemption from registration under said Act or such laws, which in the opinion of counsel are reasonably satisfactory to counsel for this Corporation, is available."

(iii) Any legend required to be placed thereon by appropriate Blue Sky officials.

8. DEPOSIT OF SHARES. As security for the Employee's faithful performance of the terms of this Agreement and to ensure that the Stock will be available for delivery upon exercise of the Purchase Option as herein provided, the Employee agrees to deliver to and deposit with the Secretary of the Company ("Escrow Agent"), as Escrow Agent in this transaction, one stock assignment duly endorsed (with date and number of shares blank) together with the certificate or certificates evidencing the Stock. Such documents are to be held by the Escrow Agent during the term of this Agreement and shall be delivered by the Escrow Agent to the Company on the written notice by the Company to the Escrow Agent that the Company has exercised the Purchase Option, or in the event this Agreement terminates without the exercise by the Company of the Purchase Option as to all of the Stock, the Company shall instruct the Escrow Agent to deliver to the Employee the portion of such Stock as to which the Purchase Option was not exercised.

9. TRANSFERS NOT RECOGNIZED. The Company shall not be required (i) to transfer on its books any shares of Stock which shall have been transferred in violation of any of the provisions of this Agreement, or (ii) to treat as owner of such Stock or to accord the right to vote as such owner or to pay dividends to any transferee to whom such Stock shall have been transferred.

10. RIGHTS AS STOCKHOLDER. Subject to the provisions of Section 8 above, the Employee shall, during the term of this Agreement, exercise all rights and privileges of a stockholder of the Company with respect to the Stock, including without limitation the right to vote and the right to receive any dividends payable with respect thereto.

11. TAXES. The Employee acknowledges that an amount equal to the fair market value of the Stock in excess of the Issue Price shall constitute income received by the Employee for income tax purposes, and that provision must be made for income taxes to be withheld by the Company with respect to Stock, whenever and to the extent that the Company's Purchase Option expires pursuant to Section 3 of this Agreement, or upon the execution of this Agreement if the Employee

makes an election pursuant to Section 83(b) of the Internal Revenue Code. The Employee agrees that he will make appropriate provisions for the collection and payment of such withholding taxes, in whatever manner is reasonably determined by the Company, including without limitation payment by the Employee to the Company of cash in the amount of required withholding taxes or withholding from other compensation due the Employee.

12. RIGHT OF FIRST REFUSAL.

(a) RIGHT OF FIRST REFUSAL. If the Employee desires to sell all or any part of the Vested Stock and he has received in writing an irrevocable and unconditional bona fide offer (a "Bona Fide Offer") for the purchase thereof from a party (the "Offeror"), the Employee shall give written notice (the "BFO Option Notice") to the Company setting forth his desire to sell such Vested Stock, which BFO Option Notice shall be accompanied by a photocopy of the original executed Bona Fide Offer and shall set forth at least the name and address of the Offeror and the price and terms of the Bona Fide Offer. Upon receipt of the BFO Option Notice, the Company shall have an option to purchase any or all of such Vested Stock specified in the BFO Option Notice, such option to be exercised by giving, within 15 days after receipt of BFO Option Notice (the "Offer Period"), a written counter-notice to the Employee.

(b) PURCHASE OF REFUSAL SHARES. If the Company so elects to purchase any or all of such Stock in accordance with subsection (a) above, it shall be obligated to purchase, and the Employee shall be obligated to sell to the Company such Vested stock at the price and in accordance with the terms indicated in the Bona Fide Offer within 60 days from the date of receipt by the Company of the BFO Option Notice.

(c) SUBSEQUENT SALE OF SHARES. The Employee may sell any or all of such Stock which the Company has not so elected to purchase during the 30 days following the expiration of the Offer Period, PROVIDED that such sale is made only pursuant to the terms of the Bona Fide offer and, PROVIDED, FURTHER, that the purchaser thereof shall have executed a writing satisfactory to the Company, agreeing that such purchase shall be subject to the restrictions on transfer set forth in this Section. If, however, any or all such Stock is not sold pursuant to the Bona Fide Offer within such 30 days, the restrictions on transfer set forth in this Section shall again become applicable to such unsold Stock.

13. TERMINATION OF CERTAIN PROVISIONS. The provisions of Section 12 of this Agreement shall terminate on the earlier of (i) the effective date

of a registration statement filed by the Company under the Act, with respect to an underwritten public offering of the Common Stock or (ii) the closing date of a sale of assets or merger of the Company pursuant to which shareholders of the Company receive securities of a buyer whose shares are publicly traded.

14. MISCELLANEOUS. (a) Any notice hereunder shall be in writing personally delivered by courier or mailed by registered or certified mail, postage prepaid, and addressed to the Employee at the address appearing in the records of the Company or to the Company at its principal executive offices, or

at such other address as may be specified by the Employee or the Company to the other party by notice given in the manner herein provided. A notice shall be deemed to have been given and received upon the earlier of (i) three business days after the date on which it is deposited in the U.S. mails or (ii) receipt by the party to whom such notice is directed.

(b) No waiver by a party hereto of a breach of any provision of this Agreement shall be deemed to be a waiver of any preceding or subsequent breach of the same or any other provision thereof.

(c) The Employee acknowledges that the remedy at law for any breach of this Agreement will be inadequate, and agrees that the Company shall, in addition to whatever other remedies it may have, be entitled to injunctive relief.

(d) This Agreement shall be governed by the laws of The Commonwealth of Massachusetts (without giving effect to principles of conflicts or choice of laws of Massachusetts or of any other jurisdiction). Subject to the terms of the Plan, this Agreement sets forth the entire agreement between the parties concerning the subject matter hereof and supersedes any prior agreements and understandings relating to the subject matter hereof. No amendment or modification hereof will be effective unless it is in writing and signed by the parties.

(e) This Agreement shall bind and benefit the parties hereto and their respective successors and legal representatives and permitted assigns.

(f) If any provision of this Agreement is unenforceable or illegal, the remainder of this Agreement shall remain in full force and effect. If any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration,

geographical scope, activity or subject, such provision shall be construed by limiting and reducing it so as to be enforceable to the extent compatible with applicable law.

IN WITNESS WHEREOF, the parties have executed this Agreement under seal on the date first above written.

EXCHANGE APPLICATIONS, INC.

By: _____

Title: _____

_____

EMPLOYEE

EXHIBIT 10.3

EXCHANGE APPLICATIONS, INC.

1998 DIRECTOR STOCK OPTION PLAN

1. PURPOSE.

The Exchange Applications, Inc. 1998 Director Stock Option Plan (the "Plan") has been adopted to assist in attracting and retaining non-employee members of the Corporation's Board of Directors and to foster alignment of their interests with those of stockholders of the Corporation. This Plan is intended to satisfy all of the conditions of Rule 16b-3 under the Securities Exchange Act of 1934, as amended.

2. DEFINITIONS.

As used herein, the following words or terms have the meanings set forth below:

2.1 "Affiliate" means any business entity that is directly or indirectly controlled by the Corporation or any entity in which the Corporation has a significant equity interest, as determined by the senior legal officer of the Corporation.

2.2 "Board of Directors" means the Board of Directors of the Corporation

2.3 "Common Stock" means the Common Stock, par value $.001 per share, of the Corporation.

2.4 "Compensation Committee" means the Compensation Committee of the Board of Directors.

2.5 "Corporation" means Exchange Applications, Inc., a corporation established under the laws of the State of Delaware.

2.6 "Effective Date" has the meaning set forth in Section 3.

2.7 "Fair Market Value," in the case of a share of Common Stock on a particular day, means the closing price of the Common Stock for that day as reported in the "NASDAQ National Market Issues" section of the Eastern Edition of THE WALL STREET JOURNAL, or if no prices are quoted for that day, for the last preceding day on which such prices of Common Stock are so quoted. In the event "NASDAQ National Market Issues" cease to be reported or the

Common Stock to be included therein, the Compensation Committee shall select some other appropriate method for determining Fair Market Value.

2.8 "Grant Date" means the business day immediately following the annual meeting of stockholders of the Corporation (or special meeting or written consent in lieu thereof), commencing with the first annual meeting of stockholders following the end of the Corporation's 1998 fiscal year.

2.9 "Non-Employee Director" means as of any date a person who on such date is a director of the Corporation and is not an employee of the Corporation or any Affiliate. A director of the Corporation who is also an employee of the Corporation or any Affiliate shall become eligible to participate in the Plan upon termination of such employment.

2.10 "Option" means a nonstatutory option to purchase Shares granted under the Plan, pursuant to Article 7.

2.11 "Option Agreement" means an agreement between the Corporation and a Non-Employee Director, setting forth the terms and conditions of an Option, substantially in the form of Annex A hereto.

2.12 "Option Price" means the price to be paid by an Option holder upon exercise of an Option.

2.13 "Optionee" means a person eligible to receive an Option to whom an Option shall have been granted under the Plan, and any permitted transferee of such Option pursuant to Section 7.4.

2.14 "Shares" means shares of Common Stock.

3. EFFECTIVE DATE.

The Plan shall become effective on _____, 1998 (the "Effective Date"), provided that the Plan is approved by the stockholders of the Corporation within one year after that date. Although Options may be granted before such stockholder approval, no Option may be exercised until such approval is obtained and any such Options will be null and void if such approval is not obtained by the first anniversary of the Effective Date.

4. ADMINISTRATION.

4.1 The Plan shall be administered by the Compensation Committee. Subject to the provisions set forth herein, the Compensation Committee shall have full authority to construe and interpret the terms of the Plan and to make all determinations and take all other actions necessary or advisable for the

administration of the Plan. The Compensation Committee may delegate to one or more employees of the Corporation or any Affiliate the authority to perform administrative functions under the Plan.

4.2 Any determinations or actions made or taken by the Compensation Committee pursuant to this Article shall be binding and final.

5. SHARES AVAILABLE FOR OPTIONS; ANTI-DILUTION ADJUSTMENTS.

5.1 The maximum number of Shares that may be issued under the Plan shall be 100,000, subject to adjustment in accordance with the provisions of Section 5.2. Any Shares subject to an Option which for any reason expires or is terminated unexercised as to such Shares may again be the subject of an Option. Shares delivered upon exercise of an Option under the Plan may consist in whole or in part of authorized but unissued Shares or treasury Shares.

5.2 Pro rata adjustment shall be made in the maximum number of Shares subject to the Plan and to the number of Shares thereafter included in each Option grant to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and other similar changes in the capital structure of the Corporation. Pro rata adjustments shall be made in the number, kind and price of Shares covered by any outstanding Option hereunder to give effect to any stock dividends, stock splits, stock combinations, recapitalizations and similar changes in the capital structure of the Corporation, or a merger, dissolution or reorganization of the Corporation, after the date the Option is granted, so that the Optionee is treated in a manner equivalent to that of holders of the underlying Common Stock.

6. ELIGIBILITY.

Options shall be granted only to Non-Employee Directors, as provided in Article 7.

7. OPTION GRANTS.

7.1 ANNUAL GRANTS. On each Grant Date, each person who is then a Non-Employee Director shall receive an Option to purchase such number of Shares as is determined by the Compensation Committee.

7.2 OPTION PRICE, EXERCISABILITY AND TERM. The Option Price for each Option shall be the Fair Market Value on the Grant Date. Each Option shall become exercisable in full on the first anniversary of the Grant Date, PROVIDED, HOWEVER, that in the event any Optionee ceases to be a director of the Corporation after the Grant Date of an Option and before such anniversary, by

reason of death or for any other reason except the resignation of that director prior to the normal expiration of his or her term (a "Resignation"), such exercisability shall be accelerated so that such Option shall become exercisable

in full as of the date of such cessation. No Option shall be exercisable later than ten years after the Grant Date. Each Optionee shall enter into an agreement with the Corporation with respect thereto substantially in the form of the Option Agreement.

7.3 TERMINATION OF OPTIONS. Any Option shall terminate and may no longer be exercised on the tenth anniversary of its Grant Date, or prior thereto (i) in the event of the Optionee's Resignation before the first anniversary of the Grant Date, or (ii) if the Optionee dies before such tenth anniversary, in accordance with the following sentence. If the Optionee dies at a time when he or she might have exercised an Option, then his or her estate, personal representative or beneficiary to whom it has been transferred pursuant to Section 7.4 may at any time prior to the tenth anniversary of its Grant Date and within a period of one year after the Optionee's death, but not thereafter, exercise the Option to the extent the Optionee might have exercised it at the time of death.

7.4 RESTRICTIONS ON TRANSFERABILITY. Options shall be transferable by the Optionee by will or the laws of descent and distribution. Otherwise, Options shall be transferable only if such transfer is permitted by the Compensation Committee in its discretion. The foregoing restriction shall not, however, preclude the Optionee from effecting "cashless" exercise of an Option, in accordance with and as described in Section 7.5(ii).

7.5 NOTICE OF EXERCISE AND PAYMENT.

(i) An exercisable Option may be exercised in whole or in part. An Option shall be exercisable only by delivery of a written notice to the Corporation's Treasurer or Secretary, specifying the number of Shares for which it is exercised. If the Shares are not at that time effectively registered under the Securities Act of 1933, as amended, the Optionee shall include with such notice a letter, in form and substance satisfactory to the Corporation, confirming that the Shares are being purchased for the Optionee's own account for investment and not with a view to distribution. Payment shall be made in full at the time the Option is exercised, by cash or check, except as otherwise permitted by Section 7.5(ii) below.

(ii) In lieu of payment by cash or check accompanying the written notice of exercise as described in Section 7.5(i), an Optionee may, unless prohibited by applicable law, elect to effect payment by including with the written notice referred to in Section 7.5(i) irrevocable

instructions to deliver for sale to a registered securities broker acceptable to the Corporation a number of the Shares subject to the Option being exercised sufficient, after brokerage commissions, to cover the aggregate exercise price of such Option and, if the Optionee further elects, the Optionee's withholding obligations with respect to such exercise referred to in Section 7.7, together with irrevocable instructions

to such broker to sell such Shares and to remit directly to the Corporation such aggregate exercise price and, if the Optionee has so elected, the amount of such withholding obligation. The Corporation shall not be required to deliver to such securities broker any stock certificate for such Shares until it has received from the broker such exercise price and, if the Optionee has so elected, such withholding obligation amount.

7.6 NO RIGHTS AS SHAREHOLDER. No Optionee shall have any rights as a shareholder or any claim to dividends paid with respect to any Shares to which the Option relates until the date such Shares are issued to him or her.

7.7 WITHHOLDING TAXES. The Corporation's obligation to deliver Shares upon exercise of an Option shall be subject to the Optionee's satisfaction of all applicable federal, state and local income and employment tax withholding obligations. The Optionee shall satisfy such obligations by making a payment of the requisite amount in cash or by check, unless the Optionee has elected to effect such payment through a "cashless" exercise in accordance with Section 7.5(ii).

8. DURATION

This Plan shall terminate (i) ten years from the Effective Date, (ii) on December 31, 1998, if the Corporation has not consummated its initial public offering of Common Stock prior to such time, or (iii) pursuant to Section 9.2, and no Options shall be granted thereafter.

9. GENERAL PROVISIONS.

9.1 NO RIGHT TO SERVICE. Participating in the Plan does not constitute a guarantee or contract of service as a director.

9.2 AMENDMENT AND TERMINATION. The Board of Directors may amend, suspend or terminate the Plan or any portion thereof at any time; PROVIDED, HOWEVER, that no such amendment, suspension or termination shall adversely affect or impair any then outstanding Option without the consent of the Optionee.

9.3 REGISTRATION OF SHARES. Nothing in the Plan shall be construed to require the Corporation to register under the Securities Act of 1933, as amended, any Options or Shares subject to Options.

9.4 GOVERNING LAW. The provisions of the Plan shall be governed by and interpreted in accordance with the laws of The Commonwealth of Massachusetts.

EXCHANGE APPLICATIONS, INC.

NON-EMPLOYEE DIRECTOR STOCK OPTION AGREEMENT
UNDER THE EXCHANGE APPLICATIONS, INC. 1998 DIRECTOR STOCK OPTION PLAN

Exchange Applications, Inc. (the "Company") hereby grants, effective [_____] (the "Grant Date"), to[_____] (the "Optionee") an option (the "Director Option") to purchase a maximum of _____ shares of its Common Stock, $.001 par value per share (the "Common Stock"), at a price of $[___] per share, subject to the following:

1. RELATIONSHIP TO PLAN. This Director Option is granted pursuant to Section 7 of the Company's 1998 Director Stock Option Plan (the "Plan"), and is in all respects subject to the terms, conditions and definitions of the Plan, which shall be administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") pursuant to the terms of the Plan. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Plan. The Optionee hereby accepts this Director Option subject to all the terms and provisions of the Plan (including, without limitation, provisions relating to expiration of this Director Option and adjustment of the number of shares subject to this Director Option and the exercise price therefor). The Optionee further agrees that all decisions under and interpretations of the Plan by the Compensation Committee shall be final, binding and conclusive upon the Optionee and his heirs.

2. VESTING AND TERM. This Director Option shall become exercisable in full on the one-year anniversary of the Grant Date. This Director Option will remain exercisable until the tenth (10th) anniversary of the Grant Date, unless the Director Option has earlier terminated in accordance with the provisions of the Plan.

3. METHODS OF EXERCISE. This Director Option shall be exercisable by a written notice in the form described under Section 7.5 of the Plan. The notice shall be accompanied either by cash, personal check equal to the option price or instructions as to payment in shares of Common Stock pursuant to Section 7.5(ii) of the Plan.

4. ADJUSTMENT OF NUMBER OF SHARES. In the event of any stock dividend payable in Common Stock or any split-up or contraction in the number of shares of Common Stock occurring after the date of this Agreement and prior to the exercise in full of this Director Option, the number of shares for which this

Director Option may thereafter be exercised shall be proportionately adjusted. In case of any reclassification or change of outstanding shares of Common Stock, shares of stock or other securities equivalent in kind and value to those shares

which a holder would have received if he or she had held the full number of shares of Common Stock subject to this Director Option immediately prior to such reclassification or change and had continued to hold those shares (together with all other shares, stock and securities thereafter issued in respect thereof) to the time of exercise of this Director Option shall thereupon be subject to this Director Option. In case of any consolidation or merger of the Company with or into another company or in case of any sale or conveyance to another company or entity of the property of the Company as a whole, this Director Option shall terminate and, to the extent that the value of the shares of stock, other securities or cash which a stockholder is entitled to receive for one share of Common Stock in connection with such transaction exceeds the option price of this Director Option, the Optionee shall be entitled to receive either cash or shares of stock or other securities equivalent in kind to the cash or those shares which a holder would have received if he or she had exercised this Director Option and held the number of shares of the Common Stock upon such exercise immediately prior to such consolidation, merger, sale or conveyance and with a value equal to such excess amount multiplied by the number of shares he or she would have received if he or she so exercised this Director Option at such time. Further, upon dissolution or liquidation of the Company, this Director Option shall terminate, but the Optionee shall have the right, immediately prior to such dissolution or liquidation, to exercise this Director Option to the full extent not theretofore exercised. No fraction of a share shall be purchasable or deliverable, but in the event any adjustment of the number of shares covered by this Director Option shall cause such number to include a fraction of a share, such fraction shall be adjusted to the nearest smaller whole number of shares.

5. GENERAL. This Agreement shall be construed as a contract under seal in accordance with the laws of The Commonwealth of Massachusetts. It shall bind and, subject to the terms of the Plan, benefit the parties and their respective successors, assigns and legal representatives.

IN WITNESS WHEREOF, the Company and the Optionee have caused this agreement to be executed on the date first written above.

EXCHANGE APPLICATIONS, INC.

By: _____

EXHIBIT 10.4

EXCHANGE APPLICATIONS, INC.

1998 EMPLOYEE STOCK PURCHASE PLAN

1. DEFINITIONS. As used in this 1998 Employee Stock Purchase Plan of Exchange Applications, Inc., the following terms shall have the meanings respectively assigned to them below:

(a) BENEFICIARY means the person designated as beneficiary on the Optionee's Membership Agreement or, if no such beneficiary is named, the person to whom the Option is transferred by will or under the applicable laws of descent and distribution.

(b) CODE means the Internal Revenue Code of 1986, as amended.

(c) COMMITTEE means a committee of the board of directors of the Company composed exclusively of disinterested directors.

(d) COMPANY means Exchange Applications, Inc., a Delaware corporation.

(e) COMPENSATION means annual compensation, including commissions, overtime and bonuses, for the most recently completed calendar year.

(f) ELIGIBLE EMPLOYEE means a person who is eligible under the provisions of Section 7 to receive an Option as of a particular Grant Date.

(g) EXERCISE DATE means a date not more than 27 months after a Grant Date, as determined by the Committee, on which Options must, if ever, be executed.

(h) GRANT DATE means a date specified by the Committee on which Options are to be granted to Eligible Employees.

(j) MARKET VALUE means, as of a particular date, the value as determined by the Committee in accordance with applicable provisions of the Code and Treasury Department rulings and regulations thereunder or, if applicable, the closing price of the Stock reported by NASDAQ in The Wall Street Journal on such date.

(k) MEMBERSHIP AGREEMENT means an agreement whereby an Optionee authorizes the Company to withhold payroll deductions from his or her Compensation.

(l) OPTION means an option to purchase shares of Stock granted under the Plan.

(m) OPTIONEE means an Eligible Employee to whom an Option is granted.

(n) PLAN means this 1998 Employee Stock Purchase Plan of the Company.

(o) RELATED CORPORATION means any corporation which is a parent corporation of the Company, as defined in Section 424(e) of the Code, and any corporation controlled by that parent corporation or the Company.

(p) STOCK means common stock, $.001 par value, of the Company.

2. PURPOSE OF THE PLAN. The Plan is intended to encourage ownership of Stock by employees of the Company and to provide additional incentive for the employees to promote the success of the business of the Company. It is intended that the Plan shall be an "employee stock purchase plan" within the meaning of Section 423 of the Code.

3. TERM OF THE PLAN. The Plan shall become effective on _____ __, 1998. No option shall be granted under the Plan after December 31, 2002.

4. ADMINISTRATION OF THE PLAN. The Plan shall be administered by the Committee, which shall determine from time to time whether to grant Options under the Plan, shall specify which dates shall be Grant Dates and Exercise Dates, shall determine the Market Value of the Stock, and shall fix the maximum percentage of each Optionee's Compensation which may be withheld for the purpose of purchasing shares of Stock. The Committee shall have authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, to determine the terms of Options granted under the Plan, and to make all other determinations necessary or advisable for the administration of the Plan.

5. TERMINATION AND AMENDMENT OF PLAN. The Committee may terminate or amend the Plan at any time; PROVIDED HOWEVER, that the

Committee may not, without approval by the holders of a majority of the shares of Stock, increase the maximum number of shares of Stock purchasable under the Plan, change the description of employees or classes of employees eligible to receive Options, change the manner of determining the exercise price of Options, or extend the period during which Options may be granted or exercised. No termination of or amendment to the Plan may adversely affect the rights of an Optionee with respect to any Option held by the Optionee as of the date of such termination or amendment.

6. SHARES OF STOCK SUBJECT TO THE PLAN. No more than an aggregate of

200,000 shares of Stock may be issued or delivered pursuant to the exercise of Options granted under the Plan, subject to adjustments made in accordance with Section 9.8. Shares to be delivered upon the exercise of Options may be either shares of Stock which are authorized but unissued or shares of Stock held by the Company in its treasury. If an Option expires or terminates for any reason without having been exercised in full, the unpurchased shares subject to the Option shall become available for other Options granted under the Plan. The Company shall, at all items during which Options are outstanding, reserve and keep available shares of Stock sufficient to satisfy such Options, and shall pay all fees and expenses incurred by the Company in connection there with. In the event of any capital change in the outstanding Stock as contemplated by Section 9.8, the number of shares of Stock reserved and kept available by the Company shall be appropriately adjusted.

7. PERSONS ELIGIBLE TO RECEIVE OPTIONS. Each employee of the Company or a specified Related Corporation shall be granted an Option on each Grant Date on which such employee meets all of the following requirements:

(a) The employee is employed by the Company or the Related Corporation for at least twenty hours per week and for more than five months per calendar year.

(b) The employee will not, after grant of the Option, own stock possessing five percent or more of the total combined voting power or value of all classes of stock of the Company or of any Related Corporation. For purposes of this paragraph (b), the rules of Section 424(d) of the Code shall apply in determining the stock ownership of the employee, and stock which the employee may purchase under outstanding options shall be treated as stock owned by the employee.

(c) Upon grant of the Option, the employee's rights to purchase stock under all employee stock purchase plans (as defined in Section 423(b) of the Code) of the Company and its Related Corporations will not accrue at a rate which exceeds $25,000 of fair market value of the stock (determined as of the Grant Date) for each calendar year in which such option is outstanding at any time. The accrual of rights to purchase stock shall be determined in accordance with Section 423(b)(8) of the Code.

8. DATES FOR GRANTING OPTIONS. Options shall be granted on each date designated by the Committee as a Grant Date.

9. TERMS AND CONDITIONS OF OPTIONS.

9.1 GENERAL. All Options granted on a particular Grant Date shall comply with the terms and conditions set forth in Section 9.3 through 9.12, and each Option shall be identical except as to the number of shares

of Stock purchasable under the Option, which shall be determined in accordance with Section 9.2.

9.2 NUMBER OF SHARES. The maximum number of shares of Stock which an Optionee shall be permitted to purchase shall be an amount equal to ten percent of the Optionee's Compensation as of the Grant Date divided by 85 percent of the Market Value of the Stock as of the Grant Date.

9.3 PURCHASE PRICE. The purchase price of shares of Stock shall be 85 percent of the lesser of (a) the Market Value of the shares as of the Grant Date, or (b) the Market Value of the shares as of the Exercise Date, or such greater percentage as may be set by the Committee from time to time.

9.4 RESTRICTIONS ON TRANSFER. Options may not be transferred otherwise than by will or under the laws of descent and distribution. An Option may not be exercised by anyone other than the Optionee during the lifetime of the Optionee. Shares of Stock may be sold or otherwise transferred by the Optionee without restriction subject to the provisions of Section 9.11 and the Stock Purchase Agreement that will be signed pursuant to Section 9.10.

9.5 EXPIRATION. Each Option shall expire at the close of business on the Exercise Date or on such earlier date as may result from the operation of Section 9.6.

9.6 TERMINATION OF EMPLOYMENT OF OPTIONEE. If an Optionee ceases for any reason (other than death or retirement) to be continuously employed by the Company or a Related Corporation, whether due to voluntary severance, involuntary severance, transfer, or disaffiliation of the employer Related Corporation with the Company, his or her Option shall immediately expire, and the Optionee's accumulated payroll deduction shall be returned by the Company without interest. For purposes of this Section 9.6, an Optionee shall be deemed to be employed throughout any leave of absence for military service, illness or other bona fide purpose which does not exceed the longer of ninety days or the period during which the Optionee's reemployment rights are guaranteed by statute or by contract. If the Optionee does not return to active employment prior to the termination of such period, his or her employment shall be deemed to have ended on the ninety-first day after the date of such leave of absence.

9.7 DEATH OF OPTIONEE. If an Optionee dies, his or her Beneficiary shall be entitled to withdraw the Optionee's accumulated payroll deductions without interest or to purchase shares on the Exercise Date to the

extent that the Optionee would be so entitled had he or she continued to be employed by the Company. The number of shares purchasable shall be limited by the amount of the Optionee's accumulated payroll deductions as of the date of his or her death. Accumulated payroll deductions shall be applied by the Company toward the purchase of shares only if the Optionee or Beneficiary submits to the Company a Stock Purchase Agreement pursuant to Section 9.10. Accumulated payroll deductions not withdrawn or applied to the purchase of shares in accordance with Section 9.10 shall be delivered by the Company to the Optionee or Beneficiary without interest within a reasonable time after the Exercise Date.

9.8 CAPITAL CHANGES AFFECTING THE STOCK. In the event that, between the Grant Date and the Exercise Date of an Option, a stock dividend is paid or becomes payable in respect of the Stock or there occurs a split up or contraction in the number of shares of Stock, the number of shares for which the Option may thereafter be exercised and the price to be paid for each such share shall be proportionately adjusted. In the event that, after the Grant Date, there occurs a reclassification or change of outstanding shares of the Stock or a consolidation or merger of the Company

with or into another corporation or a sale or conveyance, substantially as a whole, of the property of the Company, the Optionee shall be entitled on the Exercise Date to receive shares of Stock or other securities equivalent in kind and value to the shares of stock he or she would have held if he or she had exercised the Option in full immediately prior to such reclassification, change, consolidation, merger, sale or conveyance and had continued to hold such shares (together with all other shares and securities thereafter issued in respect thereof) until the Exercise Date. In the event that there is to occur a recapitalization involving an increase in the par value exceeding the exercise price under an outstanding Option, the Company shall notify the Optionee of such proposed recapitalization immediately upon its being recommended to the Company's shareholders, after which the Optionee shall have the right to exercise his or her Option prior to such recapitalization; if the Optionee fails to exercise the Option prior to recapitalization, the exercise price under the Option shall be appropriately adjusted. In the event that, after the Grant Date, there occurs a dissolution or liquidation of the Company, except pursuant to a transaction to which Section 424(a) of the Code applies, each Option to purchase Stock of the Company to be dissolved or liquidated shall terminate, but the Optionee holding such Option shall have the right to exercise his or her Option prior to such dissolution or liquidation.

9.9 PAYROLL DEDUCTIONS. An Optionee may receive Options hereunder as of any Grant Date by completing and returning to the Company, at least two weeks prior to such Grant Date, a Membership Agreement indicating the amount of his or her Compensation, not to exceed ten percent, which is to be withheld each pay period commencing on such Grant Date. A Membership Agreement may continue from the period following one Grant Date to the periods following subsequent Grant Dates until revoked by the Optionee. The Optionee may withdraw any or all of his or her accumulated payroll deductions without interest on the Exercise Date or such earlier date as is permitted by the Membership Agreement by submitting a written request therefor to the Company no later than two weeks prior to the date on which the withdrawal will be effective.

9.10 EXERCISE OF OPTIONS. On the Exercise Date the Optionee may purchase the number of shares purchasable by his or her accumulated payroll deduction, provided that:

(a) The number of shares of Stock purchasable shall not exceed the number of shares the Optionee is entitled to purchase pursuant to Section 9.2.

(b) If the number of shares purchasable includes a fraction, that number shall be adjusted to the next smaller whole number and the purchase price shall be adjusted accordingly.

The Optionee shall complete and return to the Company a Stock Purchase Agreement no later than two weeks prior to the Exercise Date. If the Company does not receive a Stock Purchase Agreement from the Optionee by such date, accumulated payroll deductions will be returned within a reasonable time after the Exercise Date without interest.

9.11 DELIVERY OF STOCK. Within a reasonable time after the Exercise Date, the Company shall deliver or cause to be delivered to the Optionee a certificate or certificates for the number of shares purchased by the Optionee. At the time of any exercise of any Option, the Company may, if it shall deem it necessary or desirable for any reason connected with any law or applicable regulation of the Securities and Exchange Commission or state securities laws, require the Optionee or a transferee of the Optionee's rights to represent in writing to the Company that it is such person's then intention to acquire the Stock for investment and not with a view to the distribution thereof. Such representation shall lapse when in the view of the Company it is no longer necessary under the laws or regulations in existence at the time. The Company shall have the right to place a legend on all certificates that the shares represented by such certificates may not be transferred unless a Registration Statement with respect to these shares is effective under the Securities Act of 1933, as amended, or

unless the Company shall receive an opinion of counsel satisfactory to it that transfer will not violate said act or regulations thereunder. If any law or applicable regulation of the Securities and Exchange Commission or other body having jurisdiction in the premises shall require that the Company or the Optionee take any action in connection with the shares being purchased under the Option, delivery of the certificate or certificates for such shares shall be postponed until the necessary action shall have been completed. The Optionee

shall have no rights as a shareholder in respect of shares for which he or she has not received a certificate.

9.12 RETURN OF ACCUMULATED PAYROLL DEDUCTIONS. In the event that the Optionee or the Beneficiary is entitled to the return of accumulated payroll deductions, whether by reason of voluntary withdrawal, termination of employment, retirement, death, or in the event that accumulated payroll deductions exceed the price of share purchased, such amount shall be returned without interest within a reasonable time after the Exercise Date or such earlier date as is permitted by the Membership Agreement. Payroll deductions shall be returned by the Company to the Optionee or the Beneficiary, as the case may be. An Optionee's Membership Agreement may specify that amounts exceeding the purchase price will be carried forward to the next option period under the Plan.

EXHIBIT 10.5

SUMMARY PLAN DESCRIPTION

Prepared By:

Trust Consultants, Inc.

THIS DOCUMENT IS MERELY A DRAFT PROTOTYPE SUMMARY PLAN DESCRIPTION. BEFORE DISTRIBUTING THIS SUMMARY, THE EMPLOYER SHOULD CONSULT WITH A BENEFITS EXPERT OR ATTORNEY TO ENSURE THAT THIS DOCUMENT CORRECTLY REFLECTS THE TERMS OF ITS PLAN AND CONTAINS ALL OF THE INFORMATION NECESSARY TO SATISFY THE SUMMARY PLAN DESCRIPTION REQUIREMENTS FOR ITS PLAN.

SUMMARY PLAN DESCRIPTION

EXCHANGE APPLICATIONS, INC.
401(K) RETIREMENT PLAN

Effective Date: JUNE 1, 1998

This document is a description of the Plan. It is intended that the language be clear and understandable. The law governing plans is very complicated. Consequently, the language in the law and the Plan is very technical and legal. If this description says something different from what the Plan says, the Plan must be followed. A copy of the Plan is available for inspection by contacting the Plan Administrator, whose telephone number is listed under General Information on Page 1.

SUMMARY PLAN DESCRIPTION

EXCHANGE APPLICATIONS, INC.
401(K) RETIREMENT PLAN

TABLE OF CONTENTS

EXCHANGE APPLICATIONS, INC.
401(K) RETIREMENT PLAN

I. GENERAL INFORMATION

1.	Name of Plan:	EXCHANGE APPLICATIONS, INC. 401(k) Retirement Plan
	Plan Number:	001
	Employer:	Exchange Applications, Inc.
	Address:	695 Atlantic Avenue, Suite 200 Boston, MA 02111
	Telephone:	(617) 737-2244
	Employer Identification Number:	04-3338916
2.	Type of Plan:	401(k) Retirement Plan
3.	Type of Administration:	Administration by Employer
4.	Plan Year End:	December 31
5.	Plan Administrator:	Exchange Applications, Inc.
	Address:	695 Atlantic Avenue, Suite 200 Boston, MA 02111
	Telephone:	(617) 737-2244
6.	Trustee(s):	John O'Brien Kristin Zaepfel
	Address:	695 Atlantic Avenue, Suite 200 Boston, MA 02111

Agent for service of legal process: Service of legal process may be made upon the Plan Administrator or the

Trustee at the addresses shown above.

5

SUMMARY PLAN DESCRIPTION

EXCHANGE APPLICATIONS, INC.
401(K) RETIREMENT PLAN

II. INTRODUCTION.

- The Employer is pleased to sponsor the Exchange Applications, Inc. 401(k) Retirement Plan (the "Plan") to provide retirement benefits for its employees. The Plan is effective as of June 1, 1998.

  The Plan is a defined contribution plan to which you make contributions to accounts held in your name in a trust. Because these assets are held in trust, they are not available to the Employer or the Employer's creditors. However, in limited circumstances, certain contributions to the Plan may be returned to the Employer.

  With this type of plan, the benefit you receive from the Plan depends on the amount contributed to your accounts, the investment performance of your accounts and your vested interest in your accounts. The Plan is designed to provide retirement income to employees who remain with the Employer until retirement. In addition, if your employment with the Employer terminates before you retire, you may also receive benefits,

  The Plan features are merely summarized in this Summary Plan Description (or "Summary" or "SPD"). Not all Plan rules are described in this Summary because some of the rules apply only in very limited circumstances. Therefore, if there is any inconsistency between the Plan as described in this Summary Plan Description and the Plan document itself, the terms of the Plan document will govern.

  Any questions you may have about the Plan should be referred to the Plan Administrator. Copies of the Plan document and the Trust Agreement also are available for your inspection during regular working hours from the Plan Administrator at:

  695 Atlantic Avenue, Suite 200
  Boston, MA 02111

6

EXCHANGE APPLICATIONS, INC.
401(K) RETIREMENT PLAN

II. DESCRIPTION OF PLAN BENEFITS AND REQUIREMENTS.

A. DEFINITIONS

Certain words and terms in this Summary have special meanings. To help you identify these words and terms, the first letters of the terms are capitalized when used within the text.

- ACCOUNT(S). Your separate Account(s) contain the amount of contributions (adjusted for distributions and earnings or losses) made to the Plan on your behalf.

- BENEFICIARY. Your Beneficiary is the person or persons you name to receive your benefit distribution in the event of your death. If you are married and you name someone other than your spouse as your Beneficiary, you must get written consent from your spouse.

- BREAK IN SERVICE. A Break in Service occurs if you perform less than 501 Hours of Service in a Plan Year. If you are on unpaid leave of absence because of pregnancy or birth or adoption of your child, you will receive credit for up to 501 Hours of Service that you otherwise would have earned if you had not been absent. If these Hours of Service are necessary to prevent a Break in Service in the Plan Year in which your absence begins, these Hours of Service will be credited in that Plan Year. If these Hours of Service are not necessary to prevent a Break in Service in the Plan Year in which your absence begins, these Hours of Service will be credited in the immediately following Plan Year if needed to prevent a Break in Service in that Plan Year.

- COMPENSATION is generally the total earnings during the Plan Year paid to you by the Employer that are reported in the "Wages, tips, other compensation" box of Form W-2 for the Plan Year. Compensation also shall include amounts which are not includable in

SUMMARY PLAN DESCRIPTION

EXCHANGE APPLICATIONS, INC.
401(K) RETIREMENT PLAN

your gross income because the amounts were contributed on a pre-tax basis to a cafeteria plan, this Plan, a simplified employee pension plan or a tax deferred annuity plan. If you are "self-employed", however, Compensation is your "earned income". Compensation for a Plan Year is limited to an amount which may be adjusted each year by the Internal Revenue Service (or "IRS"). For instance, in 1998, Compensation is limited to $160,000.

- HIGHLY COMPENSATED EMPLOYEE. Highly Compensated Employees are employees who (1) own 5% of the Employer in the Plan Year or the previous Plan Year or, (2) earned over $80,000 (adjusted periodically for inflation) in the previous year and, if elected by the Employer, were in the top 20% of employees on the basis of compensation. Certain family members of Highly Compensated Employees who are employed by the Employer also are treated as if they are Highly Compensated Employees.

- HOUR OF SERVICE. An Hour of Service is each hour for which you are paid or entitled to be paid by the Employer for rendering services to the Employer and any other related employer that must be aggregated with the Employer. Hours of Service also includes up to 501 Hours of Service for which you receive pay from the Employer (or a related employer) while you are on vacation, sick leave, holiday, layoff, jury duty, leave of absence or certain military duty.

- PARTICIPANT. A Participant is an employee of the Employer who has met the eligibility requirements for participating in this Plan, and who has an account balance under the Plan. You will continue to be a Participant until your vested Accounts are completely distributed Plan Year. The Plan Year is the twelve-month period ending on the date shown as the Plan Year End in Section I of this Summary.

- TRUST. A fund established under trust law to hold the assets of the Plan.

- YEAR OF VESTING SERVICE. A Year of Vesting Service is a Plan Year during which you complete at least 1,000

Hours of Service. Service will be counted beginning with your date of hire and will include service rendered for the Employer prior to the adoption of the Plan.

B. ELIGIBILITY TO PARTICIPATE

The Plan is open to all employees of the Employer except the following group of Employees:

- nonresident alien employees

If you are in a group of employees eligible to participate in the Plan, you will be eligible to become a Participant in the Plan after you have met the following eligibility requirements:

- You have reached age 18.

The first Entry Date for the Plan is June 1, 1998. If you are employed by the Employer on the first Entry Date and you are in a group of eligible employees, you will be eligible to participate in the Plan on the first Entry Date even if you have not met the eligibility requirements. If you are not employed by the Employer on the first Entry Date, you will become eligible to participate in the Plan on the Entry Date occurring on or immediately after you meet the eligibility requirements as long as you are in a group of employees eligible to participate on that Entry Date.

The Entry Dates are: January 1, April 1, July 1, October 1.

If you have been working for the Employer in a group of employees not eligible to join the Plan, and you transfer into a group of employees eligible to participate, all of your service with the Employer will be counted to determine when you will be eligible to participate. If you have already met the eligibility requirements when you transfer to an eligible group and previously would have become a Participant but for being in an ineligible group of employees, you will become eligible to participate in the Plan on the date you transfer. If you would not have become a Participant until after the date of your transfer, or if you do not meet all of the eligibility requirements until a later date, you will become eligible to participate on the Entry Date occurring on or immediately after the date you meet the eligibility requirements as long as you are still in a group of employees eligible to participate in the Plan on that Entry Date.

If you are a Participant and transfer to a group of employees not eligible to participate in the Plan, your participation will cease until you transfer back to a group of employees eligible to participate in the Plan. You will be eligible to rejoin the Plan immediately upon your transfer to a group of employees eligible to participate in the Plan.

If your employment terminates when you are a Participant and if you are later rehired in a group of employees eligible to participate in the Plan, you will be eligible to rejoin the Plan immediately upon your reemployment. If your employment terminates when you are a Participant, and if you are later rehired in a group of employees not eligible to join the Plan, you may not rejoin the Plan until you transfer back to a group of employees eligible to participate in the Plan.

If your employment terminates before you become eligible to participate in the Plan, and if you are later rehired by the Employer, your prior period of service will be counted for purposes of determining when you will be eligible to participate after you are rehired.

C. CONTRIBUTIONS

CONTRIBUTIONS AND INDIVIDUAL ACCOUNTS. The following types of contributions may be made to the Plan by you and the Employer. Each type of contribution will be allocated to a separate account for you.

- ELECTIVE DEFERRAL CONTRIBUTIONS You may make Elective Deferral Contributions to the Plan up to 15% of your Compensation per pay period. These contributions will be subtracted from your salary or wages each pay period BEFORE Federal (and usually state) income taxes are withheld. Thus, your take home pay will be reduced by LESS than the amount that is contributed as your Elective Deferral Contribution. FICA tax (Social Security and Medicare) is always withheld from total wages, including wages before Elective Deferral Contributions are deducted from your pay.

  Example: Suppose John and Carol each earn $25,000 a year and that each of them saves 6% of their pay per year (or $1,500) for retirement. If Carol saves that amount in the Plan, she has $225 more in spendable income than John, who saves $1,500 after he receives his pay.

	John	Carol
	After-Pay Savings	Elective Deferral Contributions
Annual Pay	$25,000	$25,000
Elective Deferrals	0	1,500
Taxable Pay	$25,000	$23,500
Federal Tax*	3,750	3,525
Social Security Tax	1,913	1,913
Conventional Savings	1,500	0
Spendable Income	$17,837	$18,062
Additional Spendable Income	$0	$225

*Based on a 15% flat federal tax rate. State and local income taxes are not included.

Your Elective Deferral Contributions will be credited to your Elective Deferral Contributions Account.

The tax laws impose a limit on the total amount of elective deferrals you can contribute to this Plan and ALL other such plans in any calendar year. This limit, which is $10,000 in 1998, may be adjusted each year by the Internal Revenue Service based on cost of living increases. If you exceed the limit in a calendar year, the excess deferrals (adjusted for earnings or losses) should be returned to you no later than the April 15 following the calendar year of deferral. These returned amounts will be included in your income for the calendar year of deferral (that is, in the year prior to the year the excess deferrals are returned to you). If these excess amounts are not returned to you by that April 15, these amounts will be included in your income in the year of the deferral

AND in the year they are distributed. If you want your excess deferrals (adjusted for earnings or losses) returned to you, you MUST notify the plan or plans no later than March 1 following the calendar year of the excess deferral of the amount of your excess deferrals that the plan (or plans) should return to you. The plan (or plans) will not automatically return excess deferrals to you.

- Your election to make Elective Deferral Contributions will apply only to Compensation earned after you return the proper election form to the Plan Administrator and will remain in effect indefinitely. You may, however, discontinue, reduce or increase your future Elective Deferral Contributions by completing the proper form and giving it to the Plan Administrator. You should check with the Plan Administrator for details on how soon after you return the form to the Plan Administrator that your change will be effective.

ROLLOVER CONTRIBUTIONS If you have participated in other qualified retirement plans, you may, with the approval of the Plan Administrator, make a Rollover Contribution to the Plan of certain distributions you may receive from those other plans. This contribution may be done by either a direct rollover or by an indirect rollover and will be credited to your Rollover Contribution Account. (A direct rollover occurs when the other plan makes your distribution check payable to this Plan. An indirect rollover occurs when the other plan makes your distribution check payable to you and then you roll over the distribution to this Plan no later than 60 days after you receive the check.)

You may make a Rollover Contribution even if you are not yet a Participant as long as you otherwise would be eligible to participate except for meeting any service requirement for eligibility to participate. A Rollover Contribution is the only type of contribution that may be made to the Plan before you are eligible to participate in the Plan.

Not all distributions are eligible for rollover to this Plan, so if you would like to make a direct or indirect Rollover Contribution to this Plan, see the Plan Administrator.

EXCHANGE APPLICATIONS, INC.
401(K) RETIREMENT PLAN

- DISCRETIONARY EMPLOYER CONTRIBUTIONS

  Each Plan Year, the Employer has the option to make a Discretionary Employer Contribution to the Plan. The Employer has total discretion about whether to make this type of contribution and the amount of the contribution, if any. Your share of any Discretionary Employer Contribution will be credited to your Discretionary Employer Contributions Account after the end of the Plan Year for which the contribution is made.

  A share of the Discretionary Employer Contribution for a Plan Year will be allocated to your Discretionary Employer Contributions Account if you meet one of the following criteria in the Plan Year for which the Discretionary Employer Contribution is made, even if you did not make any Elective Deferral Contributions in that Plan Year:

- You completed at least 500 Hours of Service in that Plan Year; or

- You were employed by the Employer on the last day of that Plan Year (regardless of your Hours of Service); or

- Your employment with the Employer terminated during that Plan Year because of your death, retirement or total and permanent disability (regardless of your Hours of Service).

  If you are eligible to share in the Discretionary Employer Contribution for a Plan Year, the amount of the Discretionary Employer Contribution that will be allocated to your Discretionary Employer Contributions Account will be determined by multiplying the amount of the Discretionary Employer Contribution for that Plan Year by a fraction, the numerator of which is equal to your Compensation for that Plan Year and the denominator of which is equal to the total Compensation for that Plan Year paid to all Participants eligible to share in the Discretionary Employer Contribution for that Plan Year. Thus, the Discretionary Employer Contribution will be allocated to the Accounts of eligible Participants in proportion to their Compensation.

EXAMPLE. Suppose the Discretionary Employer Contribution is $3,750 and only John and Carol are eligible to share in the allocation of that contribution. Assuming John's Compensation is $25,000 and Carol's Compensation is $50,000, the $3,750 Discretionary Employer Contribution will be allocated as follows:

JOHN:

$3,750 x $25,000 / $75,000 = $1,250

CAROL:

$3,750 x $50,000 / $75,000 = $2,500

In this example, the Discretionary Employer Contribution allocated to each of John's and Carol's Accounts was 5% of their Compensation.

- SPECIAL CONTRIBUTIONS

Each Plan Year, the Plan must pass the Actual Deferral Percentage ("ADP") nondiscrimination test. (See the following Section for a more detailed discussion of this test.) If the Plan fails to pass this test, the Employer has several options to pass the test. The Employer MAY, but is not required to, elect to pass the test by making one or more of the following contributions:

- QUALIFIED NONELECTIVE CONTRIBUTIONS

If the Employer elects to make these contributions for a Plan Year, they will be allocated to your Qualified Nonelective Contributions Account if you are not a Highly Compensated Employee and you meet ONE of the following criteria for that Plan Year:

- You completed at least 500 Hours of Service in that Plan Year.

- You were employed by the Employer on the last day of that Plan Year (regardless of your Hours of Service).

- Your employment with the Employer terminated during that Plan Year because of your death, retirement or total and permanent disability (regardless of your Hours of Service).

  If Qualified Nonelective Contributions are made, they will be allocated to the Qualified Nonelective Contribution Accounts of eligible Participants in proportion to their Compensation. These contributions are always 100% vested and are not available for hardship withdrawals.

- QUALIFIED MATCHING CONTRIBUTIONS

  If the Employer elects to make these contributions for a Plan Year, they will be allocated to your Qualified Matching Contributions Account if you are not a Highly Compensated Employee and you made Elective Deferrals during that Plan Year. If Qualified Matching Contributions are made, they will be allocated to the Qualified Matching Contributions Accounts of eligible Participants in proportion to their Elective Deferral Contributions for the Plan Year. Qualified Matching Contributions are always 100% vested and are NOT available for hardship withdrawals.

All of the preceding accounts will be credited with earnings and/or losses on the amounts credited to those Accounts and will be debited by distributions from the Accounts.

D. SPECIAL TESTS

SPECIAL NONDISCRIMINATION TESTS
The Employer must make sure the Plan passes the ADP test each Plan Year. This test is meant to insure that Plan benefits do not discriminate in favor of Highly Compensated Employees. If the Plan fails the test in a Plan Year, the Employer may take one or more of the following actions to make sure the Plan passes the test:

- Before the end of the Plan Year, the Employer may stop or reduce the amount of Elective Deferral Contributions to be made by Highly Compensated Employees for the rest of the Plan Year.

EXCHANGE APPLICATIONS, INC.
401(K) RETIREMENT PLAN

- The Employer may distribute (and/or forfeit) certain contributions (adjusted for any income or loss on such contributions) made on behalf of Highly Compensated Employees. For instance, if the Plan fails the ADP test and returns some of your Elective Deferral Contributions to you by 2 1/2 months after the Plan Year in which you made the contribution, you must include the returned contribution in your taxable income in the year you made the first contribution for the Plan Year (generally, this is the year before the contribution is returned to you). If the Plan returns some of your Elective Deferrals Contributions to you more than 2 1/2 months after the Plan Year in which you made the contribution, you must include the returned contribution in your taxable income in the year in which the contribution is returned to you. If the Employer distributes contributions, the Employer will notify affected individuals and give them a more detailed explanation of the tax consequences of the action.

- The Employer may make a Qualified Nonelective Contribution or a Qualified Matching Contribution.

TOTAL CONTRIBUTION LIMITS

In addition to the tests described above, the tax law limits the total amount of all contributions (except Rollover Contributions) that can be allocated to your Accounts in any year. Under this rule, the maximum amount that may be contributed to the Plan (and any other defined contribution plan sponsored by the Employer) on your behalf in any year is generally limited to the lesser of a specified amount which may change each year ($30,000 in 1998) or 25% of your taxable compensation (that is, your compensation after elective deferral contributions to this and any other plan). In order to prevent contributions from exceeding this limit, the Employer may limit the amount of your Elective Deferral Contributions or return some of your contributions to you.

E. VESTING

Vesting refers to the part of your Accounts that is yours and that cannot be forfeited.

- You will always have a 100 percent vested (nonforfeitable) interest in your:

- Elective Deferral Contributions Account
- Rollover Contributions Account
- Qualified Non-elective Contributions Account
- Qualified Matching Contributions Account

- You will earn a vested interest in your Discretionary Employer Contributions Account based on your Years of Vesting Service in accordance with the following schedule:

Years of Vesting Service	Vested Percentage
1 year	33.3%
2 years	66.7%
3 or more	100%

For example, if you have 3 Years of Vesting Service and your employment terminates, you will be entitled to the entire amount in your Discretionary Employer Contribution Account. However, if your employment terminates after you complete only 2 Years of Vesting Service, you will be entitled to receive 66.7% of that Account.

You will also become 100% vested in these Accounts when you reach your Normal Retirement Age of 65 while employed by the Employer or if you die or become totally and permanently disabled while employed by the Employer. For this purpose, total and permanent disability means you are unable to work at any job because of an illness which is expected to end in death or which is expected to last for at least 12 consecutive months. However, total and permanent disability does not include disability caused by certain things such as alcoholism or drug addiction, service in any armed forces or participating in a criminal act.

F. FORFEITURES

If your employment terminates when you are partially vested in some or all of your Accounts (see E, above) and all of your vested Account balances are distributed to you before the end of the second Plan Year after the Plan Year in which your employment terminated, the nonvested portion of your Accounts will be forfeited at the end of the Plan Year in which you receive a distribution of all of your vested Account balances. If you return to work for the Employer before you

have a five consecutive year Break in Service (measured from the date immediately after the date your benefits were distributed), your forfeited Account balances will be restored to your Accounts if you repay to the Plan the full amount of your prior distribution no later than five years after you return to work. If you make timely repayment, your previously forfeited benefits (unadjusted for gains and losses) will be restored to your Accounts as of the last day of the Plan Year in which you make the repayment. Forfeited amounts will not be restored if you return to work after the end of the five consecutive year Break in Service (measured from the date immediately after your vested benefits were distributed) or if you do not timely repay the full amount of your previous distribution

If you are not vested in any part of your Accounts when your employment terminates, all of your Accounts will be forfeited on the date your employment terminates. If you return to work for the Employer before you have a five consecutive year Break in Service (measured from the date your employment terminated), your forfeited Account balances (unadjusted for gains and losses) will be restored to your Accounts as of the end of the Plan Year in which you return to work.

If your nonvested benefits are not forfeited in accordance with the preceding rules (because, for instance, you elect to defer distribution of your vested benefits), your nonvested Account balances will be held in suspense and forfeited in the Plan Year in which you incur a five consecutive year Break in Service unless you return to work for the Employer before you incur a five consecutive year Break in Service. If you return to work for the Employer after you incur a five consecutive year Break in Service, your forfeited benefits will NOT be restored.

Forfeitures will be used in the following order of priority in the Plan Year in which the forfeitures take place:

- First, forfeitures will be used to restore returning Participants' Accounts in accordance with the rules described above.

- Next, forfeitures will be used to reduce future contributions that must be made by the Employer.

- Next, if the Employer elects, forfeitures will be used to pay reasonable costs of administering the Plan.

- Finally, any remaining forfeitures
  - will be treated as Discretionary Employer Contributions and allocated to Participant Accounts as if they were Discretionary Employer Contributions.

G. DISTRIBUTION OF BENEFITS

ELIGIBILITY FOR DISTRIBUTION

- You will be entitled to receive a distribution of the vested amounts in your Accounts upon any of the following events:
- Your employment with the Employer terminates for any reason, including death or total and permanent disability. (However, because of certain legal restrictions, if your employment terminates because of the sale of all or part of the Employer's business, you may not be treated as if your employment terminated.)
- You reach age 65. (Age 65 is the Plan's Normal Retirement Age.)
- Termination of the Plan.

TIMING OF DISTRIBUTIONS

You will begin receiving benefit distributions in accordance with the following rules:

- Generally, distribution of your vested Account balances will begin within a reasonable period of time after your employment terminates and you submit completed distribution forms to the Plan Administrator.
- If he total value of all of your vested Accounts is more than $5,000 (or, at the time of any prior distribution, was more than $5,000), you may delay distribution of your benefits; however, your benefits must start no later than the April 1 following the year in which you reach age 70 1/2. (If you reached age 70 1/2 before

EXCHANGE APPLICATIONS, INC.
401(K) RETIREMENT PLAN

January 1, 1988, special rules apply to determine when your distributions must begin.)

- If the total value of all of your vested Accounts is $5,000 or less (and, at the time of all prior distributions, was $5,000 or less), your entire vested Accounts will be distributed to you in a lump sum payment of cash within a reasonable period of time after your employment terminates. You may NOT elect to delay distribution of your benefits.

FORMS OF DISTRIBUTION

The following forms of distribution are available if the total value of all of your vested Accounts is greater than $5,000 (or, at the time of any prior distribution, was greater than $5,000):

- In a lump sum payment of cash of all or part of your vested Accounts.

- In substantially equal monthly, quarterly or annual installment payments of cash over a period of years not longer than your life expectancy or the joint and last survivor life expectancies of you and your Beneficiary. (Under this method of payment, your payment for a year is determined by dividing your account balance at the end of the previous year by the appropriate life expectancy. In the first year of payment, the appropriate life expectancy is determined from IRS tables based on your age (and the age of your beneficiary if you elect the joint life expectancy method of payment). In each of the following years, that appropriate life expectancy is reduced by one. For instance, if life expectancy in the first year is 20, life expectancy in the second year is 19, life expectancy in the third year is 18, etc., so that all payments are made by the end of 20 years.)

Most lump sum distributions from the Plan will qualify as "eligible rollover distributions." If your distribution qualifies as an eligible rollover distribution, 20% of the distribution will be withheld for prepayment of your federal taxes unless the distribution is directly rolled over to an individual retirement account (IRA) or another qualified plan. In addition, if you receive your vested Accounts before you reach age 59 1/2, you may be subject to a penalty tax.

Before you receive a distribution, the Plan Administrator will supply you with a detailed description of the withholding and direct rollover rules and will give you the forms you must complete to make your distribution election. Before you decide how to receive your benefits, you should consult with a tax adviser, such as an attorney or an accountant, to consider your choices and determine the tax consequences in your particular circumstances.

If your employment terminates and you return to work for the Employer before you reach age 65, your future benefit payments, if any, will stop while you are employed by the Employer.

DEATH BENEFITS

You may designate one or more Beneficiaries to receive any vested benefits you are entitled to receive from the Plan when you die. However, if you are married on the date of your death, your surviving spouse must be your only Beneficiary unless (1) you designate another Beneficiary, (2) your spouse specifically consents in writing to that Beneficiary, and (3) your spouse's consent is witnessed by the Plan Administrator or a notary public. You may change your Beneficiary designation at any time but if you are married, you must have your spouse's consent as described in the preceding sentence. In any event, all Beneficiary designations must be made on a form which is available from the Plan Administrator. If you fail to designate a Beneficiary or if none of your Beneficiaries survive you, the Plan Administrator will designate Beneficiaries in the following order:

1. Your surviving spouse.

2. Your children, per stirpes. (This means that if all of your children survive you, they will share equally in any survivor benefits. However, if one of your children dies before you, but his children survive you, the share that your deceased child would have received will be divided equally among the children of your deceased child.)

3. Your brothers and sisters, per stirpes.

4. Your parents, in equal shares.

5. Your estate.

If you die after benefit payments have begun but before you have received all of your vested benefits, payments will continue to your Beneficiary. If desired, your Beneficiary may receive the payments on a faster schedule or in one lump sum payment.

If you die before payment of your benefits begins, your vested interest in your Accounts will be paid to your Beneficiary. The Plan Administrator will give your Beneficiary additional information on the death benefit choices. In general, your entire vested Account balance must be distributed by the end of the fifth year following the year in which you die unless your Beneficiary elects to receive your vested benefits in substantially equal installments over his or her life expectancy beginning by the end of the year following the year in which you die. However, if your Beneficiary is your surviving spouse, the installments do not have to begin until the later of (1) the first anniversary of your death, or (2) the date you would have reached age 70 1/2 if you had not died. Your surviving spouse must make an election of when benefits will begin by the earlier of (1) the end of the fifth year following the year in which you died, or (2) the later of the first anniversary of your death or the date you would have reached age 70 1/2 if you had not died.

H. INVESTMENT OF PLAN ASSETS

All contributions to the Plan are kept in the Trust. A separate Account, including all of the Accounts described in the Contributions Section, is maintained for you within the Trust. The assets of the Trust may be invested only in the T. Rowe Price mutual funds selected by the Employer as investment options under the Plan.

You must tell the Plan Administrator how to invest the amounts in all of your Accounts. See the Plan Administrator for a description of the Price mutual funds that are available under the Plan and an explanation of how often you may change your choices and other rules that apply to your investment options. Read each mutual fund prospectus carefully before you decide how to invest.

I. WITHDRAWALS

You may make the following types of withdrawals from your Accounts while you are still employed by the Employer.

- You may make a hardship withdrawal of contributions to (but not earnings on) your Elective Deferral Contribution Account only if you have an immediate and heavy financial need and you do not have other resources to meet the need. The following circumstances will qualify as an immediate and heavy financial need:

  - Medical expenses incurred by you, your spouse or your dependents that would qualify as deductible on an individual tax return;

  - The purchase of your primary residence;

- Payment of tuition and related educational fees for the next year for post-secondary education for you, your spouse, children or dependents; or

- The need to prevent eviction from, or foreclosure on the mortgage of, your primary residence.

Before you can take a hardship withdrawal, you must first obtain all other forms of withdrawal, including loans, available under this Plan and all other plans maintained by the Employer.

All hardship withdrawal requests must be submitted in writing to the Plan Administrator and are subject to approval by the Plan Administrator. The amount withdrawn may not exceed the sum of the actual expense incurred because of the hardship and estimated taxes and penalties on the hardship withdrawal. In addition, if you make a hardship withdrawal, (1) you may not make any type of contributions to this Plan or any other plan maintained by the Employer for one year after you receive this withdrawal, and (2) the maximum amount of Elective Deferral Contributions you may make in the calendar year following the year of your withdrawal will be reduced by the amount of Elective Deferral Contributions you made your with in the year of the withdrawal.

J. LOANS

This Plan contains provisions that permit you to borrow from your vested Account balance. However, you should be aware that the amount of your loan, when added to the total of all outstanding loans to you (if any) from all pension and profit sharing plans of the Employer, may not be greater than the lesser of (1) $50,000 reduced by your highest outstanding plan loan balances during the year preceding the date of the loan, or (2) 50% of the value of your vested interest in your Accounts.

The Plan Administrator will determine the terms of all loans. The maximum payment term for any loan generally will be five years. The minimum loan is $ 1,000. Plan loans must be repaid by salary deduction in equal payments each pay period.

1. The person or group authorized to administer the loan program is the Plan Administrator.

2. The procedure for applying for loans is the completion of a loan application you obtain from the Plan Administrator. It will be necessary to obtain your spouse's consent in writing as part of the loan application.

3. The basis on which loans are approved or denied is a non-discriminatory basis, uniformly applicable to all Participants.

4. The limitations on the types and amounts of loans offered will be determined by the Plan Administrator and described to you separately.

5. The reasonable rate of interest will be determined as follows:

   The interest rate will be the prevailing rate found by the Plan Administrator. It will be the average of the rate used for similar personal loan transactions used by several commercial banks in the general geographic area of the Plan

6. Collateral to secure repayment of a loan will be 50% of your vested Account balance.

7. In the event you terminate employment, all remaining payments on the loan shall be' immediately due and payable.

8. The following are the procedures which will be followed in the event of a default on your loan. In the event of your future failure to repay the loan, the Plan Administrator will declare your loan in default. If you default on your loan, all remaining payments on the loan shall be immediately due and payable. If you do not pay off the loan, the outstanding amount will be deducted from your Account balance upon its distribution to you. The amount of the loan balance would then be a taxable distribution from the Plan and may also be subject to a 10% early distribution penalty if you are not at least age 59 1/2. Your Employer will be required to withhold 20% of the amount of your loan in default for payment of Federal Income Taxes. This withholding will be paid from your remaining vested Account balance at the time of distribution. You should consult a tax advisor if this occurs to determine its effect on your taxes. Note that if the loan is deemed to be distributed as taxable income to you, and you are not otherwise entitled to receive a distribution, the loan will remain part of your Account balance.

K. TOP HEAVY RULES

To ensure that the majority of benefits under the Plan are not being provided primarily to key employees of the Employer, a determination is made each Plan Year as to whether the Plan is "top heavy". Key employees are officers of the Employer who earn over a specified annually adjusted amount ($65,000 in 1998) and employees who own one of the 10 largest interests in the Employer and earn over a certain annually adjusted

24

amount ($30,000 in 1998). Employees who own at least five percent of the Employer and employees who own at least one percent of the Employer and receive annual compensation of more than $150,000 from the Employer are also considered key employees.

The Plan will be deemed to be "top heavy" in any Plan Year in which the total Account balances of key employees under this Plan (and any plan which must be aggregated with this Plan to make such a determination) exceed 60% of the total amount of the Account balances for all Participants.

For any Plan Year in which the Plan is top heavy, if you are not a key employee and you are employed by the Employer on the last day of the Plan Year, the Employer must make for you a minimum top-heavy contribution that is equal to the lesser of (1) 3% of your Compensation for that Plan Year, or (2) the highest contribution percentage made on behalf of a key employee in that Plan Year. However, in any Plan Year the Plan is top-heavy, if the top heavy minimum contribution requirement is met in another plan of the Employer, no top-heavy minimum contribution will be made to this Plan.

IV. CLAIMS PROCEDURES.

The Plan Administrator has the sole responsibility to interpret the provisions of the Plan, including, but not limited to, the responsibility to determine eligibility for participation and benefits, to resolve benefit claims, and to take all other actions necessary to administer the Plan. Any action taken or decision made by the Plan Administrator shall be final, conclusive and binding on all parties.

You or your Beneficiary may file a written claim for benefits under this Plan with the Plan Administrator at any time. If you or your Beneficiary want to dispute a decision or action of the Plan Administrator, you or your Beneficiary must submit a written claim to the Plan Administrator within 60 days, or within a longer period if special circumstances are involved, after you or your Beneficiary receive notice of the Plan Administrator's decision or action. If your claim is denied to any extent by the Plan Administrator, a written notification must be sent to you within 90 days (or within a longer period if special circumstances apply) after the Plan Administrator receives your claim. The Plan Administrator's

notice will state the reason why your claim was denied, give reference to the specific provisions of the Plan on which the decision was reached, describe any additional material you should give to the Plan Administrator if you decide to appeal the decision and

explain the appeal procedure described in the following paragraph.

If you or your Beneficiary choose to appeal the Plan Administrator's decision, you or your Beneficiary must make a request for review in writing to the Plan Administrator within 60 days after you receive written notification of the decision. You may inspect documents relating to your claim, and you may submit written arguments and documents to support your claim. Within 60 days after your appeal is filed with the Plan Administrator, or within 120 days, if there are special circumstances involved, the Plan Administrator will issue you a written notice that includes specific reasons for its decision on appeal.

You (or your Beneficiary) must exhaust all of your rights under this claims procedure before filing an action in any court.

V. MISCELLANEOUS.

A. AMENDMENT OF THE PLAN

The Employer reserves the right to amend the Plan at any time. T. Rowe Price Trust Company, as sponsor of the prototype plan document, also reserves the right to amend the prototype plan document at any time. No amendment to the Plan can reduce your Account balances. (Obviously, however, your Account balance can be reduced by investment losses or distribution of all or part of your Accounts.) You will be kept informed of any material amendments to the Plan by updates to this Summary Plan Description.

B. TERMINATION OF THE PLAN

The Employer intends to continue this Plan indefinitely. However, the Employer reserves the right to terminate the Plan at any time. If a termination takes place, or if the Employer permanently discontinues making contributions to the Plan, you will have a 100% nonforfeitable

interest in all of your Accounts.

C. INAPPLICABILITY OF PBGC GUARANTEES

Because this Plan is a defined contribution plan, benefits under the Plan are NOT insured by the Pension Benefit Guaranty Corporation.

D. SPECIAL RIGHTS UNDER ERISA

EXCHANGE APPLICATIONS, INC.
401(K) RETIREMENT PLAN

As a Participant in the Plan, you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all Plan Participants shall be entitled to:

- Examine, without charge, at the Plan Administrator's office and at other specified locations, such as worksites and union halls, all Plan documents, including insurance contracts, collective bargaining agreements and copies of all documents filed by the Plan with the U.S. Department of Labor, such as detailed annual reports and Summary Plan Descriptions.

- Obtain copies of all Plan documents and other Plan information upon written request to the Plan Administrator. The Plan Administrator may make a reasonable charge for the copies.

- Receive a summary of the Plan's annual financial report. The Plan Administrator is required by law to furnish each Participant with a copy of this summary annual report.

- Obtain a statement telling you whether you have the right to receive a benefit at your Normal Retirement Date and if so, what your benefits under the Plan would be on the Normal Retirement Date if you stop working now. If you do not have a right to a benefit, the statement will tell you how many more years you have to work for a right to a benefit. This statement must - be requested in writing and is not required to be given more than once a year. The Plan must provide the statement free of charge.

In addition to creating rights for Plan Participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan

Participants and Beneficiaries. No one, including the Employer, your union or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a retirement benefit or exercising your rights under ERISA. If your claim for a benefit is denied in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the Plan Administrator review and reconsider your claim.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the Plan Administrator and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay you up to $110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court.

If it should happen that Plan fiduciaries misuse the Plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees if, for example, the court finds your claim is frivolous. If you have any questions about the Plan, you should contact the Plan Administrator. If you have any questions about this statement or about your rights under ERISA, you should contact the nearest Area Office of the U.S. Labor-Management Services Administration, Department of Labor.

E. ASSIGNMENT OF BENEFITS

Benefits under the Plan are intended only for you (or if you die, your Beneficiary). Neither you nor your Beneficiary can transfer, assign or pledge any of your Plan benefits except as a security for a Plan loan. In addition, no other person can have access to your Accounts held in the Plan except as may be required under (1) an IRS lien for back taxes, or (2) what is called a "qualified domestic

relations order." Under a "qualified domestic relations order," a court may enter an order that awards all or part of your vested Account balances to another person or persons.

F. NO CONTINUED RIGHTS TO EMPLOYMENT

No provision of the Plan or this Summary Plan Description (1) gives you any right to continued employment, (2) prohibits changes in the terms of your employment, or (3) prohibits the termination of your employment.

SIMPLIFIED 401(k) PROTOTYPE PLAN

ADOPTION AGREEMENT #001

This is the Adoption Agreement for defined contribution plan #001 of basic plan document #07, which is a combined prototype Section 401(k)/profit sharing defined contribution plan. This Adoption Agreement may be used only in conjunction with basic plan document #07.

NOTE: Before executing this Adoption Agreement, the Employer should consult with a tax adviser or attorney. Failure to properly complete this Adoption Agreement may result in Plan disqualification.

The Employer hereby establishes a Section 401(k) plan and a trust for such plan upon the respective terms and conditions contained in the Section 401(k) prototype plan (the "Plan"), and the Trust Agreement to the Plan and appoints as Trustee of such trust the person(s) who has (have) executed this Adoption Agreement evidencing his/her/its (their) acceptance of such appointment. The Plan and the Trust Agreement shall be supplemented and modified by the terms and conditions contained in this Adoption Agreement and shall be effective on the Effective Date, as specified herein.

After the Employer has notified T. Rowe Price Trust Company in writing that it has adopted the Plan, T. Rowe Price Trust Company shall inform the Employer of any amendments made to the prototype plan or the discontinuance or abandonment of the prototype plan after T. Rowe Price Trust Company receives such notice and until the Employer notifies T. Rowe Price Trust Company it has ceased to use this prototype plan or the Employer no longer meets the requirements of the prototype (e.g., plan assets are not invested solely in Shares).

I. SPONSOR DATA

T.Rowe Price Trust Company
4555 Painters Mill Road
Owings Mills, MD 21117-4903
1-800-492-7670

II. EMPLOYER DATA

A. Name: Exchange Applications, Inc.

B. Tax Identification Number (TIN): 04-3338916

C. Address: 695 Atlantic Avenue, Suite 200

Boston, MA 02111

D. Telephone Number: (617) 737-2244

E. Employer's Taxable Year End: December 31

F. Employer is: [X] a corporate entity

[ ] a non-corporate entity
[ ] a corporate entity electing Subchapter S treatment.

III. PLAN DATA (Complete A or B)

A. New Plan.

1. Name of Plan and Trust: Exchange Applications, Inc. 401(k) Retirement Plan

2. Effective Date of Plan and Trust: June 1, 1998
(Usually the first day of the Plan Year in which the Plan is adopted)

3. Plan Year End: December 31

B. Amended and Restated Plan.

1. Name of Plan and Trust:

2. Initial Effective Date:

3. Effective Date of Amended Plan
(Usually the first day of a Plan Year)

4. Plan Year End:

IV. ELIGIBILITY

A. All Employees shall be eligible to participate in this Plan in accordance with the provisions of Article III of the Plan, EXCEPT the following:

[X] Employees who have not attained age 18 (cannot exceed 21);

[ ] Employees who have not completed _____ (cannot exceed one) Year of Eligibility Service. (If the year of eligibility service selected is a fractional year, an Employee will not be required to complete any specified number of hours of service to receive credit for such fractional year.)

[ ] Employees included in a unit of Employees covered by a collective bargaining agreement, if retirement benefits were the subject of good faith bargaining between the Employer and Employee representatives. Employee representatives do not include any organization more than half of whose members are Employees who are owners, officers or executives of the Employer;

[X] Any eligible Employee who is employed by the Employer on the

Effective Date of the Plan shall be eligible to participate on the Effective Date regardless of his or her age or Years of Eligibility Service.

30

B. The Entry Dates shall be the Effective Date of the Plan and thereafter (Complete 1 or 2)

1. [ ] The first day of each Plan Year and the first day of the seventh month in each Plan Year;

2. [X] The first day of each Plan Year and the first day of each quarter in the Plan Year.

V. CONTRIBUTIONS

A. Elective Deferrals.

A Participant may elect to defer an amount not in excess of 15 % of his or her compensation per pay period in accordance with a salary reduction agreement signed by the Participant.

B. Employer Matching Contributions.

1. Matching Employer Contributions

a. [ ] shall be made to the Plan.

b. [X] shall not be made to the Plan. (If this subsection b is elected, do not complete the following section 2.)

2. For a Plan Year, the Employer shall contribute and allocate to the Matching Contributions Account of each Participant who made Elective Deferrals during the Plan Year an amount equal to ____% of the Participant's Elective Deferrals for each pay period in the Plan Year; provided that for purposes of calculating such Matching Contributions, the Participant's Elective Deferrals shall be treated as not exceeding ____% of the Participant's Compensation for each such pay period.

Notwithstanding the foregoing, the Employer Matching Contribution made on behalf of an eligible Participant for the Plan Year shall not exceed $_____. (If this section is not completed, only the percentage limit will apply to Employer Matching Contributions.)

C. Discretionary Employer Contributions

1. [X] may be made to the Plan each year as determined by the Employer.

2. [ ] shall not be made to the Plan.

VI. VESTING

If a Participant terminates employment for reasons other than retirement, death or total and permanent disability, the vested portion of his or her Accounts (other than his or her Salary

31

Deferral and Rollover Contribution Accounts, which are always 100% vested) shall be determined in accordance with the following schedule (Choose A, B or C):

A. [X]

YEARS OF SERVICE	VESTED PERCENTAGE
1 year	33.3%
2 years	66.7%
3 or more years	100 %

B. [ ]

YEARS OF SERVICE	VESTED PERCENTAGE
1 year	%
2 years	% (at least 20%)
3 years	% (at least 40%)
4 years	% (at least 60%)
5 years	% (at least 80%)
6 or more years	100 %

C. [ ] 100% full and immediate.

VII. OPTIONAL FEATURES

A. Loans to Participants (Choose 1 or 2):

1. [ ] will not be permitted.

2. [X] will be permitted not exceeding 50% (not more than 50%) of the present value of the Participant's vested accrued benefit.

B. Hardship withdrawals (Choose 1 or 2):

1. [ ] will not be permitted.

2. [ ] will be permitted.

VIII. TOP-HEAVY PROVISIONS

If the Employer maintains or has ever maintained a defined benefit plan, then for purposes of determining the present value of defined benefit plans' accrued benefits required to be aggregated with this Plan to compute the top-heavy ratio, any benefit shall be discounted only for mortality and interest based on the following:

Interest rate: _____ Mortality table: _____

IX. ALLOCATION LIMITATION

If any Participant in this Plan is or has ever been a participant in a defined benefit plan maintained by the Employer, give an explanation below of the method under which the plan

involved will satisfy the 1.0 limitation of section 415(e) of the Code in a manner that precludes Employer discretion:

X. THE TRUSTEE(S)

The Employer hereby appoints the following to serve as Trustee(s):

Name: John O'Brien

Address: 695 Atlantic Avenue, Suite 200

Boston, MA 02111

/s/ [signature illegible] — Witness

/s/ John O'Brien — [Signature of] Trustee

Dated: /s/ [illegible] 6/9/98

Name: Kristin Zaepfel

Address: 695 Atlantic Avenue, Suite 200

Boston, MA 02111

/s/ [signature illegible] — Witness

/s/ Kristin Zaepfel — [Signature of] Trustee

Dated:

Name:

Address:

Witness — [Signature of] Trustee

Dated:

XI. SUPPLEMENTS

If additional space is required to specify an elective feature or to amend the Plan in accordance with Section 13.2 of the Plan, please attach additional pages as needed. Each additional page

must reference the Section of the Adoption Agreement or the Plan to which the addition applies and must be signed (or initialed) by the Employer and the Trustee(s). In addition, each supplementary page should be numbered, and the total number of pages in the Adoption Agreement and additional pages indicated in the following Section.

XII. EMPLOYER SIGNATURE

The Employer acknowledges receipt of the current prospectus of each of the investment options designated by the Employer for its initial choice of investments available under the Plan and represents that it has delivered a

copy thereof to each Participant in the Plan, and that it will deliver to each Participant making contributions and each new Participant, a copy of the then current prospectus of such investment options. The Employer further represents that the information in this Adoption Agreement shall become effective only when approved and countersigned by the Trustee(s). The right to reject this Adoption Agreement for any reason is reserved.

Note: An Employer who has ever maintained or who later adopts any plan (including a welfare benefit fund, as defined in Code section 419(e), which provides post-retirement medical benefits allocated to separate accounts for Key Employees, as described in Code section 419A(d)(3), or an individual medical account as defined in Code section 415(1)(2)), in addition to this Plan may not rely on the opinion letter issued by the National Office of the Internal Revenue Service as evidence that this Plan is qualified under Code section 401(a). If the Employer who adopts or maintains multiple plans wishes to obtain reliance that the plans are qualified, application for a determination letter should be made to the appropriate Key District Director of Internal Revenue.

The Employer may not rely on the opinion letter issued by the National Office of the Internal Revenue Service as evidence that this Plan is qualified under Code section 401 unless the terms of the Plan, as herein adopted or amended, that pertain to the requirements of Code sections 401(a)(4), 401(a)(17), 401(1), 401(a)(5), 410 (b) and 414(s), as amended by the Tax reform Act of 1986, or later laws, (a) are made effective retroactively to the first day of the first Plan Year beginning after December 31, 1988 (or such later date on which these requirements first become effective with respect to this Plan); or (b) are made effective no later than the first day on which the Employer is no longer entitled, under regulations, to rely on a reasonable, good faith interpretation of these requirements, and the prior provisions of the plan constitute such an interpretation.

This Adoption Agreement consists of 6 pages.

IN WITNESS WHEREOF, the Employer has caused this Adoption Agreement to be executed by its duly authorized officers this 9th day of June, 1998.

Exchange Applications, Inc.

[Name of] Employer

By: /s/ John O'Brien

Name and Title: John O'Brien, VP/CFO

(please print)

T. ROWE PRICE TRUST COMPANY

SIMPLIFIED 401(K) PROTOTYPE PLAN

BASIC DOCUMENT #07

T. ROWE PRICE TRUST COMPANY
SIMPLIFIED 401(k) PROTOTYPE PLAN

TABLE OF CONTENTS

TRUST AGREEMENT

==========

ARTICLE 1. GENERAL

1.1 PURPOSE. The Employer hereby establishes this Plan to provide retirement, death and disability benefits for eligible Employees and their Beneficiaries. This Plan is a prototype defined contribution profit sharing plan. The provisions herein and the selections made by the Employer by execution of the Adoption Agreement shall constitute the Plan. It is intended that the Plan and Trust qualify under sections 401 and 501 of the Internal Revenue Code of 1986, as amended, and that it comply with the provisions of the Employee Retirement Income Security Act of 1974, as amended.

1.2 TRUST. The Employer has simultaneously adopted a Trust to receive, invest and distribute funds in accordance with the Plan.

ARTICLE 2. DEFINITIONS

2.1 ACCOUNT. The aggregate of the individual bookkeeping subaccounts established for each Participant, as provided in Section 6.1.

2.2 ADOPTION AGREEMENT. The written agreement of the Employer and the Trustee by which the Employer establishes this Plan and adopts the Trust Agreement forming a part hereof, as the same may be amended from time to

time. The Adoption Agreement contains all the options that may be selected by the Employer. The information set forth in the Adoption Agreement executed by the Employer shall be deemed to be a part of this Plan as if set forth in full herein.

2.3 AFFILIATED EMPLOYERS. The Employer and any corporation which is a member of a controlled group of corporations (as defined in section 414(b) of the Code) which includes the Employer, any trade or business (whether or not incorporated) which is under common control (as defined in section 414(c) of the Code) with the Employer, or any service organization (whether or not incorporated) which is a member of an affiliated service group (as defined in section 414(m) or (o) of the Code) which includes the Employer or any other entity (whether or not incorporated) which is aggregated with the Employer under section 414(o) of the Code.

2.4 BENEFICIARY. The person or persons (natural or otherwise) designated by a Participant in accordance with Section 11.2(c) to receive any undistributed vested amounts credited to the Participant's Account under the Plan at the time of the Participant's death.

2.5 BREAK IN SERVICE. A Plan Year in which an Employee fails to complete more than 500 Hours of Service.

2.6 CODE. The Internal Revenue Code of 1986, as amended from time to time, or any successor statute.

2.7 COMPENSATION. Except for such amounts as the Employer may elect to exclude in the Adoption Agreement, Compensation shall be defined as follows:

(a) Compensation will mean the information required to be reported under sections 6041 and 6051 of the Code. (Wages, Tips and Other Compensation Box on Form W-2.) Compensation is defined as wages within the meaning of section 3401(a) of the Code and all other payments of compensation to an Employee by the Employer (in the course of the Employer's trade or business) for which the Employer is required to furnish the Employee a written statement under sections 6041(d) and 6051(a)(3) of the Code. Compensation must be determined without regard to any rules under section 3401(a) of the Code that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in section 3401(a)(2) of the Code). Compensation shall include any amount which is contributed to a plan by the Employer pursuant to a salary reduction agreement and which is not includible in the gross income of the Employee under sections 125, 402(a)(8), 402(h) or 403(b) of the Code.

(b) For any self-employed individual covered under the Plan, Compensation will mean Earned Income.

(c) For Plan Years beginning after December 31, 1988, the annual compensation of each Participant taken into account for determining all benefits provided under the Plan for any year shall not exceed $200,000, as adjusted by the Secretary at the same time and in the same manner as under section 415(d) of the Code. If, during the first Plan Year or the last Plan Year, the Plan Year is less than 12 months, the $200,000 limit, as adjusted, shall be equal to such limit for such Plan Year multiplied by a fraction the numerator of which is the number of full months in such Plan Year and the denominator of which is 12. In determining the Compensation of a Participant for purposes of this limitation, the rules of section 414(q)(6) of the Code shall apply; except in applying such rules, the term "family" shall include only the spouse of the Participant and any lineal descendants of the Participant who have not attained age 19 before the close of the year. If, as a result of the application of such rules, the adjusted $200,000 limitation is exceeded, then the limitation shall be prorated among the affected individuals in proportion to each such individual's Compensation as determined under this Section prior to the application of this limitation. This subsection shall be effective in Plan Years beginning on or after January 1,1989.

(d) In addition to other applicable limitations set forth in the Plan, and notwithstanding any other provision of the Plan to the

contrary, for Plan Years beginning on or after January 1,1994, the annual compensation of each Employee taken into account under the Plan shall not exceed the OBRA '93 annual compensation limit. The OBRA '93 annual compensation limit is $150,000 as adjusted by the Commissioner for increases in the cost of living in accordance with section 401(a)(17)(B) of the Internal Revenue Code. The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which Compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer that 12 months, the OBRA '93 annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12.

For Plan Years beginning on or after January 1, 1994, any reference in this Plan to the limitation under section 401(a)(17) of the Code shall mean the OBRA '93 annual compensation limit set forth in this provision.

If Compensation for any prior determination period is taken into account in determining an Employee's benefits accruing in the current Plan Year, the Compensation for that prior determination period is subject to the OBRA '93 annual compensation limit in effect for that prior determination period. For this purpose, for determination periods beginning before the first day of the first Plan Year beginning on or after January 1,1994, the OBRA '93 annual compensation limit is $150,000.

2.8 EARNED INCOME. The net earnings from self-employment in the trade or business with respect to which the Plan is established, for which personal services of the individual are a material income-producing factor. Net earnings will be determined without regard to items not included in gross income and the deductions allocable to such items. Net earnings are reduced by contributions to a qualified plan to the extent deductible under section 404 of the Code. Net earnings shall be determined with regard to the deduction allowed to the Employer by section 164(f) of the Code for taxable years beginning after December 31, 1989.

2.9 EFFECTIVE DATE. The day on which the Plan is effective as specified in the Adoption Agreement. If the Employer is adopting this Plan as an amendment and restatement of an existing plan, the provisions of the existing plan shall apply prior to the Effective Date unless an earlier date is specified herein.

2.10 ELECTIVE DEFERRALS. Any employer contributions made to the Plan at the election of the Participant, in lieu of cash Compensation, pursuant to a salary reduction agreement or other deferral mechanism. With respect to any taxable year, a Participant's Elective Deferral is the sum of all such employer contributions made on behalf of such Participant pursuant to an election to defer under any qualified cash or deferred arrangement as described in section 401(k) of the Code, any simplified employee pension cash or deferred arrangement as described in section 402(h)(1)(B) of the Code, any eligible deferred compensation plan under section 457 of the Code, any plan as described in section 501(c)(18) of the Code and any employer contributions made on behalf of a Participant pursuant to a salary reduction agreement for the purchase of an annuity contract under section 403(b) of the Code. Elective Deferrals shall not include any deferrals properly distributed as excess Annual Additions as described in Section 7.1.

2.11 EMPLOYEE. Any person, including a Self-Employed Individual, who is employed by the Employer maintaining the Plan or any other employer required to be aggregated with such Employer under section 414(b), (c), (m) or (o) of the Code. The term "Employee" shall also include any Leased Employee.

2.12 EMPLOYEE AFTER-TAX CONTRIBUTIONS. Any contribution made to the Plan by or on behalf of a Participant before the Plan Year in which the Employer adopted this Plan that was included in the Participant's gross income in the year in which made and that is maintained under a separate subaccount to which earnings and losses are allocated. Employee After-Tax Contributions shall not be allowed in or after the Plan Year in which this Plan is adopted by the Employer.

2.13 EMPLOYER. The corporation, proprietorship, partnership or other organization that adopts the Plan by execution of an Adoption Agreement.

2.14 EMPLOYER DISCRETIONARY CONTRIBUTIONS. The contributions of the employer to the Plan and Trust as set forth in Section 5.3(b) and the Adoption Agreement.

2.15 ENTRY DATES. The Entry Dates shall be the dates specified in the Adoption Agreement.

2.16 ERISA. The Employee Retirement Income Security Act of 1974, as amended.

2.17 FAMILY MEMBERS. The spouse, lineal ascendants and descendants of a Highly Compensated Employee and the spouses of such lineal ascendants and descendants.

2.18 FIVE PERCENT OWNER. Any person who owns (or is considered to own within the meaning of section 318 of the Code) more than 5% of the interests in the Employer.

2.19 HIGHLY COMPENSATED EMPLOYEE.

(a) The term "Highly Compensated Employee" shall include highly compensated active Employees and highly-compensated for Employees.

(b) A highly-compensated active Employee includes any Employee who performs service for the Employer during the determination year and who, during the look-back year.

(i) received Compensation from the Employer in excess of $75,000 (as adjusted pursuant to section 415(d) of the Code);

(ii) received Compensation from the Employer in excess of $50,000 (as adjusted pursuant to section 415(d) of the Code) and was a member of the top-paid group for such year; or

(iii) was an officer of the Employer and received Compensation during such year that is greater than 50% of the dollar limitation in effect under section 415(b)(1)(A) of the Code.

(c) The term "Highly Compensated Employee" also includes:

(i) Employees who are both described in the preceding subsection if the term "determination year" is substituted for the term "look-back year" and the Employee is one of the 100 Employees who received the most Compensation from the Employer during the determination year; and

(ii) Employees who are Five Percent Owners at any time during the look-back year or determinations year.

(d) (i) If no officer has satisfied the Compensation requirement of subsection (b)(iii) above during either a determined year or look-back-year, the highest paid officer for such year shall be treated as a Highly Compensation Employee.

(ii) For this purpose, the determination year shall be the Plan Year. The look-back year shall be the twelve month period immediately preceding the determination year.

(e) A highly-compensated former Employee includes any Employee who separated from service (or was deemed to have separated from service) prior to the determination year, performs no service for the Employer during the determination year, and was a highly-compensated active Employee for either the separation year or any determination year ending on or after the Employee's 55th birthday.

(f) If an Employee is, during a determination year or look-back year, a Family Member of either a Five Percent Owner who is an active or former Employee or a Highly Compensated Employee who is one of the ten most Highly Compensated Employees ranked on the basis of compensation paid by the Employer during such year, then the Family Member and Five Percent Owner or top ten Highly Compensated Employee shall be aggregated. In such case, the Family Member and Five Percent Owner or top ten Highly Compensated Employees shall be treated as a single Employee receiving Compensation and Plan contributions or benefits equal to the sum of such Compensation and contributions of benefits of the Family Member and Five Percent Owner or top ten Highly Compensated Employee.

(g) For purpose of this Section, "compensation" shall include Section 415 Compensation plus any amount which is contributed to a plan by the Employer pursuant to a salary reduction agreement and which is not included in the gross income of

the Employee under section 125, 402(a)(8), 402(h) or 403(b) of the Code.

(h) The determination of who is a Highly Compensated Employee, including the determinations of the number and identity of Employees in the top-paid group, the top 100 Employees, the number of Employees treated as officers and the Compensation that is considered, will be made in accordance with section 414(q) of the Code and the regulations thereunder.

2.20 HOUR OF SERVICE.

(a) Each hour for which an Employee is paid, or entitled to payment, for the performance of duties for the Employer. These hours shall be credited to the Employee only for the computation period or periods in which the duties are performed; and

(b) Each hour for which an Employee is paid, or entitled to payment, by the Employer on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. No more than 501 Hours of Service shall be credited under this paragraph to an Employee on account of any single, continuous period during which the Employee performs no duties (whether or not such period occurs in a single computation period). Hours under this paragraph will be calculated and credited pursuant to section 2530.200b-2 of the Department of Labor regulations which are incorporated herein by this reference.

(c) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer. The same Hours of Service shall not be credited both under paragraph (a) or paragraph (b), as the case may be, and under this paragraph (c); These hours shall be credited to the Employee for the computation

period or periods to which the award or agreement pertains rather than the computation period in which the award, agreement or payment is made.

(d) Solely for purposes of determining whether an Employee has a Break in Service, Hours of Service shall also include an uncompensated authorized leave of absence not in excess of two years, or military leave while the Employee's reemployment rights are protected by law or such additional or other periods as granted by the Employer as military leave (credited on the basis of 40 Hours of Service per week or eight Hours of Service per working day), provided the Employee returns to employment at the end of his leave of absence or within 90 days of the end of his military leave, whichever is applicable.

(e) Hours of Service will be credited for employment with other members of an affiliated service group (under section 414(m) of the Code), a controlled group of corporations (under section 414(b) of the Code), or a group of trades or businesses under common control (under section 414(c) of the Code) of which the adopting Employer is a member, and any other entity required to be aggregated with the Employer pursuant to section 414(o) of the Code and the regulations thereunder. Hours of Service will also be credited for any individual considered an Employee for purposes of this Plan under section 414(n) or (o) of the Code and the regulations thereunder.

(f) Solely for purposes of determining whether an Employee has a Break in Service, Hours of Service shall also include absence from work for maternity or paternity reasons, if the absence begins on or after the first day of the first Plan Year beginning after 1984. During this absence, the Employee shall be credited with the Hours of Service which would have been credited but for the absence, or, if such hours cannot be determined, with eight (8) hours per day. An absence from work for maternity or paternity reasons means an absence:

(i) by reason of the pregnancy, of an Employee;

(ii) by reason of the birth of a child of the Employee;

(iii) by reason of the placement of a child with the Employee in connection with adoption; or

(iv) for purposes of caring for such a child for a period immediately following such birth or placement.

These Hours of Service shall be credited in the computation period following the computation period in which the absence begins, except as necessary to prevent a Break in Service in the computation period in which the absence begins. However, no more than 501 Hours of Service will be credited for purposes of any such maternity or paternity absence from work.

(g) Hours of Service will be determined on the actual hours for which an Employee is paid or entitled payment.

(h) If the Employer amends the method of crediting service from the elapsed time method described in section 1.410(a)-7 of the Treasury regulations to the Hours of Service computation method by the adoption of this Plan, or an Employee transfers from a plan under which service is determined on the basis of elapsed time, the following rules shall apply for purposes of determining the Employee's service under this Plan up to the time of amendment or transfer:

(i) The Employee shall receive credit, as of the date of amendment or transfer, for a number of Years of Eligibility Service and Years of Vesting Service equal to the number of one year periods of eligibility service and vesting service, respectively, credited to the Employee as of this date of the amendment or transfer; and

(ii) The Employee shall receive credit in the applicable computation period which includes the date of amendment or transfer for a number of Hours of Service determined in

accordance with paragraph (g).

2.21 LEASED EMPLOYEE.

(a) Any person (other than an Employee of any of the Affiliated Employers) who, pursuant to an agreement between any of the Affiliated Employers and any other person ("leasing organization"), has performed service for any of the Affiliated Employers (or for any of the Affiliated Employers and related persons determined in accordance with section 414(n)(6) of the Code) on a substantially full-time basis for a period of at least one year and such services are of a type historically performed by employees in the Affiliated Employer's business field. Contributions or benefits provided a Leased Employee by the leasing organization which are attributable to services performed for the Affiliated Employer shall be treated as provided by the Affiliated Employer.

(b) A Leased Employee shall not be considered an Employee of an Affiliated Employer if:

(i) such employee is covered by a money purchase pension plan providing:

(A) a nonintegrated employer contribution rate of at least 10% of Section 415 Compensation but including amounts contributed pursuant to a salary reduction agreement which are excludable from the

Employee's gross income under section 125, 402(a)(8), 402(h) or 403(b) of the Code;

(B) immediate participation; and

(C) full and immediate vesting.

and

(ii) Leased Employees do not constitute more than 20% of the Affiliated Employer's non-highly compensated workforce.

(c) The determination of whether a person is a Leased Employee will be made pursuant to section 414(n) of the Code and the regulations thereunder.

2.22 MATCHING CONTRIBUTIONS. A contribution by the Employer made to this or any other defined contribution plan on behalf of a Participant on account of a Participant's Elective Deferral or on account of a Participant's voluntary contributions under a plan maintained by the Employer. Matching Contributions to this Plan shall be made as set forth in Section 5.3(a) and the Adoption Agreement.

2.23 NON-HIGHLY COMPENSATION EMPLOYEE. An Employer who is neither a Highly Compensated Employee nor a Family Member of a Highly Compensated Employee.

2.24 NORMAL RETIREMENT AGE. Unless otherwise specified in the Adoption Agreement, Normal Retirement Age shall be 65.

2.25 OWNER EMPLOYEE. An individual who is a sole proprietor or who is a partner owning more than 10% of either the capital or profits interest of a partnership.

If this Plan provides contributions or benefits for one or more Owner-Employees who control both the business for which this Plan is established for the other trades or businesses must, when looked at as a

single Plan, satisfy section 401(a) and (d) of the Code for the Employees of this and all such other trades or businesses. If the Plan provides contributions or benefits for one or more Owner-Employees who control one or more other trades or businesses, the employees of the other trades or businesses must be included in a plan which satisfies section 401(a) and (d) of the Code and which provides contributions and benefits not less favorable than provided for Owner Employees under this Plan. If an individual is covered as an Owner-Employee under the plans of two or more trades or businesses which are not controlled and the individual controls a trade or business, then the contributions or benefits of the employees under the plan of the trades or businesses which are controlled must be as favorable as those provided for him under the most favorable plan of the trade or business which is not controlled.

For purposes of the preceding paragraphs, an Owner-Employee, or two or more Owner-Employees, will be considered to control a trade or business if the Owner-Employee, or two or more Owner-Employees together:

(a) own the entire interest in an unincorporated trade or business, or

(b) in the case of a partnership, own more than 50% of either the capital interest or the profits interest in the partnership.

For purposes of the preceding sentence, an Owner-Employee, or two or more Owner-Employees shall be treated as owning any interest in a partnership which is owned, directly or indirectly, by a partnership which such Owner-Employee, or such two or more Owner-Employees, are considered to control within the meaning of the preceding sentence.

2.26 PARTICIPANT. A person who has met the eligibility requirements of Section 3.1 and whose Account hereunder has been neither completely forfeited nor completely distributed.

2.27 PLAN. This 401(k) prototype plan, as amended from time to time, and the Adoption Agreement executed by the Employer and Trustee.

2.28 PLAN ADMINISTRATOR. The Employer.

2.29 PLAN YEAR. Unless otherwise specified in the Adoption Agreement, the Plan Year shall be the calendar year.

2.30 SECTION 415 COMPENSATION. A Participant's Earned Income, wages, salaries and fees for professional services and other amounts received (without regard to whether an amount is paid in cash) or made available for personal services actually rendered in the course of employment with the Employer maintaining the Plan (including, but not limited to, commissions paid salesman, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses and reimbursements or other expense allowances under a nonaccountable plan (as described in Code regulation 1.62-2(c)), but excluding the following:

(a) Employer contributions to a plan of deferred compensation which are not includable in the Employee's gross income for the taxable year in which contributed, or Employer contributions under a simplified employee pension plan to the extent such contributions are excluded from the Employee's gross income, or any distributions from a plan of deferred compensation;

(b) Amounts realized from the exercise of a nonqualified stock option, or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

(c) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

(d) Other amounts which received special tax benefits, or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity contract described in section 403(b) of the Code (whether or not the contributions are actually excludable from the gross income of the Employee).

For Plan Years beginning after December 31, 1988, Section 415 Compensation for any Plan Year shall be limited as provided in Section 2.7(c).

2.31 SELF-EMPLOYED INDIVIDUAL. An individual who has Earned Income for the

taxable year from the trade or business for which the Plan is established, or an individual who would have had Earned Income for the taxable year but for the fact that the trade or business had no net profits for the taxable year.

2.32 SHARES. Shares of stock in any regulated investment company registered under the Investment Company Act of 1940, the investment advisor of which is T. Rowe Price Associates, Inc., or units in any common trust fund or collective investment fund of the Sponsor qualified under sections 401 and 501 of the Code, that are made available by the Sponsor for investment purposes as an investment option under this plan.

2.33 SPONSOR. T. Rowe Price Trust Company.

2.34 TOTAL COMPENSATION. Compensation plus any amount the Employer elected to exclude from the definition of Compensation in the Adoption Agreement.

==========

2.35 TOTAL AND PERMANENT DISABILITY. The inability of the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment, which condition, in the opinion of a physician chosen by the Plan Administrator, can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve months; provided, however, that Total and Permanent Disability shall not include an illness or injury caused by or connected with a Participant's service in the armed forces of any country, or his alcoholism or addiction to narcotics or other drugs, or his engaging in a criminal act, or resulting from his effort to bring about the illness, injury, or death of himself or any other person.

2.36 TRUST. The fund maintained by the Trustee for the investment of Plan assets in accordance with the terms and conditions of the Trust Agreement.

2.37 TRUST AGREEMENT. The agreement between the Employer and the Trustee under which the assets of the Plan are held, administered and managed. The provisions of the Trust Agreement shall be considered an integral part of this Plan as if set forth fully herein.

2.38 TRUSTEE. The individual or corporate Trustee or Trustees under the Trust Agreement as they may be named from time to time in the Adoption Agreement.

2.39 VALUATION DATE. Each day of the Plan Year.

2.40 YEAR OF ELIGIBILITY SERVICE. Except as provided below, a Year of Eligibility Service is an eligibility computation period during which an Employee completes at least 1,000 Hours of Service. For this purpose, the initial eligibility computation period shall be the twelve consecutive month period beginning with the day the Employee first performs an Hour of Service for the Employer. Successive eligibility computation periods shall commence on the first day of each Plan Year beginning after the date on which the Employee first completes an Hour of Service for the Employer. An Employee who is credited with 1,000 Hours of Service in both the initial eligibility computation period and the Plan Year beginning immediately after the date on which the Employee first completes an Hour of Service for the Employer will be credited with two Years of Eligibility Service

Notwithstanding the foregoing, if the Employer selects a Year of Service in the Adoption Agreement that is a fraction of a Year of Service, an Employee shall not be required to complete any specified number of Hours of Service to receive credit for such fractional year.

2.41 YEAR OF VESTING SERVICE. A Plan Year during which an Employee completes at least 1,000 Hours of Service.

ARTICLE 3. ELIGIBILITY AND YEARS OF SERVICE

3.1 ELIGIBILITY REQUIREMENTS.

(a) GENERAL RULE. Subject to subsection (b) below and any contrary designation made by the Employer in the Adoption Agreement, each Employee of the Affiliated Employers shall become a Participant in the Plan as of the first Entry Date after the date on which the Employee has satisfied the minimum age and service requirements, if any, specified in the Adoption Agreement. Notwithstanding the foregoing, nonresident aliens (within the meaning of section 7701(b)(1)(B) of the Code) who receive no earned income (within the meaning of section 911 (d)(2) of the Code) from the Employer which constitutes income from sources within the United States (within the meaning of section 861(a)(3) of the Code) shall not be eligible to participate in the Plan.

(b) EXCLUDABLE EMPLOYEES. The Employer may elect in the Adoption Agreement to exclude from participation Employees included in a unit of employees covered by a collective bargaining agreement between the Employer and employee representatives, if retirement benefits were the subject of good faith bargaining. For this purpose, the term "employee representatives" does not include any organization more than half of whose members are employees who are owners, officers or executives of the Employer.

(c) CHANGE IN STATUS. In the event an Employee who is not a member of an eligible class of Employees becomes a member of an eligible class, such Employee will participate immediately if such Employee has satisfied the minimum age and service requirements specified in the Adoption Agreement and otherwise would have previously become a Participant. In the event a Participant is no longer a member of an eligible class of Employees and becomes ineligible to participate, such Employee will participate immediately upon returning to an eligible class of Employees.

3.2 PARTICIPATION AND SERVICE UPON REEMPLOYMENT. Upon the reemployment of any Employee, the following rules shall determine his eligibility to participate in the Plan and his credit for prior service.

(a) PARTICIPATION. If the reemployed Employee was a Participant in the Plan during his prior period of employment, he shall be eligible upon reemployment to resume participation in the Plan if he is in a class of eligible Employees. If he is not a member of an eligible class upon reemployment, such Employee will participate immediately upon returning to a class of eligible Employees. If the reemployed Employee was not a Participant in the Plan, he shall be considered a new Employee and required to meet the requirements of Section 3.1 in order to be eligible to participate in the Plan.

(b) CREDIT FOR PRIOR SERVICE. In the case of any Employee who is reemployed before or after incurring a Break in Service, any Hour of Service and Year of Eligibility Service credited to the Employee at the end of his prior period of employment shall be reinstated as of the date of his reemployment.

3.3 PREDECESSOR EMPLOYERS. No credit will be given for service with a predecessor employer, except that if this Plan is a continuation of a predecessor plan, service under the predecessor plan must be counted.

ARTICLE 4. TRUST FUND

4.1 RECEIPT OF CONTRIBUTIONS BY TRUSTEE. All contributions to the Trust that are received by the Trustee, together with any earnings thereon, shall be held, managed and administered by the Trustee in accordance with the terms

and conditions of the Trust Agreement and the Plan. The Trustee shall be subject to the proper directions of the Employer made in accordance with the terms of the Plan and ERISA.

4.2 INVESTMENT RESPONSIBILITY.

(a) INVESTMENT CHOICES. The selection of the investments in which assets of the Trust may be invested shall be the responsibility of the Employer.

(b) PARTICIPANT DIRECTION. Subject to such reasonable restrictions as may be imposed by the Employer, each Participant or Beneficiary shall be permitted to select the investments in his Account. The Employer must complete and forward to the Trustee a schedule of Participant designations. No person, including the Trustee and the Plan Administrator, shall be liable for any loss or for any breach of fiduciary duty which results from a Participant's or Beneficiary's exercise of control. All investment related expenses, including administrative fees charged by brokerage houses, will be charged against the Accounts of the Participants.

(c) CHANGE IN INVESTMENT CHOICES. The Employer may at any time change the selection of investments in which the assets of the Trust may be invested, or subject to such reasonable restrictions as may be imposed by the Sponsor for administrative convenience, may submit an amended schedule of Participant designations to the Trustee. Such amended documents may provide for a variance in the percentages of contributions to any particular investment or a request that Shares in the Trust be reinvested in whole or in part in other Shares.

4.3 INVESTMENT LIMITATIONS. All Trust assets must be invested in Shares.

ARTICLE 5. CONTRIBUTIONS

5.1 PAYMENT. All contributions, including rollover contributions, to the Plan must be made in U.S. currency, by check, wire transfer or ACH credit. All Employer contributions to the Trust for any Plan Year shall be made either in one lump-sum or in installments within the time prescribed by law, including extensions granted by the Internal Revenue Service, for filing the Employer's federal income tax return for the taxable year with or within which such Plan Year ends.

5.2 EMPLOYEE CONTRIBUTIONS.

(a) AFTER-TAX CONTRIBUTIONS. Beginning with the Plan Year in which this Plan is adopted by the Employer, no Participant shall be permitted to make Employee After-Tax Contributions to the Plan.

(b) EMPLOYEE ELECTIVE DEFERRALS.

(i) If the adoption Agreement so provides and the Employer elects, a Participant may make Elective Deferrals to the Trust in amounts not to exceed the limitations specified in the Adoption Agreement or any other limitations specified in this Plan. A Participant's Elective Deferrals shall be made by direct reduction of Compensations, with such reduction to be accomplished through regular payroll reduction.

(ii) The Elective Deferrals of a Participant shall be limited in accordance with the provisions of this subsection, Sections 5.7(a), 5.8(a), 7.1 and 10.2(c) and any other applicable provisions of the Plan. No Participant shall be permitted to have Elective Deferrals made under this Plan, or any other qualified plan maintained by the Employer, during any taxable year, in excess of the dollar limitation contained in section 402(g) of the Code in effect at the beginning of such taxable year.

(iii) Participants may elect to commence Elective Deferrals at least once each Plan Year during a period established by the Employer. Such election may not be made retroactively and the election must remain in effect until modified or terminated. Participants may terminate the election or change the amounts designated to be deducted at any time and such changes will become effective on the next payroll period following by at least ten days the

submission of such change of designation to the Plan Administrator, unless a shorter period is agreed to by the Plan Administrator.

(iv) No contributions or benefits (other than Matching Contributions or Qualified Matching Contributions) may be conditioned upon an Employee's Elective Deferrals.

(c) ROLLOVERS. Subject to the approval of the Plan Administrator, a Participant, or an Employee who would otherwise be eligible to participate in the Plan but for the failure to satisfy any service condition for eligibility to participate, who has participated in any other qualified plan described in section 401(a) of the Code or in a qualified annuity plan described in section 403(a) of the Code shall be permitted to make a rollover (or direct rollover) contribution to the Trustee of all or part of an amount received by such individual that is attributable to participation in such other plan (reduced by any nondeductible voluntary contributions he made to the plan), provided that the rollover contribution complies with all requirements of section 402(a)(5), 403(a)(4) or 408(d)(3)(A)(ii) of the Code, whichever is applicable. Before approving such a rollover, the Plan Administrator may request from the individual or the sponsor of such other plan any documents that the Plan Administrator, in its discretion, deems necessary to determine that such rollover meets the preceding requirements.

(d) PLAN-TO-PLAN TRANSFERS. Beginning with the Plan Year in which this Plan is adopted by the Employer, no Participant shall be permitted to make a direct plan-to-plan transfer of all or part of his benefits in any other plan.

5.3 EMPLOYER CONTRIBUTIONS.

(a) MATCHING CONTRIBUTIONS. If the Employer elects in the Adoption Agreement to make Matching Contributions, for each Plan Year the Employer shall contribute to the Trust an amount that shall be determined by the Employer in accordance with the matching contribution formula specified in the Adoption

Agreement. Subject to the minimum top-heavy allocation rules of Section 6.3 and the exclusions specified in this Section, Matching Contributions shall be made on behalf of those Participants specified by the Employer in the Adoption Agreement.

(b) DISCRETIONARY CONTRIBUTIONS. If the Employer elects in the Adoption Agreement to make Discretionary Contributions, the Employer may contribute to the Trust an amount as may be determined by the Employer for each Plan Year. Subject to the minimum top-heavy allocation rules of Section 6.3 and the exclusions specified in this Section, each Participant (i) who completes at least 500 Hours of Service during the Plan Year, (ii) who is employed by the Employer on the last day of the Plan Year (regardless of his Hours of Service), or (iii) whose employment with the Employer terminates during the Plan Year by reason of death, retirement on or after Normal Retirement Age or Total and Permanent Disability (regardless of his Hours of Service) shall be eligible to share in the Employer Discretionary Contribution for such Plan Year.

(c) CONTRIBUTION LIMITATION. In no event shall any Employer contribution (plus any Elective Deferrals) exceed the maximum amount deductible from the Employer's income under section 404 of the Code or the maximum limitations under section 415 of the Code provided in Article 7.

5.4 EXCESS ELECTIVE DEFERRALS.

(a) GENERAL. A Participant may assign to this Plan any Excess Elective Deferrals made during a taxable year of the Participant by notifying the Plan Administrator on or before March 1 following the close of the Participant's taxable year of the Excess Elective Deferrals to be assigned to the Plan. (A Participant is deemed to notify the Plan Administrator of any Excess Elective Deferrals that arise by taking into account only those Elective Deferrals made to this Plan and any other plans of this Employer.) Notwithstanding any other provision of the Plan, Excess Elective Deferrals, plus any income and minus any loss allocable thereto, shall be distributed after the preceding taxable year and no later than April 15 following the close of the preceding taxable year to any Participant to whose Account Excess Elective Deferrals were assigned for the preceding year and who claims Excess Elective Deferrals for such taxable year.

(b) CALCULATION OF INCOME OR LOSS. The income or loss allocable to Excess Elective Deferrals is equal to the amount of income or loss allocable to the Participant's Elective Deferral subaccount for the taxable year multiplied by a fraction, the numerator of which is such Participant's Excess Elective Deferrals for the year and the denominator of which is the Participant's account balance attributable to Elective Deferrals without regard to any income or loss occurring during such taxable year.

(c) TAX TREATMENT. Excess Elective Deferrals that are distributed after April 15 are includible in the Participant's gross income in both the taxable year in which deferred and the taxable year in which distributed.

(d) FORFEITURE OF CERTAIN MATCHING CONTRIBUTIONS. All Matching Contributions (whether or not vested) that were made on account of an Excess Elective Deferral that has been distributed in accordance with this Section 5.4 shall be forfeited before the last day of the twelve-month period immediately following the close of taxable year in which such Excess Elective Deferrals were made.

5.5 ACTUAL DEFERRAL PERCENTAGE TEST.

(a) GENERAL TEST. The Actual Deferral Percentage (hereinafter "ADP") for Participants who are Highly Compensated Employees for each Plan Year and the ADP for Participants who are Non-Highly Compensated Employees for the same Plan Year must satisfy one of the following tests:

(i) The ADP for Participants who are Highly Compensated Employees for the Plan Year shall not exceed 125% of the ADP for Participants who are Non-Highly Compensated Employees for the same Plan Year; or

(ii) The ADP for Participants who are Highly Compensated Employees for the Plan Year shall not exceed 200% of the ADP for Participants who are Non-Highly Compensated Employees for the same Plan Year, provided that the ADP for Participants who are Highly Compensated Employees does not exceed the ADP for Participants who are Non-Highly Compensated Employees by more than two percentage points.

(b) SPECIAL RULES.

(i) The ADP for any Participant who is a Highly Compensated Employee for the Plan Year, and who is eligible to have Elective Deferrals (and Qualified Nonelective Contributions or Qualified Matching Contributions, or both, if treated as Elective Deferrals for purposes of the ADP test) allocated to his Accounts under two or more cash or deferred arrangements described in section 401(k) of the Code that are maintained by the Employer, shall be determined as if such Elective Deferrals (and, if applicable, such Qualified Nonelective Contributions or Qualified Matching Contributions, or both) were made under a single arrangement. If a Highly Compensated Employee participates in two or more cash or deferred arrangements that have

different plan years, all cash or deferred arrangements ending with or within the same calendar year shall be treated as a single arrangement. Notwithstanding the foregoing, certain plans shall be treated as separate if mandatorily disaggregated under regulations under section 401(k) of the Code.

(ii) In the event that this Plan satisfies the requirements of section 401(k), 401(a)(4) or 410(b) of the Code only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such sections of the Code only if aggregated with this Plan, then this Section shall be applied by determining the ADP of Employees as if all such plans were a single plan. Plans may be aggregated in order to satisfy section 401(k) of the Code only if they have the same plan year.

(iii) For purposes of determining the ADP of a Participant who is a Five Percent Owner or one of the ten most highly-paid Highly Compensated Employees, the Elective Deferrals (and Qualified Nonelective Contributions or Qualified Matching Contributions, or both, if treated as Elective Deferrals for purposes of the ADP test) and Total Compensation of such Participant shall include the Elective Deferrals (and, if applicable, Qualified Nonelective Contributions and Qualified Matching Contributions) and Total Compensation for the Plan Year of Family Members. Family Members, with respect to such Highly Compensated Employees, shall be disregarded as separate Employees in determining the ADP both for Participants who are Non-Highly Compensated Employees and for Participants who are Highly Compensated Employees.

(iv) For purposes of applying the ADP test, Elective Deferrals, Qualified Nonelective Contributions and Qualified Matching Contributions must be made before the last day of the twelve-month period immediately following the Plan Year to which contributions relate.

(v) The Employer shall maintain records sufficient to demonstrate satisfaction of the ADP test and the amount of Qualified Nonelective Contributions or Qualified Matching Contributions, or both, used in such test.

(vi) The determination and treatment of the ADP amounts of any Participant shall satisfy such other requirements as may be prescribed by the Secretary of the Treasury.

5.6 AVERAGE CONTRIBUTION PERCENTAGE TEST.

(a) GENERAL TEST. The Average Contribution Percentage (hereinafter "ACP") for Participants who are Highly Compensated Employees for each Plan Year and the ACP for Participant's who are Non-Highly Compensated Employees for the same Plan Year must satisfy one of the following tests:

(i) The ACP for Participants who are Highly Compensated Employees for the Plan Year shall not exceed the ACP for Participants who are Non-Highly Compensated Employees for the same Plan Year multiplied by 1.25; or

(ii) The ACP for Participants who are Highly Compensated Employees for the Plan Year shall not exceed 200% of the ACP for Participants who are Non-Highly Compensated Employees for the same Plan Year, provided that the ACP for Participants who are Highly Compensated Employees does not exceed the ACP for Participants who are Non-Highly Compensated Employees by more

than two percentage points.

(b) SPECIAL RULES.

(i) The Contribution Percentage for any Participant who is a Highly Compensated Employee and who is eligible to have Contribution Percentage Amounts allocated to his or her Account under two or more plans described in section 401(a) of the Code, or cash or deferred arrangements described in section 401(k) of the Code, that are maintained by the Employer shall be determined as if the total of such Contribution Percentage Amounts was made under each plan. If a Highly Compensated Employee participates in two or more cash or deferred arrangements that have different plan years, all cash or deferred arrangements ending with or within the same calendar year shall be treated as a single arrangement. Notwithstanding the foregoing, certain plans shall be treated as separate if mandatorily disaggregated under regulations under section 401(m) of the Code.

(ii) In the event that this Plan satisfies the requirements of section 401(m), 401(a)(4) or 410(b) of the Code only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such sections of the Code only if aggregated with this Plan, then this Section shall be applied by determining the Contribution Percentage of Employees as if all such plans were a single plan. Plans may be aggregated in order to satisfy section 401(m) of the Code only if they have the same plan year.

(iii) For purposes of determining the Contribution Percentage of a Participant who is a Five Percent Owner or one of the ten most highly-paid Highly Compensated Employees, the Contribution Percentage Amounts and Total Compensation of such Participant shall include the Contribution Percentage Amounts and Total Compensation for the Plan Year of Family Members. Family Members, with respect to Highly Compensated Employees, shall be disregarded as separate Employees in determining the Contribution Percentage both for Participants who are Non-Highly Compensated Employees and for Participants who are Highly Compensated Employees.

(iv) For purposes of applying the ACP test, Matching Contributions and Qualified Nonelective Contributions will be considered made for a Plan Year if made no later than the end of the twelve-month period beginning on the day after the close of the Plan Year.

(v) If one or more Highly Compensated Employees participate in both a cash or deferred arrangement and a plan subject to the ACP test maintained by the Employer and the sum of the ADP and ACP of those Highly Compensated Employees subject to either or both tests exceeds the Aggregate Limit, then the ACP of those Highly Compensated Employees who also participate in a cash or deferred arrangement will be reduced (beginning with such Highly Compensated Employee whose ACP is the highest) so that the limit is not exceeded. The amount by which each Highly Compensated Employee's Contribution Percentage Amounts is reduced shall be treated as an Excess Aggregate Contribution. The ADP and ACP of the Highly Compensated Employees are determined after any corrections required to meet the ADP and ACP tests. Impermissible multiple use does not occur if either the ADP or ACP of the Highly Compensated Employees does not exceed 1.25 multiplied by the APD and ACP of the Non-Highly Compensated Employees.

(vi) The Employer shall maintain records sufficient to demonstrate satisfaction of the ACP test and the amount of Elective Deferrals, Qualified Nonelective Contributions or Qualified Matching Contributions used in such test.

(vii) The determination and treatment of the Contribution percentage of any Participant shall satisfy such requirements as may be prescribed by the Secretary of the Treasury.

5.7 PREVENTION OR CURE OF ADP TEST FAILURES. The Plan Administrator may, in its sole discretion, use any one or a combination of the following methods to

prevent or cure any ADP test failure in accordance with section 401(k) of the Code and the regulations thereunder.

(a) The Plan Administrator may refuse to accept any or all prospective Elective Deferrals to be contributed by a Highly Compensated Employee.

(b) The Plan Administrator may distribute any or all Excess Contributions in accordance with the provisions of Section 5.9.

(c) The Employer may, in its sole discretion, elect to contribute a Qualified Nonelective Contribution in accordance with the provisions of Section 5.10.

(d) Subject to the requirements of Section 5.11, the Employer may, in its sole discretion, elect to treat Qualified Matching Contributions as if they were Elective Deferrals for purposes of the ADP test.

5.8 PREVENTION OR CURE OF ACP TEST FAILURES. The Plan Administrator may, in its sole discretion, use any one or a combination of the following methods to prevent or cure any ACP test failure in accordance with section 401(m) of the Code and the regulations thereunder.

(a) The Plan Administrator may refuse to accept any prospective Elective Deferrals to be contributed by a Highly Compensated Employee.

==========

==========

(b) The Plan Administrator may elect to contribute a Qualified Matching Contribution in accordance with the provisions of Section 5.11.

(c) The Plan Administrator may forfeit, if forfeitable, or distribute, if not forfeitable, Excess Aggregate Contributions in accordance with Section 5.12.

(d) The Plan Administrator may elect to treat Qualified Nonelective Contributions or Elective Deferrals, or both, as if they were Matching Contributions for purposes of the ACP test, subject to the requirements of Section 5.13(e).

5.9 DISTRIBUTION OF EXCESS CONTRIBUTIONS TO CURE ADP TEST FAILURE.

(a) GENERAL RULE. Notwithstanding any other provision of this Plan, Excess Contributions for a Plan Year, plus any income and minus any loss allocable thereto, shall be distributed after the close of such Plan Year and no later than twelve months after the close of such Plan Year to Participants to whose Accounts such Excess Contributions were allocated. (If such excess amounts are distributed more than 2 1/2 months after the last day of the Plan Year in which such excess amounts arose, a 10% excise tax on such amounts will be imposed on the Employer.) Such distributions shall be made to Highly Compensated Employees on the basis of the respective portions of the Excess Contributions attributable to each of such Employees. Excess Contributions of Participants who are subject to the Family Member aggregation rules shall be allocated among the Family Members in proportion to the Elective Deferrals (and amounts treated as Elective Deferrals) of each Family Member that is combined to determine the combined ADP.

(b) CALCULATION OF INCOME OR LOSS. The income or loss allocable to Excess Contributions is equal to the amount of income or loss allocable to the Participant's Elective Deferral subaccount (and, if applicable, the Qualified Nonelective Contribution subaccount or the Qualified Matching Contributions subaccount, or both) for the Plan Year multiplied by a fraction, the numerator of which is such Participant's Excess Contributions for the Plan Year and the denominator of which is the Participant's account balance

attributable to Elective Deferrals (and Qualified Nonelective Contributions or Qualified Matching Contributions, or both, if any of such contributions are included in the ADP test) without regard to any income or loss occurring during such Plan Year.

(c) METHOD OF DISTRIBUTION. Excess Contributions shall be distributed from the Participant's Elective Deferral subaccount and Qualified Matching Contribution subaccount (if applicable) in proportion to the Participant's Elective Deferrals and Qualified Matching Contributions (to the extent used in the ADP test) for the Plan Year. Excess Contributions shall be distributed from the Participant's Qualified Nonelective Contribution subaccount only to the extent that such Excess Contributions exceed the balance in the Participant's Elective Deferral subaccount and Qualified Matching Contribution subaccount.

(d) FORFEITURE OF CERTAIN MATCHING CONTRIBUTIONS. Any Matching Contribution (whether or not vested) that was made on account of an Excess Contribution that has been distributed in accordance with this Section 5.9 shall be forfeited no later than twelve months after the close of the Plan Year in which such Excess Contribution occurred.

5.10 QUALIFIED NONELECTIVE CONTRIBUTIONS TO CURE ADP AND/OR ACP TEST FAILURE. The Employer may, in its sole discretion, elect to contribute a Qualified Nonelective Contribution in an amount necessary to cure any ADP and/or ACP test failure for a Plan Year within twelve months after the close of such Plan Year. Qualified Nonelective Contributions for a Plan Year shall be allocated to the Accounts of Participants who are not Highly Compensated Employees and who would be eligible for an allocation of Employer Discretionary Contributions in accordance with Section 5.3(b) in the ratio in which each such Participant's Compensation for such Plan Year bears to the Total Compensation of all such Participants for such Plan Year.

5.11 QUALIFIED MATCHING CONTRIBUTION TO CURE ADP AND/OR ACP TEST FAILURE. The Employer may, in its sole discretion, elect to contribute a Qualified Matching Contribution in an amount necessary to cure any ADP and/or ACP test failure for a Plan Year within twelve months after the close of such Plan Year. Qualified Matching Contributions for a Plan Year shall be allocated to the Accounts of Participants who are not Highly Compensated Employees and who would be eligible for an allocation of Matching Contributions in accordance with Section 5.3(a) in the ratio in which each such Participant's Elective Deferrals for such Plan Year bear to the total Elective Deferrals of all such Participants for such Plan Year.

5.12 FORFEITURE AND/OR DISTRIBUTION OF EXCESS AGGREGATE CONTRIBUTIONS. Notwithstanding any other provision of this Plan, Excess Aggregate Contributions for a Plan Year, plus any income and minus any loss allocable thereto, may be forfeited, if forfeitable, or distributed, if not forfeitable, no later than twelve months after the close of such Plan Year to Participants to whose Accounts such Excess Aggregate Contributions were allocated for such Plan Year. Excess Aggregate. Contributions of Participants who are subject to the Family Member aggregation rules shall be allocated among the Family Members in proportion to the Matching Contributions (or amounts treated as Matching Contributions) of each Family Member that is combined to determine the combined ACP. Excess Aggregate Contributions shall be forfeited, if forfeitable, or distributed on a pro rata basis from the Participant's Matching Contribution subaccount, and Qualified Matching Contribution subaccount (and, if applicable, the Participant's Qualified Nonelective Contribution subaccount or Elective Deferral subaccount, or both).

The income or loss allocable to Excess Aggregate Contributions distributed or forfeited is equal to the amount of income or loss allocable to the Participant's Matching Contribution subaccount, Qualified Matching Contribution subaccount (if any, and if all amounts therein are not used in the ADP test) and, if applicable, Qualified Nonelective Contribution subaccount and Elective Deferral subaccount for the Plan Year multiplied by a fraction, the numerator of which is such Participant's Excess Aggregate Contributions for the year and the denominator of which is the Participant's account balance(s) attributable to Contribution Percentage Amounts without regard to income or loss occurring during such Plan Year.

Any Matching Contribution (whether or not vested) that was made on

account of an Excess Aggregate Contribution that has been distributed in accordance with this Section 5.12 shall be forfeited no later than twelve months after the close of the Plan Year in which such Excess Aggregate Contribution occurred.

5.13 DEFINITIONS.

(a) ACTUAL DEFERRAL PERCENTAGE. For a specified group of Participants for a Plan Year, the average of the ratios (calculated separately for each Participant in such group) of (i) the amount of Employer deferral contributions actually paid over to the Plan on behalf of such Participant for the Plan Year to (ii) the Participant's Total Compensation for such Plan Year. Employer deferral contributions on behalf of any Participant shall include: (i) any Elective Deferrals made pursuant to the Participant's deferral elective (including Excess Elective Deferrals of Highly

Compensated Employees), but excluding (A) Excess Elective Deferrals of Non-Highly Compensated Employees that arise solely from Elective Deferrals made under the plan or plans of this Employer, and (B) Elective Deferrals that are taken into account in the ADP test (provided the ADP test is satisfied both with and without exclusion of these Elective Deferrals); and (ii) at the elections of the Employer, Qualified Nonelective Contributions and Qualified Matching Contributions. For purposes of computing Actual Deferral Percentages, an Employee who would be a Participant but for the failure to make Elective Deferrals shall be treated as a Participant on whose behalf no Elective Deferrals are made.

(b) AGGREGATE LIMIT. The sum of (i) 125% of the greater of the ADP of the Non-Highly Compensated Employees for the Plan Year or the ACP of Non-Highly Compensated Employees under the Plan subject to section 401(m) of the Code for the Plan Year beginning with or within the Plan Year of the cash of deferred arrangement, and (ii) the lesser of 200% or two plus the lesser of such ADP or ACP. "Lesser" is substituted for "greater" in "(i)", above, and "greater" is substituted for "lesser" after "two plus the" in "(ii)" if it would result in a larger Aggregate Limit.

(c) AVERAGE CONTRIBUTION PERCENTAGE. The average of the Contribution Percentages of the eligible Participants in a group.

(d) CONTRIBUTION PERCENTAGE. The ratio (expressed as a percentage) of an eligible Participant's Contribution Percentage Amounts to such eligible Participant's Total Compensation for the Plan Year.

(e) CONTRIBUTION PERCENTAGE AMOUNTS. The sum of the Matching Contributions and Qualified Matching Contributions (to the extent not taken into account for purposes of the ADP test) made under the Plan on behalf of the Participant for the Plan Year. Such Contribution Percentage Amounts shall not include Matching Contributions that are forfeited either to correct Excess Aggregate Contributions or because the contributions to which they relate are excess Elective Deferrals, Excess Contributions or Excess Aggregate Contributions. The Plan Administrator may include Qualified Nonelective Contributions in the Contribution Percentage Amounts. The Plan Administrator also may elect to use Elective Deferrals in the Contribution Percentage Amounts so long as the ADP test is met before the Elective Deferrals are used in the ACP test and continues to be met following the exclusion of those Elective Deferrals that are used to meet the ACP test.

(f) EXCESS AGGREGATE CONTRIBUTIONS. With respect to any Plan Year, the excess of the aggregate Contribution Percentage Amounts taken into account in computing the numerator of the Contribution Percentage actually made on behalf of Highly Compensated Employees for such Plan Year, over the maximum Contribution Percentage Amounts permitted by the ACP test (determined by reducing contributions made on behalf of Highly Compensated Employees in order of their Contribution Percentages beginning with the highest of such percentages).

Such determination shall be made after first determining Excess Elective Deferrals pursuant to Section 5.13(h) and then determining Excess Contributions pursuant to Section 5.13(h).

(g) EXCESS CONTRIBUTION. With respect to a Plan Year, the excess of the Elective Deferrals (including any Qualified Nonelective Contributions and Qualified Matching Contributions that are treated as Elective Deferrals under sections 401(k)(2) and 401(k)(3) of the Code) on behalf of eligible Highly Compensated Employees for the Plan Year over the maximum amount of such contributions permitted under sections 401(k)(2) and 401(k)(3) of the Code.

The amount of Excess Contributions for a Highly Compensated Employee for a Plan Year is to be determined by the following leveling method under which the Actual Deferral Percentage of the Highly Compensated Employee with the highest Actual Deferrals Percentage is reduced to the extent required to:

(i) Enable the Plan to satisfy Section 5.5; or

(ii) Cause such Highly Compensated Employee's Actual Deferral Percentage to equal the Actual Deferral Percentage. This process is repeated until the Plan satisfies Section 5.5. For each Highly Compensated Employee, the amount of Excess Contributions is equal to the total Elective Deferrals (plus Qualified Nonelective Contributions and Qualified Matching Contributions treated as Elective Deferrals) on behalf of the Participant (determined prior to the application of this paragraph) minus the amount determined by multiplying the Participant's Actual Deferral Percentage (determined after application of this paragraph) by his Total Compensation used in determining such Actual Deferral Percentage.

(h) EXCESS ELECTIVE DEFERRALS. Those Elective Deferrals that are includible in a Participant's gross income under section 402(g) of the Code to the extent such Participant's Elective Deferrals for a taxable year exceed the dollar limitation under such Code section.

(i) QUALIFIED MATCHING CONTRIBUTIONS. Matching Contributions that are made to this Plan or another arrangement described in section 401(k) of the Code that is maintained by the Employer that are subject to the distribution and nonforfeitability requirement of section 401(k) of the Code when made.

(j) QUALIFIED NONELECTIVE CONTRIBUTIONS. Contributions (other than Matching Contributions or Qualified Matching Contributions) made by the Employer and allocated to Participants' Accounts that the Participants may not elect to receive in cash until distributed from the Plan; that are nonforfeitable when made; that are distributable only in accordance with distribution provisions that are applicable to Elective Deferrals.

ARTICLE 6. ALLOCATIONS

6.1 INDIVIDUAL ACCOUNTS. The Plan Administrator shall establish and maintain an Account in the name of each Participant. Each Participant's Account shall contain the following subaccounts:

(a) ELECTIVE DEFERRALS. An Elective Deferral subaccount to which shall be credited (or debited, as the case may be) (i) such Participant's Elective Deferrals made under Section 5.2(b); (ii) the net earnings or net losses on the investment of the assets of the subaccount; and (iii) distributions from such subaccount.

(b) ROLLOVERS. A rollover subaccount to which shall be credited (or

debited, as the case may be) (i) rollover contributions made by such Participant to the Trust under Section 5.2(c); (ii) the net earnings or net losses on the investment of the assets of such subaccount; and (iii) distributions from such subaccount.

(c) AFTER-TAX CONTRIBUTIONS. A nondeductible voluntary contribution subaccount to which shall be credited (or debited, as the case may be) (i) Employee After-Tax Contributions made by the Participant before the Plan Year in which this Plan was adopted by the Employer; (ii) the net earnings or net losses on the investment of the assets of such subaccount; and (iii) distributions from such subaccount.

(d) MATCHING CONTRIBUTIONS. A Matching Contribution subaccount to which shall be credited (or debited, as the case may be) (i) such Participant's Matching Contributions made under Section 5.3(a); (ii) the net earnings or net losses on the investment of the assets of such subaccount; and (iii) distributions from such subaccount.

(e) DISCRETIONARY CONTRIBUTIONS. An Employer Discretionary Contribution subaccount to which shall be credited (or debited, as the case may be) (i) the Participant's share of Employer Discretionary Contributions under Section 5.3(b); (ii) the net earnings or net losses on the investment of the assets of such subaccount; and (iii) distributions from such subaccount.

(f) QUALIFIED NONELECTIVE CONTRIBUTIONS. A Qualified Nonelective Contribution subaccount to which shall be credited (or debited, as the case may be) (i) such Participant's Qualified Nonelective Contributions made under Section 5.10; (ii) the net earnings or net losses on the investment of the assets of the subaccount;and(iii) distributions from such subaccount.

(g) QUALIFIED MATCHING CONTRIBUTIONS. A Qualified Matching Contribution subaccount to which shall be credited (or debited, as the case may be) (i) the Participant's Qualified Matching Contributions made under Section 5.11; (ii) the net earnings or net losses on the investment of assets in such subaccount; and (iii) distributions from such subaccount.

6.2 ALLOCATION OF CONTRIBUTIONS.

(a) ELECTIVE DEFERRALS, MATCHING CONTRIBUTIONS AND ROLLOVER CONTRIBUTIONS. All Elective Deferrals, Matching Contributions and rollover contributions shall be allocated to the Account of the Participant on whose behalf such contributions were made.

(b) QUALIFIED NONELECTIVE AND QUALIFIED MATCHING CONTRIBUTIONS. All Qualified Nonelective Contributions and Qualified Matching Contributions shall be allocated as provided in Sections 5.10 and 5.11, respectively.

(c) EMPLOYER DISCRETIONARY CONTRIBUTIONS. All Employer Discretionary Contributions shall be allocated to the Account of each Participant eligible for such an allocation, as provided in Section 5.3(b), in the ratio that such Participant's Compensation bears to the Compensation of all such Participants. However, if the Discretionary Employer Contribution formula selected in the Adoption Agreement is allocated under the permitted disparity rules, Discretionary Employer Contributions for the Plan Year shall be allocated to the Accounts of Participants eligible for such an allocation as follows:

If the Plan is Top-Heavy (as defined below) for the Plan Year, begin at Step One; if the Plan is not Top-Heavy for the Plan Year, begin at Step Three.

(i) STEP ONE. Contributions will be allocated to each Participant's Account in the ratio that each Participant's Compensation bears to all such Participants' Compensation, but not in excess of 3% of each Participant's Compensation.

(ii) STEP TWO. Any contributions remaining after the allocation in Step One will be allocated to each Participant's Account in the ratio that each Participant's Compensation for the

Plan Year in excess of the Integration Level (hereinafter "Excess Compensation") bears to the Excess Compensation of all Participants, but not in excess of 3% of Compensation.

(iii) STEP THREE. Any contributions (remaining after the allocation in Step Two if the Plan is Top-Heavy) will be allocated to each Participant's Account in the ratio that the sum of each Participant's Compensation and Excess Compensation bears to the sum of all Participants' Compensation and Excess Compensation, but not in excess of the Maximum Profit Sharing Disparity Rate.

(iv) STEP FOUR. Any remaining contributions will be allocated to each Participant's Account in the ratio that each Participant's Compensation for the Plan Year bears to the total of all Participants' Compensation for that year.

If the Employer maintains any other plan that provides for permitted disparity, and if any Participant in this Plan is eligible to participate in such other plan, this Plan may not provide for permitted disparity.

6.3 MINIMUM TOP-HEAVY ALLOCATION.

(a) GENERAL RULE. Notwithstanding any other provision of this Plan to the contrary, during any Plan Year that this Plan is Top-Heavy, the Matching Contributions, Employer Discretionary Contributions and forfeitures allocated on behalf of any Participant who is not a Key Employee and who has not separated from service with the Employer before the end of such Plan Year shall not be less than the lesser of 3% of such Participant's Section 415 Compensation or, in the case where the Employer has no defined benefit plan which designates this Plan to satisfy section 401 of the Code, the largest percentage of Employer contributions and forfeitures, as a percentage of the first $200,000 of the Key Employee's Section 415 Compensation, allocated on behalf of any Key Employee for that year. The minimum allocation is determined without regard to any Social Security contribution. For purposes of this subsection, all defined contribution plans required to be included in an aggregation group under section 416(g)(2)(A)(i) of the Code shall be treated as a single plan.

(b) SPECIAL RULE IF OTHER PLANS SATISFY TOP-HEAVY MINIMUM. The provision in subsection (a) above shall not apply to any Participant to the extent the Participant is covered under any

other plan or plans of the Employer and any other plan or plans of the Employer provide that the minimum allocation or benefit requirement applicable to Top-Heavy plans will be met in the other plan or plans.

6.4 ALLOCATION OF FORFEITURES. Any forfeitures arising under the Plan, including forfeitures of excess Aggregate Contributions, shall be allocated in the following order of priority in the Plan in which forfeitures occur.

(a) First, forfeitures shall be used to the extent necessary to restore a returning Participant's Account as provided in Section 8.5(a) and to restore in a formerly unlocatable Participant's Account as provided in Section 8.6;

(b) Next, forfeitures shall be treated as an Employer contribution, shall be used to reduce the Employer Matching Contribution as required by Section 5.3(a) and shall be allocated to the

Matching Contribution subaccounts of the Participants on whose behalf such contributions are to be made;

(c) Next, forfeitures shall be treated as Employer contributions and shall be allocated to Participants' Accounts to the extent necessary to satisfy the minimum allocation provisions of Section 6.3;

(d) Next, to the extent elected by the Plan Administrator, forfeitures shall be treated as a Qualified Nonelective Contribution or a Qualified Matching Contribution and shall be allocated as provided in Section 5.10 and 5.11;

(e) Next, to the extent elected by the Plan Administrator, forfeitures shall be used to pay reasonable costs of administering the Plan;

(f) Any remaining forfeitures shall be treated as Employer contributions and allocated as follows:

(i) If the Employer has elected in the Adoption Agreement that it may make Employer Discretionary Contributions to the Plan, such forfeitures shall be treated as Employer Discretionary Contributions and allocated in accordance with the provisions of Section 6.2(c);

(ii) If the Employer has not elected in the Adoption Agreement that it may make Employer Discretionary Contributions to the Plan, such forfeitures shall be allocated to each Participant's Matching Contribution subaccount in the ratio that each Participant's Elective Deferrals for the Plan Year bear to the total of all Participant's Elective Deferrals for the Plan Year.

6.5 WITHDRAWALS AND DISTRIBUTIONS. Any distribution to a Participant or his Beneficiary, any amount directly rolled over from a Participant's Account directly to the trustee of any other qualified plan described in section 401(a) of the Code, to a qualified annuity plan described in section 403(a) of the Code, to an individual retirement account described in section 408(a) of the Code or to an individual retirement account described in section 408(a) of the Code or to an individual retirement annuity described in section 408(b) of the Code, or any withdrawal by a participant shall be charged to the appropriate subaccount(s) of the Participant as of the date of the distribution or the withdrawal.

6.6 DETERMINATION OF VALUE OF TRUST FUND AND OF NET EARNINGS OR LOSSES. As of each Valuation Date, the Trustee shall determine for the period then ended the sum of the net earnings or losses of the Trust which shall reflect accrued but unpaid interest, dividends, gains or losses realized from the sale, exchange or collection of assets, other income received, appreciation in the fair market value of assets, depreciation in the fair market value of assets, administration expenses, and taxes and other expenses paid. Gains or losses realized and adjustments for a appreciation or depreciation in fair market value shall be computed with respect to the difference between such value as of the preceding Valuation Date or date of purchase, whichever is applicable, and the value of the date disposition or the current Valuation Date, whichever is applicable.

6.7 ALLOCATION OF NET EARNINGS OR LOSSES.

(a) SPECIFIC PARTICIPANT ACCOUNT ALLOCATIONS. To the extent that Shares and other assets are specifically allocated to a specific Participant's Account or subaccount, earnings, dividends, capital gain distributions, appreciation, depreciation, losses and accrued but unpaid interest and any other earnings or losses from Shares and any other assets in such Account or subaccount shall be allocated to such Account or subaccount.

(b) COMMON ACCOUNT ALLOCATIONS. As of each Valuation Date, the net earnings or losses of the Trust (excluding gains or losses on assets specifically allocated to a specific Participant's Account or subaccount, all of which shall be allocated to such Account or subaccount) for the valuation period then ending shall be allocated to the Accounts of all Participants (or

Beneficiaries) (excluding the Accounts to which are allocated assets of specific Participants) having assets in the Trust both on such date and on the immediately preceding Valuation Date. Such allocation shall be made by the application of a fraction, the numerator of which is the value of the Account of a specific Participant (or Beneficiary) as of the immediately preceding Valuation Date, reduced by any distributions therefrom since such preceding Valuation Date, and the denominator of which is the total value of all such Accounts as of that preceding Valuation Date, reduced by any distributions therefrom since such preceding Valuation Date.

6.8 RESPONSIBILITIES OF THE PLAN ADMINISTRATOR. The Plan Administrator shall maintain accurate records with respect to the contributions made by or on behalf of Participants under the Plan and shall furnish the Trustee with written instructions directing the Trustee to allocate all Plan contributions to the Trust among the separate Accounts and subaccounts of Participants in accordance with Section 6.1 above. In making any such allocation, the Trustee shall be fully entitled to rely on the instructions furnished by the Plan Administrator and shall be under no duty to make any inquiry or investigation with respect thereto.

6.9 DEFINITIONS.

(a) DETERMINATION DATE. For the first Plan Year of the Plan, the last day of the Plan Year. With respect to any Plan Year subsequent to the first Plan Year, the last day of the preceding Plan Year.

(b) INTEGRATION LEVEL. The Taxable Wage Base or such lesser amount (or percentage of Taxable Wage Base) elected by the Employer in the Adoption Agreement.

(c) KEY EMPLOYEE.

(i) Any Employee or former Employee (and the Beneficiaries of such Employee) who at any time during the determination period was an officer of the Employer if such individual's annual compensation exceeds 50% of the dollar limitation under section 415(b)(1)(A) of the Code; an owner (or considered an owner under section 318 of the Code) of one of the ten largest interests in the Employer if such individual's compensation exceed 100% of the dollar limitation under section 415(c)(1)(A) of the Code; a Five Percent Owner of the Employer; or the owner of the Employer who has annual compensations more than $150,000.

(ii) For purposes of this Section, annual compensation means Section 415 Compensation, but including amounts contributed by the Employer pursuant to a salary, reduction agreement which are excludable from the Employee's gross income under section 125, 402(a)(8), 402(h) or 403(b) of the Code.

(iii) For purposes of this Section, the determination period is the Plan Year containing the Determination Date and the four preceding Plan Years.

(d) MAXIMUM PROFIT SHARING DISPARITY RATE. The lesser of:

(i) 2.7% (5.7% if the Plan is not Top-Heavy);

(ii) The applicable percentage determined in accordance with the table below:

If the Integration Level is

More Than	But Not More Than	The Applicable Percentage Is:	
		Top-Heavy	Not Top-Heavy
$0	X	2.7%	5.7%
X */of TWB	80% of TWB	1.3%	4.3%
80% of TWB	Y **/	2.4%	5.4%

*X = the greater of $10,000 or 20% of TWB.
**Y = any amount more than 80% of the TWB but less than 100% of TWB.

If the Integration Level is equal to TWB, the applicable percentage is 2.7% (5.7% if the Plan is not Top-Heavy).

(e) NON-KEY EMPLOYEE. Any Employee or former Employee who is not a Key Employee. In addition, any Beneficiary of a Non-Key Employee shall be treated as a Non-Key Employee.

(f) PERMISSIVE AGGREGATION GROUP. The Required Aggregation Group of plans plus any other plan or plans of the Employer which, when considered as a group with the Required Aggregation Group, would continue to satisfy the requirements of sections 401(a)(4) and 410 of the Code.

(g) PRESENT VALUE. Present Value shall be based only on the interest and mortality rates specified in the Adoption Agreement.

(h) REQUIRED AGGREGATION GROUP. (A) Each qualified plan of the Employer in which at least one Key Employee participates or participated at any time during the determination period (regardless of whether the plan has terminated), and (B) any other qualified plan of the Employer which enables a plan described in (A) to meet the requirements of section 401(a)(4) or 410 of the Code.

(i) TOP-HEAVY. For any Plan Year beginning after December 31, 1983, this Plan is Top-Heavy if any of the following conditions exists:

(i) If the Top-Heavy Ratio for this Plan exceeds 60% and this Plan is not part of any Required Aggregation Group or Permissive Aggregation Group of plans,

(ii) If this Plan is a part of a Required Aggregation Group of plans but not part of a Permissive Aggregation Group and the Top-Heavy Ratio for the group of plans exceeds 60%.

(iii) If this Plan is a part of a Required Aggregation Group and part of a Permissive Aggregation Group of plans and the Top-Heavy Ratio for the Permissive Aggregation Group exceeds 60%.

(j) TOP-HEAVY RATIO.

(i) If the Employer maintains one or more defined contribution plans (including any Simplified Employee Pension Plan) and the Employer has not maintained any defined benefit plan which during the 5-year period ending on the Determination Date(s) has or has had accrued benefits, the Top-Heavy Ratio for this Plan alone or for the Required or Permissive Aggregation Group, as appropriate, is a fraction, the numerator of which is the sum of the account balances of all Key Employees as of the Determination Date(s) (including any part of any account balance distributed in the 5-year period ending on the Determination Date(s)), and the denominator of which is the sum of all account balances (including any part of any account balance distributed in the 5-year period ending on the Determination Date(s)), both computed in accordance with section 416 of the Code and the regulations thereunder. Both the numerator and denominator of the Top-Heavy Ratio are increased to reflect

any contribution not actually made as of the Determination Date but which is required to be taken into account on that date under section 416 of the Code and the regulations thereunder.

(ii) If the Employer maintains one or more defined contribution plans (including any Simplified Employee Pension Plan) and the Employer maintains or has maintained one or more defined benefit plans which during the 5-year period ending on the Determination Date(s) has or has had any accrued benefits, the Top-Heavy Ratio for any Required or Permissive Aggregation Group, as appropriate, is a fraction, the numerator of which is the sum of account balances under the aggregated defined contribution plan or plans for all Key Employees, determined in accordance with (i) above, and the Present Value of accrued benefits under the aggregated defined benefit plan or plans for all Key Employees as of-the Determination Date(s), and the denominator of which is the sum of the account balances under the aggregated defined contribution plan or plans for all Participants, determined in accordance with (i) above, and the Present Value of accrued benefits under the defined benefit plan or plans for all Participants as of the Determination Date(s), all determined in accordance with section 416 of the Code and the regulations thereunder. The accrued benefits under a defined benefit plan in both the numerator and denominator of the Top-Heavy Ratio are increased for any distribution of an accrued benefit made in the 5- year period ending on the Determination Date.

(iii) For purposes of (i) and (ii) above, the value of account balances and the Present Value of accrued benefits will be determined as of the most recent Valuation Date that falls within or ends with the 12-month period ending on the Determination Date, except as provided in section 416 of the Code and the regulations thereunder for the first and second plan years of a defined benefit plan. The account balances and accrued benefits of a Participant (A) who is not a Key Employee but who was a Key Employee in a prior year, or (B) who has not been credited with at least one Hour of Service with any Employer maintaining the Plan at any time during the 5-year period ending on the Determination Date will be disregarded. The calculation of the Top-Heavy Ratio, and the extent to which distributions, rollovers and transfers are taken into account will be made in accordance with section 416 of the Code and the regulations thereunder. Deductible employee contributions will not be taken into account for purposes of computing the Top-Heavy Ratio. When aggregating

plans, the value of account balances and accrued benefits will be calculated with reference to the Determination Dates that fall within the same calendar year.

The accrued benefit of a Participant other than a Key Employee shall be determined under (A) the method, if any, that uniformly applies of accrued purposes under all defined benefit plans maintained by the Employer, or (B) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of section 411(b)(1)(C) of the Code.

(k) TAXABLE WAGE BASE (or "TWB"). The contribution and benefit base in effect under section 230 of the Social Security Act on the first day of the Plan Year.

ARTICLE 7. LIMITATIONS ON ALLOCATIONS

7.1 LIMITATIONS ON ANNUAL ADDITIONS TO QUALIFIED DEFINED CONTRIBUTION PLANS. Notwithstanding any other provision of this Plan to the contrary, the amount of Annual Additions that may be credited to the Participant's Account for any Limitation Year may not exceed the Maximum Permissible Amount reduced by the sum of the Annual Additions to his Account under all other defined contribution plans now or hereafter maintained by the Employer or affiliated Employers, except that in determining whether any entity is part of the controlled group of corporations or trades or businesses including the Employer, "more than 50%" shall be substituted for "at least 80%" in the tests under section 414(b) and (c) of the Code. If the Employer contribution that would otherwise be contributed or allocated to the Participant's Account would cause the Annual Additions for the Limitation Year to exceed the preceding limitation, the amount contributed or allocated under this Plan will be reduced so that the Annual Additions for the Limitation Year to all defined contribution plans maintained by the Employer will equal the Maximum Permissible Amount. If, as a result of the allocation of forfeitures, a reasonable error in determining a Participant's Compensation or other limited facts and circumstances, there is an Excess Amount, the Excess Amount will be deemed to consist of the Annual Additions last allocated, except that Annual Additions attributable to a Simplified Employee Pension Plan will be deemed allocated first followed by Annual Additions to a welfare benefit fund or individual medical account regardless of the actual allocation date. If an Excess Amount was allocated to a Participant on an allocation date of this Plan, which coincides with an allocation date of another plan, the Excess Amount attributed to this Plan will be the product of:

(a) the total Excess Amount allocated as of such date, times

(b) the ratio of (i) the Annual Additional allocated to the Participant for the Limitation Year as of such date under this Plan to (ii) the total Annual Additions allocated to the Participant for the Limitation Year as of such date under this and all the other qualified master or prototype defined contributions plans.

Any Excess Amount allocated to this Plan will be disposed of as follows:

(a) Any elective Deferrals, and any income attributable thereto, to the extent they would reduce the Excess Amount, will be returned to the Participant;

(b) If, after the application of subsection (a), an Excess Amount still exists, and the Participant is covered by the Plan at the end of the Limitation Year, the Excess Amount in the Participant's Account will be used to reduce Employer contributions (including any allocation of forfeitures) for such Participant in the next Limitation Year, and each succeeding Limitation Year if necessary;

(c) If, after the application of subsection (a), an Excess Amount still exists, and the Participant is not covered by the Plan at the end of the Limitation Year, the Excess Amount will be held unallocated in a suspense account. The suspense account will be applied to reduced future Employer contributions (including allocation of any forfeitures) for all remaining Participants in the next Limitation Year, and each succeeding Limitation Year if necessary;

(d) If a suspense account is in existence at any time during the Limitation Year, it will not participate in the allocation of the Trust's investment gains and losses. If a suspense account is in existence at any time during a particular Limitation Year, all amounts in the suspense account must be allocated and reallocated to Participant's Accounts before any Employer or any Employee contributions may be made to the Plan for that Limitation Year. Excess Amounts may not be distributed to Participants or former participants.

7.2 EMPLOYERS WHO, IN ADDITION TO THIS PLAN, MAINTAIN A QUALIFIED DEFINED BENEFIT PLAN. If the Employer or Affiliated Employers maintain, or at any time maintained, a qualified defined benefit plan covering any Participant in this Plan, the sum of the Participant Defined Benefit Fraction and Defined Contribution Fraction will not exceed 1.0 in any Limitation Year. The Annual Additions which may be credited to such a

Participant's Account under this Plan for any Limitation Year will be limited in accordance with the terms of the Adoption Agreement.

7.3 DEFINITIONS

(a) ANNUAL ADDITIONS. Effective on the first day of the Plan Year beginning after December 31, 1986, the sum of the following amounts credited to a Participant's Account for the Limitation Year.

(i) Employer contributions (including Excess Elective Deferrals (as defined in Section 5.13) not distributed to the Participant on or before the April 15 following the close of the taxable year of such Excess Effective Deferrals, Excess Contributions and Excess Aggregate Contributions, both as defined in Section 5.13);

(ii) for Plan Years beginning on and after January 1, 1987, Employee After-Tax Contributions;

(iii) forfeitures;

(iv) amounts allocated after March 31, 1984 to an individual medical account as defined in section 415(1)(2) of the Code, that is part of a pension or annuity plan maintained by the Employer, are treated as Annual Additions to a defined contribution plan. Also, amounts derived from contributions paid or accrued after December 31, 1985 in taxable years ending after such date that are attributable to post-retirement medical benefits allocated to the separate account of a Key-Employee, as defined in section

419A(d)(3) of the Code, under a welfare benefit fund, as defined in section 419(e) of the Code maintained by the Employer, are treated as Annual Additions to a defined contribution plan; and

(v) allocations under a Simplified Employee Pension Plan.

For this purpose, any Excess Amount applied in the Limitation Year to reduce Employer contributions will be considered Annual Additions for such Limitation Year.

(b) DEFINED BENEFIT FRACTION. A fraction, the numerator of which is the sum of the Participant's projected annual benefits under all defined benefit plans (whether or not terminated) maintained by the Employer, and the denominator of which is the lesser of 100% of the dollar limitation determined for the Limitation Year under section 415(b) and (d) of the Code or 140% of his average Section 415 Compensation for the three consecutive calendar years that produces the highest average, including any adjustments under section 415(b) of the Code.

Notwithstanding the above, if the Participant was a Participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 125% of the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of section 415 of the Code for all Limitation Years beginning before January 1, 1987.

(c) DEFINED CONTRIBUTION FRACTION. A fraction, the numerator of which is the sum of the Annual Additions to the Participant's Accounts under all the defined contribution plans (whether or not terminated) maintained by the Employer for the current and all prior Limitation Years (including the Annual Additions attributable to the Participant's voluntary nondeductible contributions to all defined benefit plans, whether or not terminated, maintained by the Employer, and the Annual Additions attributable to all welfare benefit funds as defined in section 419(e) of the Code and individual medical accounts as defined in section 415(1)(2) of the Code, and simplified employee pensions maintained by the Employer), and the denominator of which is the sum of the maximum aggregate amounts for the current and all prior Limitation Years of service with the Employer (regardless of whether a defined contribution plan was maintained by the Employer). The maximum aggregate amount in any Limitation Year is the lesser of 100% of the dollar limitation in effect under section 415(c)(1)(A) of the Code or 35% of the Participant's Compensation for such year.

If the Participant was a Participant as of the end of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the Defined Benefit Fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (1) the excess of the sum of the fractions over 1.0, and (2) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January, 1, 1987, and disregarding any changes in the terms and conditions of the plan made after May 5, 1986, but using the section 415 of the Code limitation applicable to the first Limitation Year beginning on or after January 1, 1987. The Annual Addition for any Limitation Year beginning before January 1, 1987, shall not be recomputed to treat all Employee contributions as Annual Additions.

(d) EXCESS AMOUNT. The excess of the Participant's Annual Addition for the Limitation Year over the Maximum Permissible Amount.

(e) LIMITATION YEAR. The Plan Year.

(f) MAXIMUM PERMISSIBLE AMOUNT. The maximum Annual Addition that may be contributed or allocated to a Participant's Account under the Plan for any Limitation Year shall not exceed the lesser of:

(i) $30,000 or, if greater, 25% of the section 415(b)(1) of the Code limitation for such year; or

(ii) 25% of the Participant's Section 415 Compensation actually paid or includible in gross income during the Limitation Year.

The limitation referred to in (ii) shall not apply to any contribution for medical benefits (within the meaning of section 401(h) or 419A(f)(2) of the Code) which is otherwise treated as an Annual Addition under section 415(I)(1) or 419A(d)(2) of the Code.

If a Limitation Year less than 12 consecutive months is created because of an amendment changing the Plan Year, the Maximum Permissible Amount shall be equal to the limit for such Limitation Year under paragraph (i) multiplied by a fraction, the numerator of which is the number of months in such short Limitation Year and the denominator of which is 12.

(g) PROJECTED ANNUAL BENEFIT. The annual retirement benefit (adjusted to an actuarially equivalent straight life annuity if such benefit is expressed in a form other than a straight life annuity or qualified joint and survivor annuity) to which the Participant would be entitled under the terms of all defined benefit plans assuming:

(i) the Participant will continue employment until Normal

Retirement Age under the Plan (or current age, if later), and

(ii) the Participant's Section 415 Compensation for the current Limitation Year and all other relevant factors used to determine benefits under the Plan will remain constant for all future Limitation Years.

ARTICLE 8. VESTING

8.1 EMPLOYEE AFTER-TAX CONTRIBUTIONS, ELECTIVE DEFERRAL CONTRIBUTIONS, ROLLOVER CONTRIBUTIONS, QUALIFIED NONELECTIVE CONTRIBUTIONS AND QUALIFIED MATCHING CONTRIBUTIONS. A Participant's Employee After-Tax Contribution subaccount, Elective Deferral subaccount, Rollover subaccount and Qualified Matching Contribution subaccount and Qualified Matching Contribution subaccount shall be fully vested and nonforfeitable at all times.

8.2 EMPLOYER DISCRETIONARY CONTRIBUTIONS AND MATCHING CONTRIBUTIONS.

(a) GENERAL. Notwithstanding the vesting schedule selected by the Employer in the Adoption Agreement, the Participant's Employee Discretionary Contribution subaccount shall be fully vested and nonforfeitable upon the Participant's death. Total and Permanent Disability or attainment of Normal Retirement Age while employed by the Employer. In the absence of any of the preceding events, and subject to the provisions of Sections 5.4(d), 5.9(d) and 5.12, the Participant's Employer Discretionary Contribution subaccount and Matching Contribution subaccount shall be vested in accordance with the vesting schedule specified in the Adoption Agreement. The schedule must be at least as favorable to Participants as either schedule (i) or (ii) below.

(i) Graduated vesting according to the following schedule:

Years of Vesting Service	Percent Vested
Less than 2	0%
2 but less than 3	20%
3 but less than 4	40%
4 but less than 5	60%
5 but less than 6	80%
6 or more	100%

(ii) Full 100% vesting after three Years of Vesting Service.

(b) IN SERVICE DISTRIBUTIONS WHEN NOT FULLY VESTED. If a distribution is made from a Participant's Employer Discretionary Contribution subaccount or Matching Contribution subaccount at a time when the Participant is not 100% vested in such subaccount and the participant's employment with the Employer has not terminated, then;

(i) A separate remainder subaccount will be established for the Participant's interest in such Employer Discretionary Contribution subaccount or Matching Contribution subaccount at the time of distribution, and

(ii) At any subsequent time, the Participant's vested portion of such separate subaccount will be equal to an amount "x" determined under the formula:

$$X = P(AB + (R \times D)) - (R \times D)$$

where

P = the Participant's vested percentage determined under subsection (a) at the relevant time.

AB = the amount in such separate subaccount at the relevant time.

R = the ratio of AB to the amount in the subaccount prior to the distribution.

D = the amount of the distribution.

8.3 AMENDMENTS TO VESTING SCHEDULE.

(a) PARTICIPANT'S ELECTION RIGHTS. If the Plan's vesting schedule is amended, or the Plan is amended in any way that directly or indirectly affects the computation of the Participant's nonforfeitable percentage, each Participant with at least three years of service with the Employer may elect, within a reasonable period after the adoption of the amendment or change, to have the nonforfeitable percentage computed under the Plan without regard to such amendment or change. For any Participants who do not have at least one Hour of Service in any Plan Year beginning after December 31, 1988, the preceding sentence shall be applied by substituting "five years of service" where such language appears.

(b) ELECTION PERIOD. The period during which the selection may be made shall commence with the date the amendment is adopted or deemed to be made and shall end on the latest of:

(i) 60 days after the amendment is adopted;

(ii) 60 days after the amendment becomes effective; or

(iii) 60 days after the Participant is issued written notice of the amendment by the Employer or Plan Administrator.

(c) PROHIBITION AGAINST REDUCING ACCRUED BENEFITS. No amendment to the Plan shall be effective to the extent that it has the effect of decreasing a Participant's accrued benefit. Notwithstanding the preceding sentence, a Participant's account balance may be reduced to the extent permitted under section 412(c)(8) of the Code. For purposes of this subsection, a Plan amendment which has the effect of decreasing a Participant's Account balance or eliminating an optional form of benefit, with respect to benefits attributable to service before the amendment shall be treated as reducing an accrued benefit. Furthermore, if the vesting schedule of a Plan is amended, in the case of an Employee who is a Participant as of the date such amendment is adopted or the date it becomes effective, the nonforfeitable percentage (determined as of such date) of such Employee's right to his Employer-derived accrued benefit will not be less than his percentage computed under the Plan without regard to such amendment.

8.4 DETERMINATION OF YEARS OF VESTING SERVICE. For purposes of determining the vested and nonforfeitable percentage of the Participant's Employer Discretionary Contribution and Matching Contribution subaccounts, all of the Participant's Years of Vesting Service with the Employer or an Affiliated Employer shall be taken into account. If Employer maintains the plan of a predecessor employer, Years of Vesting Service with such employer will be treated as service with the Employer.

8.5 FORFEITURE OF NONVESTED AMOUNTS. For Plan Years beginning before 1985, any portion of a Participant's Account that is not vested shall be forfeited by him as of the last day of the Plan Year in which he incurs a Break in Service. For Plan Years beginning after 1984, any portion of a Participant's Account that is not vested shall be forfeited in accordance with the following rules:

(a) DISTRIBUTION IN FULL. If a Participant's service with the Employer terminated and if the entire vested portion of the Participant's Account is distributed to him at any time before

the end of second Plan Year following the Plan Year in which his employment terminated, the remaining portion of the Participant's Account shall be forfeited as of the end of the Plan Year in which such distribution occurs, as long as the Participant

has not resumed employment with the Employer by such date. However, if the Participant has no vested interest in his Account at the time of his termination of employment, the Plan Administrator nonetheless shall treat the Participant as if he had received a distribution on the date his employment terminated and shall forfeit the Participant's entire Account on the date his employment terminated. If the Participant returns as an Employee before the end of five consecutive Breaks in Service measured from the day immediately after the date of his distribution (or measured from the date his employment terminated in the case of a Participant who had no vested interest in his Account), and if he repays to the Trustee the full amount of the distribution (if any) paid to him by reason of his termination of employment no later than the fifth anniversary of the date of his reemployment, then his Account (determined as of the date of the distribution of his vested interest, unadjusted by subsequent gains and losses) shall be fully restored to him as of the end of the Plan Year in which such repayment occurs (or in the case of a Participant who had no vested interest in his Account, such Account shall be restored as of the end of the Plan Year in which he is reemployed). In such case, the Participant's Account shall be restored first out of such Participant's repayment (if any is required), next out of the forfeitures for such Plan Year and, if such forfeitures are insufficient to restore such Account, the Employer shall make a special contribution to the Trustee to the extent necessary so that the Participant's Account is fully restored.

(b) PARTIAL DISTRIBUTIONS. If a Participant's service with the Employer terminates and if his entire vested interest in his Account is not distributed to him before the end of the second Plan Year following the Plan Year in which his employment terminated, a separate remainder subaccount shall be established for that portion of the Participant's Account that is not vested and such separate subaccount shall be forfeited at the end of the Plan Year in which the Participant incurs five consecutive Breaks in Service. If all or any portion of such a Participant's vested benefits are distributed before a forfeiture is permitted and if the Participant returns to work as an Employee after the distribution and before he incurs five consecutive Breaks in Service, his vested interest in such separate subaccount at any time shall be determined by applying the formula in Section 8.2(b)(ii).

8.6 REINSTATEMENT OF BENEFIT. If a vested benefit is forfeited because the Participant or Beneficiary cannot be found, such benefit will be reinstated if a claim is made by the Participant or Beneficiary.

ARTICLE 9. LOANS

9.1 GENERAL PROVISIONS.

(a) ELIGIBILITY FOR LOANS. If the Employer so elects in the Adoption Agreement, loans shall be made available to any Participant or Beneficiary who is a party-in-interest (as defined in section 3(14) of ERISA) on a reasonably equivalent basis. Loans will not be made to any shareholder-employee, Owner-Employee or Participant or Beneficiary who is not a party-in-interest (as defined in section 3(14) of ERISA). For purposes of this requirement, a

shareholder-employee means an Employee or officer of an electing small business (subchapter S) corporation who owns (or is considered as owning within the meaning of section 318(a)(1) of the Code), on any day during the taxable year of such corporation, more than 5% of the outstanding stock of the corporation.

(b) SPOUSAL CONSENT RULES.

(i) If Section 11.9 is applicable to a Participant, the Participant must obtain the consent of his or her spouse, if any, to use his or her account balance as security for the loan. Spousal consent shall be obtained no earlier than the beginning of the 90 day period that ends on the date on which the loan is to be so secured. The consent must be in writing, must acknowledge the effect of the loan, and must be witnessed by a Plan representative or notary public. Such consent shall thereafter be binding with respect to the consenting spouse or any subsequent spouse with respect to that loan. A new consent shall be required if the vested account balance is used for renegotiation, extension, renewal or other revision of the loan.

(ii) If Section 11.9 is applicable to a Participant and a valid spousal consent has been obtained in accordance with subsection (b)(i), then, notwithstanding any other provision of this Plan, the portion of the Participant's vested Account used as a security interest held by the Plan by reason of a loan outstanding to the Participant shall be taken into account for purposes of determining the amount of the Account payable at the time of death or distribution, but only if the reduction is used as repayment of the loan. If less than 100% of the Participant's vested Account (determined without regard to the preceding sentence) is payable to the Participant's surviving spouse, then the vested Account shall be adjusted by first reducing the vested Account by the amount of the security used-as repayment of the loan, and then determining the benefit payable to the surviving spouse.

9.2 AMOUNT OF LOAN. Loans shall not be made available to Highly-Compensated Employees in an amount greater than the amount made available to other Employees. Loans to any Participant or Beneficiary will not be made to the extent that such loan, when added to the outstanding balance of all other loans to the Participant or Beneficiary, would exceed the lesser of:

(a) $50,000 reduced by the excess (if any) of the highest outstanding balance of loans during the one year period ending on the day before the loan is made, over the outstanding balance of loans from the Plan on the date the loan is made; or

(b) one-half the present value of the vested Account of the Participant.

For the purpose of the above limitation, all loans from all plans of the Employer and other members of a group of employers described in sections 414(b), 414(c) and 414(m) of the Code are aggregated.

9.3 MANNER OF MAKING LOANS. The Plan's loan program will be administered by the Plan Administrator. A request by a Participant for a loan shall be made in writing to the Plan Administrator and shall specify the amount of the loan, and the subaccount(s) or investments of the Participant from which the loan should be made. The terms and conditions on which the Plan Administrator shall approve loans under the Plan shall be applied on a uniform and nondiscriminatory basis with respect to all Participants. If a Participant's request for a loan is approved by the Plan Administrator, the Plan Administrator shall furnish the Trustee with written instructions directing the Trustee to make the loan in a lump-sum payment of cash to the Participant. In making any loan

payment under this Article, the Trustee shall be fully entitled to rely on the instructions furnished by the Plan Administrator and shall be under no duty to make any inquiry or investigation with respect thereto.

9.4 TERMS OF LOAN. Loans shall be made on such terms and subject to such limitations as the Plan Administrator may prescribe. Furthermore, any loan shall, by its terms, require that repayment (principal and interest) be amortized in level payments, not less frequently than quarterly, over a period not extending beyond five years from the date of the loan, unless such loan is used to acquire a dwelling unit which, within a reasonable time (determined at the time the loan is made), will be used as the principal residence of the Participant. The rate of interest to be charged shall be determined by the Plan Administrator in accordance with the rates quoted by representative financial institutions in the local area for similar loans.

9.5 SECURITY FOR LOAN. Any loan to a Participant under the Plan shall be secured by the pledge of no more than 50% of the Participant's vested interest in his Account. Such pledge shall be evidenced by the execution of promissory note by the Participant which shall provide that, in the event of any default by the Participant on a loan repayment, the Plan Administrator shall be authorized (to the extent permitted by law) to take any and all other actions necessary and appropriate to enforce collection of the unpaid loan. An assignment or pledge of any portion of the Participant's interest in the Plan will be treated as a loan under this Article.

9.6 SEGREGATED INVESTMENT. Loans shall be considered a Participant directed investment and, for the purposes of allocating earnings and losses pursuant to Article 6, shall not be considered a part of the common fund under the Trust.

9.7 REPAYMENT OF LOAN. The Plan Administrator shall have the sole responsibility for ensuring that a Participant timely makes all loan repayments and for notifying the Trustee in the event of any default by the Participant on the loan. Each loan repayment shall be paid to the Trustee and shall be accompanied by written instructions from the Plan Administrator that identify the Participant on whose behalf the loan repayment is being made.

9.8 DEFAULT ON LOAN. In the event of a termination of the Participant's employment with the Affiliated Employees or a default by a Participant on a loan repayment, all remaining payments on the loan shall be immediately due and payable. The Plan Administrator shall take any and all actions necessary and appropriate to enforce collection of the unpaid loan. However, attachment of the Participant's Account pledged as security will not occur until a distributable event occurs under the Plan.

ARTICLE 10. WITHDRAWALS

10.1 WITHDRAWAL OF EMPLOYEE AFTER-TAX CONTRIBUTIONS. Subject to the requirements of Sections 10.3 and 11.9, any Participant who has made Employee After-Tax Contributions may, upon 30 days notice in writing filed with the Plan Administrator, have paid to him all or any portion of the value of his Employee After-Tax Contribution subaccount.

10.2 HARDSHIP WITHDRAWALS.

(a) GENERAL RULE. Subject to Section 10.3 and 11.9 and if the Employer so elects in the Adoption Agreement, distribution of Elective Deferrals (and earnings thereon accrued as of December 31, 1988) may be made to a Participant in the event of hardship. For the purposes of this Section, hardship is defined as an immediate and heavy financial need of the Participant where such Participant lacks other available resources.

(b) NEEDS CONSIDERED IMMEDIATE AND HEAVY. The only financial needs considered immediate and heavy are the following:

(i) deductible medical expenses (within the meaning of section 213(d) of the Code) of the Employee, the Employee's spouse, children or dependents;

(ii) the purchase (excluding mortgage payments) of a principal residence for the Employee;

(iii) payment of tuition and related educational fees for the next twelve months of post-secondary education for the Employee, the Employee's spouse, children or dependents; or

(iv) the need to prevent the eviction of the Employee from, or a foreclosure on the mortgage of, the Employee's principal residence.

(c) NECESSARY TO SATISFY NEED. A distribution will be considered as necessary to satisfy an immediate and heavy financial need of the Employee only if:

(i) the Employee has obtained all distributions, other than hardship distributions, and all nontaxable loans under all plans maintained by the Employer;

(ii) all plans maintained by the Employer provide that the Employee's Elective Deferrals (and Employee contributions) will be suspended for twelve months after the receipt of the hardship distribution;

(iii) the distribution is not excess of the amount of an immediate and heavy financial need (including amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the distribution); and

(iv) all plans maintained by the Employer provide that the Employee may not make Elective Deferrals for the Employee's taxable year immediately following the taxable year of the hardship distribution in excess of the applicable limit under section 402(g) of the Code for such taxable year less the amount of such Employee's Elective Deferrals for the taxable year of the hardship distribution.

10.3 MANNER OF MAKING WITHDRAWALS. Any withdrawal by a Participant under the Plan shall be made only after the Participant files a written request with the Plan Administrator specifying the nature of the withdrawal (and the reasons therefor, if a hardship withdrawal) and the amount of funds requested to be withdrawn and, if applicable, including the spousal consent required under Section 11.9. Upon approving any withdrawal, the Plan Administrator shall furnish the Trustee with written instructions

directing the Trustee to make the withdrawal in a lump-sum payment of cash to the Participant. In making any withdrawal payment, the Trustee shall be fully entitled to rely on the instructions furnished by the Plan Administrator, and shall be under no duty to make any inquiry or investigation with respect thereto.

10.4 LIMITATIONS ON WITHDRAWALS. The Plan Administrator may prescribe uniform and nondiscriminatory rules and procedures limiting the number of times a Participant may make a withdrawal under the Plan during any Plan Year, and the minimum amount a Participant may withdraw on any single occasion.

10.5 SPECIAL CIRCUMSTANCES. Elective Deferral, Qualified Nonelective Contribution and Qualified Matching Contribution subaccounts may be distributed upon:

(a) PLAN TERMINATION. Termination of the Plan without the establishment of another defined contribution plan, other than an employee stock ownership plan (as defined in section 4975(e) or

section 409 of the Code) or a Simplified Employee Pension Plan as defined in section 408(k) of the Code.

(b) DISPOSITION OF ASSETS. The disposition by a corporation to an unrelated corporation of substantially all of the assets (within the meaning of section 409(d)(2) of the Code) used in a trade of business of such corporation if such corporation continues to maintain this plan after the disposition, but only with respect to Employees who continue employment with the corporation acquiring such assets.

(c) DISPOSITION OF SUBSIDIARY. The disposition by a corporation to an unrelated entity of such corporation's interest in a subsidiary, (within the meaning of section 409(d)(3) of the Code) if such corporation continues to maintain this Plan, but only with respect to Employees who continue employment with such subsidiary.

All distributions that may be made pursuant to one or more of the foregoing distributable events are subject to the spousal and participant consent requirements (if applicable) contained in sections 411(a)(11) and 417 of the Code. In addition, distributions after March 31, 1988, that are triggered by any of the foregoing events must be made in a lump sum.

ARTICLE 11. DISTRIBUTION PROVISIONS

11.1 RETIREMENT DISTRIBUTIONS. If a Participant's Normal Retirement Age should occur prior to the termination of his employment with the Employer, all amounts then credited to such Participant's Account shall become 100% vested regardless of the number of the Participant's Years of Vesting Service. If a Participant's employment is terminated on or after his Normal Retirement Age, such termination shall be deemed "Retirement," and the Plan Administrator shall direct the Trustee to take such action as may be necessary to distribute to such Participant, in one of the methods provided in Section 11.7, the value of his Account.

(a) DEFERRED RETIREMENT. If a Participant's employment continues after his Normal Retirement Age, his participation in the Plan shall continue and, subject to Section 11.8, the distribution of his benefits shall be postponed until the earlier of (i) the date on which his Retirement becomes effective, which shall be his Deferred Retirement Date, or (ii) the date the Participant elects to receive his benefits.

(b) PARTICIPANT STATUS AFTER RETIREMENT. Upon a Participant's Retirement, his participation as an active Participant hereunder shall cease, subject to his right to share in contributions made with respect to the Plan Year of his Retirement if he otherwise qualifies for such contributions in such Plan Year.

11.2 DEATH BENEFITS. Upon the death of a Participant before retirement or before other termination of employment with the Employer, all amounts then credited to his Account shall become 100% vested, regardless of the number of his Years of Vesting Service. The Plan Administrator shall direct the Trustee to distribute the value of the Participant's Account, in one of the methods provided in Section 11.7, and at the time provided in Section 11.6, to any surviving Beneficiary designated by the Participant in accordance with the provisions of subsection (c) below.

(a) DEATH OF FORMER EMPLOYEE. Upon the death of a former Employee before distribution of his vested interest in his Account has begun, the Trustee, in accordance with the instructions of the Plan Administrator and in accordance with the provisions of this Article, shall take such action as may be necessary to distribute his vested interest in his Account, in one of the methods provided in Section 11.7 hereof and commencing at such time provided in Section 11.6, to any surviving Beneficiary. designated in accordance with the provisions of subsection (c) below. Upon the death of a former Participant after distribution of his benefits has begun and before the entire vested interest in his Account has been distributed to him, the Plan Administrator shall direct the Trustee to distribute the remaining portion of such interest to any surviving Beneficiary designated in accordance with the provisions of subsection (c) below at least as rapidly as under the method of distribution being used as of the date of the

Participant's death.

(b) PROOF OF DEATH. The Plan Administrator may require such proper proof of death and such evidence of the right of any person to receive payment of the vested interest of a deceased Participant or former Participant as it may deem desirable. The Plan Administrator's determination of death and of the right of any person to receive payment shall be conclusive.

(c) BENEFICIARY DESIGNATION. Each Participant may designate one or more primary Beneficiaries and one or more secondary Beneficiaries by filing written notice with the Plan Administrator on a form acceptable to the Plan Administrator. However, in the case of a married Participant, the Participant shall be deemed to have designated his surviving spouse as his sole primary Beneficiary, notwithstanding any contrary written notice, unless such spouse filed a written voluntary consent with the Plan Administrator irrevocably consenting to the Participant's designation of a non-spouse Beneficiary, which consent shall be notarized or witnessed by the Plan Administrator, and shall acknowledge the effect of the Participant's designation of Beneficiary. A married Participant may not subsequently change the designated non-spouse Beneficiary unless his spouse's voluntary consent acknowledges that the spouse has a right to consent to a specific beneficiary and expressly permits designations by the Participant without further spousal consent or his spouse has filed a written consent with the Plan Administrator, irrevocably consenting to such change, which consent shall be notarized or witnessed by the Plan Administrator, and shall acknowledge the effect of the change. Subject to the two preceding sentences, a Participant may change any designated Beneficiary by filing written notice of the change with the Plan Administrator. If any Participant

fails to designate a Beneficiary, or if his designated Beneficiary or Beneficiaries do not survive the Participant, the Plan Administrator shall designate a Beneficiary or Beneficiaries on his behalf, in the following order:

(i) The Participant's spouse, if living at the time of the Participant's death.

(ii) The Participant's issue, per stirpes.

(iii) The Participant's brothers and sisters, per stirpes.

(iv) The Participant's parents.

(v) The estate of the Participant.

11.3 PERMANENT DISABILITY BENEFITS. If, prior to his Retirement or other termination of employment with the Employer, a Participant incurs a Total and Permanent Disability, he shall be deemed to have retired by reason of Permanent Disability, and his Account shall become 100% vested, regardless of the number of his Years of Vesting Service. The Plan Administrator shall determine the date as of which such Retirement shall become effective. The Trustee, in accordance with the instructions of the Plan Administrator and in accordance with the provisions of this Article, shall take such action as may be necessary to distribute the value of the Participant's Account(s) to the Participant commencing at such time, and in one of the methods, provided in Section 11.5 through 11.7 hereof.

11.4 TERMINATION OF EMPLOYMENT PRIOR TO RETIREMENT, DEATH OR TOTAL AND PERMANENT DISABILITY. If a Participant's employment with the Employer terminates for any reason other than Retirement, Total and Permanent Disability or death, the Plan Administrator shall direct the Trustee to take such action as may be needed to distribute to such Participant the vested portion of his Account, as determined in accordance with Article 8. Such distribution

shall be made commencing at such time, and in one of the methods, provided in Section 11.5 through 11.7 hereof.

11.5 COMMENCEMENT OF LIFETIME DISTRIBUTIONS.

(a) UPON RETIREMENT. The distribution of benefits payable to a Participant who retires by reason of Retirement or Total and Permanent Disability shall commence as soon as is administratively feasible after a date on or after the Participant's Retirement as he elects, but in no event later than his required beginning date. Notwithstanding the foregoing provisions of this subsection (a), if such a Participant's total vested benefits do not exceed $3,500, his vested benefits shall be distributed to him in a lump sum payment as soon as administratively feasible after his Retirement.

(b) UPON TERMINATION OF EMPLOYMENT OTHER THAN RETIREMENT. The distribution of the vested interest of a Participant whose employment terminated for any reason other than Retirement, Total and Permanent Disability or death shall commence as soon as is administratively feasible after a date elected by the Participant that follows the date his employment terminated. Notwithstanding the foregoing provisions of this subsection (b),

(i) If a Participant's total vested benefits do not exceed (or at the time of any prior distribution did not exceed) $3,500, his vested benefits shall be distributed to him in a lump sum payment as soon as administratively feasible after the date on which his employment terminated, as long as he has not returned as an Employee on the date of such distribution, and

(ii) Distributions shall begin no later than the Participant's required beginning date.

(c) STATUTORY REQUIREMENTS. If a Participant does not elect to defer payment of his benefits in accordance with subsections (a) or (b) above, distribution of his benefits shall commence during the sixty day period immediately following the Plan Year in which occurs the latest of:

(i) the Participant's Normal Retirement Age,

(ii) the 10-year anniversary of the date on which the Participant commenced participation in the Plan, and

(iii) the date the Participant's employment with the Employer terminated.

(d) IN-SERVICE DISTRIBUTIONS. The distribution of a Participant's vested benefits shall not commence prior to the time his employment with the Employer terminates, except in the following circumstances:

(i) Withdrawals made in accordance with the provisions of Article 10, or

(ii) Payments to an alternate payee pursuant to qualified domestic relations order as described in section 414(p) of the Code may be made at any time, or

(iii) Minimum required distributions made on and after his required beginning date, or

(iv) Distributions made in accordance with the provisions of Section 11.1(a).

(e) REQUIRED BEGINNING DATE. The required beginning date of a Participant is the first day of April of the calendar year following the calendar year in which the Participant attains age 70 1/2 Notwithstanding the foregoing:

(i) The required beginning date of a Participant who attains age 70 1/2 before January 1, 1988, shall be determined in accordance with (A) or (B) below:

(A) The required beginning date of a Participant who is not a Five Percent Owner is the first day of April of the calendar year following the calendar year in which the later of

retirement or attainment of age 70 1/2 occurs. (A Participant is treated as a Five Percent Owner for purpose of this subsection if such Participant is a Five Percent Owner at any time during the Plan Year ending with or within the calendar year in which such owner attains age 66 1/2 or any subsequent Plan Year.)

(B) The required beginning date of a Participant who is a Five Percent Owner during any year beginning after December 31, 1979, is the first date of April following the later of:

(1) the calendar year in which the Participant attains age 70 1/2, or

(2) the earlier of the calendar year with or within which ends the Plan Year in which the Participant become a Five Percent Owner, or the calendar year in which the Participant retires.

(ii) The required beginning date of a Participant who is not a Five Percent Owner who attains age 70 1/2 during 1988 and who has not retired as of January 1, 1989, is April 1, 1990

11.6 COMMENCEMENT OF DEATH BENEFITS. Subject to Section 11.9, if a Participant dies before his benefit payments have commenced, his death benefits, if any, shall be payable beginning at such reasonable time after the Participant's death as his Beneficiary elects, subject to and in accordance with the following provisions:

(a) NON-SPOUSE BENEFICIARY. In the case of a Beneficiary other than the Participant's surviving spouse, benefits must commence no later than the December 31 that coincides with or immediately follows the fifth anniversary of the Participant's death. If the beginning date of such benefits is after the December 31 that coincides with or immediately follows the first anniversary of the Participant's death, the Beneficiary's entire interest in the Participant's death benefits must be distributed no later than the December 31 that coincides with or immediately follows the fifth anniversary of the Participant's death.

(b) SPOUSE BENEFICIARY. If the Participant's Beneficiary is the Participant's surviving spouse, the surviving spouse may elect to defer the commencement of benefits to the December 31 that coincides with or immediately follows the later of (i) the first anniversary of the Participant's death, or (ii) the date on which the Participant would have attained age 70 1/2. If the Participant's Beneficiary is his surviving spouse, and if his surviving spouse dies after the Participant dies but prior to the time the Participant's death benefits have commenced, the provisions of this Article 11 shall apply as if the surviving spouse were the Participant, except that the surviving spouse of the deceased Participant's surviving spouse shall not qualify as a surviving spouse.

(c) ELECTION PERIOD. Any election made by a Beneficiary under this Section must be made no later than the December 31 that coincides with or immediately follows the first anniversary of the Participant's death and must be irrevocable as of such date, except that if the Participant's Beneficiary is the Participant's surviving spouse, the surviving spouse may defer making such election to the earlier of (i) the December 31 that coincides with or immediately follows the fifth anniversary of the Participant's death, or (ii) the last date on which the surviving spouse could defer the commencement of benefits under subsection (b). If a Beneficiary fails to make a proper election hereunder, the Beneficiary's interest in the Participant's death benefits shall be distributed in full no later than the December 31 that

coincides with or immediately follows the fifth anniversary of the Participant's death.

11.7 METHODS OF DISTRIBUTION.

(a) GENERAL RULE. Subject to Section 11.9, all benefits shall be distributed in accordance with one of the following methods as the Participant or Beneficiary, as the case may be, may elect in writing during the 90-day period before the date benefits commence:

(i) In equal monthly, quarterly or annual installments over a period certain not to exceed the life expectancy of the Participant (or Beneficiary in the case of a Participant who dies prior to the time his benefits commenced) or the joint and last survivor life expectancy of the Participant and his Beneficiary so that the amount distributed in each Plan Year equals the amount determined by dividing the Participant's vested account balance on the last day of the immediately preceding Plan Year by the period certain determined in accordance with this paragraph (i) which shall be reduced by one for each Plan Year after the Plan Year in which the Participant's benefits commence.

(ii) Payment to the Participant or Beneficiary of all or part of such benefits in one lump sum.

(b) DIRECT ROLLOVER. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Article 11, for all distributions made on or after January 1,1993, a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover. For purposes of this subsection, the following definitions shall apply:

(i) An "eligible rollover distribution" is any distribution of all or a portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(ii) An "eligible retirement plan" is an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

(iii) A "distributee" includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic retirement order, as described the section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse.

(iv) A "direct rollover" is a payment by the Plan to the eligible retirement plan specified by the distributee.

11.8 MINIMUM REQUIRED DISTRIBUTIONS. If the Participant's interest is to be

distributed in other than a single sum, the following minimum distribution rules shall apply on or after the required beginning date:

(a) INDIVIDUAL ACCOUNT.

(i) If a Participant's benefit is to be distributed over (A) a Period not extending beyond the life expectancy of the Participant or the joint life and last survivor expectancy of the Participant and the Participant's designated Beneficiary or (B) a period not extending beyond the life expectancy of the designated Beneficiary, the amount required to be distributed for each calendar year, beginning with distributions for the first distribution calendar year, must at least equal the quotient obtained by dividing the Participant's benefit by the applicable life expectancy.

(ii) For calendar years beginning before January 1, 1989, if the Participant's spouse is not the designated Beneficiary, the method of distribution selected must assure that at least 50% of the present value of the amount available for

distribution is paid within the life expectancy of the Participant.

(iii) For calendar years beginning after December 31, 1988, the amount to be distributed each year, beginning with distributions for the first distribution calendar year shall not be less than the quotient obtained by dividing the Participant's benefit by the lesser of (A) the applicable life expectancy or (B) if the Participant's spouse is not the designated Beneficiary, the applicable divisor determined from the table set forth in Q&A-4 of section 1.401(a)(9)-2 of the proposed regulations. Distributions after the death of the Participant shall be distributed using the applicable life expectancy in paragraph (i) above as the relevant divisor without regard to Proposed Regulations section 1.401(a)(9)-2.

(iv) The minimum distribution required for the Participant's first distribution calendar year must be made on or before the Participant's required beginning date. The minimum distribution for other calendar years, including the minimum distribution for the distribution calendar year in which the Employee's required beginning dated occurs, must be made on or before December 31 of the distribution calendar year.

(b) OTHER FORMS. If the Participant's benefit is distributed in the form of an annuity purchased from an insurance company, distributions thereunder shall be made in accordance with the requirements of section 401(a)(9) of the Code and the proposed regulations thereunder.

For purposes of this Section 11.8, any amount paid to a child of the Participant will be treated as if it had been paid to the surviving spouse if the amount becomes payable to the surviving spouse when the child reaches the age of majority.

For the purposes of this Section 11.8, distribution of a Participant's interest is considered to begin on the Participant's required beginning date (or, if Section 11.6 is applicable, the date distribution is required to begin to the surviving spouse pursuant to section 11.6(b)). If distribution in the form of an annuity irrevocably commences to the Participant before the required beginning date, the date distribution is considered to begin is the date distribution actually commences.

(c) DEFINITIONS.

(i) Applicable life expectancy. The life expectancy (or joint and last survivor expectancy) calculated using the attained age of

the Participant (or designated Beneficiary) as of the Participant's (or designated Beneficiary's) birthday in the applicable calendar year reduced by one for each calendar year which has elapsed since the date life expectancy was first calculated. If life expectancy is being recalculated, the applicable life expectancy shall be the life expectancy as so recalculated. The applicable calendar year shall be the first distribution calendar year and, if life expectancy is being recalculated, such succeeding calendar year. If annuity payments commence before the required beginning date, the applicable calendar year is the year such payments commence. If distribution is in the form of an immediate annuity purchased after the Participant's death with the Participant's remaining interest, the applicable calendar year is the year of purchase.

(ii) Designated Beneficiary. The individual who is designated as the Beneficiary under the Plan in accordance with section 401(a)(9) of the Code and the proposed regulations thereunder.

(iii) Distribution calendar year. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin pursuant to Section 11.6 above.

(iv) Life Expectancy. Life expectancy and joint and last survivor expectancy are computed by use of the expected return multiples in Table V and VI of section 1.72-9 of the Income Tax Regulations. Unless otherwise elected by the Participant (or spouse, in the case of distributions described in Section 11.6(b)) by the time distributions are required to begin, life expectancies shall not be recalculated. Such election shall be irrevocable as to the Participant (or spouse) and shall apply to all subsequent years. The life expectancy of a non-spouse beneficiary may not be recalculated.

(d) PARTICIPANT'S BENEFIT. The account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions or forfeitures allocated to the account balance as of dates in the valuation calendar year after the valuation calendar year after the valuation date. Notwithstanding the foregoing, if any portion of the minimum distribution of the first distribution calendar year is made in the second distribution calendar year on or before the required beginning date, the amount of the minimum distribution made in the second distribution calendar year shall be treated as if it had been made in the immediately preceding distribution calendar year.

11.9 JOINT AND SURVIVOR ANNUITY REQUIREMENTS. Notwithstanding the foregoing provisions of this Article 11, if the Plan is a direct or indirect transferee of a Participant's interest in a defined benefit plan, money purchase plan, a target benefit plan, stock bonus or profit-sharing plan which is subject to the survivor annuity requirements of section 401(a)(11) and 417 of the Code, then the following provisions shall apply to distributions to such Participant:

(a) QUALIFIED JOINT AND SURVIVOR ANNUITY. All benefit distributions to such a Participant in the Plan shall be in the form of a "Qualified Joint and Survivor Annuity," subject to the following rules:

(i) For the purposes of this subsection (a) and of subsection (b), (A) in the case of a Participant who is married on the date his benefit payments commence, the term "Qualified Joint and Survivor Annuity" shall mean an immediate nontransferable annuity policy which complies with the provisions of this Plan, purchased with the Participant's total vested interest in his Account, payable to the Participant for life with a survivor annuity payable to his spouse at the time of the purchase of the policy, for the life of that spouse, which is equal to 50% of the amount of the annuity payable during the joint lives of the Participant and his spouse, (B) in the case of a Participant who is not married on the date his benefit payments commence, the

term "Qualified Joint and Survivor Annuity" shall mean an annuity policy, purchased with the Participant's total vested interest in his Account, payable to the Participant for his life, and (C) the term "Annuity Starting Date" shall mean the first day of the first period for which an amount is to be paid to the Participant or Beneficiary as an annuity,

or, in the case of a benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Participant or Beneficiary to such benefit.

(ii) Written notice explaining the Qualified Joint and Survivor Annuity and optional forms of benefit, the right of the Participant to elect to waive the Qualified Joint and Survivor Annuity, the right of the spouse to consent to such waiver, the effect of a waiver and the effect of a consent to a waiver, the right of the Participant to revoke an election to waive, and the inability of the spouse to revoke his or her consent shall be given to the Participant no less than 30 days and no more than 90 days prior to his Annuity Starting Date.

If a distribution is one to which sections 401(a)(11) and 417 of the Code do not apply, such distribution may commence less than 30 days after the notice required under section 1.411(a)11 (c) of the Income Tax Regulations is given, provided that (a) the Plan Administrator clearly informs the Participant that the Participant has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and (b) the Participant, after receiving the notice, affirmatively elects a distribution.

(iii) A Qualified Joint and Survivor Annuity shall not be paid to a Participant if, during the 90-day period ending on the Annuity Starting Date, (A) the Participant has filed a written election with the Plan Administrator waiving the Qualified Joint and Survivor Annuity, and (B) in the case of a married Participant, his spouse has filed a written consent with the Plan Administrator irrevocably consenting to such waiver, which consent shall be notarized or witnessed by the Plan Administrator, and shall acknowledge the effect of the waiver. The written election waiving the Qualified Joint and Survivor Annuity shall state the specific non-spouse Beneficiary and/or the alternative form of benefit. A married Participant may not subsequently change the non-spouse Beneficiary and/or alternative form of benefit elected unless his spouse's consent expressly permits designations by the Participant without any further spousal consent or his spouse has filed a written consent with the Plan Administrator irrevocably consenting to such change, which consent shall be notarized or witnessed by the Plan Administrator, and shall acknowledge the effect of the change. Notwithstanding the preceding sentence, a married Participant may revoke his election waiving the Qualified Joint and Survivor Annuity at any time and any number of times on or before the Annuity Starting Date without the consent of his spouse.

(iv) Even if a Participant does not waive the Qualified Joint and Survivor Annuity in accordance with paragraph (iii)

above, the Plan Administrator will not be required to direct the Trustee to distribute a Participant's or former Participant's benefits in the form of a Qualified Joint and Survivor Annuity if the value of the Participant's vested Account on the Annuity Starting Date does not exceed $3,500 and if such Account is distributed to the Participant in a single lump sum payment of cash, provided that no such distribution shall be made after the Annuity Starting Date without the written consent of the Participant and his spouse.

(b) QUALIFIED PRE-RETIREMENT SURVIVOR ANNUITY. In the case of a Participant with a vested interest under this Plan who dies prior to his Annuity Starting Date, and who is married on the date of his death, all death benefits under the money purchase pension plan shall be distributed to his surviving spouse in the form of a "Qualified Pre-Retirement Survivor Annuity," in accordance with the following rules:

(i) For the purposes hereof, the term "Qualified Pre-Retirement Survivor Annuity" shall mean a non-transferable annuity which complies with the provisions of this Plan for the life of the Participant's surviving spouse, in such amount as may be purchased with an amount equal to 100% of the value of the Participant's total vested interest in his Account.

(ii) Written notice explaining the Qualified Pre-Retirement Survivor Annuity, the right of the Participant to elect to waive the Qualified Pre-Retirement Survivor Annuity, the right of the spouse to consent to such waiver, the effect of a waiver and the effect of a consent to a waiver, the right of the Participant to revoke an election to waive, and the inability of the spouse to revoke his or her consent shall the given to the Participant during the two-year period ending on (A) the first anniversary of the date he became a Participant, and (B) the first anniversary of the date his employment terminates. If, in accordance with clause (A) of the preceding sentence, written notice is given to the Participant prior to the last day of the Plan Year in which he attains age 31, a second notice, similar to the initial notice, shall be given to the Participant within whichever of the following periods ends first: (A) the one-year period after his employment with the Employer terminates, or (B) the period beginning with the first day of the Plan Year in which he attains age 32 and ending with the last day of Plan Year in which he attains age 34.

(iii) A Qualified Pre-Retirement Survivor Annuity shall not be paid to the surviving spouse of a deceased Participant if, during the period beginning on the day on which the Participant first became a Participant in the Plan and ending on the date of his death, (A) the Participant has filed a written election with the Plan Administrator waiving such Qualified Pre-Retirement Survivor Annuity, and (B) his spouse has filed a written consent with the Plan Administrator, irrevocably consenting to such waiver, which consent shall be notarized or witnessed by the Plan Administrator, and shall acknowledge the effect of the waiver. The written election waiving the Qualified Pre-Retirement Survivor Annuity shall state the specific non-spouse Beneficiary. A Participant may not subsequently change the designated non-spouse Beneficiary unless his spouse's voluntary consent acknowledges that the spouse has the right to limit consent to a specific beneficiary, and a specific form of benefit where applicable, and expressly permits designations by the Participant without further spousal consent or his spouse has filed a written consent with the Plan Administrator, irrevocably consenting to such change, which consent shall be notarized or witnessed by the Plan Administrator, and shall acknowledge the effect of the change. Notwithstanding the preceding sentence, a Participant may revoke his election waiving the Qualified Pre-Retirement Survivor Annuity at any time and any number of times without the consent of his spouse.

(iv) Notwithstanding the first sentence of paragraph (iii), if the Participant waives the Qualified Pre-Retirement Survivor Annuity prior to the first day of the Plan Year in which he attains age 35, such waiver shall be invalid upon the beginning of the Plan Year in which he attains age 35 until the Participant, during the period beginning on the earlier of the first day of the Plan Year in which he attains age 35 or the date on which his employment with the Employer terminates and ending on the date of his death, again waives the Qualified Pre-Retirement Survivor

Annuity in accordance with the preceding sentence. Qualified Pre-Retirement Survivor Annuity coverage automatically will be reinstated as of the first day of the Plan Year in which the Participant attains age 35. Provided, however, that a Participant who (A) terminates his employment with the Employer prior to the first day of the Plan Year in which he attains age 35, and (B) on or after that date waives the Qualified Pre-Retirement Survivor Annuity, need not again waive the Qualified Pre-Retirement Survivor Annuity.

(v) Even if a Participant does not waive the Qualified Pre-Retirement Survivor Annuity in accordance with paragraphs (iii) or (iv) above, the Plan Administrator will not be required to direct the Trustee to distribute a Participant's total vested interest in all of his Accounts in the form of a Qualified Pre-Retirement Survivor Annuity if (A) the Participant's surviving spouse files a written consent with the Plan Administrator consenting to the distribution of such vested benefits in one of the methods described in Section 11.7 hereof, or (B) the value of the Participant's total vested interest in his Account does not exceed $3,500 and such Account is distributed to the surviving spouse in a single lump sum payment of cash; provided that no such distribution shall be made after the Annuity Starting Date without the written consent of the Participant's or former Participant's surviving spouse.

(c) SPECIAL RULES. For purposes of this Section 11.9:

(i) A former spouse of a Participant will be treated as a Participant's spouse or surviving spouse to the extent provided under a qualified domestic relations order as described in section 414(p) of the Code.

(ii) If the Plan Administrator determines that a Participant has no spouse or the Participant's spouse cannot be located, no spouse consent shall be necessary.

(iii) A spouse's consent (or determination that the consent of a spouse cannot be obtained) hereunder shall be effective only with respect to such spouse.

11.10 REEMPLOYMENT. If a former Employee who has begun to receive benefit payments hereunder should be reemployed by the Employer prior to his Normal Retirement Age, his benefit payments shall cease.

11.11 VALUATION OF BENEFITS. All distributions made in the form of a lump sum shall be based upon the value of the Participant's Account(s) determined as of the Valuation Date which coincides with or immediately precedes the date on which the distribution is being made, reduced by withdrawals and distributions made from such Account(s) after such Valuation Date and increased by allocations to the Participant's Account made after such Valuation Date.

ARTICLE 12. ADMINISTRATION

12.1 DUTIES AND RESPONSIBILITIES OF FIDUCIARIES; ALLOCATION OF FIDUCIARY RESPONSIBILITY. A fiduciary of the Plan shall have only those specific powers, duties, responsibilities and obligations as are explicitly given him under the Plan and Trust Agreement. In general, the Employer shall have the sole responsibility for marking contributions to the Plan required under Article 5, appointing the Trustee, and determining the funds available for investment under the Plan. The Plan Administrator shall have the sole responsibility for the administration of the Plan, as more fully described in Section 12.2. It is intended that each fiduciary shall be responsible only for the proper exercise of his own powers, duties, responsibilities and obligations under the Plan and Trust Agreement and shall not be responsible for any act or failure to act of another fiduciary. A fiduciary may serve in more than one fiduciary capacity with respect to the Plan.

12.2 POWERS AND RESPONSIBILITIES OF THE PLAN ADMINISTRATOR.

(a) ADMINISTRATION OF THE PLAN. The Plan Administrator shall be charged with the full power and the responsibility for administering the Plan in all its details. The Plan Administrator shall have all powers necessary to administer the Plan, including the power to construe and interpret the Plan documents; to decide all questions relating to an individual's eligibility to participate in the Plan; to determine the amount, manner and timing of any distribution of benefits or withdrawal under the Plan; to approve and ensure the repayment of any loan to a Participant under the Plan; to resolve any claim for benefits in accordance with Section 12.6; and to appoint or employ advisors, including legal counsel, to render advice with respect to any of the Plan Administrator's responsibilities under the Plan. Any construction, interpretation or application of the Plan by the Plan Administrator shall be final, conclusive and binding. All actions by the Plan Administrator shall be taken pursuant to uniform standards applied to all persons similarly situated. The Plan Administrator shall have no power to add to, subtract from or modify any of the terms of the Plan, or to change or add to any benefits provided by the Plan, or to waive or fail to apply any requirements of eligibility for a benefit under the Plan.

(b) RECORDS AND REPORTS. The Plan Administrator shall be responsible for maintaining sufficient records to reflect the periods in which an Employee is credited with one or more Years of Eligibility Service or Years of Vesting Service for purposes of determining his eligibility to participate and his vesting, respectively, in the Plan, and the Compensation of each Participant for purposes of determining the amount of contributions that may be made by or on behalf of the Participant under the Plan. The Plan Administrator shall be responsible for submitting all required reports and notifications relating to the Plan to Participants or their Beneficiaries, the Internal Revenue Service and the Department of Labor.

(c) FURNISHING TRUSTEE WITH INSTRUCTIONS. The Plan Administrator shall be responsible for furnishing the Trustee with written instructions regarding all contributions to the Trust, all distributions to Participants in accordance with Article 11, all withdrawals by Participants in accordance with Article 10 and all loans to Participants in accordance with Article 9. In addition, the Plan Administrator shall be responsible for furnishing the Trustee with any further information regarding the Plan which the Trustee may request for the performance of its duties or for the purpose of making any returns to the Internal Revenue Service or Department of Labor as may be required of the Trustee.

(d) RULES AND DECISIONS. The Plan Administrator may adopt such rules as it deems necessary, desirable or appropriate in the administration of the Plan. All rules and decisions of the Plan Administrator shall be applied uniformly and consistently to

all Participants in similar circumstances. When making a determination or calculation, the Plan Administrator shall be entitled to rely upon information furnished by a Participant or Beneficiary, the Employer, the legal counsel of the Employer or the Trustee.

(e) APPLICATION AND FORMS FOR BENEFITS. The Plan Administrator may require a Participant or Beneficiary to complete and file with it an application for a benefit and to furnish all pertinent information requested by it. The Plan Administrator may rely upon all such information so furnished to it, including the Participant's or Beneficiary's current mailing address.

(f) FACILITY OF PAYMENT. Whenever, in the Plan Administrator's opinion, a person entitled to receive a payment of a benefit or installment thereof is under a legal disability or is incapacitated in any way so as to be unable to manage his financial affairs, as determined by a court of competent jurisdiction, it may direct the Trustee to make payments to such person or to the legal representative or to a relative or friend of such person for that person's benefit, or it may direct the Trustee to apply the payment for the benefit of such person in such manner as it considers advisable.

12.3 ALLOCATION OF DUTIES AND RESPONSIBILITIES. The Plan Administrator may, by written instrument, allocate among its Employees any of its duties and responsibilities not already allocated under the Plan or may designate persons other than Employees to carry out any of the Plan Administrator's duties and responsibilities under the Plan. Any such duties or responsibilities thus allocated must be described in the written instrument. If a person other than an Employee of the Employer is so designated, such person must acknowledge in writing his acceptance of the duties and responsibilities allocated to him.

12.4 EXPENSES. The Employer shall pay all expenses authorized and incurred by the Plan Administrator in the administration of the Plan except to the extent such expenses are paid from the Trust.

12.5 LIABILITIES. The Plan Administrator and each person to whom duties and responsibilities have been allocated pursuant to Section 12.3 may be indemnified and held harmless by the Employer with respect to any alleged breach of responsibilities performed or to be performed hereunder. The Employer and each Affiliated Employer shall indemnify and hold harmless the Sponsor against all claims, liabilities, fines, penalties and all expenses reasonably incurred by or imposed upon it (including, but not limited to, reasonable attorney's fees) which arise as a result of actions or failure to act in connection with the operation and administration of the Plan.

12.6 CLAIMS PROCEDURE.

(a) FILING A CLAIM. Any Participant or Beneficiary under the Plan may file a written claim for a Plan benefit with the Plan Administrator or with a person named by the Plan Administrator to receive claims under the Plan.

(b) NOTICE OF DENIAL OF CLAIM. In the event of a denial or limitation of any benefit or payment due to or requested by any Participant or Beneficiary under the Plan ("claimant"), claimant shall be given a written notification containing specific reasons for the denial or limitation of his benefit. The written notification shall contain specific reference to the pertinent Plan provisions on which the denial or limitation of his benefit is based. In addition, it shall contain a description of any other material or information necessary for the claimant to perfect a claim, and an explanation of why such material or information is necessary. The notification shall further provide appropriate information as to the steps to be taken if the claimant wishes to submit his claim

for review. This written notification shall be given to a claimant within 90 days after receipt of his claim by the Plan Administrator unless special circumstances require an extension of time for processing the claim. If such an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the termination of said 90 day period, and such notice shall indicate the special circumstances which make the postponement appropriate.

(c) RIGHT OF REVIEW. In the event of a denial or limitation of his benefit, the claimant or his duly authorized representative shall be permitted to review pertinent documents and to submit to the Plan Administrator issues and comments in writing. In addition, the claimant or his duly authorized representative may make a written request for a full and fair review of his claim and its denial by the Plan Administrator; provided, however, that such written request must be received by the Plan Administrator (or its delegate to receive such requests) within 60 days after receipt by the claimant of written notification of the denial or limitation of the claim. The 60 day requirement may be waived by the Plan Administrator (or its delegate) in appropriate cases.

(d) DECISION ON REVIEW. A decision shall be rendered by the Plan Administrator within 60 days after it receives the request for review, provided that where special circumstances require an extension of time for processing the decision, it may be postponed on written notice to the claimant (prior to the expiration of the initial 60 day period) for an additional 60 days, but in no event shall the decision be rendered more than 120 days after the receipt of such request for review. Any decision by the Plan Administrator shall be furnished to the claimant in writing and shall set forth the specific reasons for the decision and the specific Plan provisions on which the decision is based.

(e) COURT ACTION. No Participant or Beneficiary shall have the right to seek judicial review of a denial of benefits, or to bring any action in any court to enforce a claim for benefits prior to filing a claim for benefits or exhausting his rights to review under this Section.

ARTICLE 13. AMENDMENT, TERMINATION AND MERGER

13.1 SPONSOR'S POWER TO AMEND. The Sponsor may amend any part of the Plan. If the Sponsor amends or terminates the Plan, it shall give notice of such amendment or termination to each adopting Employer which has notified the Sponsor it has adopted, but not yet ceased to use, this prototype Plan and which has all Plan assets invested in Shares at the time of such amendment or termination.

13.2 AMENDMENT BY ADOPTING EMPLOYER. The Employer may:

(a) change the choice of options in the Adoption Agreement;

(b) add overriding language in the Adoption Agreement when such language is necessary to (i) satisfy section 415 or 416 of the Code because of the required aggregation of multiple plans, or (ii) preserve benefits protected under section 411(d)(6) of the Code; and

(c) add certain model amendments published by the Internal Revenue Service which specifically provide that their adoption will not cause the Plan to be treated as individually designed.

An Employer that amends the Plan for any other reason, including a waiver of the minimum funding requirement under section 412(d) of the Code, will no longer participate in this prototype plan and will be considered to have an individually designed plan.

13.3 TERMINATION. The Employer is not and shall not be under obligation to continue its contributions to, or to maintain, them for any length of time. The Employer may, in its sole discretion, completely discontinue its contributions

to or terminate the Plan and Trust in accordance with the provisions of the Plan in effect at the time of discontinuance of contributions or termination. In the event of the termination or partial termination of the Plan, the account balance of each affected participant will be nonforfeitable.

13.4 VESTING UPON COMPLETE DISCONTINUANCE OF CONTRIBUTIONS. In the event of a complete discontinuance of contributions under the Plan, the account balance of each affected participant will be nonforfeitable.

13.5 MAINTENANCE OF BENEFITS UPON MERGER. In the event of a merger or consolidation with, or transfer of assets to any other plan, each participant will receive a benefit immediately after such merger, consolidation or transfer (if the Plan then terminated) which is at least equal to the benefit the Participant was entitled to immediately before such merger, consolidation or transfer (if the Plan had been terminated).

ARTICLE 14. MISCELLANEOUS

14.1 EXCLUSIVE BENEFIT OF PARTICIPANTS AND BENEFICIARIES.

(a) GENERAL RULE. All assets of the Trust shall be retained for the exclusive benefit of Participants and their Beneficiaries, and shall be used only to pay benefits to such persons or to pay the fees and expenses of the Trust. The assets of the Trust shall not revert to the benefit of the Employer, except as otherwise specifically provided in subsection (b) below.

(b) SPECIAL RULES. To the extent permitted or required by ERISA and the Code, contributions to the Trust under this Plan are subject to the following conditions:

(i) If a contribution or any part thereof is made to the Trust by the Employer under a mistake of fact, such contribution or part thereof shall be returned to the Employer within one year after the date the contribution is made;

(ii) In the event the Plan is determined not to meet the initial qualification requirements of section 401 of the Code, contributions made in respect of any period for which such requirements are not met shall be returned to the Employer within one year after the Plan is determined not to meet such requirements, but only if the application for the qualification is made by the time prescribed by law for filing the Employer's return for the taxable year in which the Plan is adopted or such later date as the Secretary of the Treasury may prescribe.

(iii) Contributions to the Trust are specifically conditioned on their deductibility under the Code and, to the extent a deduction is disallowed for any such contribution, such amount shall be returned to the Employer within one year after the date of the disallowance of the deduction.

14.2 NONGUARANTEE OF EMPLOYMENT. Nothing contained in this Plan shall be construed as a contract of employment between Employer and any Employee or as a right of any Employee to be continued in the employment of the Employer or as a limitation of the right of the Employer to discharge any of its Employees, with or without cause.

14.3 RIGHTS TO TRUST ASSETS. No Employee, Participant or Beneficiary shall have any right to, or interest in, any assets of the Trust upon termination of employment or otherwise, except as provided under the Plan. All payment of benefits under the Plan shall be made solely out of the assets of the Trust.

14.4 NONALIENATION OF BENEFITS. No benefit or interest available hereunder will be subject to assignment or alienation, either voluntarily or involuntarily. The preceding sentence shall also apply to the creation, assignment or recognition of a right to any benefit payable with respect to a participant pursuant to a domestic relations order, unless such order is determined to be a qualified domestic relations order, as defined in section 414(p) of the Code, or any domestic relations order entered before January 1, 1985.

14.5. FAILURE OF QUALIFICATION. If the Employer's plan fails to attain or retain qualification, such plan will no longer participate in this prototype plan and will be considered an individually designed plan.

14.6 APPLICABLE LAW. Except to the extent otherwise required by ERISA, as

amended, this Plan shall be construed and enforced in accordance with the laws of the state in which the Employer's principal place of business is located, as specified in the Adoption Agreement.

14.7 REFERENCE TO FEDERAL LAW. All references in this Plan to sections of the Internal Revenue Code or ERISA and any regulations or ruling thereunder shall be deemed to refer to such sections (and any regulation or ruling thereunder) as they subsequently may be modified, amended, replaced or amplified by any successor federal statute, regulation or ruling of similar application and import.

14.8 CONSTRUCTION. Whenever used in this Plan, unless the context indicates otherwise, the singular shall include the plural, the plural shall include the singular and the male gender shall include the female gender.

14.9 HEADINGS. Headings in this Plan are inserted solely for convenience of reference and shall neither constitute a part of this Plan nor affect its meaning, construction or intent.

14.10 PRIORITY OF ADOPTION AGREEMENT. The Adoption Agreement has the function of amending the terms of this document where necessary or appropriate. If there is any conflict between the terms of this document and the terms of the Adoption Agreement, the terms of the Adoption Agreement shall prevail.

SIMPLIFIED 401(k) PROTOTYPE

TRUST AGREEMENT

Unless the context of this Trust Agreement clearly indicates otherwise, the terms defined in Article 2 of the Plan entered into by the Employer of which this Trust Agreement forms a part shall, when used herein, have the same meaning as in the Plan.

ARTICLE I - TRUST FUND

1.1 TRUST.

The Employer hereby establishes with the Trustee a trust account or accounts ("Accounts") consisting of such sums of U.S. currency and such other property acceptable to the Trustee as shall from time to time be contributed, paid or delivered to the Trustee pursuant to this Trust Agreement at the address specified by the Trustee. All such money and property, all investments and reinvestments made therewith and proceeds thereof, less any payments or distributions made by the Trustee pursuant to the terms of this Trust Agreement, are referred to herein as the "TRUST." The Trust shall be held by the Trustee in accordance with the express provisions of this instrument and the requirements of law.

1.2 DELEGATION OF AUTHORITY.

The Trustee may delegate to a custodian or other agent the custodianship of all or part of the assets of the Trust. The Trustee and the Employer may, by mutual agreement, arrange for the delegation by the Trustee to the Plan Administrator or any agent of the Employer of any powers or functions of the Trustee hereunder other than the custody of the Trust assets. The Trustee shall not be responsible for any act or omission of such person or persons arising from any such delegation, except to the extent provided in Section 4.8.

1.3 LIMITATIONS OF TRUSTEE'S DUTIES.

With respect to its duties hereunder, the Trustee is a non-discretionary trustee and shall have no duty to: (a) determine or enforce payment of any contribution due under the Plan; (b) inquire into the accuracy of any contribution; (c) determine the adequacy of the funding policy adopted by

the Employer to meet its obligations under the Plan; (d) look into the propriety of any investment or distribution made under the Plan; or (e) ensure the qualification of the Plan under the Code. The Trustee shall not be deemed to be the administrator, the Plan sponsor or a "named fiduciary" of the Plan as defined in sections 3(16)(A), 3(16)(B) and 402(a)(2), respectively, of ERISA.

ARTICLE II - ACCOUNTS

2.1 ESTABLISHING ACCOUNTS. The Trustee shall open and maintain a Trust Account for the Plan. Upon receipt of written instructions from the Employer, the Trustee also shall open and maintain such Participant Accounts and subaccounts as the Employer may direct. The Trustee shall also open and maintain such other subaccounts as may be appropriate or desirable to aid in the administration of the Plan. The Employer shall give written instructions to the Trustee specifying the Participants' Accounts and subaccounts to which contributions and forfeitures are to be credited, and the amounts of such contributions and forfeitures which are to be credited to such Accounts and subaccounts.

2.2 CHARGES AGAINST ACCOUNTS. Upon receipt of written instructions from the Employer, the Trustee shall charge the appropriate Account or subaccount of a Participant for any withdrawals or distributions made under the Plan, for any forfeiture which may be required under the Plan of unvested interests attributable to Employer contributions and for any fees which may be charged against the Trust assets.

ARTICLE III - INVESTMENT OF TRUST ASSETS

3.1 INVESTMENT OF TRUST ASSETS.

The Trustee shall not have any discretion, and is specifically prohibited from having or exercising any discretion, with respect to the investment of Trust assets. Except as provided in Section 3.3 (Participant Directed Investments) hereof, the Employer shall be solely responsible for giving the Trustee directions as to the investment and disposition of the Trust assets. Assets of the Trust may be invested in shares of stock in any regulated investment company registered under the Investment Company Act of 1940, the investment advisor of which is T. Rowe Price Associates, Inc. or any of its affiliates. Trust assets may also be invested in units in any common, collective or group trust fund sponsored by T. Rowe Price Trust Company and qualified under sections 401 and 501 of the Code, that is made available for investment purposes as an investment option under the T. Rowe Price Simplified 401(k) Prototype Plan (the instrument of trust creating any such qualified common, collective or group trust fund being adopted hereby).

3.2 WRITTEN INSTRUCTION.

Any action of the Employer pursuant to any provisions of this Trust Agreement shall be in wring from the Employer, and the Trustee shall be fully protected in relying upon such written notification as actions of the Employer. The term "Employer," as used throughout this Trust Agreement, includes any duly authorized designee of the Employer, such as a Plan Administrator, or any individual having apparent authority as such. If written instructions are not received by the Trustee, or if such instructions are received but are deemed by the Trustee to be unclear, upon notice to the Employer, the Trustee may elect to hold all or part of any such contribution in cash, without liability for rising security prices or distributions made, pending receipt by it from the Employer of written instructions or other clarification. If any contributions received by the Trustee from the Employer are less than any minimum which a directed investment requires, the Trustee may hold the specified portion of such contributions in cash, without interest, until such time as the proper amount has been contributed so that the directed investment may be made. The Trustee shall receive all directions or instructions in writing

provided that the Trustee may accept oral directions for purchases or sales from the Employer or Participant with subsequent written confirmation.

3.3 PARTICIPANT DIRECTED INVESTMENTS.

When so instructed by the Employer, the Trustee shall invest all or any portion of the individual Accounts of any Participant as directed by said Participant. Such directed investments shall be accounted for separately for each Participant. The Employer shall have the duty to select and monitor all investment options made available to Participants under the Plan. The Employer shall ensure that all Participants who are entitled to direct the investment of assets in their Accounts previously received or receive a copy, of all material describing such investment options that is required by law. Delivery of investment directions by the Employer in accordance with the instructions of a Participant or by the Participant directly to the Trustee shall entitle the Trustee to assume that the Participant has received all such descriptive material. Each Participant who directs the investment of his Accounts shall be solely and absolutely responsible for the investment or reinvestment of any such directed Plan investment held on his behalf in the Trust, and, except as otherwise provided herein, the Trustee shall not question any such direction, review any securities or other such assets, or make suggestions with respect to the investment, reinvestment, retention or disposition of any such assets. The Trustee shall not have any liability or responsibility for diversification of such assets or for any loss to or depreciation of such assets because of the purchase, retention or sale of assets in accordance with a Participant's direction. The Participant shall have sole responsibility for the overall diversification, liquidity and prudence of the investments of his Accounts. If a Participant fails to direct the investments of his Accounts, the Trustee shall invest his Accounts in accordance with the written directions of the Employer.

3.4 EMPLOYER DIRECTED INVESTMENTS.

The Employer, by written direction to the Trustee, is authorized to designate all or a portion of the Trust assets of which the Employer will direct investments, and the Trustee may segregate such assets into one or more separate accounts or administer the Trust as one account. In the event the Employer shall employ or appoint an investment advisor to direct the Trustee with respect to a portion of the Trust, the Employer will notify the Trustee in writing of the appointment of the investment advisor, including his name and address. Whether or not the Trust is segregated into separate accounts, the Trustee shall invest such portion of the Trust as directed by the Employer or its duly appointed investment advisor only to the extent that such instruction is consistent with ERISA and any other applicable legal authority. The Trustee shall have no duty to question any action or direction of the Employer or investment advisor or any failure of the Employer or investment advisor to give directions, or to review the securities or other investments, which are held pursuant to the Employer's or investment advisor's directions, or to make suggestions to the Employer or investment advisor as to the investment, reinvestment, retention or disposition of any such assets. The Trustee shall not have any liability or responsibility for diversification of such assets, or for any loss to or depreciation of such assets because of the purchase, retention or sale of assets in accordance with the Employer's or investment advisor's direction. The Employer shall have responsibility for the overall diversification of the Trust.

3.5 TRUSTEE'S LIABILITY WITH RESPECT TO EMPLOYER OR PARTICIPANT DIRECTED ACCOUNTS.

The Trustee shall not be liable for, and the Employer will indemnify and hold harmless the Trustee (including its employees, affiliates, representatives and agents) from and against, any liability or expense (including counsel fees) because of: (a) any investment action taken omitted by the Trustee in accordance with any direction of the Employer or a Participant, or (b) any investment inaction in the absence of investment directions from the Employer or a Participant.

3.6 LIMITATIONS ON INVESTMENTS.

Notwithstanding any other provision of this Trust Document to the contrary:

(a) The Trustee may establish such reasonable rules and regulations, applied on a uniform basis to all Participants, with respect to the

requirements for, and the form and manner of, effecting any transaction with respect to Participant directed investments to the Trustee shall determine to be consistent with the purposes of the Plan. Any such rules and regulations shall be binding upon all persons interested in the Trust.

(b) In no event shall the Trustee engage in any transaction that would be prohibited under ERISA.

3.7 "KNOWLEDGE" OF TRUSTEE.

It is understood that although, when the Trustee is subject to the direction of the Employer or a Participant, the Trustee will perform certain ministerial duties ("Ministerial Duties") with respect to the portion of the Trust subject to such direction, such duties do not involve the exercise of any discretionary authority to manage or control Trust assets. Such Ministerial Duties will be performed in the normal course of business by employees of the Trustee, its affiliates or agents who may be unfamiliar with investment management. It is agreed that the Trustee is not undertaking any duty or obligation, express or implied, to review, and will not be deemed to have any knowledge of or responsibility with respect to, any Transaction involving the investment of the Trust as a result of the performance of these Ministerial Duties. Therefore, in the event that "Knowledge" of the Trustee shall be a prerequisite to imposing a duty upon or determining liability of the Trustee under the Plan, this Trust Agreement or any law regulating the conduct of directed trustees with respect to the investment of trust assets, as a result of any act or omission on of the Employer or any Participant, or as the result of any transaction engaged in by any of them, then the receipt and processing of investment orders and other documents relating to Trust assets by an employee of the Trustee or its affiliates or agents engaged in the performance of purely Ministerial Duties shall not constitute "knowledge" of the Trustee.

ARTICLE IV - DUTIES OF THE TRUSTEE

4.1 DUTIES OF THE TRUSTEE.

The Trustee is authorized and empowered with respect to the Trust:

(a) To make, execute, acknowledge and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or appropriate to carry out the powers herein granted.

(b) To register any investment held in the Trust in the name of the Trustee or in the name of a nominee, and to hold any investment in bearer form, but the books and records of the Trustee shall at all times show that all such investments are part of the Trust.

(c) To employ suitable agents and counsel (who may also be agents and/or counsel for the Employer) and to pay their reasonable expenses and compensation.

(d) To borrow or raise monies for the purpose of the Trust from any source and, for any sum borrowed, to issue its promissory note as Trustee and to secure the repayment thereof by pledging all or any part of the Trust, but nothing contained herein shall obligate the Trustee to render itself liable individually for the amount of any such borrowing; and no person loaning money to the Trustee shall be bound to see to the application of money loaned or to inquire into the validity or propriety of any such borrowing.

Each and all of the foregoing powers may be exercised without a court order or approval. No one dealing with the Trustee need inquire concerning the validity or propriety of anything that is done by the Trustee or need to see the application of any money paid or property

transferred to or upon the order of the Trustee.

4.2 GENERAL POWERS.

The Trustee shall have all of the powers necessary or desirable to do all acts and exercise all such rights and privileges, whether or not expressly authorized herein, which it may deem necessary or proper for the protection of the Trust and to accomplish any action provided for in this Trust Agreement.

4.3 VALUATION OF TRUST.

The Trustee, as of the valuation date, and at such other time or times as is necessary, shall determine the net worth of the assets of the Trust. The Trustee may adopt such methods of valuation as it deems advisable.

4.4 TRUST RECORDS.

The Trustee shall keep accurate and detailed records of all receipts, investments, disbursements and other transactions required to be performed hereunder with respect to the Trust. The Trustee agrees to treat as confidential all records and other information relative to the Trust. The Trustee shall not disclose such records and other information to parties, other than the Employer except to the extent required by law or as requested in writing by the Employer.

4.5 DISTRIBUTIONS.

At the direction of the Employer, the Trustee shall mail distributions from the Trust to the Employer for the benefit of the Participants and, to the extent agreed to by the Trustee, shall make distributions directly to the Participants. The Trustee shall not be liable or responsible for any errors made by the Employer with respect to distributions. The Trustee shall be entitled to rely conclusively upon the Employer's directions. Notwithstanding any other provision of the Trust Agreement, the Trustee may condition its delivery, transfer or distribution of any Trust assets upon the Trustee's receiving satisfactory assurances that the approval of appropriate governmental agencies or other authorities has been secured and that all notice and other procedures required by applicable law have been satisfied.

4.6 TRUSTEE'S FEES.

The Trustee's fees for performing its duties hereunder shall be such reasonable amounts as shall be established by it from time to time. The Trustee shall furnish to the Employer its current schedule of fees and give written notice to the Employer whenever its fees are changed or revised. Such fees, any taxes of any kind whatsoever which may be levied or assessed upon the Trust, and any expenses incurred by the Trustee in the performance of its duties, including fees for legal services rendered to the Trustee, shall, unless paid by the Employer, be paid from the Trust.

4.7 DUTIES NOT ASSIGNED.

The duties of the Trustee with respect to the Trust are limited to those assumed by the Trustee under the terms of this Trust Agreement. The Trustee shall not be responsible for filing reports, returns or disclosures with any government agency except as may otherwise be required by its duties as Trustee under applicable law.

4.8 STANDARDS FOR THE TRUSTEE'S POWERS.

Notwithstanding any other provision of this Trust Agreement, the Trustee shall discharge its duties hereunder solely in the interest of the Participants and for the exclusive purpose of providing benefits to the Participants and defraying reasonable expenses of administering the Trust, with the skill, care, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Trustee shall perform its duties in accordance with this Trust Agreement insofar as this Trust Agreement is consistent with the provisions of ERISA. To the extent not prohibited by ERISA, the Trustee shall not be responsible in any way for any action or omission of the Employer with respect to the

performance of its duties and obligations set forth in this Trust Agreement and in the Plan. The Trustee may rely upon such information, direction, action or inaction of the Employer as being proper under the Plan or the Trust Agreement and is not required to inquire into the propriety of any such information, direction, action or inaction. To the extent not prohibited by ERISA, the Trustee shall not be responsible for any action or omission of any of its agents or with respect to reliance upon advice of its counsel (whether or not such counsel is also counsel to the Employer), provided that such agents or counsel were prudently chosen by the Trustee and that the Trustee relied in good faith upon the action of such agent or the advice of such counsel.

ARTICLE V - DUTIES OF THE EMPLOYER

5.1 DUTIES OF THE EMPLOYER.

It is understood that the Employer shall be responsible for the performance of the following functions with respect to the Trust:

(a) Transmitting all Trust contributions made by or on behalf of each Participant in accordance with the instructions of each Participant to the Trustee at such times and in such manner as is mutually agreed between the Employer and the Trustee.

(b) Providing to the Trustee, on a timely basis, a copy of the Plan document including all amendments and restatements.

(c) Determining that the contributions made by or on the behalf of each Participant are in accordance with any applicable Federal

(d) Asses that the Plan maintains qualified status under applicable provisions of the Code.

(e) If applicable, asses that the Plan complies with section 404(c) of ERISA and any regulations issued thereunder.

5.2 BONDING.

The Employer agrees to obtain and maintain a fiduciary bond and to include as those coveted by such bond the Employees of the Employer, the Plan Administrator and the Trustee, including any of the Trustee's employees, officers and agents required by law to be so covered. The cost of any such bond shall be paid by the Employer.

5.3 INFORMATION AND DATA TO BE FURNISHED TO THE TRUSTEE,

The Employer shall furnish the Trustee with such information and data relevant to the Plan as is necessary for the Trustee to properly perform its duties assumed hereunder, including but not limited to, a copy of the Plan's qualification letter from the Internal Revenue Service.

5.4 LIMITATION OF DUTIES.

Neither the Trustee nor any of its officers, directors, partners or agents shall have any duties or obligations with respect to this Trust Agreement, except those expressly set forth herein, in the Plan and in ERISA.

ARTICLE VI - TERMINATION OF TRUST

6.1 RESIGNATION OR REMOVAL OF TRUSTEE.

The Trustee may resign at any time upon thirty days' prior written notice to the Employer and may be removed by the Employer at any time upon thirty days' prior written notice to the Trustee. Upon resignation or removal of the Trustee, the Employer shall appoint a successor trustee. Upon receipt by the Trustee of written acceptance of such appointment by the successor trustee, the Trustee shall transfer and pay over to the successor the assets of the Trust and all records (or copies) pertaining thereto. The

Trustee is authorized, however, to reserve such sum of money or property as it may deem or for payment of any liabilities constituting a charge on or against the assets of the Trust or on or against the Trustee, with any balance of such reserve remaining after payment of all such items to be paid over to the successor trustee. Upon the assignment, transfer and payment over of the assets of the Trust, and obtaining a receipt thereof from the successor trustee, the Trustee shall be released and discharged from any and all claims, demands, duties and obligations arising out of the Trust and its management thereof, excepting claims based only upon the Trustee's willful misconduct or gross negligence. The successor trustee shall hold the assets paid over to it under the terms similar to those of this Trust Agreement under a trust that will qualify under section 401(a) of the Code. If on the date upon which the Trustee's resignation or removal is effective, the Employer has not appointed a successor trustee which has accepted such appointment, the Trustee shall, unless it elects to terminate the Trust pursuant to Section 6.3 hereof, appoint such successor itself.

6.2 TERMINATION OF THE TRUST.

Subject to the right of the Trustee to terminate the Trust in accordance with Section 6.3 hereof, this Trust shall continue as to the Employer so long as the Plan is in full force and effect. If the Plan ceases to be in full force and effect, this Trust shall thereupon terminate unless expressly extended by the Employer.

6.3 TERMINATION OF THE TRUST BY THE TRUSTEE.

The Trustee may elect to terminate the Trust if on the date upon which the Trustee's resignation or removal is effective, the Employer has not appointed a successor trustee which has accepted such appointment. Termination of the Trust shall be effected by distribution of all assets thereof to the Participants or other persons entitled thereto pursuant to the directions of the Employer (or, in the absence of such direction, as determined by the Trustee), subject to the Trustee's fight to reserve funds as provided in Section 6.1 hereof. Upon the completion of such distribution, the Trustee shall be relieved from all further liability with respect to all amounts so paid, other than any liability arising out of the Trustee's willful misconduct or gross negligence.

ARTICLE VII - MISCELLANEOUS

7.1 PURPOSE.

This Trust has been established for the exclusive benefit of the Plan's Participants. Except as provided herein, it shall be impossible at any time prior to the satisfaction of all liabilities to the Participants for any part of the principal or income of the Trust, other than such part as is required to pay taxes, administrative expenses or refund contributions as provided herein, to be paid or diverted to the Employer or to be used for any purpose whatsoever other than for the exclusive benefit of the Participants.

7.2 INDEMNIFICATION.

The Employer shall indemnify and hold harmless the Trustee (including its affiliates, employees, representatives and agents from and against any liability, cost or other expense, including, but not limited to, the payment of attorneys' fees which the Trustee may incur in connection with the Trust or the Plan unless such liability, cost or expense arises from the Trustee's own willful misconduct or gross negligence. The Trustee shall not be obligated or expected to commence or defend any legal action or proceeding in connection with the Trust unless agreed upon in writing by the Trustee and Employer and unless the Trustee is fully indemnified for doing so to its satisfaction.

7.3 CONSTRUCTION.

Whenever used in this Trust Agreement, unless the context indicates otherwise, the singular shah include the plural, the plural shall include the singular, and the male sender shall include the female sender.

7.4 HEADINGS.

Headings in this Trust Agreement are inserted solely for convenience of reference and shall neither constitute a part of this Trust Agreement, nor affect its meaning, construction or intent.

7.5 SEVERABILITY.

If any provision of this Trust Agreement is held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision, and this Trust Agreement shall be construed and enforced as if such provision had not been included.

7.6 RETURN OF CONTRIBUTIONS.

Contributions are conditioned on initial qualification of the Plan under section 401(a) of the Code, and if the Plan and Trust do not

qualify, the Trustee may return such contributions to the Employer upon the Employer's written direction. The Trustee may also return amounts to the Employer upon the Employer's written direction due to a "mistake of fact" as described in section 403(c) of ERISA. Contributions made by the Employer by "mistake of fact" may revert and be paid to the Employer within one year after the payment of such mistaken contributions. In making such a return of assets to the Employer, the Trustee may accept the Employer's written direction as its warranty that such payment is provided for in the Plan and complies with such plan provision and section 403(c) of ERISA, and the Trustee need make no further investigation.

7.7 VOTING.

The Employer shall direct the Trustee how to vote any Trust assets for which the Trust has voting rights. The Employer may not appoint the Trustee as its designee for purposes of this Section unless the Trustee agrees to such a designation in writing.

7.8 NONALIENATION OF BENEFITS.

No rights or claims to any of the monies or other assets of the Trust shall be assignable, nor shall such rights or claims be subject to garnishment, attachment, execution or levy of any kind; and any attempt to transfer, assign or pledge the same, except as specifically permitted by law, shall not be recognized by the Trustee.

7.9 AMENDMENTS

The Employer and the Trustee may amend this Agreement at any time by a written agreement between them; provided, however, that no such amendment shall make it possible for any part of the corpus or income of the Trust to be used or diverted to purposes other than the exclusive benefit of Participants and defraying reasonable expenses of administering the Plan and Trust.

7.10 INSPECTION OF PLAN RECORDS BY EMPLOYER.

The Trustee agrees to permit the Employer to inspect the records of the Trust maintained by the Trustee during regular business hours and to permit the Employer to audit the same upon the giving of reasonable notice to the Trustee. The Trustee further agrees that it will provide the Employer with information and records that the Employer may reasonably require in order to perform audits of said records.

7.11 LAW GOVERNING.

This Agreement shall be administered, construed and enforced according to the laws of the state of the principal place of business of the Trustee and applicable Federal law.

7.12 MERGER, CONSOLIDATION OR TRANSFER.

In the event of the merger, consolidation or transfer of any portion of the Trust to a trust fund held under any other plan, the Trustee shall

dispose of all or part, as the case may be, of the Trust, in accordance with the written directions of the Employer, subject to the right of the Trustee to reserve funds as provided in Section 6.1 hereof.

7.13 TRUSTEE AS SUCCESSOR TRUSTEE.

If the Trustee is acting as a successor trustee with respect to the Trust, the Employer shall indemnify the Trustee against all liabilities with respect to the Trust arising prior to the appointment of the Trustee and its acceptance thereof.

7.14 SUCCESSORS AND ASSIGNS.

This Agreement shall be binding upon the successor and assigns of the parties hereto.

7.15 NOTICES.

Any notice from the Trustee to the Employer or from the Employer to the Trustee provided for in the Plan or in this Trust Agreement shall be effective if sent by first class mail to their respective last addresses of record.

7.16 EFFECTIVE DATE.

The effective date of this Trust shall be the date on which the Trustee has executed the Adoption Agreement unless specified otherwise in that agreement.

<TABLE>
<S> <C> <C> <C> <C>

INTERNAL REVENUE SERVICE

Department of the Treasury

PLAN DESCRIPTION: PROTOTYPE STANDARDIZED PROFIT SHARING PLAN WITH CODA

FFN: 50236500007 - 001 CASE: 9307665 EIN: 52-1309931

Washington, DC 20224

BPD: 07 PLAN: 001 LETTER SERIAL NO.: D261637a

Person to Contact: Mr. Dua

Telephone Number: (202) 622-8380

T. Rowe Price Trust Co.

100 East Pratt Street

Refer Reply to: CP:E:EP:Q:3

Baltimore MD 21202

Date: 12/20/93

</TABLE>

Dear Applicant:

In our opinion, the form of the plan identified above is acceptable under section 401 to the Internal Revenue Code for use by employers for the benefit of their employees. This opinion relates only to the acceptability of the form of the plan under the Internal Revenue Code. It is not an opinion of the effect of other Federal or local statutes.

You must furnish a copy of this letter to each employer who adopts this plan. You are also required to send a copy of the approved form of the plan, any approved amendments and related documents to each Key District Director of Internal Revenue Service in whose jurisdiction

there are adopting employers.

Our opinion on the acceptability of the form of the plan is not a ruling or determination as to whether an employer's plan qualifies under Code section 401(a). An employer who adopts this plan will be considered to have a plan qualified under Code section 401(a) provided all the terms of the plan are followed, and the eligibility requirements and the contribution or benefit provisions are not more favorable for highly compensated employees than for other employees. Except as stated below, the Key District Director will not issue a determination letter with regard to this plan.

Our opinion does not apply to the form of the plan for purposes of Code section 401(a)(16) if: (1) an employer ever maintained another qualified plan for one or more employees who are covered by this plan, other than a specified paired plan within the meaning of section 7 of the Rev. Proc. 89-9,1989-1 C.B. 780; or (2) after December 31, 1985, the employer maintains a welfare benefit fund defined in Code section 419(e), which provides postretirement medical benefits allocated to separate accounts for key employees as cleaned in Code section 419A(d)(3).

An employer that has adopted a standardized plan may not rely on this opinion letter with respect to: (1) whether any amendment or series of amendments to the plan satisfies the nondiscrimination requirements of section 1.401(a)(4)-5(a) of the regulations, except with respect to plan amendments granting past service that meet the safe harbor described in section 1.401(a)(4)-5(a)(5) and are not part of a pattern of amendments that significantly discriminates in favor of highly compensated employees; or (2) whether the plan satisfies the effective availability requirement of section 1.401(a)(4)-4(c) of the regulations with respect to any benefit, right or feature.

An employer that has adopted a standardized plan as an amendment to a plan other than a standardized plan may not rely on this opinion letter with respect to whether a benefit, right or other feature that is prospectively eliminated satisfies the current availability requirements of section 1.401(a)-4 of the regulations.

The employer may request a determination (1) as to whether the plan, considered with all related qualified plans and, if appropriate, welfare benefit funds, satisfies the requirements of Code section 401(a)(16) as to limitations on benefits and contributions in Code section 415; (2) regarding the nondiscriminatory effect of grants of past service; and (3) with respect to whether a prospectively eliminated benefit, right or feature satisfies the current availability requirements.

Our opinion does not apply to the form of the plan for the purposes of section 401(a) of the Code unless the terms of the plan, as adopted or amended, that pertain to the requirements of sections 401(a)(4), 401(a)(5), 401(a)(17), 401(i), 410(b) and 414(s) of the Code, as amended by the Tax Reform Act of 1986 or subsequent legislation, (a) are made effective retroactively to the first day of the first plan year beginning after December 31, 1988 (or such other date on which these requirements first became effective with respect to this plan); or (b) are made effective no later than the first day on which the employer is no longer entitled, under regulations, to rely on a reasonable, good faith interpretation of these requirements, and the prior provisions of the plan constitute such an interpretation.

Because you submitted this plan for approval after March 31, 1991, the continued, interim and extended reliance provisions of sections 13 and 17.03 of Rev. Proc. 89-9, 1989-1 C.B. 780, are not applicable.

If you, the sponsoring organization, have any questions concerning the IRS processing of this case, please call the above telephone number. This number is

only for use of the sponsoring organization. Individual participants and/or adopting employers with questions concerning the plan should contact the sponsoring organization. The plan's adoption agreement must include the sponsoring organization's address and telephone number for inquiries by adopting employers.

If you write to the IRS regarding this plan, please provide your telephone number and the most convenient time for us to call in case we need more information. Whether you call or write, please refer to the Letter Serial Number and File Folder Number shown in the heading of this letter.

You should keep this letter as a permanent record. Please notify us if you modify or discontinue sponsorship of this plan.

Sincerely yours,

/s/ John Swim
Chief, Employee Plans and Qualifications Branch

==========

EXHIBIT 10.6

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement"), made as of the 15th day of November, 1996, is entered into by Exchange Applications, Inc., a Delaware corporation with its principal place of business at 695 Atlantic Avenue, Boston, MA 02111 (the "Company"), and Andrew J. Frawley, an individual residing at 50 York Road, Wayland, MA 01778 (the "Employee").

The Company desires to employ the Employee, and the Employee desires to be employed by the Company. In consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties agree as follows:

1. "AT WILL" EMPLOYMENT. The Company hereby agrees to employ the Employee, and the Employee hereby accepts employment with the Company, on an "at will" basis and upon the other terms set forth in this Agreement. The period of time during which the Employee is employed by the Company hereunder is hereafter referred to as the "Employment Period".

2. CAPACITY. The Employee shall serve as an executive of the Company, subject to the general direction and control of the Company's Board of Directors (the "Board") or its designee.

The Employee hereby accepts such employment and agrees to undertake faithfully, diligently and to the best of his ability such executive duties and responsibilities as the Board or its designee shall from time to time assign to him. The Employee agrees to devote his entire business time, attention and energies to the business and interests of the Company during the Employment Period. The Employee agrees to abide by the rules, regulations, instructions, personnel practices and policies of the Company and any changes therein which may be adopted from time to time by the Company.

3. COMPENSATION AND BENEFITS.

3.1 SALARY. The Company shall pay the Employee, in bi-weekly installments, an annual base salary of $200,000 during the Employment Period.

3.2 BONUSES. The Employee shall be entitled to a bonus in respect of each calendar year during the Employment Period, commencing with 1996. The maximum amount of such annual bonus shall be $100,000, commencing with 1996. The actual amount of the bonus in respect of any calendar year will be equal to X($50,000) + Y($50,000) where X represents the percentage associated

with the

grade assigned to the Employee for his corporate citizenship performance for the year by the Board, and where Y represents the percentage associated with the profitability of the Company for the year. The Employee's corporate citizenship performance will be benchmarked against an assessment model under which the Employee will be given a grade of H, M or L corresponding to 100%, 65% and 35%, respectively. The profitability of the Company will be benchmarked against the Company's financial plan for the year as approved by the Board. If the Company's profit for the year equals or exceeds 100% of the-profit goal set forth in the plan (the "Profit Goal"), Y equals 100%; if the Company's profit for the year equals or exceeds 85% of the Profit Goal but is less than 100% of the Profit Goal, Y equals 65%; and if the Company's profit for the year is less than 85% of the Profit Goal, Y equals 35%. The Company will provide the Employee with a written six-month performance evaluation by July 15 of each year during the Employment Period. A bonus due with respect to a given calendar year will be paid by February 15 of the following year.

3.3 REIMBURSEMENT OF EXPENSES. The Company shall reimburse the Employee for all reasonable travel, entertainment and other expenses incurred or paid by the Employee in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Employee of documentation, expense statements, vouchers and/or such other supporting information as the Company may request, provided that the amount available for such travel, entertainment and other expenses may be fixed in advance by the Board.

3.4 EQUITY. As additional consideration for his provision of services hereunder, the Company will grant the Employee 848,800 shares of the Company's common stock, $.001 par value per share, pursuant to a Restricted Stock Agreement of even date herewith.

4. EMPLOYMENT TERMINATION. The Company shall have the right to terminate the Employee's employment hereunder at any time with or without cause, subject to the requirements of applicable law. Upon termination of this Agreement and the Employee's employment by the Company, the Employee shall not be entitled to any severance benefits other than as may be required by applicable law.

5. NONDISCLOSURE AND DEVELOPMENTS AGREEMENT; MUTUAL RELEASE. Concurrently with the execution and delivery of this Agreement, the Employee agrees to execute and deliver to the Company a Nondisclosure and Developments Agreement in the form attached as EXHIBIT 1 hereto (the "Nondisclosure Agreement") and the Mutual Release in the form of EXHIBIT 2 hereto (the "Release"). The provisions of the Nondisclosure Agreement, the Release and Section 6 of this Agreement shall survive the termination of this Agreement.

3

6. NON-COMPETITION COVENANTS.

6.1 NON-COMPETITION COVENANTS. The Employee agrees that he will not, during the Non-Competition Period, compete directly or indirectly with the business of the Company. The phrase "compete directly or indirectly with the business of the Company" shall be deemed to include, without limiting the generality thereof, (1) engaging or having a material interest, directly or indirectly, as owner, employee, officer, director, partner, sales representative, stockholder, capital investor, lessor, renderer of consultation services or advice, either alone or in association with others, in the operation of any aspect of a business or enterprise which is competitive with the business in which the Company was engaged during the course of the Employee's employment by the Company; (2) soliciting any employee of the Company to leave the employ of the Company; (3) soliciting any of the employees of the Company to become employees of any other person or entity; or (4) soliciting any customer of the Company with respect to the business of the Company. The phrase "compete directly or indirectly with the business of the Company", as used in this Agreement, shall be deemed not to include any ownership interest as an inactive investor. The phrase "ownership interest as an inactive investor" for purposes of this Agreement shall mean the beneficial ownership of less than two (2%) percent of the outstanding shares of any series or class of securities of any competitor of the business of the Company, which securities of such series or class are publicly traded in the securities markets.

6.2 NON-COMPETITION PERIOD. For the purposes of this Section 6, "Non-Competition Period" shall mean (i) the period during which the Employee is employed by the Company, and (ii) if the Non-Competition option (referred to in Section 6.3 below) is exercised by the Company, the Post-Employment Non-Competition Period.

6.3 NON-COMPETITION OPTION. Upon the termination of the Employee's employment with the Company, for whatever reason, the Company shall have the option (the "Non-Competition Option") to extend the non-competition covenants set forth in subsection 6.1 above for up to two (2) years following the date of such termination (the "Termination Date"). To exercise the Non-Competition Option, the Company shall be required to give written notice to the Employee of its intent to do so within thirty (30) days after the Termination Date, such notice to specify the period following the Termination Date during which the Employee shall continue to be bound by the non-competition covenants set forth in subsection 6.1 above (the "Post-Employment Non-Competition Period"). If the Company exercises the Non-Competition Option, the Employee will continue to be bound by the provisions of subsection 6.1 for the Post-Employment Non-Competition Period, provided that the Company pays the Employee on or before the fifteenth day of each month during such period an amount equal to 75% of the Employee's monthly base salary from the Company at

the time of his employment termination.

4

7. INJUNCTIVE AND OTHER EQUITABLE RELIEF.

7.1 The Employee acknowledges that the services to be rendered by him under the terms of this Agreement are of a special, unique and extraordinary character, which gives them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in any action at law. By reason of this, the Employee consents and agrees that if he violates any of the provisions of Section 6 hereof, the Company shall be entitled, in addition to any other remedies it may have at law, to the remedies of injunction, specific performance and other equitable relief for a breach by the Employee of Section 6 of this Agreement. This Section 7 shall not, however, be construed as a waiver of any of the rights which the Company may have for damages or otherwise.

7.2 Any waiver by the Company of a breach of any provision of Section 6 hereof shall not operate or be construed as a waiver of any subsequent breach of such provision or any other provision hereof.

7.3 The Employee agrees that each provision of Section 6 shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions contained in Section 6 shall for any reason be held to be excessively broad as to scope, activity or subject so as to be unenforceable at law, such provision or provisions shall be construed by the appropriate judicial body by limiting and reducing it or them so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear.

8. OTHER AGREEMENTS. Employee hereby represents and warrants that he is not bound by the terms of any agreement with any previous employer or other party to refrain from using or disclosing any trade secret or confidential or proprietary information in the course of his employment with the Company or to refrain from competing, directly or indirectly, with the business of such previous employer or any other party. Employee further represents and warrants that his performance of all the terms of this Agreement and the Nondisclosure Agreement does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by him in confidence or in trust prior to his employment with the Company.

9. NOTICES. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown above, or at

such other address or addresses as either party shall designate to the other in accordance with this Section 9.

10. PRONOUNS. Whenever the context may require, any pronouns used in

this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

11. INTEGRATION. This Agreement, the Restricted Stock Agreement referred to in Section 3.4, the Stockholders' Agreement of even date herewith among the Company, the Employee and certain other stockholders of the Company, the Nondisclosure Agreement and the Release constitute the entire agreement between the Employee, on the one hand, and the Company, Alan Grant, Cyrk, Inc., the officers and directors of Cyrk, Inc., Grant & Partners Limited Partnership and Grant & Partners, Inc., on the other, and supersedes all prior agreements and understandings, whether written or oral, between such parties.

12. AMENDMENT. This Agreement may be amended or modified only by a written instrument executed by both the Company and the Employee.

13. GOVERNING LAW. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the Commonwealth of Massachusetts.

14. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any corporation with which or into which the Company may be merged or which may succeed to its assets or business, provided, however, that the obligations of the Employee are personal and shall not be assigned by him.

15. MISCELLANEOUS.

15.1 No delay or omission by the Company in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

15.2 The captions of the sections of this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

15.3 In case any provision of this Agreement shall be invalid, illegal or otherwise unenforceable, the validity, legality and enforceability of

the remaining provisions shall in no way be affected or impaired thereby.

6

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year set forth above.

EXCHANGE APPLICATIONS, INC.

By: /s/ Michael J. Feldman

Michael J. Feldman
Title: Vice President

EMPLOYEE

/s/ Andrew J. Frawley

Andrew J. Frawley

1

EXHIBIT 10.7

EXCHANGE APPLICATIONS, INC.

FOUNDER RESTRICTED STOCK AGREEMENT

RESTRICTED STOCK AGREEMENT (this "Agreement"), dated as of November 8th, 1996, by and between EXCHANGE APPLICATIONS, INC., a Delaware corporation (the "Company"), and Andrew J. Frawley (the "Employee").

W I T N E S S E T H:

WHEREAS, the company and Grant & Partners Limited Partnership have entered into an Assignment and Assumption Agreement of even date herewith (the "Assignment Agreement");

WHEREAS, in connection with the consummation of the assignment and assumption provided in the Assignment Agreement, the Company has agreed to issue shares of its Common Stock to the Employee upon the terms and subject to the conditions hereof; and

WHEREAS, the Board of Directors of the Company has authorized the purchase of Common Stock by the Employee subject to the terms of this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Employee hereby agree as follows:

1. PURCHASE OF STOCK. The Employee hereby agrees to purchase from the Company and the Company hereby agrees to sell to the Employee, on the date hereof 848,800 shares of its Common Stock, $.001 par value per share (the "Stock"), for a purchase price of $.001 per share of Stock (the "Issue Price").

2. PURCHASE OPTION. All Stock purchased by the Employee pursuant to the terms of this Agreement shall be subject to the option of the Company with respect to the purchase thereof (the "Purchase Option") under circumstances set forth in this Section 2.

(a) If the employment of the Employee by the Company is terminated (i) voluntarily by the Employee or (ii) by the Company for "cause" at any time prior to the dates set forth below, the Company shall have the right, within 60 days after the date of any such termination, to

2

exercise the Purchase Option as to the maximum portion of the Stock determined according to the following table:

<TABLE>
<CAPTION>

If Termination of Employment Occurs	Portion of the Stock Subject to the Purchase Option:
<S>	<C>
Prior to 12/31/96:	50%
From (and including) 12/31/96 to (but excluding) 12/31/97:	33.33%
From (and including) 12/31/97 to (but excluding) 12/31/98:	16.67%
On and after 12/31/98:	None

</TABLE>

(b) The Purchase Option shall be exercisable by the Company at a price per share of Stock equal to the lesser of the Issue Price or the fair market value of the Stock as determined by the Board of Directors in accordance with the Plan. The Company may assign any or all of its rights to exercise a Purchase Option under this Section 2. If the Company (or its assignee) shall fail to exercise the Purchase Option with respect to any part or all of the Stock subject thereto, such Stock may thereafter be held and transferred by the Employee (or other holder thereof), subject, however, to any transfer or purchase restrictions applicable thereto pursuant to the Company's charter or by-laws or any other agreement relating to the Stock or applicable law. Stock not subject to the Purchase Option is herein referred to as "Vested Stock."

(c) Notwithstanding anything to the contrary in this Agreement, in the event of a "Change of Control", all Stock held by the Employee issued under this Agreement, and securities issued in respect thereof, shall be deemed Vested Stock and the Purchase Option shall immediately terminate and be of no further force and effect. A "Change of Control" shall mean (i) the direct or indirect acquisition by any person of 50% or more of the aggregate voting power of the Company, (ii) the sale of all or substantially all of the assets of the Company (other than a merger or consolidation of the Company with, or the sale of all or substantially all of the assets of the Company to, any entity if 50% or more of the aggregate voting power of such entity is held immediately after such transaction by persons who were stockholders of the Company immediately prior to such transaction).

(d) For purposes hereof, "cause" shall mean the Employee's (i) failure to devote his full time and efforts to the business of the Company, (ii) commission of any act of embezzlement, fraud, larceny or theft or other willful misconduct injurious to the Company or (iii) breach of his

obligations under the Employment Agreement of even date herewith to which he is a party with the Company.

3. RESTRICTIONS ON TRANSFER. The Employee shall not sell, transfer, pledge, hypothecate or otherwise dispose of or encumber (other than to the Company pursuant to Section 2 above) any of the Stock that is not Vested Stock. Notwithstanding the foregoing, the Employee may transfer all or any of the Stock to any member of his immediate family (as defined below) or to any trust for the benefit of such family member or the Employee, PROVIDED that such transferee shall agree with the Company in writing, as a condition to such transfer, to be bound by all of the provisions of this Agreement, and PROVIDED, FURTHER, that the Employee's employment (rather than an employment of such transferee) shall continue to govern for purposes of Section 2. The term "immediate family" shall mean any parent, spouse, lineal descendant, brother or sister of the Employee.

4. MANNER OF EXERCISE. The Purchase Option shall be exercised by written notice signed by an officer of the Company and delivered or mailed to the Employee (or to his personal representative if the Employee is deceased) as provided in Section 12(a) below. The price for the Stock upon exercise of the Purchase Option shall be payable, at the option of the Company, by cancellation of all or a portion of any outstanding indebtedness of the Employee to the Company or in cash (by check), or both.

5. APPLICATION TO OTHER PROPERTY. If from time to time during the term of this Agreement, there is any stock dividend or liquidating dividend of cash and/or property, stock split or other change in the character or amount of any of the outstanding securities of the Company, or if there is any consolidation, merger or sale of all, or substantially all, of the assets of the Company, then, in any such event, any and all new, substituted or additional securities or other property to which the Employee is entitled by reason of his ownership of any Stock which then remains subject to the Purchase Option in Section 2 above shall be immediately subject to the Purchase Option and shall be included in the word "Stock" for all purposes of the Purchase Option with the same force and effect as the Stock which then remains subject to the Purchase Option in Section 2 above. While the total Issue Price for such Stock shall remain the same after each such event, the Issue Price per unit of Stock (or substituted or additional property) upon exercise of the Purchase Option shall be appropriately adjusted.

6. INVESTMENT REPRESENTATIONS; TRANSFER LEGENDS.

(a) In connection with his purchase of the Stock, the Employee hereby represents and warrants to the Company as follows:

(i) The Employee is purchasing the Stock solely for his own account for investment and not with a view to or for sale in connection with any distribution of the Stock or any portion thereof and not with any present intention of selling, offering to sell or otherwise disposing of or distributing the Stock or any portion thereof in any transaction other than a transaction exempt from registration under the Act. The Employee also represents that the entire legal and beneficial interest of the Stock is being purchased, and will be held, for the Employee's account only, and neither in whole or in part for any other person. The Employee either has a pre-existing business or personal relationship with the Company or its officers, directors or controlling persons or by reason of the Employee's business or financial experience or the business or financial experience of the Employee's professional advisors who are unaffiliated with and who are not compensated by the Company or any affiliate or selling agent of the Company, directly or indirectly, could be reasonably assumed to have the capacity to evaluate the merits and risks of an investment in the Company and to protect the Employee's own interests in connection with this transaction.

(ii) The Employee has heretofore discussed the Company and its plans, operations and financial condition with the Company's officers and has heretofore received all such information as the Employee has deemed necessary and appropriate to enable the Employee to evaluate the financial risk inherent in making an investment in the Stock, and the Employee has received satisfactory and complete information concerning the business and financial condition of the Company in response to all inquiries in respect thereof.

(iii) The Employee realizes that the purchase of the Stock will be a highly speculative investment and involves a high degree of risk, and the Employee is able to hold the Stock for an indefinite period of time and suffer a complete loss on his investment.

(iv) The Employee understands and acknowledges that:

(I) the sale of the Stock has not been registered under the Securities Act of 1933 (the "Act"), and the Stock must be held indefinitely unless subsequently registered under said Act or an

exemption from such registration is available and the Company is under no obligation to register the Stock;

(II) the share certificate(s) representing the Stock will be stamped with the legends specified in this Section; and

(III) the Company will make a notation in its records of the aforementioned restrictions on transfer and legends.

(IV) The Employee understands that the Stock constitutes restricted securities within the meaning of Rule 144 promulgated under the Act; that the exemption from registration under Rule 144 will not be available in any event for at least two years from the date of purchase and payment for the Stock, and even then will not be available unless (I) a public trading market then exists for the Common Stock, (II) adequate information concerning the Company is then available to the public, and (III) other terms and conditions of Rule 144 are complied with; and that any sale of the Stock may be made only in limited amounts in accordance with such terms and conditions.

(v) Without in any way limiting his representations set forth above, the Employee further agrees that he shall in no event make any disposition of all or any portion of the Stock unless and until:

(A)(1) there is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with said registration statement; or, (2)(a) the Employee shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, (b) the Employee shall have furnished the Company with an opinion of the Employee's counsel to the effect that such disposition will not require registration of the Stock under the Act, and (c) such opinion of the Employee's counsel shall have been concurred in by counsel for the Company and the Company shall have advised the Employee of such concurrence; and,

(B) The Stock proposed to be transferred is no longer subject to the purchase options set forth herein.

(b) All certificates representing any Stock subject to the provisions of this Agreement shall have endorsed thereon the following legends:

(i) "This security may not be sold, assigned, or otherwise transferred or disposed of except in compliance with the conditions specified in the Founder Restricted Stock Agreement, dated as of November 15, 1996, between the Corporation and the holder of this security, as amended from time to time, a copy of which will be furnished by the Corporation without charge upon written request."

(ii) "The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, or any state securities laws and neither the securities nor any interest therein may

be offered, sold, transferred, pledged or otherwise disposed of except pursuant to an effective registration statement under such Act or such laws or an exemption from registration under said Act or such laws, which in the opinion of counsel are reasonably satisfactory to counsel for this corporation, is available."

(iii) Any legend required to be placed thereon by appropriate Blue Sky officials.

7. DEPOSIT OF SHARES. As security for the Employee's faithful performance of the terms of this Agreement and to ensure that the Stock will be available for delivery upon exercise of the Purchase Option as herein provided, the Employee agrees to deliver to and deposit with the Secretary of the Company ("Escrow Agent"), as Escrow Agent in this transaction, one stock assignment duly endorsed (with date and number of shares blank) together with the certificate or certificates evidencing the Stock. Such documents are to be held by the Escrow Agent during the term of this Agreement and shall be delivered by the Escrow Agent to the Company on the written notice by the Company to the Escrow Agent that the Company has exercised the Purchase Option, or in the event this Agreement terminates without the exercise by the Company of the Purchase Option as to all of the Stock, the Company shall instruct the Escrow Agent to deliver to the Employee the portion of such Stock as to which the Purchase Option was not exercised.

8. TRANSFERS NOT RECOGNIZED. The Company shall not be required (i) to transfer on its books any shares of Stock which shall have been transferred in violation of any of the provisions of this Agreement, or (ii) to treat as owner of such Stock or to accord the right to vote as such owner or to pay dividends to any transferee to whom such Stock shall have been transferred.

9. RIGHTS AS STOCKHOLDER. Subject to the provisions of Section 7 above, the Employee shall, during the term of this Agreement, exercise all

rights and privileges of a stockholder of the Company with respect to the Stock, including without limitation the right to vote and the right to receive any dividends payable with respect thereto.

10. TAXES. The Employee acknowledges that an amount equal to the fair market value of the Stock in excess of the Issue Price shall constitute income received by the Employee for income tax purposes, and that provision must be made for income taxes to be withheld by the Company with respect to Stock, whenever and to the extent that the Company's Purchase Option expires pursuant to Section 3 of this Agreement, or upon the execution of this Agreement if the Employee makes an election pursuant to Section 83(b) of the Internal Revenue Code. The Employee agrees that he will make appropriate provisions for the

collection and payment of such withholding taxes, in whatever manner is reasonably determined by the Company, including without limitation payment by the Employee to the Company of cash in the amount of required withholding taxes or withholding from other compensation due the Employee.

11. MISCELLANEOUS. (a) Any notice hereunder shall be in writing personally delivered by courier or mailed by registered or certified mail, postage prepaid, and addressed to the Employee at the address appearing in the records of the Company or to the Company at its principal executive offices, or at such other address as may be specified by the Employee or the Company to the other party by notice given in the manner herein provided. A notice shall be deemed to have been given and received upon the earlier of (i) three business days after the date on which it is deposited in the U.S. mails or (ii) receipt by the party to whom such notice is directed.

(b) No waiver by a party hereto of a breach of any provision of this Agreement shall be deemed to be a waiver of any preceding or subsequent breach of the same or any other provision thereof.

(c) The Employee acknowledges that the remedy at law for any breach of this Agreement will be inadequate, and agrees that the Company shall, in addition to whatever other remedies it may have, be entitled to injunctive relief.

(d) This Agreement shall be governed by the laws of The Commonwealth of Massachusetts (without giving effect to principles of conflicts or choice of laws of Massachusetts or of any other jurisdiction). Subject to the terms of the Plan, this Agreement sets forth the entire

agreement between the parties concerning the subject matter hereof and supersedes any prior agreements and understandings relating to the subject matter hereof. No amendment or modification hereof will be effective unless it is in writing and signed by the parties.

(e) This Agreement shall bind and benefit the parties hereto and their respective successors and legal representatives and permitted assigns.

(f) If any provision of this Agreement is unenforceable or illegal, the remainder of this Agreement shall remain in full force and effect. If any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, geographical scope, activity or subject, such provision shall be construed by limiting and reducing it so as to be enforceable to the extent compatible with applicable law.

IN WITNESS WHEREOF, the parties have executed this Agreement under seal

on the date first above written.

EXCHANGE APPLICATIONS, INC.

By: /s/ Michael J. Feldman

Title: Vice President

/S/ Andrew J. Frawley

Name of Employee

EXHIBIT 10.8

CONSULTING AGREEMENT

CONSULTING AGREEMENT dated as of March 18, 1997 between Exchange Applications, Inc., a Delaware corporation (the "COMPANY"), and Exchange Marketing Group, LLC, a Massachusetts limited liability company ("EMG").

RECITALS

The Company has engaged in the business of, among other things, providing database marketing strategy and marketing program implementation consulting services to third parties. The Company is discontinuing such business. The members and employees of EMG were formerly employees of the Company that provided such consulting services to third parties on behalf of the Company. The Company wishes to hereby engage EMG to continue to provide such consulting services to the Company's existing clients in order to complete the consulting assignments that the Company has heretofore been engaged by such persons to provide. EMG is willing to provide such services to such of the Company's existing clients on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, the parties agree as follows:

1. PROVISION OF CONSULTING SERVICES; COMPENSATION.

(a) The Company hereby engages EMG to provide to the persons listed on SCHEDULE 1 hereto (such persons being collectively referred to as the "EXISTING CLIENTS") on the Company's behalf, and EMG hereby agrees to provide to the Existing Clients on the Company's behalf, the database marketing strategy and marketing program implementation consulting services (database marketing strategy and marketing program implementation consulting services being referred to herein as "CONSULTING SERVICES") of the type and scope as the Company has heretofore been engaged by such persons to provide. The Company shall concurrently herewith transfer and deliver to EMG all of the Company's records, files, data and other information and materials with respect to the Existing Clients that is necessary in connection with EMG's providing Consulting Services to the Existing Clients as contemplated hereby.

(b) In consideration for providing Consulting Services hereunder, the Company shall pay to EMG the following amounts:

(i) The sum of $71,400 concurrently herewith, such sum to be delivered to EMG by the Company on the date hereof in immediately available funds;

(ii) The sum of $10,000, such sum or portions thereof to be delivered to EMG by the Company in immediately available funds at such times and in such portions as the Company shall receive payment of amounts due from Invesco Funds, Inc. on account of Consulting Services heretofore provided by the Company to Invesco Funds, Inc.;

(iii) An amount equal to the payments received from each of the Existing Clients listed on SCHEDULE 1 up to the amount set forth next to each such Existing Client's name on SCHEDULE 1, plus in each case (i) additional fees arising from the extension of any of the projects referenced on SCHEDULE 1 and (ii) an additional amount equal to the out-of-pocket expenses that EMG incurs in providing Consulting Services hereunder to such Existing Clients on behalf of the Company, all such amounts or portions thereof to be delivered to EMG by the Company in immediately available funds at such times and in such portions as the Company shall receive such payments.

(c) The Company shall from time to time hereafter promptly upon EMG's request prepare and send to each of the Existing Clients an invoice in such form as EMG shall request billing the Existing Clients for the Consulting Services provided by EMG in accordance with this Agreement up to the amounts set forth on SCHEDULE 1 and for the out-of-pocket expenses incurred by EMG in providing such Consulting Services.

(d) The Company shall use its reasonably diligent efforts consistent with past practices to collect the amounts described in Section 1(a)(iii) from the Existing Clients and (ii) the $10,000 due to the Company from Invesco Funds, Inc. as described in Section 1(a)(ii). If the Company is for any reason unable to collect any such amounts within 90 days of the date of the invoice therefor, EMG shall have the right, as the Company's agent, to undertake to collect such amounts in a commercially reasonable manner.

(e) EMG shall reimburse the Company for any out-of-pocket costs and expenses incurred by the Company in connection with the collection efforts required by paragraph (d). EMG acknowledges and agrees that EMG shall bear the risk of non-collection of payments from any Existing Clients or Invesco Funds, Inc., and that EMG shall not look to the Company for any reimbursement or indemnification of amounts that Invesco Funds, Inc. or any Existing Client fail to pay.

2. INDEMNIFICATION.

(a) EMG hereby agrees to indemnify and hold the Company and each of its directors, officers, agents and representatives harmless from and against any and all liabilities, demands, claims, losses, actions or causes of action, suits, amounts paid in settlement actually and reasonably incurred, assessments, damages, fines, taxes, penalties, costs and expenses, including, without

limitation, reasonable attorney's fees, incurred or suffered by the Company or any of its directors, officers, agents and representatives arising in connection with or resulting from any third party claim naming the Company or any of its directors, officers, agents or representatives as a party and relating to (i) Consulting Services heretofore or hereafter rendered to the Existing Clients by or on behalf of the Company with respect to the projects described on SCHEDULE 1 or (ii) any Consulting Services rendered to any person by EMG at any time after the date hereof.

(b) The Company hereby agrees to indemnify and hold EMG and its managers, agents and representatives harmless from and against any and all liabilities, demands, claims, losses, actions or causes of action, suits, amounts paid in settlement actually and reasonably

incurred, assessments, damages, fines, taxes, penalties, costs and expenses, including, without limitation, reasonable attorney's fees, incurred or suffered by EMG, its managers, agents and representatives, arising in connection with or resulting from any third party claim naming EMG or any of its managers, agent or representatives as a party and relating to (i) the Company's products, including, without limitation, the development, marketing, sale and installation thereof, and (ii) systems integration and other services (except for Consulting Services heretofore rendered to the Existing Clients by the Departing Persons (as hereafter defined) on behalf of the Company with respect to the projects described on SCHEDULE 1) that the Company has heretofore rendered or may hereafter render to third parties, including, without limitation, the Existing Clients.

3. NON-COMPETITION.

(a) EMG hereby covenants and agrees that it will not during the three year period ending on the third anniversary of the date of this Agreement (such period being referred to as the "NON-COMPETE PERIOD") compete directly or indirectly with the Company in the business of developing database marketing software ("SOFTWARE") or of providing systems integration services (such businesses being referred to as "COMPANY BUSINESSES") anywhere in the United States or Canada. Without limiting the generality of the foregoing, EMG shall not during the Non-Compete Period (1) engage in or have any interest, directly or indirectly, as owner, partner, member, manager, sales representative, stockholder, capital investor, lender, lessor, renderer of consultation services or advice, either alone or in association with others, in Company Businesses, (2) solicit any Company employees to leave the employ of the Company, (3) solicit any Company employees to become employees of any other person or entity, or (4) solicit any customer of the Company with respect to the Company Businesses. Notwithstanding the foregoing, EMG shall not be prohibited from

holding legally or beneficially up to two percent (2%) of the outstanding shares of any series or class of securities of any person that engages in Company Businesses, which securities of such series or class are publicly traded in the securities markets. Nothing herein shall be deemed to prohibit EMG from providing Consulting Services to third parties who are engaged in Company Businesses (such third parties being referred to as "COMPANY COMPETITORS") or from providing Consulting Services to persons in association with Company Competitors that are selling to such persons Software or providing to such persons systems integration services, provided that EMG does not violate Section 4 below. The Company acknowledges that there may be some limited amount of activity engaged in by EMG incidental to EMG providing Consulting Services that could be characterized as being part of the Company Businesses, and that such activities of such scope shall not be prohibited by this Section 3(a).

(b) The Company hereby covenants and agrees that it will not during the Non-Compete Period compete directly or indirectly with EMG in the business of providing Consulting Services anywhere in the United States or Canada. Without limiting the generality of the foregoing, the Company shall not during the Non-Compete Period (1) engage in or have any interest, directly or indirectly, as owner, partner, member, manager, sales representative, stockholder, capital investor, lender, lessor, renderer of consultation services or advice, either alone or in association with others, in the business of providing Consulting Services, (2) solicit

any member or employee of EMG to withdraw as a member of, or leave the employ of, EMG, (3) solicit any of the members or employees of EMG to become employees of any other person or entity, or (4) solicit any customer of EMG with respect to the provision of Consulting Services. Notwithstanding the foregoing, the Company shall not be prohibited by this Agreement from holding legally or beneficially up to two percent (2%) of the outstanding shares of any series or class of securities of any person that engages in the business of providing Consulting Services, which securities of such series or class are publicly traded in the securities markets. Nothing herein shall be deemed to prohibit the Company from selling Software or providing systems integration services to third parties who are engaged in the business of providing Consulting Services (such third parties being referred to as "EMG COMPETITORS") or from selling Software or providing systems integration services to persons in association with EMG Competitors that are providing Consulting Services to such persons. EMG acknowledges that there will necessarily be some limited amount of Consulting Services provided by the Company incidental to the Company Businesses, and that providing Consulting Services of such scope shall not be prohibited by the foregoing this Section 3(b).

4. NON-DISCLOSURE. EMG acknowledges that some of its employees have had access to certain confidential and proprietary information belonging to the Company relating to the Company Businesses, including inventions, products, processes, methods, techniques, projects, developments, plans, research data and computer programs, relating to the following:

- improvements and enhancements to the Value Exchange Business Model and supporting materials;

- improvements and enhancements to the Customer and Employee Value Optimization Processes and supporting materials;

- improvements and enhancements to the Segment Investment Management Workstation concept and ValEx prototype developed by the Company or Grant & Partners, Inc. ("GPI") and various supporting materials and proprietary developments of such concept and prototype developed by the Company;

- the Company's Business Model Benchmarking Survey methodology, all best practices data and supporting materials;

- reports, presentations, training programs, and software developed by the Company or improvements and enhancements to such as has been developed by GIP for its clients or prospects, or for internal or external publication; and

- the Company's financial data, personnel data, customer and supplier lists.

All such information shall be referred to herein as "PROPRIETARY INFORMATION".

5

EMG will not disclose any Proprietary Information to others or use the same for any unauthorized purpose without the written approval of the Company, unless and until such Proprietary Information has become public knowledge without fault of EMG or any of its employees. Notwithstanding the foregoing, in no event shall EMG be prohibited from using any Proprietary Information that has historically been used by the Departing Persons in engaging in any business other than Company Businesses.

5. OFFICE SERVICES.

(a) From and after the date hereof, the Company shall make available to EMG for EMG's use that portion of the Company's office space located at 695

Atlantic Avenue, Boston, Massachusetts together with all associated furnishings, computer and other equipment that is presently utilized by EMG's members and employees whom the Company formerly employed (the "DEPARTING PERSONS") and otherwise commonly designated as the "marketing area", and furnish to EMG in connection therewith office supplies, telephony, facsimile, e-mail and other telecommunications services, postage, photocopying facilities and accounting, receptionist, computer maintenance and clerical services to the same extent that the Departing Persons have heretofore been furnished such supplies, facilities and services by the Company in connection with their employment by the Company.

(b) In consideration for the Company's making available to EMG the office space, furnishings, equipment, supplies, facilities and services described in Section 4(a) (collectively, all of the foregoing is referred to as the "OFFICE SERVICES"), EMG shall pay to the Company $10,000 for each calendar month that EMG shall utilize the Office Services, such amount to be PRO RATED for any partial month during which EMG shall utilize the Office Services. EMG shall pay such amount to the Company on the last business day of each calendar month during which EMG shall utilize the Office Services, with the first such payment to be made on March 31, 1997 and on the date on which such utilization ceases.

(c) EMG agrees to utilize the Office Services through December 31, 1997; provided that the Company may terminate the Office Services by giving EMG not less than 120 days prior written notice of such termination. After December 31, 1997, EMG may cease utilizing the Office Services, or the Company may terminate the Office Services, by giving the other party not less than 120 days' prior written notice. The Company and EMG shall share equally the moving costs incurred by EMG upon EMG's ceasing to utilize the Office Services for any reason, such costs to include only the actual packing and shipping costs reasonably incurred in physically transporting EMG's tangible personal property from the Company's offices to EMG's new location.

6. EFFECTIVE DATE. To the extent not prohibited by applicable law, this Agreement shall be deemed effective for all tax, accounting and reporting purposes as of March 1, 1997.

7. LEGAL FEES. The Company shall pay up to $30,000 of the amount of all legal fees and expenses owing to Edwards & Angell in connection with this Agreement and the transactions contemplated hereby and related matters.

8. NOTICES.

(a) All notices, requests, consents and other communications

hereunder shall be in writing and (i) during such time as EMG shall be utilizing the Office Services, shall be personally delivered to the office of Andrew J. Frawley, in the case of communications to the Company, and to the office of Michael J. Feldman, in the case of communications to EMG, and (ii) following such time as EMG shall cease utilizing the Office Services, shall be personally delivered or sent by facsimile machine, commercial or U.S. Postal Service overnight delivery service (provided the sender is able to obtain a receipt upon delivery thereof) or mailed first-class, registered or certified mail, postage prepaid:

(i) If to the Company, to it at the following address:

Andrew J. Frawley, President
Exchange Applications, Inc.
695 Atlantic Avenue
Boston, MA 02111
Facsimile No. (617) 443-9143

(ii) If to EMG, to it at the address or facsimile number provided to the Company for such purpose.

(b) Notices shall be deemed given upon the earlier to occur of the following: (i) receipt by the party to whom such notice is directed, (ii) if sent by facsimile machine, at 5 o'clock p.m. eastern time of the day (other than a Saturday, Sunday or legal holiday in the jurisdiction in which the recipient of the notice resides) on which such notice is sent, (iii) on the next day (other than a Saturday, Sunday or legal holiday in the jurisdiction in which the recipient of the notice resides), if sent by overnight delivery service, or (iv) on the third day following deposit thereof with the U.S. Postal Service, as registered mail (return receipt requested) as aforesaid. Each party, by notice duly given in accordance herewith, may specify a different address for the giving of any notice hereunder.

9. WAIVER, AMENDMENT, REMEDIES.

(a) No delay on the part of either party in the exercise of any right, power, privilege or remedy hereunder shall operate as a waiver thereof, nor shall any exercise or partial exercise of any such right, power, privilege, or remedy preclude any further exercise thereof or the exercise of any other right, power, privilege or remedy.

(b) No amendment to or waiver of any provision of this Agreement, and no consent to any departure by either party therefrom, shall be effective in any event unless the same shall be in writing and signed by the party sought to be

charged therewith, and then such amendment, waiver, or consent shall be effective only in the specific instance, and for the purpose, for which given.

10. ENTIRE AGREEMENT. This Agreement embodies the entire agreement and understanding among the parties hereto and supersedes all prior agreements and understandings relating to the subject matter hereof.

11. PARTIES IN INTEREST. This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors and assigns; PROVIDED, HOWEVER, that the provisions of Section 3 shall terminate and be of no further force or effect upon either (i) the sale of the Company or EMG, whether by merger, sale of assets, issuance or sale of stock or membership interests, as the case may be, or otherwise, such that one or more persons (whether or not they are Company Competitors or EMG Competitors) who are not as of the date hereof stockholders of the Company or members of EMG hereafter obtain 50% or more of the voting power or power to direct the management and disposition of the Company or EMG or (ii) the initial public offering by the Company of any class or series of its capital stock. No person other than the parties hereto is intended to be benefited hereby or is entitled to rely hereon. There are no third-party beneficiaries of this Agreement.

12. ENFORCEABILITY. If any term or provision of this Agreement, or the application thereof to any person or entity or circumstance, shall, to any extent, be invalid or unenforceable, the remainder of this Agreement, or application to other persons or entities or circumstances, shall not be affected thereby, and each term and provision hereof shall be enforced to the fullest extent permitted by law. Without limitation of the foregoing if one or more of the provisions contained in Section 3 shall for any reason be held to be excessively broad as to scope, activity or subject so as to be unenforceable at law, such provision or provisions shall be construed by a court of competent jurisdiction by limiting and reducing it or them so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear.

13. COUNTERPARTS. This Agreement may be executed simultaneously in one or more counterparts hereof, each of which shall be deemed an original but all of which together shall constitute one and the same agreement.

14. GOVERNING LAW. This Agreement shall be deemed to be a contract made under seal and shall be construed in accordance with and governed by the laws of the Commonwealth

of Massachusetts (without giving effect to any conflicts or choice of laws provisions which would cause the application of the domestic substantive laws of

any other jurisdiction).

15. CONSENT TO JURISDICTION (a) THE COMPANY AND EMG EACH HEREBY CONSENT TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS AND THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MASSACHUSETTS, AS WELL AS TO THE JURISDICTION OF ALL COURTS TO WHICH AN APPEAL MAY BE TAKEN FROM SUCH COURTS, FOR THE PURPOSE OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF ANY OF ITS DUTIES ARISING HEREUNDER OR WITH RESPECT TO THE TRANSACTIONS CONTEMPLATED HEREBY. THE COMPANY AND EMG EACH HEREBY EXPRESSLY WAIVE ANY AND ALL OBJECTIONS IT MAY HAVE AS TO VENUE, INCLUDING, WITHOUT LIMITATION, THE INCONVENIENCE OF SUCH FORUM, IN ANY OF SUCH COURTS. IN ADDITION, THE COMPANY AND EMG EACH CONSENT TO THE SERVICE OF PROCESS BY PERSONAL SERVICE OR U.S. CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, ADDRESSED TO SUCH PARTY AT THE ADDRESS PROVIDED HEREIN.

16. WAIVER OF JURY TRIAL.

THE COMPANY AND EMG EACH HEREBY VOLUNTARILY AND IRREVOCABLY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION BROUGHT ON OR IN CONNECTION WITH THIS AGREEMENT OR WITH RESPECT TO THE TRANSACTIONS CONTEMPLATED HEREBY.

IN WITNESS WHEREOF, the parties have executed this Agreement under seal as of the day and year first above written.

EXCHANGE APPLICATIONS, INC.

By: /s/ Andrew J. Frawley

Andrew J. Frawley, President

EXCHANGE MARKETING GROUP, LLC

By: /s/ Michael J. Feldman

Michael J. Feldman, Manager

EXHIBIT 10.9

EXECUTION COPY

==========

EXCHANGE APPLICATIONS, INC.

SECURITIES PURCHASE AGREEMENT

March 18, 1997

SECURITIES PURCHASE AGREEMENT dated as March 18, 1997, by and among EXCHANGE APPLICATIONS, INC., a Delaware corporation (the "CORPORATION"), GRANT & PARTNERS LIMITED PARTNERSHIP, a Delaware limited partnership ("GPLP"), CYRK, INC., a Delaware corporation ("CYRK"; and together with GPLP, the "EXISTING INVESTORS"), INSIGHT VENTURE PARTNERS I, L.P., a Delaware limited partnership ("IVP I"), GAP COINVESTMENT PARTNERS, L.P., a New York limited partnership ("GCP"), WEXFORD INSIGHT LLC, a Delaware limited liability company ("WEXFORD"; and together with IVP I and GCP, the "INSIGHT INVESTORS"; and together with the Existing Investors, the "INVESTORS").

The Corporation desires to sell to each Insight Investor, and each Insight Investor desires to purchase from the Corporation, shares of the capital stock of the Corporation, on the terms and subject to the conditions set forth herein. In addition, the Corporation desires to repurchase from the Existing Investors, and the Existing Investors desire to sell to the Corporation, the Subject Indebtedness (as defined below). The Corporation and the Investors are referred to herein collectively as the "PARTIES."

ACCORDINGLY, in consideration of the representations, warranties, agreements, covenants and conditions contained in this Agreement, the Parties hereby agree as follows:

SECTION 1. FILING OF THE CERTIFICATES.

(a) Prior to the Closing (as defined below), the Corporation shall file with the Secretary of State of the State of Delaware a Certificate of Amendment, in the form of EXHIBIT A hereto (the "CERTIFICATE OF AMENDMENT"), pursuant to which its Certificate of Incorporation as in force and effect immediately prior thereto shall then be amended such that the Conversion Price (as defined therein) applicable to any outstanding shares of the Corporation's

Series A Convertible Preferred Stock, $.001 par value (the "OLD PREFERRED STOCK"), shall be fixed at $3.01333.

(b) Prior to the Closing, but after making the filing described in SECTION 1(a), the Corporation shall file with the Secretary of State of the State of Delaware an Amended and

Restated Certificate of Incorporation, in the form of EXHIBIT B hereto (the "AMENDED AND RESTATED CERTIFICATE"), that, among other things, (i) authorizes 10,544,444 shares of Common Stock, $.001 par value (the "COMMON STOCK"), (ii) authorizes 5,455,556 shares of Preferred Stock, $.001 par value (the "PREFERRED STOCK"), of which (A) 2,900,000 shares shall be designated Series A Preferred Stock (the "SERIES A PREFERRED STOCK"), and (B) 2,555,556 shares shall be designated Series B Convertible Preferred Stock (the "SERIES B PREFERRED STOCK"), and (iii) sets forth the terms, designations, powers, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions, of the Common Stock and the Preferred Stock.

SECTION 2. AUTHORIZATION AND RESERVATION; ISSUANCE AND SALE; REPURCHASE; CLOSING.

2.1. AUTHORIZATION AND RESERVATION.

Subject to the terms and conditions hereof, the Corporation has authorized (i) the issuance of 2,900,000 shares of Series A Preferred Stock (the "CYRK/GPLP PREFERRED SHARES") to the Existing Investors at the Closing, (ii) the issuance and sale of 2,555,556 shares of Series B Preferred Stock (the "INSIGHT PREFERRED SHARES") to the Insight Investors at the Closing, and (iii) the reservation of an aggregate of 2,555,556 shares of Common Stock (the "RESERVED SHARES") for issuance upon the conversion of the Insight Preferred Shares.

2.2. ISSUANCE AND SALE OF THE INSIGHT PREFERRED SHARES.

(a) At the Closing, on and subject to the terms and conditions contained herein, the Corporation shall issue, sell and deliver to IVP I, and IVP I shall purchase from the Corporation, upon the terms and subject to the conditions hereinafter set forth, 1,154,775 Insight Preferred Shares for an aggregate purchase price of $1,807,222.88 in cash (or a purchase price of $1.565 per share).

(b) At the Closing, on and subject to the terms and conditions contained herein, the Corporation shall issue, sell and deliver to GCP, and GCP shall purchase from the Corporation, upon the terms and subject to the

conditions hereinafter set forth, 246,006 Insight Preferred Shares for an aggregate purchase price of $384,999.39 in cash (or a purchase price of $1.565 per share).

(c) At the Closing, on and subject to the terms and conditions contained herein, the Corporation shall issue, sell and deliver to Wexford, and Wexford shall purchase from the Corporation, upon the terms and subject to the conditions hereinafter set forth, 1,154,775 Insight Preferred Shares for an

aggregate purchase price of $1,807,222.88 in cash (or a purchase price of $1.565 per share).

2.3. REPURCHASE OF THE SUBJECT INDEBTEDNESS

(a) The Parties acknowledge that the aggregate outstanding indebtedness of the Corporation to the Existing Investors as of the date hereof, together with accrued interest thereon, is set forth on SCHEDULE 2.3 hereto (the "SUBJECT INDEBTEDNESS"), which consists of (i) the indebtedness assumed by the Corporation pursuant to Section 2(b) of the Assignment and Assumption Agreement dated as of November 15, 1996, between the Corporation and GPLP, (ii) the indebtedness evidenced by two promissory notes issued by the Corporation to CYRK, one dated November 15, 1996 and the other dated December 13, 1996 and each in the original principal amount of $200,000 (collectively, the "CYRK NOTES"), and (iii) the indebtedness evidenced by a promissory note issued by the Corporation to GPLP dated November 15, 1996 and in the original principal amount of $301,260 (the "GPLP NOTE").

(b) At the Closing, on and subject to the terms and conditions contained herein, the Corporation shall repurchase from GPLP, and GPLP shall sell to the Corporation, all of the Subject Indebtedness set forth on SCHEDULE 2.3 as being owed to GPLP by the Corporation, in exchange for the issuance and delivery by the Corporation to GPLP, and the receipt by GPLP from the Corporation, of 377,408 CYRK/GPLP Preferred Shares.

(c) At the Closing, on and subject to the terms and conditions contained herein, (i) the Corporation shall pay to CYRK in cash $1,000,000 to be applied (A) FIRST, against the accrued and unpaid interest constituting the amount of the Subject Indebtedness set forth on SCHEDULE 2.3 as being owed to CYRK by the Corporation, and (B) SECOND, against the outstanding principal amount of the Subject Indebtedness set forth on SCHEDULE 2.3 as being owed CYRK by the Corporation and (ii) the Corporation shall repurchase from CYRK, and CYRK shall sell to the Corporation, all of the remaining Subject Indebtedness set forth on SCHEDULE 2.3 as being owed to CYRK by the Corporation, in exchange for

the issuance and delivery by the Corporation to CYRK, and the receipt by CYRK from the Corporation, of 2,522,592 CYRK/GPLP Preferred Shares.

(d) The Corporation's payment of $1,000,000 to CYRK as described in SECTION 2.3(c)(i) and its issuance and delivery of the CYRK/GPLP Preferred Shares to the Existing Investors, in each case at the Closing pursuant to this SECTION 2, shall be in full satisfaction and payment of any and all obligations or liabilities of the Corporation with respect to the Subject Indebtedness and, upon such issuance, delivery and payment, the Subject Indebtedness shall be deemed to be discharged and satisfied in full.

2.4. DELIVERIES AT CLOSING.

(a) At the Closing, the Corporation shall deliver to each Insight Investor stock certificates representing the Insight Preferred Shares being acquired by such Insight Investor at the Closing, registered in the name of such Insight Investor, against receipt by the Corporation of a certified or official bank check payable to the Corporation or a wire transfer of immediately available funds to an account designated by the Corporation in an aggregate amount equal to the purchase price for the Insight Preferred Shares being purchased by such Insight Investor hereunder.

(b) At the Closing, (i) the Existing Investors shall (A) deliver to the Corporation the CYRK Notes and the GPLP Note, each of which shall have been marked "PAID IN FULL" prior to such delivery, and (B) execute and deliver to the Corporation the Pay-off Agreement dated as of the Closing Date by and among the Corporation, GPLP and CYRK (the "PAY-OFF AGREEMENT"), substantially in the form of EXHIBIT C hereto, against (ii) receipt by (A) the Existing Investors of stock certificates delivered by the Corporation representing the CYRK/GPLP Preferred Shares being acquired by the Existing Investors at the Closing and (B) CYRK of certified or official bank checks or wire transfers of immediately available funds to an account designated by CYRK in the aggregate amount of $1,000,000.

2.5. CLOSING.

The closing (the "CLOSING") hereunder with respect to the issuance, sale and delivery of the Insight Preferred Shares and the issuance and delivery of the CYRK/GPLP Preferred Shares and the consummation of the related transactions contemplated by this Agreement and the Related Agreements shall, subject to the satisfaction or waiver of the conditions set forth in SECTIONS 6 and 7, take place at the offices of O'Sullivan Graev & Karabell, LLP, 30 Rockefeller Plaza, New York, New York 10112 on a business day (the "CLOSING

DATE") designated by the Corporation, IVP I and CYRK, which date shall be no later than five Business Days after the date on which all such conditions shall have been satisfied to the satisfaction of, or otherwise waived by, the Parties whose obligations are subject thereto. As used in this Agreement, the term "BUSINESS DAY" means any day that is not a Saturday, Sunday, legal holiday or other day on which banks are required to be closed in New York, New York or Boston, Massachusetts.

SECTION 3. REPRESENTATIONS AND WARRANTIES OF THE CORPORATION.

The Corporation hereby represents and warrants to the Investors as set forth in the following SECTIONS 3.1 through 3.5 and to the Insight Investors as set forth in the following SECTIONS 3.6 through 3.25:

3.1. ORGANIZATION; GOOD STANDING; QUALIFICATIONS.

(a) The Corporation is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted. The Corporation has all requisite corporate power and authority to enter into this Agreement and the Related Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The Corporation is duly qualified and in good standing to do business in the Commonwealth of Massachusetts and every jurisdiction in which such qualification is necessary because of the nature of the property owned, leased or operated by it or the nature of the business conducted by it therein, except where the failure to so qualify would not have a material adverse effect (a "MATERIAL ADVERSE EFFECT") on the business, operations, assets, condition (financial or otherwise), operating results, liabilities, employee relations or business prospects of the Corporation and its Subsidiaries (if any) taken as a whole (each of which jurisdictions is listed on SCHEDULE 3.1 hereto). The Corporation has not conducted its business under any fictitious or other names except those names listed on SCHEDULE 3.1. True and complete copies of the Corporation's Certificate of Incorporation and By-Laws, in each case as amended to and in effect on the date hereof, are attached hereto as SCHEDULE 3.1.1 hereto and SCHEDULE 3.1.2 hereto, respectively. The Corporation has in all material respects performed all of the obligations required to be performed by it to date under its Certificate of Incorporation and By-Laws, in each case as amended to and in effect on the date hereof, and there exists no default, or any event which upon the giving of notice or the passage of time, or both, would give rise to a claim of a default in the performance by the Corporation of its obligations thereunder.

(b) As used herein, the term "GOVERNMENTAL AUTHORITY" means any court, department, commission, board, bureau, agency or commission or other governmental authority or instrumentality, domestic or foreign, federal, state or local; the term "ORDER" means any judgments, writs, decrees, injunctions, orders, compliance agreements or settlement agreements of any Governmental Authority; and the term "LAWS" means federal, state, local or foreign laws, statutes, rules, directives, ordinances requirements, regulations and Orders of any Governmental Authority.

3.2. AUTHORITY OF THE CORPORATION.

(a) The execution, delivery and performance of this Agreement and the Related Agreements to which the Corporation is a party and the consummation by the Corporation of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary action on the part of the

Corporation and its stockholders, and this Agreement and the Related Agreements to which the Corporation is a party have been duly and validly executed by the Corporation and are valid and binding obligations of the Corporation, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or similar Laws now or hereafter in effect, public policy and general principles of equity. The execution, delivery and performance of this Agreement and the Related Agreements to which the Corporation is a party, the consummation by the Corporation of the transactions contemplated hereby and thereby, including the reservation, issuance, sale and delivery, as the case may be, of the GPLP Common Shares (as defined below), CYRK/GPLP Preferred Shares, the Insight Preferred Shares and the Reserved Shares, and the compliance by the Corporation with all of the provisions hereof and thereof shall not (i) conflict with or result in a breach of any provision of the Certificate of Incorporation or By-Laws of the Corporation, in each case as amended to and in effect on the date hereof, (ii) cause a default or give rise to any right of termination, cancellation or acceleration (whether upon the giving of notice or the lapse of time or both) under any of the terms, conditions or provisions of any note, bond, lease, mortgage, indenture, license or other instrument or agreement to which the Corporation is a party or by which the Corporation or any of its properties or assets is or may be bound or affected, except where such defaults, terminations, cancellations or accelerations taken as a whole would not have a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole, or (iii) violate any Law applicable to the Corporation or any of its properties or assets. As used herein, the term "PERSON" shall be construed

broadly and shall include an individual, corporation, association, partnership, joint venture or entity, organization or Governmental Authority; and the term "SUBSIDIARY" means any Person (other than a natural Person) with respect to which a specified Person (or a Subsidiary thereof) has the power to vote or direct the voting of sufficient securities to elect a majority of the board of directors or similar governing body.

3.3. AUTHORIZATION OF PREFERRED SHARES AND RESERVED SHARES.

The reservation, issuance, sale and delivery, as the case may be, of the GPLP Common Shares, the CYRK/GPLP Preferred Shares, the Insight Preferred Shares and the Reserved Shares have been duly authorized by all requisite board, stockholder and other corporate action on the part of the Corporation. As of the Closing, the GPLP Common Shares, the CYRK/GPLP Preferred Shares and the Insight Preferred Shares, and, upon their issuance in accordance with the Amended and Restated Certificate, the Reserved Shares, shall be validly issued and outstanding, fully paid and nonassessable, with no personal liability attaching to the ownership thereof, and, except as contemplated by the Related Agreements, not subject to any Encumbrances or any preemptive

rights, rights of first refusal or other similar rights of the stockholders of the Corporation.

3.4. NO CONSENT OR APPROVAL REQUIRED.

No consent or approval by, or any notification of or filing with, any Person (governmental or private) is required in connection with the execution, delivery and performance by the Corporation of this Agreement and the Related Agreements to which the Corporation is a party or the consummation by the Corporation of the transactions contemplated hereby and thereby, including the valid reservation, issuance, sale and delivery, as the case may be, of the GPLP Common Shares, the CYRK/GPLP Preferred Shares, the Insight Preferred Shares and the Reserved Shares, except for stockholder approval of the filings of the Certificate of Amendment and the Amended and Restated Certificate as described in SECTION 1, the filing of any notices subsequent to the Closing that may be required under applicable Federal or state securities Laws (which notices shall be filed on a timely basis following the Closing as so required) and those other consents, approvals, notifications and filings set forth on SCHEDULE 3.4 hereto, which, except as otherwise set forth on SCHEDULE 3.4, have been made or will be obtained prior to the Closing.

3.5. CAPITALIZATION.

(a) Immediately upon the consummation at the Closing of

the transactions contemplated by this Agreement, the authorized capital stock of the Corporation shall consist of:

(i) 10,544,444 shares of Common Stock, of which:

(A) 3,867,750 shares shall be validly issued and outstanding, fully paid and nonassessable, with no personal liability attaching to the ownership thereof;

(B) 2,555,556 shares shall be duly reserved for issuance upon conversion of the Series B Preferred Stock; and

(C) 1,848,388 shares shall be duly reserved for issuance upon the grant of such shares, or the exercise of options granted therefor, pursuant to the 1996 Stock Incentive Plan of the Corporation, as amended to and in effect on the Closing Date; and

(ii) 5,455,556 shares of Preferred Stock, of which:

(A) 2,900,000 shall have been duly designated as Series A Preferred Stock, all of which shares shall have been validly issued and shall be outstanding, fully paid and nonassessable, with no personal liability attaching to the ownership thereof; and

(B) 2,555,556 shares shall have been duly designated as Series B Preferred Stock, all of which shares shall have been validly issued and shall be outstanding, fully paid and nonassessable, with no personal liability attaching to the ownership thereof; and

all such outstanding shares in each case being owned of record by the Persons identified on SCHEDULE 3.5 hereto in the amounts set forth thereon.

(b) SCHEDULE 3.5 contains a list, as of the date hereof and assuming the consummation at the Closing of all transactions contemplated by this Agreement and the Related Agreements, of all outstanding warrants, options, agreements, convertible securities or other commitments pursuant to which the Corporation or, to the Best Knowledge of the Corporation, any stockholder thereof is or may become obligated to issue, sell or otherwise transfer any shares of capital stock or other securities of the Corporation, which list names

all Persons entitled to receive such shares or other securities, indicates whether or not such securities are entitled to any anti-dilution or similar adjustments upon the issuance of additional securities of the Corporation or otherwise and sets forth the shares of capital stock or other securities required to be issued thereunder (calculated after giving effect to all such anti-dilution and other similar adjustments resulting from the issuance of the GPLP Common Shares, the CYRK/GPLP Preferred Shares and the Insight Preferred Shares and the consummation of the transactions contemplated by this Agreement and the Related Agreements).

(c) Except as set forth on SCHEDULE 3.5 or as contemplated by the Related Agreements, immediately upon consummation at the Closing of the transactions contemplated by this Agreement and the Related Agreements, including the delivery of each of the instruments described in SECTIONS 6 and 7, there shall be, (i) no preemptive or similar rights to purchase or otherwise acquire any shares of the capital stock or other securities of the Corporation pursuant to any provision of Law, the Corporation's Certificate of Incorporation or By-Laws, in each case as amended to and in effect on the date hereof, or any agreement to which the Corporation or, to the Best Knowledge of the Corporation, any stockholder thereof is a party; and (ii) with respect to the sale or voting of any shares of capital stock or other securities of the Corporation (whether outstanding or issuable upon the conversion, exercise or exchange of outstanding

securities), no Encumbrance or other restriction (such as a right of first refusal, right of first offer, proxy, voting trust, voting agreement, etc.), except, in the case of shares of Common Stock previously issued to officers, directors and employees of the Corporation, in favor of the Corporation. As used herein, the term "ENCUMBRANCES" means any of the following: security interests, liens, pledges, claims, charges, escrows, encumbrances, options, rights of first refusal, mortgages, indentures, security agreements, judgments, or other agreements, arrangements, contracts, commitments, understandings or obligations, whether written or oral and whether or not relating in any way to credit or the borrowing of money.

(d) All shares of the capital stock and other securities issued by the Corporation prior to the Closing have been issued in transactions exempt from registration under the Securities Act of 1933, as amended (the "SECURITIES ACT"), and the rules and regulations promulgated thereunder and all applicable state securities or "BLUE SKY" Laws. The Corporation has not violated the Securities Act or any applicable state securities or "BLUE SKY" Laws in connection with the issuance of any shares of capital stock or other securities prior to the Closing.

3.6. EQUITY INVESTMENT.

The Corporation has never owned, nor does it presently own, any capital stock or other equity interest in any corporation, association, trust, partnership, joint venture or other Person.

3.7. FINANCIAL STATEMENTS.

(a) SCHEDULE 3.7 hereto contains the following financial statements: the audited balance sheet (the "LATEST BALANCE Sheet") of the Corporation dated as of December 31, 1996 (the "LATEST BALANCE SHEET DATE") and the related audited statements of income, retained earnings and cash flows for the fiscal year ended December 31, 1996, together with the accompanying supplementary information and report of the auditor thereof (collectively, the "FINANCIAL STATEMENTS").

(b) Each of the Financial Statements (A) has been prepared in accordance with the books and records of the Corporation (which have been maintained in accordance with good business practices and are true and complete, in each case in all material respects), (B) is materially true and correct, (C) fairly presents the financial condition, results of income, retained earnings and cash flow which it purports to present as of the date thereof and for the periods indicated thereon and (D) except as described therein or in the footnotes thereto, has been prepared in accordance with United States generally accepted accounting principles consistently applied ("GAAP") throughout the periods covered thereby. Except as set forth in the

Financial Statements or in the footnotes thereto or as required by applicable Law or GAAP, there has been no change in (i) any accounting principle, procedure or practice followed by the Corporation or (ii) the method of applying any such principle, procedure or practice.

3.8. ABSENCE OF UNDISCLOSED LIABILITIES AND OBLIGATIONS.

The Corporation has no liabilities or obligations on the date hereof not disclosed on or reflected in the Latest Balance Sheet, except for (i) liabilities or obligations incurred after the Latest Balance Sheet Date in the ordinary course of business consistent with past practice (none of which relates to any breach of contract, default, breach of warranty, tort, infringement, violation of Law or Proceeding) none of which has had, or is reasonably likely to have, a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole, (ii) liabilities or obligations which would not be required to be disclosed on or reflected in a balance sheet prepared in

accordance with GAAP on the date hereof, and (iii) liabilities or obligations incurred after the Latest Balance Sheet Date and set forth on SCHEDULE 3.8 hereto. All reserves set forth on the Latest Balance Sheet were adequate for the purposes indicated therein at the Latest Balance Sheet Date, and, to the Best Knowledge of the Corporation, continue to be adequate for the purposes indicated therein as of the date hereof. There are no "LOSS CONTINGENCIES" (as such term is used in Statement of Financial Accounting Standards No. 5 issued by the Financial Accounting Standards Board in March 1975) that are not adequately provided for on the Latest Balance Sheet.

3.9. EVENTS SUBSEQUENT TO THE LATEST BALANCE SHEET.

(a) Except as set forth on SCHEDULE 3.9 hereto and the transactions contemplated by this Agreement and the Related Agreements, since the Latest Balance Sheet Date, the Corporation has been operated in the ordinary course of business consistent with past practice and there has not been:

(i) any material adverse change in the condition (financial or otherwise), assets, liabilities, operations, earnings, business or prospects of the Corporation;

(ii) any obligation, liability or indebtedness (whether absolute, accrued, contingent or otherwise and whether due or to become due) in excess of $10,000 incurred, or any transaction, contract or commitment entered into, amended or terminated, with respect to the Corporation, other than items incurred or entered into on an arms' length basis in the ordinary course of business of the Corporation and consistent with past practice;

(iii) any acceleration, payment, discharge or satisfaction by the Corporation of any liability, obligation, claim, lien or encumbrance (whether fixed or contingent, matured or unmatured) in excess of $10,000, except on an arms' length basis in the ordinary course of business and consistent with past practice;

(iv) any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of capital stock of the Corporation, or any direct or indirect redemption, purchase or other acquisition of any thereof, or any other payments of any nature to any Affiliate of the Corporation whether or not on or with respect to the any shares of capital stock of the Corporation owned by such Affiliate;

(v) any issuance or sale, or any contract entered into for the issuance or sale, of any shares of capital stock of the Corporation or

securities convertible into or exercisable or exchangeable for such capital stock, except commitments by the Corporation to employees thereof to issue options to purchase shares of Common Stock pursuant to the Corporation's 1996 Stock Incentive Plan, as set forth in the offer letters from the Corporation to such employees copies of which have been delivered by the Corporation to the Insight Investors;

(vi) any license, sale, transfer, pledge, mortgage, or other disposition of any tangible or intangible asset of the Corporation, except on an arms' length basis in the ordinary course of business and consistent with past practice;

(vii) any extraordinary increase in the compensation paid or payable to any stockholder, director, officer, employee, agent or Affiliate of, or consultant to, the Corporation, or any loan to any of the foregoing Persons, or any agreement or commitment therefor (other than advances to such Persons in the ordinary course of business consistent with past practice in connection with travel and travel-related expenses);

(viii) any change in the Tax or other accounting methods or practices followed by the Corporation or any change in depreciation or amortization policies or rates previously adopted;

(ix) any damage, destruction or loss (whether or not covered by insurance) in excess of $10,000 affecting any asset or property of the Corporation; or

(x) any agreement, whether in writing or otherwise, to take any of the actions specified in the foregoing CLAUSES (ii) through (viii).

(b) As used herein, the term "AFFILIATE" means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, any other Person.

3.10. TITLE TO ASSETS, PROPERTIES AND RIGHTS.

The Corporation has good and marketable title to all the properties and interests in properties and assets, whether personal or mixed, reflected as being owned by the Corporation on the Latest Balance Sheet or acquired subsequent thereto (except for those properties or interests subsequently disposed of in the ordinary course of business), free and clear of all Encumbrances, except for (i) those Encumbrances set forth on SCHEDULE 3.10 hereto, (ii) liens for current taxes, assessments and other governmental charges not yet due and payable or being contested in good faith by appropriate

proceedings and for which there are adequate reserves on the books and records of the Corporation, and (iii) mechanics', landlord's, materialman's, supplier's, vendor's or similar liens arising in the ordinary course of business securing amounts that are not delinquent. The assets, properties and rights of the Corporation reflected as being owned on the Latest Balance Sheet or acquired after the date thereof or leased for use by the Corporation are in all material respects in good operating condition and repair (normal wear and tear excepted), are suitable in all material respects for the uses for which they are used in the Corporation's business, are not subject to any condition which interferes with the use thereof in any material respect, and constitute all assets, properties and rights necessary to permit the Corporation to carry on its business after the Closing as generally conducted by the Corporation prior thereto.

3.11. INTELLECTUAL PROPERTY.

(a) Except as set forth on SCHEDULE 3.11 hereto:

(i) the Corporation owns, has the right to use, sell, license and dispose of, and has the right to bring actions for the infringement of, all Intellectual Property Rights necessary or required for the conduct of the business of the Corporation (collectively, the "OWNED REQUISITE RIGHTS"), other than those Intellectual Property Rights for which the Corporation has a valid license (collectively, the "LICENSED REQUISITE RIGHTS"; and together with the Owned Requisite Rights, the "REQUISITE RIGHTS");

(ii) the Requisite Rights are sufficient in all material respects for the conduct of the business of the

Corporation as currently conducted or as contemplated to be conducted;

(iii) to the Best Knowledge of the Corporation, there are no royalties, honoraria, fees or other payments payable by the Corporation to any Person by reason of the ownership, use, license, sale or disposition of the Requisite Rights;

(iv) to the Best Knowledge of the Corporation, no activity, service or procedure currently conducted or proposed to be conducted by the Corporation violates or shall violate any contract, instrument, license, commitment, lease or similar document of the Corporation with any third Person relating to any Intellectual Property Rights, or infringe any Intellectual Property Rights of any other Person;

(v) the Corporation has taken reasonable and practicable steps (including, without limitation, entering into confidentiality and nondisclosure agreements with all officers, directors and employees of and consultants to the Corporation and other Persons with access to or knowledge of confidential information of the Corporation) designed to safeguard and maintain (i) the secrecy and confidentiality of confidential information of the Corporation and (ii) the proprietary rights of the Corporation in all Requisite Rights;

(vi) to the Best Knowledge of the Corporation, the Corporation has not interfered with, infringed upon, misappropriated or otherwise come into conflict in any material respect with any Intellectual Property Rights of any Person or committed any acts of unfair competition, and the Corporation has not received from any Person any written notice, charge, complaint, claim or assertion thereof, and no such claim is impliedly threatened by an offer to license from another Person under a claim of use; and

(vii) the Corporation has not sent to any Person or otherwise communicated to any Person, any written notice, charge, complaint, claim or other assertion of any present, impending or threatened infringement by or misappropriation of, or other conflict with, any Intellectual Property Rights of the Corporation by such other Person or any acts of unfair competition by such other Person with respect to the Corporation, nor, to the Best Knowledge of the Corporation, is any such infringement, misappropriation, conflict or act of unfair competition occurring or threatened.

(b) SCHEDULE 3.11 contains a true and complete list of all applications, filings and registrations pursuant to

any Laws and any licenses made, taken or obtained by the Corporation, in each case to acquire, perfect, or protect its interest in its Intellectual Property Rights, including, without limitation, all patents, patent applications, trademarks, trademark applications, servicemarks and servicemark applications.

(c) As used herein, the term "INTELLECTUAL PROPERTY RIGHTS" means all industrial and intellectual property rights, including, without limitation, patents, patent applications, patent rights, trademarks, trademark applications, tradenames, servicemarks, servicemark applications, copyrights, know-how, trade secrets, proprietary processes and formulae, confidential information, franchises, licenses, inventions, trade dress and logos.

(d) To the Best Knowledge of the Corporation, the

Corporation's VALEX software product shall function without any material interruption or required updates caused by the necessity to compare date information prior to and after the change of the century (PROVIDED, HOWEVER, no representation or warranty is being made by the Corporation pursuant to this SECTION 3.11(d) as to any operating system on which the VALEX software product may be used or any component part of the VALEX software product not developed by the Corporation).

3.12. DIRECTORS, OFFICERS, EMPLOYEES AND CONSULTANTS.

Except as set forth on SCHEDULE 3.12 hereto, to the Best Knowledge of the Corporation, no third party has asserted or threatened to assert any valid claim against the Corporation or any present stockholder, director, officer or employee of, or consultant to, the Corporation, involving (i) the employment by, or association with, the Corporation, of any of the foregoing Persons or (ii) the use, in connection with the business of the Corporation or any of the foregoing Persons of any information which the Corporation or any such Persons would be prohibited from using under any prior agreements or arrangements or any legal considerations applicable to unfair competition, trade secrets or proprietary information.

3.13. ERISA PLANS AND CONTRACTS.

(a) The Corporation does not maintain nor is it a party to (or ever maintained or was a party to) any "EMPLOYEE WELFARE BENEFIT PLAN", as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any other written, unwritten, formal or informal plan or agreement involving direct or indirect compensation other than workers' compensation, unemployment compensation and other government programs, under which the Corporation has any present or future obligation or liability. The Corporation does not maintain nor is it a party to (or ever maintained or was a party to) any "EMPLOYEE PENSION BENEFIT PLAN", as defined in Section

3(2) of ERISA, and the Corporation does not contribute to any "MULTIEMPLOYER PLAN" as defined in Section 3(37) of ERISA.

(b) There is no contract, agreement, plan or arrangement covering any employee or former employee of the Corporation that, individually or collectively, could give rise to the payment of any amount that would not be deductible by reason of Section 280G of the Internal Revenue Code of 1986, as amended (the "CODE") (other than potentially on the acceleration of stock options or the vesting of restricted stock upon a change of control).

3.14. AGREEMENTS, ETC.

(a) SCHEDULE 3.14 hereto contains a true and complete list and brief description of all contracts, agreements, commitments and other instruments (whether written or oral) to which the Corporation is a party (other than this Agreement and the Related Agreements) and (x) which were entered into or made outside the ordinary course of business or (y) which were entered into or made in the ordinary course of business and are described in CLAUSES (i) through (xvi) of this SECTION 3.14. Except as set forth on SCHEDULE 3.14, the Corporation is not a party to any of the following, whether written or oral:

(i) distributorship, dealer, sales, advertising, agency, manufacturer's representative or other contract relating to the payment of aggregate commissions in excess of $10,000;

(ii) contract for the future purchase of products, equipment or services which is not terminable by the Corporation without aggregate cost, forfeiture or other liability in excess of $30,000 individually or $100,000 in the aggregate for all such contracts;

(iii) contract or commitment for the employment of any officer, employee or consultant or any other type of contract or understanding with any officer, employee or consultant relating to the payment of aggregate consideration or severance in excess of $50,000 (other than the Employment Agreement dated as of November 15, 1996, between the Corporation and Andrew J. Frawley and offer letters from the Corporation to employees thereof (which are listed on SCHEDULE 3.14 and copies of which have been delivered by the Corporation to the Insight Investors);

(iv) formal or informal profit sharing, bonus, stock option, pension, retirement, disability, stock purchase, hospitalization, insurance or similar plan or agreement providing benefits to any current or former director, officer, employee or consultant, whether or not subject to ERISA;

(v) indenture, mortgage, promissory note, loan agreement, pledge agreement, guarantee or other agreement or commitment for the borrowing of money, for a line of credit or for a leasing transaction of a type required to be capitalized in accordance with Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board;

(vi) contract or commitment for capital expenditures in excess of $10,000 (excluding contracts or commitments for the purchase of office equipment and personal computers in the ordinary course of

business);

(vii) agreement or arrangement for the sale of any assets, properties or rights other than the sale of services or products in the ordinary course of business;

(viii) lease or other agreement pursuant to which it is a lessee of or holds or operates any machinery, equipment, motor vehicles, office furniture, fixtures, products, merchandise or similar personal property owned by any other Person;

(ix) contract with respect to the lending or investing of funds in excess of $10,000;

(x) confidentiality or nondisclosure contract with any Person (other than an Investor) who or which has (i) made or proposed to make a financial investment in the Corporation in order to receive from the Corporation goods, services, technology, expertise or other value in addition to a monetary return on any such financial investment or (ii) proposed to acquire the Corporation through a Sale of the Corporation (as defined in the Stockholders Agreement);

(xi) contract or commitment to issue or sell any securities of the Corporation (excluding any offer letter from the Corporation to an employee thereof a copy of which has been delivered by the Corporation to the Insight Investors);

(xii) contract which restricts the Corporation from engaging in any aspect of its business anywhere in the world;

(xiii) contract or group of related contracts with the same Person (excluding purchase orders entered into in the ordinary course of business which are to be completed within three months of entering into such purchase orders) for the purchase or sale of products or services under which the undelivered balance of such products and services has a selling price in excess of $10,000;

(xiv) contract (x) that is not terminable by either party thereto without penalty upon not more than 30 days' advance notice and involves aggregate consideration in excess of $20,000 or (y) that involves aggregate consideration in excess of $25,000 (excluding in the case of CLAUSES (x) and (y) above any purchase order entered into in the ordinary course of business which is to be completed within six months of

entering into such purchase order);

(xv) contract with any Affiliate of the Corporation; or

(xvi) other contract material to the business of the Corporation.

(b) To the Best Knowledge of the Corporation, all items listed on SCHEDULE 3.14 are in full force and effect, constitute legal, valid and binding obligations of the respective parties thereto, and are enforceable in accordance with their respective terms. The Corporation has in all material respects performed all of the obligations required to be performed by it to date, and there exists no default, or any event which upon the giving of notice or the passage of time, or both, would give rise to a claim of a default in the performance by the Corporation or any other party to any of the foregoing of their respective obligations thereunder, except where such actual or potential default has not had, and in the future is not reasonably likely to have, a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole. The Corporation has previously furnished to the Insight Investors true, complete and correct copies of all written items listed on SCHEDULE 3.14 and SCHEDULE 3.14 contains complete descriptions of all oral items listed on SCHEDULE 3.14. No consent or approval by, or any notification or filing with, any party to any of the agreements listed on SCHEDULE 3.14 is required in connection with the execution, delivery and performance by the Corporation of this Agreement or any of the Related Agreements or the consummation by the Corporation of the transactions contemplated hereby or thereby, except for those consents, approvals, notifications or filings set forth on SCHEDULE 3.14, which, except as set forth on SCHEDULE 3.14, have been or shall be made or obtained prior to the Closing.

3.15. COMPLIANCE; GOVERNMENTAL AUTHORIZATIONS.

(a) The Corporation (i) has complied with, and is in compliance with, in all respects all Laws (including all Environmental and Safety Requirements) applicable to it and its business (including, but not limited to, any and all Laws relating in any manner to the environment or the generation, treatment, storage, recycling, transportation, release or disposal of any materials into the environment), except where such noncompliance has not had, and is reasonably likely not to have, a Material Adverse Effect on the Corporation and its

Subsidiaries (if any) taken as a whole, and (ii) has all federal, state, local

and foreign governmental licenses and permits (collectively, "PERMITS") used or necessary in the conduct of its business. Such Permits are in full force and effect, no violations with respect to any thereof have occurred or are or have been recorded, no Proceeding is pending or, to the Best Knowledge of the Corporation, threatened to revoke or limit any thereof. SCHEDULE 3.15 hereto contains a true and complete list of (i) all such Permits and (ii) all Orders under which the Corporation is operating or bound. The Corporation has performed in all material respects all of the obligations required to be performed by it to date under all applicable Laws, Permits and Orders, and there exists no condition, or any event which upon the giving of notice or the passage of time, or both, would constitute a violation of any of such Laws, Permits or Orders, except where such violation is not reasonably likely to have a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole.

(b) The Corporation is not responsible, or potentially responsible, for the remediation or cost of remediation of wastes, substances or materials at, on or beneath any facilities or at, on or beneath any land adjacent thereto or in connection with any site or location, wherever located (including any well, tank, pit, sump, pond, lagoon, tailings pile, spoil pile, impoundment, ditch, trench, drain, landfill, warehouse or waste storage container), where pollutants, contaminants or hazardous or toxic wastes, substances or materials have been deposited, stored, treated, reclaimed, disposed of, placed or otherwise come to be located. The Corporation is not liable, directly or indirectly, in connection with any release by it of hazardous substance into the environment nor do there exist any facts upon which a finding of such liability could be based.

(c) As used herein, the term "ENVIRONMENTAL AND SAFETY REQUIREMENTS" means all Laws (including, but not limited to, common law), and all contractual obligations concerning public health and safety, worker health and safety, and pollution or protection of the environment, including, without limitation, all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, release, threatened release, control, or cleanup of any hazardous materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise or radiation, including, but not limited to, the Solid Waste Disposal Act, as amended, the Clean Air Act, as amended, 42 U.S.C. ss. 7401 et seq., the Federal Water Pollution Control Act, as amended, 33 U.S.C. ss. 1251 et seq., the EmergencY Planning and Community Right-to-Know Act, as amended, 42 U.S.C. ss. 11001 et seq., the Comprehensive Environmental Response, Compensation, and Liability Act, as amended, the Hazardous Materials Transportation Uniform Safety Act, as amended, 49 U.S.C. ss. 1804 et seq., the

Occupational Safety and Health Act oF 1970, as amended, and the rules and regulations promulgated thereunder.

3.16. LABOR RELATIONS; EMPLOYEES.

Except as set forth on SCHEDULE 3.16 hereto, (i) the Corporation is not delinquent in payments to any of its employees, for any wages, salaries, commissions, bonuses or other direct compensation for any services performed by them to the date hereof or amounts required to be reimbursed to such employees, (ii) there is no labor strike, dispute, slowdown or stoppage actually pending or, to the Best Knowledge of the Corporation, threatened against or involving the Corporation and (iii) the Corporation is not a party to or bound by any collective bargaining agreement and neither any grievance nor any arbitration Proceeding arising out of or under a collective bargaining agreement is pending and, to the Best Knowledge of the Corporation, no such claim has been asserted. To the Best Knowledge of the Corporation, the Corporation has not experienced, and is not experiencing, any material labor relations problems.

3.17. LITIGATION.

Except as set forth on SCHEDULE 3.17 hereto, there are (i) no Proceedings at law or in equity or by or before any Governmental Authority now pending or, to the Best Knowledge of the Corporation, threatened against, or affecting the assets or properties of, the Corporation, nor, to the Best Knowledge of the Corporation, does there exist any basis for any such pending or threatened Proceedings; (ii) customer claims of any nature against the Corporation in excess of $10,000, nor does there exist any basis therefor; or (iii) Orders of any Governmental Authority identifying the Corporation. As used herein, the term "PROCEEDING" means any action, suit, complaint, charge, hearing, inquiry, investigation or legal or administrative or arbitration proceeding.

3.18. TAX MATTERS.

(a) Except as set forth on SCHEDULE 3.18 hereto, the Corporation has (i) filed all returns, declarations of estimated Tax, Tax reports, information returns and statements (collectively, the "RETURNS") required to be filed by it prior to the Closing (other than those for which extensions shall have been granted prior to the Closing) relating to any Taxes with respect to any income, properties or operations of the Corporation prior to the Closing; (ii) as of the time of filing, the Returns were complete and correct in all material respects and the Corporation has paid all Taxes shown on the Returns to be due; (iii) the Corporation has timely paid or made provisions for all Taxes payable for any period that ended on or before the Closing and for any period that began on or before the Closing and ends after the Closing, to the extent such Taxes are

attributable to the portion of any such period ending on the Closing; (iv) the Corporation is not delinquent in the payment of any Taxes, nor has requested any extension of time within which to file any Return, which Return has not since been filed; (v) there are no pending Tax audits of any Returns of the Corporation; (vi) no Tax liens have been filed and no deficiency or addition to Taxes, interest or penalties for any Taxes with respect to any income, properties or operations of the Corporation has been proposed, asserted or assessed in writing against the Corporation; (vii) the Corporation has not granted any extension of the statute of limitations applicable to any Return or other Tax claim with respect to any income, properties or operations of the Corporation; (viii) the Corporation has not been a personal holding company within the meaning of Section 542 of the Code; and (ix) the Corporation has not made any election under Section 341(f) of the Code.

(b) As used herein, the term "TAX" means any of the Taxes, and the term "TAXES" means, with respect to any Person, (i) all income taxes (including any tax on or based upon net income, gross income, income as specially defined, earnings, profits or selected items of income, earnings or profits) and all gross receipts, sales, use, ad valorem, transfer, franchise, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property or windfall profits taxes, alternative or add-on minimum taxes, customs duties and other taxes, fees, assessments or charges of any kind whatsoever, together with all interest and penalties, additions to tax and other additional amounts imposed by any taxing authority (domestic or foreign) on such Person (if any) and (ii) any liability for the payment of any amount of the type described in CLAUSE (i) above as a result of being a "TRANSFEREE" (within the meaning of Section 6901 of the Code or any other applicable Law) of another Person or a member of an affiliated or combined group.

3.19. RELATED TRANSACTIONS.

Except for this Agreement and the Related Agreements, except as set forth on SCHEDULE 3.19 hereto and in the Financial Statements and the footnotes thereto and except for compensation to regular employees of the Corporation for services rendered, no current or former Affiliate of the Corporation is presently (i) a party to any transaction with the Corporation (including, but not limited to, any contract, agreement or other arrangement providing for the furnishing of services by, or rental of real or personal property from, or otherwise requiring payments to, any such Affiliate) or (ii) to the Best Knowledge of the Corporation, the direct or indirect owner of an interest in any Person which is a present or potential competitor, supplier or customer of the Corporation (other than non-affiliated holdings in publicly held companies), nor, to the Best Knowledge of the Corporation, does any such Person receive income from any source other than the Corporation which relates to the business of, or should properly accrue to, the Corporation. Except as set forth on

3.19, the Corporation is not a guarantor or otherwise liable for any actual or potential liability or obligation, whether direct or indirect, of the Corporation or any of its Affiliates.

3.20. OFFERING EXEMPTION.

Based in part upon the accuracy of the representations of the Investors in SECTION 4.2, the offering, sale, issuance and delivery, as the case may be, of the GPLP Common Shares, the CYRK/GPLP Preferred Shares, the Insight Preferred Shares and the Reserved Shares are, or, as of the date of issuance, shall be, exempt from registration under the Securities Act and the rules and regulations promulgated thereunder, and such offering, sale, issuance and delivery, as the case may be, is, or, as of the date of issuance, shall be, also exempt from registration under applicable state securities and "BLUE SKY" Laws. The Corporation has made or shall make all requisite filings and has taken or shall take all action necessary to be taken to comply with such state securities or "BLUE SKY" Laws.

3.21. BROKERS.

Neither the Corporation nor any of its officers, directors, stockholders or employees (or any Affiliate of the foregoing) has employed any broker or finder or incurred any actual or potential liability or obligation, whether direct or indirect, for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated by this Agreement or any of the Related Agreements.

3.22. REGISTRATION RIGHTS.

Except as contemplated by the Registration Rights Agreement (as defined below), no Person has any right to cause the Corporation to effect the registration under the Securities Act of any shares of common stock or any other securities (including debt securities) of the Corporation.

3.23. INSURANCE.

All of the insurable properties of the Corporation are insured for its benefit in amounts and against all risks that are normal and customary for Persons conducting similar businesses and operating similar properties in the localities where the business of the Corporation is conducted and the properties of the Corporation are located, under policies in effect and issued by insurers of recognized responsibility.

3.24. USE OF PROCEEDS.

Unless otherwise consented to by the Investors, of the proceeds received by the Corporation from the sale of the Insight Preferred Shares, (i) at the Closing, (w) $1,000,000 shall be

paid by the Corporation to CYRK pursuant to SECTION 2.3(c)(i), FIRST, in satisfaction of accrued and unpaid interest constituting the Subject Indebtedness set forth on SCHEDULE 2.3 as being owed to CYRK by the Corporation, and SECOND, in consideration of the Corporation's repurchase of outstanding principal amount of the Subject Indebtedness set forth on SCHEDULE 2.3 as being owed to CYRK by the Corporation, (x) $350,000 shall be disbursed by the Corporation to Exchange Marketing Group, LLC, a Massachusetts limited liability company ("NEWCO"), in accordance with the terms and conditions of the Newco Note (as defined below), (y) up to $30,000 shall be paid by the Corporation in accordance with the terms and conditions of SECTION 9(a)(ii) and (z) $250,000 shall be delivered by the Corporation to CYRK, by wire transfer, to be held as a deposit by CYRK, in trust for the Corporation, to back up CYRK's reimbursement obligations in respect of CYRK's letter of credit, in the face amount of $250,000, securing the Office Lease dated as of July 9, 1996 and (ii) after the Closing, the remainder of such proceeds shall be used for the general corporate purposes of the Corporation, including the payment of expenses accrued in connection with the consummation of the transactions contemplated hereby and by the Related Agreements.

3.25. DISCLOSURE.

Neither this Agreement or any of the Related Agreements or any of the SCHEDULES or EXHIBITS thereto or thereto, nor any other written material delivered to the Insight Investors, when taken together, contains any untrue statement of a material fact or omits a material fact necessary to make the statements contained herein and therein, in light of the circumstances in which they were made, not misleading. To the Best Knowledge of the Corporation, there is no fact, circumstance or condition which has had, or in the future is reasonably likely to have, a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole which has not been set forth in this Agreement, the Related Agreements or in the SCHEDULES or the EXHIBITS hereto or thereto.

SECTION 4. REPRESENTATIONS AND WARRANTIES OF THE INVESTORS.

Each Investor represents and warrants to the Corporation as to itself

severally, and not jointly as to the other Investors, as follows:

4.1. AUTHORIZATION OF THIS AGREEMENT AND THE RELATED AGREEMENTS.

Such Investor has all requisite power to execute, deliver and perform this Agreement and the Related Agreements to which such Investor is a party and the transactions contemplated hereby and thereby, and the execution, delivery and performance by such Investor of this Agreement and the Related Agreements to

which such Investor is a party have been duly authorized by all requisite action by such Investor and constitute valid and binding obligations of such Investor, enforceable against such Investor in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar Laws now or hereafter in effect and public policy and subject to general principles of equity.

4.2. INVESTMENT REPRESENTATIONS.

(a) Such Investor is acquiring the GPLP Common Shares, the Insight Preferred Shares or CYRK/GPLP Preferred Shares to be acquired by such Investor hereunder and, in the event that such Investor should acquire any Reserved Shares, shall be acquiring such Reserved Shares, for its own account, for investment and not with a view to the distribution thereof in violation of the Securities Act or applicable state securities Laws.

(b) Such Investor understands that (i) the GPLP Common Shares, the Insight Preferred Shares or CYRK/GPLP Preferred Shares to be acquired by such Investor hereunder have not been, and that the Reserved Shares shall not be, registered under the Securities Act or applicable state securities Laws, by reason of their issuance by the Corporation in a transaction exempt from the registration requirements of the Securities Act and applicable state securities Laws and (ii) any GPLP Common Shares, Insight Preferred Shares, CYRK/GPLP Preferred Shares or Reserved Shares acquired by such Investor must be held by such Investor indefinitely unless a subsequent disposition thereof is registered under the Securities Act and applicable state securities Laws or is exempt from registration.

(c) Each Investor further understands that, with respect to any GPLP Common Shares, Insight Preferred Shares, CYRK/GPLP Preferred Shares or Reserved Shares acquired by such Investor, the exemption from registration afforded by Rule 144 (the provisions of which are known to such Investor) promulgated under the Securities Act depends on the satisfaction of various conditions, and that, if applicable, Rule 144 may only afford the basis for

sales only in limited amounts.

(d) Such Investor has not employed any broker or finder in connection with the transactions contemplated by this Agreement or any of the Related Agreements.

(e) Such Investor is an "ACCREDITED INVESTOR" (as defined in Rule 501(a) of Regulation D promulgated under the Securities Act). The Corporation has made available to such Investor or its representatives all agreements, documents, records and books that such Investor has requested relating to an investment in the GPLP Common Shares, Insight Preferred Shares, CYRK/GPLP Preferred Shares or Reserved Shares being acquired by such Investor. Such Investor has had an opportunity to ask

questions of, and receive answers from, a Person or Persons acting on behalf of the Corporation, concerning the terms and conditions of this investment, and answers have been provided to all of such questions to the full satisfaction of such Investor. No oral representations have been made or furnished to, or relied on by, such Investor or its representatives in connection with an investment in any GPLP Common Shares, Insight Preferred Shares, CYRK/GPLP Preferred Shares or Reserved Shares. Such Investor has such knowledge and experience in financial and business matters that it is capable of evaluating the risks and merits of this investment.

SECTION 5. ADDITIONAL REPRESENTATIONS AND WARRANTIES OF THE EXISTING INVESTORS.

Each Existing Investor represents and warrants to the Corporation as to itself severally, and not jointly as to the other Existing Investor, as follows:

(a) Such Existing Investor is the lawful record and beneficial owner of all of the Subject Indebtedness set forth on SCHEDULE 2.3 as being owed to such Existing Investor by the Corporation, with good and marketable title thereto, free and clear of any Encumbrances, with all other incidents of ownership pertaining thereto, and has the absolute right and power to transfer, in the case of GPLP, the GPLP Notes, and, in the case of CYRK, the CYRK Note, to the Corporation and all rights and benefits incident to the ownership thereof.

(b) There are no outstanding options, warrants or rights to purchase or acquire any of the Subject Indebtedness set forth on SCHEDULE 2.3 as being owed to such Existing Investor by the Corporation. No interest in or rights under any of the Subject Indebtedness set forth on SCHEDULE 2.3 as being owed to such Existing Investor by the Corporation has been sold, assigned or otherwise transferred by such Existing Investor to any other Person. After

giving effect to the transactions contemplated hereby and by the Related Agreements to be consummated at the Closing, neither such Existing Investor nor any Affiliate thereof shall have any claims against the Corporation in respect of indebtedness for borrowed money (whether due or to become due) or any interest on or fees or other amounts due in respect of any such indebtedness for borrowed money.

(c) Such Existing Investor acquired, in the case of CYRK, the CYRK Notes and, in the case of GPLP, the GPLP Note in one or more transactions exempt from registration under the Securities Act and in compliance with all applicable state securities Laws. Except as contemplated by the Related Agreements, upon the consummation at the Closing of the transactions contemplated by this Agreement, neither such Existing Investor nor any Affiliate thereof shall have any right whatsoever to receive or acquire any additional capital stock or other securities of the Corporation.

26

SECTION 6. CONDITIONS PRECEDENT TO THE INVESTORS' OBLIGATIONS AT THE CLOSING.

The several obligations of the Investors to perform this Agreement are subject to the satisfaction of the following conditions precedent:

6.1. REPRESENTATIONS AND WARRANTIES.

(a) With respect to the Existing Investors, the representations and warranties of the Corporation set forth in SECTIONS 3.1 through 3.5 shall (i) if not qualified by materiality, be true and complete in all material respects and (ii) if qualified by materiality, be true and complete in all respects, in each case on the date hereof and at and as of the Closing Date as though then made.

(b) With respect to the Insight Investors, the representations and warranties of the Corporation set forth in SECTION 3 (i) which are not qualified by materiality shall be true and complete in all material respects and (ii) which are qualified by materiality shall be true and complete in all respects, in each case on the date hereof and at and as of the Closing Date as though then made.

6.2. PERFORMANCE OF OBLIGATIONS.

The Corporation shall have performed and complied in all material respects with all agreements, obligations and conditions required to be performed or complied with by the Corporation under this Agreement.

6.3. AUTHORIZATION.

All action necessary to authorize the execution, delivery and performance by the Corporation of this Agreement and the Related Agreements, and the consummation of the transactions contemplated hereby and thereby, shall have been duly and validly taken, and the Corporation shall have full power and right to consummate the transactions contemplated hereby and thereby.

6.4. OPINION OF COUNSEL.

The Investors shall have received an opinion dated the Closing Date and addressed to the Investors of Bingham, Dana & Gould LLP, counsel to the Corporation, in form and substance reasonably acceptable to the Investors.

6.5. CONSENTS AND APPROVALS.

All corporate, stockholder and other proceedings to be taken and all waivers, consents, approvals, qualifications and registrations required to be obtained or effected in connection

with the issuance, sale, execution, delivery and performance by the Corporation of this Agreement and the Related Agreements and the transactions contemplated hereby and thereby, including the reservation, issuance, sale and delivery, as the case may be, of the GPLP Common Shares, CYRK/GPLP Preferred Shares, the Insight Preferred Shares and the Reserved Shares, shall have been taken, obtained or effected (except for the filing of any notice subsequent to the Closing that may be required under applicable Federal or state securities Laws, which notice shall be filed on a timely basis following the Closing as so required), and all documents incident thereto shall be satisfactory in form and substance to the Investors. The Investors shall have received all such originals or certified or other copies of such documents as have been reasonably requested.

6.6. FILING OF THE CERTIFICATE OF AMENDMENT.

The Certificate of Amendment shall have been filed by the Corporation with and accepted by the Secretary of State of the State of Delaware (and evidence of such filing and acceptance, in form satisfactory to the Investors, shall have been delivered to the Investors).

6.7. CONVERSION OF THE OLD PREFERRED STOCK.

Following the satisfaction of the condition precedent set forth in

SECTION 6.6 but prior to any subsequent amendment or modification of the Corporation's Certificate of Incorporation, the Existing Investors shall have delivered to the Corporation the stock certificate or certificates representing all of the outstanding shares of Old Preferred Stock of which they are the holders, duly endorsed or assigned in blank or to the Corporation (if required by it), accompanied by written notice, in form and substance satisfactory to the Corporation (and evidence of such satisfaction shall have been delivered to the Insight Investors), stating that the Existing Investors thereby elect to convert, effective immediately, all of such shares into shares (the "GPLP COMMON SHARES") of Common Stock and, pursuant to the Corporation's Certificate of Incorporation as amended to such time and then in full force and effect, such conversion shall have been deemed to be effected.

6.8. FILING OF THE AMENDED AND RESTATED CERTIFICATE.

Following the conversion by the Existing Investors of any outstanding shares of Old Preferred Stock held by them into shares of Common Stock, the Amended and Restated Certificate shall have been filed with and accepted by the Secretary of State of the State of Delaware (and evidence of such filing and acceptance, in form satisfactory to the Investors, shall have been delivered to the Investors) and shall not in any respect have been amended or modified or rescinded or revoked.

6.9. RESIGNATIONS.

The Corporation shall have received resignations from Michael Feldman ("FELDMAN") and each of the Corporation's employees (together with Feldman, collectively, the "DEPARTING EMPLOYEES") presently engaged in the provision of marketing consulting services, who are listed on SCHEDULE 6.9, (and evidence of such resignations, in form and substance satisfactory to the Investors, shall have been delivered to the Investors).

6.10. AMENDMENT OF 1996 STOCK INCENTIVE PLAN.

The 1996 Stock Incentive Plan of the Corporation shall have been amended to provide that, notwithstanding anything contained therein to the contrary, subject to the completion of the Closing, the aggregate number of shares of Common Stock that may be issued after the Closing pursuant thereto shall be 1,848,388.

6.11. GOVERNMENT CONSENTS, AUTHORIZATIONS, ETC.

All consents, authorizations, orders and approvals of, filings or registrations with and the expiration of all waiting periods imposed by, any third party, including, without limitation, any Governmental Authority which are required for or in connection with the execution and delivery by the Parties of this Agreement and the Related Agreements to which they may be parties and the consummation by the Parties of the transactions contemplated hereby and thereby shall have been obtained or made, in form and substance satisfactory to the Investors and shall be in full force and effect.

6.12. DUE DILIGENCE.

The Investors shall be satisfied in their sole discretion with the results of their business, legal, environmental and accounting due diligence investigation and review of the Corporation and its business, properties and assets.

6.13. LAWS; PROCEEDINGS.

No Law shall have been enacted and no Proceeding shall be pending, the effect of which would be to prohibit, restrict, impair or delay the consummation of the transactions contemplated by this Agreement or any of the Related Agreements or any of the conditions to the consummation of the transactions contemplated hereby or thereby or to prohibit, restrict or otherwise impair the ability of the Investors to own equity interests in the Corporation.

6.14. BOARD AND GENERAL PARTNER APPROVALS.

The Investors each shall have obtained all requisite approvals from any governing body thereof for the execution, delivery and performance of this Agreement and the Related Agreements to which it is a party and the consummation of the transactions contemplated hereby and thereby.

6.15. RELATED AGREEMENTS.

Each of the following agreements (the "RELATED AGREEMENTS") shall have been executed and delivered by the parties thereto (excluding any Investor a party thereto whose execution and delivery of such agreement would otherwise be a condition precedent to the performance of its own obligations hereunder) and the transactions contemplated by the Related Agreements consummated or effected, as the case may be, in accordance with the terms thereof:

(a) the Registration Rights Agreement dated as of the Closing Date (the "REGISTRATION RIGHTS AGREEMENT"), among the Corporation and the

Investors (as defined therein), substantially in the form of EXHIBIT D hereto;

(b) the Stockholders Agreement dated as of the Closing Date (the "STOCKHOLDERS AGREEMENT"), among the Corporation and the Stockholders (as defined therein), substantially in the form of EXHIBIT E hereto;

(c) the Operating Agreement of Newco, dated as of the Closing Date, among the persons named on Schedule A thereto, in form and substance reasonably acceptable to the Corporation and the Investors;

(d) the Promissory Note dated as of the Closing Date (the "NEWCO NOTE"), issued by Newco to the Corporation in the original principal amount of $350,000, in form and substance reasonably acceptable to the Corporation and the Investors;

(e) the Intellectual Property License Agreement dated as of the Closing Date, between GPLP and Newco, in form and substance reasonably acceptable to the Corporation and the Investors;

(f) the Consulting Agreement dated as of the Closing Date, between the Corporation and Newco, in form and substance reasonably acceptable to the Corporation and the Investors;

(g) the Non-Recourse Pledge Agreement dated as of the Closing Date, among Feldman and the Corporation, in form and substance reasonably acceptable to the Corporation and the Investors;

(h) a Termination and Release Agreement dated as of the Closing Date, by each Departing Employee in favor of the Corporation, in form and substance reasonably acceptable to the Corporation and the Investors;

(i) the Pay-off Agreement; and

(j) a Nondisclosure Agreement dated as of the Closing Date, among the Corporation and each of the Investors, in form and substance reasonably acceptable to the Corporation and such Investor.

6.16. RELATED CERTIFICATES.

Each of the following certificates (the "RELATED CERTIFICATES") shall have been executed and/or delivered, as the case may be, by the Person who or which is the subject thereof:

(i) certificate of the secretary of the Corporation, certifying (i) that true and complete copies of the Corporation's Certificate of Incorporation and By-Laws as amended to and in effect on the Closing Date are attached thereto, (ii) as to the incumbency and genuineness of the signatures of each officer of such Person executing this Agreement or any of the Related Agreements on behalf of the Corporation; and (iii) the genuineness of the resolutions of the board of directors of the Corporation (the "BOARD") authorizing the execution, delivery and performance of this Agreement and the Related Agreements and the consummation of the transactions contemplated hereby and thereby;

(ii) certificates of the secretaries of state of the States of Delaware and Massachusetts dated as of the Closing Date, certifying as to the corporate good standing of the Corporation;

(iii) a certificate signed by a principal executive officer of the Corporation, on behalf of the Corporation, dated as of the Closing Date, addressed to the Existing Investors and certifying as to the fulfillment of the conditions set forth in SECTION 6.1(a), SECTIONS 6.2 through 6.10 and SECTIONS 6.15 and 6.16 (but not as to the execution and delivery by any of the Investors of any Related Agreements); and

(iv) a certificate signed by a principal executive officer of the Corporation, on behalf of the Corporation, dated as of the Closing Date, addressed to the Insight Investors and certifying as to the fulfillment of the conditions set forth in SECTIONS 6.1(B) through 6.10 and SECTIONS 6.15 and 6.16 (but not as to the execution and delivery by any of the Investors of any Related Agreements).

SECTION 7. CONDITIONS PRECEDENT TO THE CORPORATION'S OBLIGATIONS AT THE CLOSING.

The obligation of the Corporation to issue and sell Preferred Shares to each Investor at the Closing is subject to the following conditions precedent:

7.1. REPRESENTATIONS AND WARRANTIES.

The representations and warranties made by such Investor and set forth in SECTIONS 4 or 5, as the case may be, shall (i) if not qualified by materiality, be true, correct and complete in all material respects and (ii) if qualified by materiality, be true, correct and complete in all respects, in each case on the date hereof and at and as of the Closing Date as though then made.

7.2. PERFORMANCE OF OBLIGATIONS.

Such Investor shall have performed and complied in all material respects with all agreements, obligations and conditions required to be performed or complied with by such Investor under this Agreement.

7.3. RELATED AGREEMENTS.

Each of the Related Agreements shall have been executed and delivered by the parties thereto (other than the Corporation) and the transactions contemplated thereby consummated or effected, as the case may be, in accordance with the terms thereof.

7.4. RELATED CERTIFICATES.

Each of the Related Certificates shall have been executed and/or delivered, as the case may be, by the Person (other than the Corporation) who or which is the subject thereof.

SECTION 8. ADDITIONAL AGREEMENTS OF THE PARTIES.

8.1. EFFORTS TO CONSUMMATE.

Each Party shall use reasonable efforts to take or cause to be taken all actions and do or cause to be done all things required under applicable Laws, in order to consummate the transactions contemplated by this Agreement and the Related Agreements.

8.2. FINANCIAL INFORMATION.

(a) The Corporation shall furnish to each Investor the following reports:

(i) As soon as practicable after the end of each fiscal year of the Corporation, and in any event within 90 days thereafter, consolidated balance sheets of the Corporation and its Subsidiaries (if any) as of the end of such fiscal year, and consolidated statements of income and consolidated statements of changes in cash flow of the Corporation and its Subsidiaries for such fiscal year, prepared in accordance with GAAP and setting forth in each case in comparative form the figures for the previous fiscal year and the budgeted figures for the current fiscal year, all in reasonable detail and audited by independent public accountants of national standing commonly known as "BIG 6"

accountants selected by the Corporation.

(ii) As soon as practicable after the end of the first, second and third quarterly accounting periods in each fiscal year of the Corporation and in any event within 45 days thereafter, a consolidated balance sheet of the Corporation and its Subsidiaries (if any) as of the end of each such quarterly period, and consolidated statements of income and consolidated statements of changes in cash flow of the Corporation and its Subsidiaries for such period and for the current fiscal year to date, prepared in accordance with GAAP (other than for accompanying notes), subject to changes resulting from normal year-end audit adjustments, and setting forth in each case in comparative form the figures for the same periods of the previous fiscal year and the budgeted figures for the current periods, all in reasonable detail and signed by the principal financial or accounting officer of the Corporation.

(b) The Corporation shall, and shall cause its Subsidiaries (if any) to, maintain a system of accounting sufficient to enable the Corporation's independent certified public accountants to render the reports specified in SECTION 8.2(a).

(c) The Corporation shall submit to the Board at least 60 days prior to the beginning of each fiscal year, a budget (the "ANNUAL OPERATING BUDGET") for the Corporation and its Subsidiaries (if any) that contains, at least with respect to such fiscal year, annual, quarterly and monthly detail, including, but not limited to, limitations on capital expenditures, operating expenditures and the incurrence of unsecured, secured and aggregate indebtedness, and shall be subject to the approval of the Board.

8.3. ADDITIONAL INFORMATION.

The Corporation shall deliver or provide to each Investor (i) as soon as practicable after the end of each month and in any event within 45 days thereafter an unaudited consolidated balance sheet and statements of income and cash flow of the Corporation and its Subsidiaries (if any) for such month

and for the year to date (in each case compared to the Annual Operating Budget and to the corresponding period of the prior year), (ii) the Annual Operating Budget as soon as practicable prior to the beginning of the next fiscal year, (iii) other budgets or financial plans prepared by the Corporation and presented to the Board, as soon as they are made available to the Board, (iv) a monthly letter from the management of the Corporation discussing in reasonable detail (A) the operations of the Corporation for the previous month period and (B) any deviations in the actual performance for the previous month period of the

Corporation and its Subsidiaries from the projected performance of the Corporation and its Subsidiaries set forth in the Annual Operating Budget, and (v) with reasonable promptness, (A) all financial statements, reports, notices and other documents sent by the Corporation to its stockholders generally or released to the public and copies of all regular and periodic reports, if any, filed by the Corporation with the Securities and Exchange Commission, (B) all reports prepared for or delivered to the management of the Corporation and its Subsidiaries by its accountants, and (C) such other information and data, including access to books and records of the Corporation and its Subsidiaries as any such Investor may from time to time reasonably request.

8.4. EMPLOYEE COMPENSATION.

Within 60 days after the Closing Date, the Corporation shall submit to the Board a compensation plan (the "APPROVED COMPENSATION PLAN") acceptable to the Board, (i) the eligible participants (the "ELIGIBLE PARTICIPANTS") of which shall be limited to the senior management and key employees of the Corporation (as determined by the Board in its sole discretion), (ii) the terms of which shall be consistent with the compensation plans of other software and consulting companies similar in size and development to the Corporation and the commitments made by the Corporation to Eligible Participants prior to the date hereof, and (iii) which shall provide that all future compensation (including bonuses) to which any Eligible Participant may be entitled (other than pursuant to existing commitments by the Corporation to Eligible Participants) shall be subject to the prior, written approval of the Compensation Committee (as defined in the Stockholders Agreement) in its sole discretion. The Corporation shall not provide any compensation (including bonuses) to any Eligible Participant (whether in respect of such Eligible Participant's services during the Corporation's fiscal year ended December 31, 1996 or any other fiscal year) other than (i) in accordance with either existing commitments by the Corporation to Eligible Participants or the terms and conditions of the Approved Compensation Plan, or (ii) upon the prior approval of the Compensation Committee.

8.5. RIGHTS OF INSPECTION.

Each Investor shall have the right, at its expense, to visit and inspect any of the properties of the Corporation or any of its Subsidiaries and to discuss their affairs, finances and accounts with their officers, all at such reasonable times during normal business hours and as often as may be reasonably requested.

8.6. INSURANCE.

The Corporation shall use its commercially reasonable efforts, and shall cause its Subsidiaries (if any) to use their commercially reasonable efforts, to obtain within 90 days after the Closing Date and to maintain thereafter such other insurance, including director and officer insurance and error and omission insurance, with such coverages and in such amounts as shall be required to protect such Persons and their respective directors, officers and employees against all risks usually insured against by Persons conducting similar businesses and operating similar properties in the localities where the business of the Corporation and its Subsidiaries is conducted under policies issued by national insurers of recognized responsibility.

8.7. USE OF PROCEEDS.

The Corporation shall use the proceeds from the sale of the Insight Preferred Shares in the manner specified in SECTION 3.24.

8.8. LITIGATION.

The Corporation, promptly upon becoming aware thereof, shall notify each Investor in writing of any Proceeding in which it or any of its Subsidiaries is involved and which might, if determined adversely, materially and adversely effect the Corporation or any of its Subsidiaries.

8.9. COMPLIANCE WITH LAWS.

The Corporation shall, and shall cause its Subsidiaries (if any), each to, (i) in carrying out its business to comply in all material respects with all Laws applicable to it, its business and the ownership of its assets and (ii) shall obtain and maintain in full force and effect all Permits material to and necessary in the conduct of its business and such Permits shall be maintained in full force and effect.

8.10. TAXES.

The Corporation shall, and shall cause each of its Subsidiaries to, pay and discharge all Taxes imposed upon it or upon its income or profits, or upon any property belonging to it,

prior to the date on which penalties attach thereto, and all lawful claims which, if unpaid, might become an Encumbrance upon its property, unless contested in good faith by proceedings authorized by the Board.

8.11. TERMINATION.

Upon the closing of an Initial Public Offering (as defined in the Stockholders Agreement), the provisions of SECTIONS 8.1 through 8.10 shall terminate and shall be of no further force or effect and shall not be binding upon the Corporation.

SECTION 9. FEES.

(a) The Corporation will pay, and save the Investors harmless against all liability for the payment of, (i) all costs and other expenses incurred from time to time by the Corporation in connection with the Corporation's performance of and compliance with all agreements and conditions contained herein on its part to be performed or complied with (including the reasonable cost and expenses of counsel for the Corporation incurred in connection with the review of this Agreement and the Related Agreements), and (ii) the costs and expenses incurred by IVP I in connection with the transactions contemplated by this Agreement and the Related Agreements, including fees and charges of O'Sullivan Graev & Karabell, LLP, special counsel to IVP I, for services in connection with the consummation of transactions contemplated by this Agreement and the Related Agreements, which fees and charges relating to the transactions contemplated hereby and thereby shall be paid by the Corporation at the Closing (PROVIDED, HOWEVER, that the Corporation's obligations under this CLAUSE (ii) shall not exceed $30,000).

(b) The Corporation further agrees that it shall pay, and will save the Investors harmless from, any and all liability with respect to any stamp or similar taxes which may be determined to be payable in connection with the execution and delivery and performance of the Agreement and the Related Agreements or any modification, amendment or alteration of the terms or provisions of this Agreement or any of the Related Agreements, and that it shall similarly pay and hold the Insight Investors harmless from all issue taxes in respect of the issuance of the Reserved Shares to the Insight Investors.

SECTION 10. SURVIVAL OF REPRESENTATIONS, WARRANTIES AND AGREEMENTS, ETC.

(a) All statements contained in this Agreement, any Related Agreement, any Related Certificate or any other closing certificate (each, an "OTHER CERTIFICATE") delivered by the Corporation to any Investor, pursuant to this Agreement or in connection with the transactions contemplated by this Agreement or any of the Related Agreements shall constitute representations

and warranties by the Corporation under this Agreement to the Investors identified as being the subject thereof and shall survive the Closing and the consummation of the transactions contemplated hereby and thereby for a period of 18 months after the Closing Date; PROVIDED, HOWEVER, that the representations and warranties of the Corporation to the Investors set forth in SECTION 3.1 through SECTION 3.5 shall survive indefinitely and the representations and warranties of the Corporation to the Insight Investors set forth in SECTIONS 3.13, 3.15, 3.18 and 3.20 shall survive until the expiration of the respective statutes of limitations applicable to the matters covered thereby.

(b) All statements contained in this Agreement, any Related Agreement, any Related Certificate or any Other Certificate delivered by any Investor to the Corporation pursuant to this Agreement or in connection with the transactions contemplated by this Agreement or any of the Related Agreements shall constitute representations and warranties by such Investor to the Corporation under this Agreement and shall survive the Closing and the consummation of the transactions contemplated hereby and thereby for a period of 18 months after the Closing Date; PROVIDED, HOWEVER, that the representations and warranties of any Investor to the Corporation set forth in SECTION 4.1 and, in the case of any Existing Investor, SECTION 5, shall survive indefinitely, and the representations and warranties of any Investor to the Corporation set forth in SECTION 4.2 shall survive until the expiration of the respective statutes of limitations applicable to the matters covered thereby.

(c) All agreements contained herein shall survive indefinitely until, by their respective terms, they are no longer operative.

(d) Anything in this Agreement express or implied to the contrary notwithstanding, all (if any) representations and warranties made or deemed made by the Corporation to the Existing Investors under this Agreement, any Related Agreement, any Related Certificate or any other closing certificate (other than pursuant to SECTIONS 3.1 through 3.5 of this Agreement) shall terminate for all purposes upon the Closing.

SECTION 11. INDEMNIFICATION.

(a) The Corporation shall indemnify, defend and hold each Investor harmless against all liability, loss or damage (including diminution in value of the Insight Preferred Shares, CYRK/GPLP Preferred Shares or GPLP Common Shares issued to such Investor pursuant to this Agreement or any Reserved Shares issued upon the conversion of the Insight Preferred Shares), together with all reasonable costs and expenses (including legal and accounting fees and expenses) related thereto or incurred in enforcing this SECTION 11(a) (collectively, "INVESTOR LOSSES"), (i) subject to SECTION 10, arising from the untruth, inaccuracy

or breach of any of the representations or warranties of the Corporation made to such Investor contained in this Agreement or any Related Agreement, Related Certificate or Other Certificate or any facts or circumstances constituting any such untruth, inaccuracy or breach, (ii) subject to SECTION 10, arising from the untruth or inaccuracy of any information delivered to such Investor pursuant to the terms of this Agreement or any Related Agreement, Related Certificate or Other Certificate, (iii) arising from the breach of any covenant or agreement of the Corporation contained in this Agreement or any Related Agreement, Related Certificate or Other Certificate or any facts or circumstances constituting such breach, (iv) arising from any claim, demand, assessment, judgment, order, decree, action, cause of action, litigation, suit, investigation or other Proceeding by a third party (whenever made) arising out of or in connection with (A) the status or conduct of the Corporation, (B) the execution, performance and delivery of this Agreement or any Related Agreement, Related Certificate or Other Certificate, or (C) any actions taken by or omitted to be taken by any of the Investors in connection with this Agreement or any Related Agreement, Related Certificate or Other Certificate, in each case by virtue of such Investor's acquisition of shares of Preferred Stock or Common Stock or such Investor or any Affiliate thereof acting as an adviser to the Corporation (unless the act or omission giving rise to such Claim resulted primarily out of or was based primarily upon the gross negligence, fraud or willful misconduct of such Investor or Affiliate), or (v) with respect to any liability for any brokers' or finders' fees or compensation owing or alleged to be owing in connection with the transactions contemplated by this Agreement or any of the Related Agreements due to the engagement by, or any other act of, the Corporation.

(b) Each Investor severally as to itself only and not jointly with or as to any other Investor, shall indemnify, defend and hold the Corporation harmless against all liability, loss or damage, together with all reasonable costs and expenses (including legal and accounting fees and expenses) related thereto or incurred in enforcing this SECTION 11(b) (collectively, "CORPORATION LOSSES"), arising from (i) the untruth, inaccuracy or breach of any of the representations, warranties, covenants or agreements of such Investor made to the Corporation contained in this Agreement or any Related Agreement, Related Certificate, instrument or other writing delivered by or on behalf of such Investor pursuant to or in connection with the consummation of the transactions contemplated by this Agreement or any of the Related Agreements, (ii) arising out of or relating to, in the case of GPLP, the GPLP Note, and in the case of CYRK, either of the CYRK Notes, or any promissory note issued by GPLP in connection with the Revolving Credit Agreement dated March 28, 1995 to which GPLP and CYRK are parties, not being canceled or marked "PAID IN full".

(c) Notwithstanding the foregoing provisions of this SECTION 11, (i) the maximum liability of the Corporation to indemnify an Investor pursuant to SECTION 11(a) for all Investor

Losses arising under CLAUSES (i), (ii) and (iii) of SECTION 11(a) shall not exceed an amount equal to the aggregate Original Issuance Price (as defined in the Amended and Restated Certificate) of the shares of Preferred Stock acquired by such Investor pursuant to this Agreement, plus, in the case of GPLP, $517,500 (but excluding from such amount any Investor Losses arising under CLAUSE (i) of SECTION 11(a) by reason of the untruth, inaccuracy or breach of any of the representations or warranties of the Corporation made to such Investor contained in SECTION 3.5 of this Agreement), and (ii) the maximum liability of any Investor to indemnify the Corporation pursuant to SECTION 11(b) for all Corporation Losses arising under SECTION 11(b) shall not exceed the amount of the maximum liability of the Corporation to indemnify such Investor pursuant to the foregoing CLAUSE (i), plus, in the case of CYRK, $1,000,000.

SECTION 12. REMEDIES.

The Parties shall each have and retain all rights and remedies existing in their favor under this Agreement, at law or equity, including rights to bring actions for specific performance and injunctive and other equitable relief (including, without limitation, the remedy of rescission) to enforce or prevent a breach or any violation of this Agreement. All such rights and remedies shall be cumulative and the existence, assertion, pursuit or exercise of any thereof by a Party shall not preclude the assertion, pursuit or exercise by such Party of any other rights or remedies available to it. Without limiting the generality of the foregoing, the Parties hereby agree that in the event the Corporation fails to convey, in accordance with the provisions of this Agreement, to any Investor any GPLP Common Shares, Insight Preferred Shares, CYRK/GPLP Preferred Shares or Reserved Shares being acquired by such Investor, such Investor's remedy at law may be inadequate. In such event, such Investor shall have the right, in addition to all other rights and remedies it may have, to specific performance of the obligation of the Corporation to convey the GPLP Common Shares, Insight Preferred Shares, CYRK/GPLP Preferred Shares or Reserved Shares in accordance with the provisions of this Agreement.

SECTION 13. SUCCESSORS AND ASSIGNS.

Except as otherwise provided herein, this Agreement will bind and inure to the benefit of and be enforceable by the Corporation and its successors and assigns and the Investors and any subsequent holders of GPLP Common Shares, Insight Preferred Shares, CYRK/GPLP Preferred Shares or Reserved Shares and the respective successors and assigns of each of them, so long as they hold GPLP Common Shares, Insight Preferred Shares, CYRK/GPLP Preferred Shares or Reserved Shares.

SECTION 14. ENTIRE AGREEMENT.

This Agreement, together with the Related Agreements, embodies the

complete agreement and understanding among the

Parties with respect to the subject matter hereof and thereof and supersede and preempt any prior understandings, agreements or representations by or among the Parties, written or oral, which may have related to the subject matter hereof or thereof in any way.

SECTION 15. NOTICES.

All notices, consents or other communications which are required or otherwise delivered hereunder shall be in writing and shall be deemed to have been duly given if (i) personally delivered or sent by telecopier, (ii) sent by nationally recognized overnight courier or (iii) sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to the Corporation, to:

Exchange Applications, Inc.
150 Federal Street
Boston, Massachusetts 02110
Telephone: (617) 737-2244
Telecopy: (617) 443-9143
Attention: Andrew J. Frawley

with a copy to:

Bingham, Dana & Gould LLP
150 Federal Street
Boston, Massachusetts 02110
Telephone: (617) 951-8866
Telecopy: (617) 951-8736
Attention: Neil W. Townsend, Esq.

If to an Investor, to it at its address set forth on SCHEDULE I hereto;

or to such other address as the party to whom notice is to be given may have furnished to each other party in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (i) when delivered, if personally delivered or sent by telecopier, (ii) on the first Business Day after dispatch, if sent by nationally recognized, overnight courier guaranteeing next Business Day delivery and (iii) on the fifth Business Day following the date on which the piece of mail containing such communication is posted, if sent by

mail.

SECTION 16. MODIFICATIONS; AMENDMENTS; AND WAIVERS.

The terms and provisions of this Agreement may not be modified or amended, nor may any provision applicable to the Investors be waived, except pursuant to a writing signed by the Corporation and those Investors which or who hold in the aggregate at least 50% of the shares of Series B Preferred Stock issued and sold pursuant to this Agreement and the shares of

Common Stock issued or issuable upon the conversion of the foregoing; PROVIDED, HOWEVER, that any such modification or amendment that would adversely affect the rights of any Investor (including the Existing Investors) without similarly affecting the rights hereunder of all Investors hereunder shall not be effective as to such Investor without its prior written consent. The failure of any party to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of such party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

SECTION 17. COUNTERPARTS.

This Agreement may be executed simultaneously in two or more counterparts, any one of which need not contain the signatures of more than one party, but all such counterparts taken together will constitute one and the same agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

SECTION 18. INTERPRETATION; CONSTRUCTION.

The term "THIS AGREEMENT" means this agreement together with all schedules and exhibits hereto, as the same may from time to time be amended, modified, supplemented or restated in accordance with the terms hereof. In this Agreement, the term "BEST KNOWLEDGE" of any Person means (i) the actual knowledge of such Person and (ii) that knowledge which should have been acquired by such Person after making such due inquiry and exercising such due diligence as a prudent businessperson would have made or exercised in the management of his or her business affairs, including due inquiry of those key employees and professional advisers (including attorneys, accountants and consultants) of the Person who could reasonably be expected to have actual knowledge of the matters in question. When used in the case of the Corporation, the term "BEST KNOWLEDGE" shall include the Best Knowledge of the Corporation and its Subsidiaries (if any). The use in this Agreement of the term "INCLUDING" means "INCLUDING,

WITHOUT LIMITATION." The words "HEREIN", "HEREOF", "HEREUNDER", "HEREBY", "HERETO", "HEREINAFTER", and other words of similar import refer to this Agreement as a whole, including the schedules and exhibits, as the same may from time to time be amended, modified, supplemented or restated, and not to any particular article, section, subsection, paragraph, subparagraph or clause contained in this Agreement. All references to articles, sections, subsections, clauses, paragraphs, schedules and exhibits mean such provisions of this Agreement and the schedules and exhibits attached to this Agreement, except where otherwise stated. The title of and the article, section and paragraph headings in this Agreement are for convenience of reference only and shall not govern or affect the interpretation of any of the terms or provisions of this Agreement. The use herein of the masculine, feminine or neuter forms shall also denote the other forms, as in each case the

context may require. Where specific language is used to clarify by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict in any manner the construction of the general statement to which it relates. The language used in this Agreement has been chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party. Accounting terms used but not otherwise defined herein shall have the meanings given to them under GAAP.

SECTION 19. GOVERNING LAW.

All questions concerning the construction, interpretation and validity of this Agreement shall be governed by and construed and enforced in accordance with the domestic laws of the Commonwealth of Massachusetts, without giving effect to any choice or conflict of law provision or rule (whether in the Commonwealth of Massachusetts or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the Commonwealth of Massachusetts. In furtherance of the foregoing, the internal law of the Commonwealth of Massachusetts will control the interpretation and construction of this Agreement, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily apply. Notwithstanding the foregoing provisions of this SECTION 19, those provisions of this Agreement that relate to the internal governance of the Corporation shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware.

SECTION 20. MUTUAL WAIVER OF JURY TRIAL.

BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND

EXPERT PERSON AND THE PARTIES WISH APPLICABLE LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING BROUGHT TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIES UNDER THIS AGREEMENT OR ANY DOCUMENTS RELATED HERETO.

SECTION 21. COUNTERPARTS.

This Agreement may be executed simultaneously in two or more counterparts, any one of which need not contain the signatures of more than one party, but all such counterparts taken together will constitute one and the same agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

* * * * *

IN WITNESS WHEREOF, each of the undersigned has caused this Securities Purchase Agreement to be executed as of the date first written above.

EXCHANGE APPLICATIONS, INC.

By: /s/ Andrew J. Frawley

Andrew J. Frawley
President

INVESTORS:

CYRK, INC.

By: /s/ Patrick Brady

Name: Patrick Brady
Title: President

GRANT & PARTNERS LIMITED PARTNERSHIP

BY: GRANT & PARTNERS, INC.,
its general partner

By: /s/ Alan W. H. Grant

Name: Alan W. H. Grant
Title: President

INSIGHT VENTURE PARTNERS I, L.P.

BY: INSIGHT VENTURE ASSOCIATES, LLC,
its general partner

By: /s/ Jeffrey L. Horing

Jeffrey L. Horing
Managing Member

GAP COINVESTMENT PARTNERS, L.P.

By: /s/ Stephen P. Reynolds

Name: Stephen P. Reynolds
Title: Managing Member

WEXFORD INSIGHT LLC

BY: WEXFORD MANAGEMENT LLC,
its investment manager

By: /s/ Robert Holtz

Name: Robert Holtz
Title: Principal

EXHIBIT 10.10

EXCHANGE APPLICATIONS, INC.

SECURITIES PURCHASE AGREEMENT

DECEMBER 4, 1997

ATTACHMENTS

EXHIBITS

Exhibit A	-	Amendment and Restated Certificate
Exhibit B	-	Form of Registration Rights Agreement
Exhibit C	-	Form of Stockholders Agreement

SCHEDULES

Schedule 3.1	-	Organization; Good Standing; Qualifications
Schedule 3.1.1	-	Certificate of Incorporation
Schedule 3.1.2	-	By-Laws
Schedule 3.4	-	No Consent or Approval Required
Schedule 3.5	-	Capitalization
Schedule 3.7	-	Financial Statements
Schedule 3.8	-	Absence of Undisclosed Liabilities
Schedule 3.9	-	Events Subsequent to the Latest Balance Sheet
Schedule 3.10	-	Title to Assets, Properties and Rights
Schedule 3.11	-	Intellectual Property
Schedule 3.12	-	Directors, Officers, Employees and Consultants
Schedule 3.14	-	Agreements, Etc.
Schedule 3.15	-	Permits and Orders
Schedule 3.16	-	Labor Relations; Employees
Schedule 3.17	-	Litigation
Schedule 3.18	-	Tax Matters
Schedule 3.19	-	Related Transactions

SECURITIES PURCHASE AGREEMENT dated as December 4, 1997, by and among EXCHANGE APPLICATIONS, INC., a Delaware corporation (the "CORPORATION"), INSIGHT CAPITAL PARTNERS II, L.P., a Delaware limited partnership ("IVP II"), WEXFORD INSIGHT LLC, a Delaware limited liability company ("WEXFORD"; and together with IVP II, the "INVESTORS").

The Corporation desires to sell to each Investor, and each Investor desires to purchase from the Corporation, shares of the capital stock of the Corporation, on the terms and subject to the conditions set forth herein. The Corporation and the Investors are referred to herein collectively as the

"Parties."

ACCORDINGLY, in consideration of the representations, warranties, agreements, covenants and conditions contained in this Agreement, the Parties hereby agree as follows:

SECTION 1. FILING OF CERTIFICATES.

Prior to the Closing, the Corporation shall file with the Secretary of State of the State of Delaware an Amended and Restated Certificate of Incorporation, in the form of EXHIBIT A hereto (the "AMENDED AND RESTATED CERTIFICATE"), that, among other things, (i) authorizes 12,078,698 shares of Common Stock, $.001 par value (the "COMMON STOCK"), (ii) authorizes 6,679,510 shares of Preferred Stock, $.001 par value (the "PREFERRED Stock"), of which (A) 2,900,000 shares shall be designated Series A Preferred Stock (the "SERIES A PREFERRED STOCK"), (B) 2,555,556 shares shall be designated Series B Convertible Preferred Stock (the "SERIES B PREFERRED STOCK"), and (C) 1,223,954 shares shall be designated Series C Convertible Preferred Stock (the "SERIES C PREFERRED STOCK"), and (iii) sets forth the terms, designations, powers, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions, of the Common Stock and the Preferred Stock.

SECTION 2. AUTHORIZATION AND RESERVATION; ISSUANCE AND SALE; CLOSING.

2.1. AUTHORIZATION AND RESERVATION.

Subject to the terms and conditions hereof, the Corporation has authorized (i) the issuance and sale of 1,223,954 shares of Series C Preferred Stock (the "INSIGHT PREFERRED SHARES") to the Investors at the Closing, and (ii) the reservation of an aggregate of 1,223,954 shares of Common Stock (the "RESERVED SHARES") for issuance upon the conversion of the Insight Preferred Shares.

2.2. ISSUANCE AND SALE OF THE INSIGHT PREFERRED SHARES.

(a) At the Closing, on and subject to the terms and conditions contained herein, the Corporation shall issue, sell and deliver to IVP II, and IVP II shall purchase from the Corporation, upon the terms and subject to the conditions hereinafter set forth, 611,977 Insight Preferred Shares for an aggregate purchase price of $2,000,000 in cash (or a purchase price of $3.268 per share).

(b) At the Closing, on and subject to the terms and conditions contained herein, the Corporation shall issue, sell and deliver to Wexford, and Wexford shall purchase from the Corporation, upon the terms and subject to the conditions hereinafter set forth, 611,977 Insight Preferred Shares for an

aggregate purchase price of $2,000,000 in cash (or a purchase price of $3.268 per share).

2.3. DELIVERIES AT CLOSING.

At the Closing, the Corporation shall deliver to each Investor stock certificates representing the Insight Preferred Shares being acquired by such Investor at the Closing, registered in the name of such Investor, against receipt by the Corporation of a certified or official bank check payable to the Corporation or a wire transfer of immediately available funds to an account designated by the Corporation in an aggregate amount equal to the purchase price for the Insight Preferred Shares being purchased by such Investor hereunder.

2.4. CLOSING.

The closing (the "CLOSING") hereunder with respect to the issuance, sale and delivery of the Insight Preferred Shares and the consummation of the related transactions contemplated by this Agreement and the Related Agreements shall, subject to the satisfaction or waiver of the conditions set forth in SECTIONS 5 and 6, take place at the offices of O'Sullivan Graev & Karabell, LLP, 30 Rockefeller Plaza, New York, New York 10112 on a business day (the "CLOSING DATE") designated by the Corporation and IVP II, which date shall be no later than five Business Days after the date on which all such conditions shall have been satisfied to the satisfaction of, or otherwise waived by, the Parties whose obligations are subject thereto. As used in this Agreement, the term "BUSINESS DAY" means any day that is not a Saturday, Sunday, legal holiday or other day on which banks are required to be closed in New York, New York or Boston, Massachusetts.

SECTION 3. REPRESENTATIONS AND WARRANTIES OF THE CORPORATION.

The Corporation hereby represents and warrants to the Investors as set forth in the following SECTIONS 3.1 through 3.25:

3.1. ORGANIZATION; GOOD STANDING; QUALIFICATIONS.

(a) The Corporation is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted. The Corporation has all requisite corporate power and authority to enter into this Agreement and the Related Agreements to which it is a party, to perform its obligations hereunder and thereunder and to consummate the transactions

contemplated hereby and thereby. The Corporation is duly qualified and in good standing to do business in the Commonwealth of Massachusetts and every jurisdiction in which such qualification is necessary because of the nature of the property owned, leased or operated by it or the nature of the business conducted by it therein, except where the failure to so qualify would not have a material adverse effect (a "MATERIAL ADVERSE EFFECT") on the business, operations, assets, condition (financial or otherwise), operating results, liabilities, employee relations or business prospects of the Corporation and its Subsidiaries (if any) taken as a whole (each of which jurisdictions is listed on SCHEDULE 3.1 hereto). The Corporation has not conducted its business under any fictitious or other names except those names listed on SCHEDULE 3.1. True and complete copies of the Corporation's Certificate of Incorporation and By-Laws, in each case as amended to and in effect on the date hereof, are attached hereto as SCHEDULE 3.1.1 hereto and SCHEDULE 3.1.2 hereto, respectively. The Corporation has in all material respects performed all of the obligations required to be performed by it to date under its Certificate of Incorporation and By-Laws, in each case as amended to and in effect on the date hereof, and there exists no default, or any event which upon the giving of notice or the passage of time, or both, would give rise to a claim of a default in the performance by the Corporation of its obligations thereunder.

(b) As used herein, the term "GOVERNMENTAL AUTHORITY" means any court, department, commission, board, bureau, agency or commission or other governmental authority or instrumentality, domestic or foreign, federal, state or local; the term "ORDER" means any judgments, writs, decrees, injunctions, orders, compliance agreements or settlement agreements of any Governmental Authority; and the term "LAWS" means federal, state, local or foreign laws, statutes, rules, directives, ordinances requirements, regulations and Orders of any Governmental Authority.

3.2. AUTHORITY OF THE CORPORATION.

(a) The execution, delivery and performance of this Agreement and the Related Agreements to which the Corporation is a party and the consummation by the Corporation of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary action on the part of the Corporation and its stockholders, and this Agreement and the Related Agreements to which the Corporation is a party have been duly and validly executed by the Corporation and are valid and binding obligations of the Corporation, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or similar Laws now or hereafter in effect, public policy and general principles of equity. The execution, delivery and performance of this Agreement

and the Related Agreements to which the Corporation is a party, the consummation by the Corporation of the transactions contemplated hereby and thereby, including the reservation, issuance, sale and delivery, as the case may be, of the Insight Preferred Shares and the Reserved Shares, and the compliance by the Corporation with all of the provisions hereof and thereof shall not (i) conflict with or result in a breach of any provision of the Certificate of Incorporation or By-Laws of the Corporation, in each case as amended to and in effect on the date hereof, (ii) cause a default or give rise to any right of termination, cancellation or acceleration (whether upon the giving of notice or the lapse of time or both) under any of the terms, conditions or provisions of any note, bond, lease, mortgage, indenture, license or other instrument or agreement to which the Corporation is a party or by which the Corporation or any of its properties or assets is or may be bound or affected, except where such defaults, terminations, cancellations or accelerations taken as a whole would not have a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole, or (iii) violate any Law applicable to the Corporation or any of its properties or assets. As used herein, the term "PERSON" shall be construed broadly and shall include an individual, corporation, association, partnership, joint venture or entity, organization or Governmental Authority; and the term "SUBSIDIARY" means any Person (other than a natural Person) with respect to which a specified Person (or a Subsidiary thereof) has the power to vote or direct the voting of sufficient securities to elect a majority of the board of directors or similar governing body.

SECTION 3.3. AUTHORIZATION OF INSIGHT PREFERRED SHARES AND RESERVED SHARES.

The reservation, issuance, sale and delivery, as the case may be, of the Insight Preferred Shares and the Reserved Shares have been duly authorized by all requisite board, stockholder and other corporate action on the part of the Corporation. As of the Closing, the Insight Preferred Shares, and, upon their issuance in accordance with the Amended and Restated Certificate, the Reserved Shares, shall be validly

issued and outstanding, fully paid and nonassessable, with no personal liability attaching to the ownership thereof, and, except as contemplated by the Related Agreements, not subject to any Encumbrances or any preemptive rights, rights of first refusal or other similar rights of the stockholders of the Corporation.

3.4. NO CONSENT OR APPROVAL REQUIRED.

No consent or approval by, or any notification of or filing with, any Person (governmental or private) is required in connection with the execution,

delivery and performance by the Corporation of this Agreement and the Related Agreements to which the Corporation is a party or the consummation by the Corporation of the transactions contemplated hereby and thereby, including the valid reservation, issuance, sale and delivery, as the case may be, of the Insight Preferred Shares and the Reserved Shares, except for stockholder approval of the filings of the Amended and Restated Certificate as described in SECTION 1, the filing of any notices subsequent to the Closing that may be required under applicable Federal or state securities Laws (which notices shall be filed on a timely basis following the Closing as so required) and those other consents, approvals, notifications and filings set forth on SCHEDULE 3.4 hereto, which, except as otherwise set forth on SCHEDULE 3.4, have been made or will be obtained prior to the Closing.

3.5. CAPITALIZATION.

(a) Immediately upon the consummation at the Closing of the transactions contemplated by this Agreement, the authorized capital stock of the Corporation shall consist of:

(i) 12,078,698 shares of Common Stock, of which:

(A) 3,870,050 shares shall be validly issued and outstanding, fully paid and nonassessable, with no personal liability attaching to the ownership thereof;

(B) 2,555,556 shares shall be duly reserved for issuance upon conversion of the Series B Preferred Stock;

(C) 1,223,954 shares shall be duly reserved for issuance upon conversion of the Series C Preferred Stock; and

(D) 2,156,388 shares shall be duly reserved for issuance upon the grant of such shares, or the exercise of options granted therefor, pursuant to

the 1996 Stock Incentive Plan of the Corporation, as amended to and in effect on the Closing Date; and

(ii) 6,679,510 shares of Preferred Stock, of which:

(A) 2,900,000 shall have been duly designated as Series A Preferred Stock, all of which shares shall have been validly issued and shall be outstanding, fully paid and

nonassessable, with no personal liability attaching to the ownership thereof;

(B) 2,555,556 shares shall have been duly designated as Series B Preferred Stock, all of which shares shall have been validly issued and shall be outstanding, fully paid and nonassessable, with no personal liability attaching to the ownership thereof; and

(C) 1,223,954 shares shall have been duly designated as Series C Preferred Stock, all of which shares shall have been validly issued and shall be outstanding, fully paid and nonassessable, with no personal liability attaching to the ownership thereof; and

all such outstanding shares in each case being owned of record by the Persons identified on SCHEDULE 3.5 hereto in the amounts set forth thereon.

(b) SCHEDULE 3.5 contains a list, as of the date hereof and assuming the consummation at the Closing of all transactions contemplated by this Agreement and the Related Agreements, of all outstanding warrants, options, agreements, convertible securities or other commitments pursuant to which the Corporation or, to the Best Knowledge of the Corporation, any stockholder thereof is or may become obligated to issue, sell or otherwise transfer any shares of capital stock or other securities of the Corporation, which list names all Persons entitled to receive such shares or other securities, indicates whether or not such securities are entitled to any anti-dilution or similar adjustments upon the issuance of additional securities of the Corporation or otherwise and sets forth the shares of capital stock or other securities required to be issued thereunder (calculated after giving effect to all such anti-dilution and other similar adjustments resulting from the issuance of the Insight Preferred Shares and the consummation of the transactions contemplated by this Agreement and the Related Agreements).

(c) Except as set forth on SCHEDULE 3.5 or as contemplated by the Related Agreements, immediately upon consummation at the Closing of the transactions contemplated by this Agreement and the Related Agreements, including the delivery

of each of the instruments described in SECTIONS 5 and 6, there shall be, (i) no preemptive or similar rights to purchase or otherwise acquire any shares of the capital stock or other securities of the Corporation pursuant to any provision of Law, the Corporation's Certificate of Incorporation or By-Laws, in each case

as amended to and in effect on the date hereof, or any agreement to which the Corporation or, to the Best Knowledge of the Corporation, any stockholder thereof is a party; and (ii) with respect to the sale or voting of any shares of capital stock or other securities of the Corporation (whether outstanding or issuable upon the conversion, exercise or exchange of outstanding securities), no Encumbrance or other restriction (such as a right of first refusal, right of first offer, proxy, voting trust, voting agreement, etc.), except, in the case of shares of Common Stock previously issued to officers, directors and employees of the Corporation, in favor of the Corporation. As used herein, the term "ENCUMBRANCES" means any of the following: security interests, liens, pledges, claims, charges, escrows, encumbrances, options, rights of first refusal, mortgages, indentures, security agreements, judgments, or other agreements, arrangements, contracts, commitments, understandings or obligations, whether written or oral and whether or not relating in any way to credit or the borrowing of money.

(d) All shares of the capital stock and other securities issued by the Corporation prior to the Closing have been issued in transactions exempt from registration under the Securities Act of 1933, as amended (the "SECURITIES ACT"), and the rules and regulations promulgated thereunder and all applicable state securities or "BLUE SKY" Laws. The Corporation has not violated the Securities Act or any applicable state securities or "BLUE SKY" Laws in connection with the issuance of any shares of capital stock or other securities prior to the Closing.

3.6. EQUITY INVESTMENT.

The Corporation has never owned, nor does it presently own, any capital stock or other equity interest in any corporation, association, trust, partnership, joint venture or other Person.

3.7. FINANCIAL STATEMENTS.

(a) SCHEDULE 3.7 hereto contains the following financial statements: (i) the audited balance sheet (the "LATEST BALANCE SHEET") of the Corporation dated as of December 31, 1996 (the "LATEST BALANCE SHEET DATE") and the related audited statements of income, retained earnings and cash flows for the fiscal year ended December 31, 1996, together with the accompanying supplementary information and report of the auditor thereof, and (ii) the unaudited balance sheet of the Corporation for the nine month period ended September 30, 1997 and the related unaudited statements of income for the Corporation,

retained earnings for the Corporation excluding Exchange Application Limited, a

subsidiary of the Company (the "Subsidiary") and cash flows for the Corporation excluding the Subsidiary for such nine month period together with accompanying supplementary information (collectively, the "FINANCIAL STATEMENTS").

(b) Each of the Financial Statements (A) has been prepared in accordance with the books and records of the Corporation (which have been maintained in accordance with good business practices and are true and complete, in each case in all material respects), (B) is materially true and correct, (C) fairly presents the financial condition, results of income, retained earnings and cash flow which it purports to present as of the date thereof and for the periods indicated thereon and (D) except as described therein or in the footnotes thereto, has been prepared in accordance with United States generally accepted accounting principles consistently applied ("GAAP") throughout the periods covered thereby. Except as set forth in the Financial Statements or in the footnotes thereto or as required by applicable Law or GAAP, there has been no change in (i) any accounting principle, procedure or practice followed by the Corporation or (ii) the method of applying any such principle, procedure or practice.

3.8. ABSENCE OF UNDISCLOSED LIABILITIES AND OBLIGATIONS.

The Corporation has no liabilities or obligations on the date hereof not disclosed on or reflected in the Latest Balance Sheet, except for (i) liabilities or obligations incurred after the Latest Balance Sheet Date in the ordinary course of business consistent with past practice (none of which relates to any breach of contract, default, breach of warranty, tort, infringement, violation of Law or Proceeding) none of which has had, or is reasonably likely to have, a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole, (ii) liabilities or obligations which would not be required to be disclosed on or reflected in a balance sheet prepared in accordance with GAAP on the date hereof, and (iii) liabilities or obligations incurred after the Latest Balance Sheet Date and set forth on SCHEDULE 3.8 hereto. All reserves set forth on the Latest Balance Sheet were adequate for the purposes indicated therein at the Latest Balance Sheet Date, and, to the Best Knowledge of the Corporation, continue to be adequate for the purposes indicated therein as of the date hereof. There are no "LOSS CONTINGENCIES" (as such term is used in Statement of Financial Accounting Standards No. 5 issued by the Financial Accounting Standards Board in March 1975) that are not adequately provided for on the Latest Balance Sheet.

3.9. EVENTS SUBSEQUENT TO THE LATEST BALANCE SHEET.

(a) Except as set forth on SCHEDULE 3.9 hereto and the transactions contemplated by this Agreement and the Related Agreements, since the Latest Balance Sheet Date, the Corporation has been operated in the ordinary course of business consistent with past practice and there has not been:

(i) any material adverse change in the condition (financial or otherwise), assets, liabilities, operations, earnings, business or prospects of the Corporation;

(ii) any obligation, liability or indebtedness (whether absolute, accrued, contingent or otherwise and whether due or to become due) in excess of $50,000 incurred, or any transaction, contract or commitment entered into, amended or terminated, with respect to the Corporation, other than items incurred or entered into on an arms' length basis in the ordinary course of business of the Corporation and consistent with past practice;

(iii) any acceleration, payment, discharge or satisfaction by the Corporation of any liability, obligation, claim, lien or encumbrance (whether fixed or contingent, matured or unmatured) in excess of $50,000, except on an arms' length basis in the ordinary course of business and consistent with past practice;

(iv) any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of capital stock of the Corporation, or any direct or indirect redemption, purchase or other acquisition of any thereof, or any other payments of any nature to any Affiliate of the Corporation whether or not on or with respect to any shares of capital stock of the Corporation owned by such Affiliate;

(v) any issuance or sale, or any contract entered into for the issuance or sale, of any shares of capital stock of the Corporation or securities convertible into or exercisable or exchangeable for such capital stock, except commitments by the Corporation to employees thereof to issue options to purchase shares of Common Stock pursuant to the Corporation's 1996 Stock Incentive Plan, as set forth in the offer letters from the Corporation to such employees copies of which have been delivered by the Corporation to the Investors;

(vi) any license, sale, transfer, pledge, mortgage, or other disposition of any tangible or intangible asset of the Corporation, except on an arms' length basis in the ordinary course of business and consistent with past practice;

(vii) any extraordinary increase in the compensation paid or payable to any stockholder, director, officer, employee, agent or Affiliate of, or consultant to, the Corporation, or any loan to any of the foregoing Persons, or any agreement or commitment therefor (other than advances to such Persons in the ordinary course of business consistent with past practice in connection with travel and travel-related expenses);

(viii) any change in the Tax or other accounting methods or practices followed by the Corporation or any change in depreciation or amortization policies or rates previously adopted;

(ix) any damage, destruction or loss (whether or not covered by insurance) in excess of $10,000 affecting any asset or property of the Corporation; or

(x) any agreement, whether in writing or otherwise, to take any of the actions specified in the foregoing CLAUSES (ii) through (viii).

(b) As used herein, the term "AFFILIATE" means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, any other Person.

3.10. TITLE TO ASSETS, PROPERTIES AND RIGHTS.

The Corporation has good and marketable title to all the properties and interests in properties and assets, whether personal or mixed, reflected as being owned by the Corporation on the Latest Balance Sheet or acquired subsequent thereto (except for those properties or interests subsequently disposed of in the ordinary course of business), free and clear of all Encumbrances, except for (i) those Encumbrances set forth on SCHEDULE 3.10 hereto, (ii) liens for current taxes, assessments and other governmental charges not yet due and payable or being contested in good faith by appropriate proceedings and for which there are adequate reserves on the books and records of the Corporation, and (iii) mechanics', landlord's, materialman's, supplier's, vendor's or similar liens arising in the ordinary course of business securing amounts that are not delinquent. The assets, properties and rights of the Corporation reflected as being owned on the Latest Balance Sheet or acquired after the date thereof or leased for use by the Corporation are in all material respects in good operating condition and repair (normal wear and tear excepted), are suitable in all material respects for the uses for which they are used in the Corporation's business, are not subject to any condition which interferes with the use thereof in any material respect, and constitute all assets, properties and rights necessary to permit the Corporation to carry on its business after the Closing as generally conducted by the Corporation prior thereto.

13

3.11. INTELLECTUAL PROPERTY.

(a) Except as set forth on SCHEDULE 3.11 hereto:

(i) the Corporation owns, has the right to use, sell, license and dispose of, and, to the extent owned, has the right to bring actions for the infringement of, all Intellectual Property Rights necessary or required for the conduct of the business of the Corporation (collectively, the "OWNED REQUISITE RIGHTS"), other than those Intellectual Property Rights for which the Corporation has a valid license (collectively, the "LICENSED REQUISITE RIGHTS"; and together with the Owned Requisite Rights, the "REQUISITE RIGHTS");

(ii) the Requisite Rights are sufficient in all material respects for the conduct of the business of the Corporation as currently conducted or as contemplated to be conducted;

(iii) to the Best Knowledge of the Corporation, there are no royalties, honoraria, fees or other payments payable by the Corporation to any Person by reason of the ownership, use, license, sale or disposition of the Requisite Rights;

(iv) to the Best Knowledge of the Corporation, no activity, service or procedure currently conducted or proposed to be conducted by the Corporation violates or shall violate any contract, instrument, license, commitment, lease or similar document of the Corporation with any third Person relating to any Intellectual Property Rights, or infringe any Intellectual Property Rights of any other Person;

(v) the Corporation has taken reasonable and practicable steps (including, without limitation, entering into confidentiality and nondisclosure agreements with all officers, directors and employees of and consultants to the Corporation and other Persons with access to or knowledge of confidential information of the Corporation) designed to safeguard and maintain (i) the secrecy and confidentiality of confidential information of the Corporation and (ii) the proprietary rights of the Corporation in all Requisite Rights;

(vi) to the Best Knowledge of the Corporation, the Corporation has not interfered with, infringed upon, misappropriated or otherwise come into conflict in any material respect with any Intellectual Property Rights of any Person or committed any acts of unfair competition, and the Corporation has not received from any

Person any written notice, charge, complaint, claim or assertion thereof, and no such claim is impliedly

threatened by an offer to license from another Person under a claim of use; and

(vii) the Corporation has not sent to any Person or otherwise communicated to any Person, any written notice, charge, complaint, claim or other assertion of any present, impending or threatened infringement by or misappropriation of, or other conflict with, any Intellectual Property Rights of the Corporation by such other Person or any acts of unfair competition by such other Person with respect to the Corporation, nor, to the Best Knowledge of the Corporation, is any such infringement, misappropriation, conflict or act of unfair competition occurring or threatened.

(b) SCHEDULE 3.11 contains a true and complete list of all applications, filings and registrations pursuant to any Laws and any licenses made, taken or obtained by the Corporation, in each case to acquire, perfect, or protect its interest in its Intellectual Property Rights, including, without limitation, all patents, patent applications, trademarks, trademark applications, servicemarks and servicemark applications.

(c) As used herein, the term "INTELLECTUAL PROPERTY RIGHTS" means all industrial and intellectual property rights, including, without limitation, patents, patent applications, patent rights, trademarks, trademark applications, tradenames, servicemarks, servicemark applications, copyrights, know-how, trade secrets, proprietary processes and formulae, confidential information, franchises, licenses, inventions, trade dress and logos.

(d) To the Best Knowledge of the Corporation, the Corporation's VALEX software product shall function without any material interruption or required updates caused by the necessity to compare date information prior to and after the change of the century (PROVIDED, HOWEVER, no representation or warranty is being made by the Corporation pursuant to this SECTION 3.11(d) as to any operating system on which the VALEX software product may be used or any component part of the VALEX software product not developed by the Corporation).

3.12. DIRECTORS, OFFICERS, EMPLOYEES AND CONSULTANTS.

Except as set forth on SCHEDULE 3.12 hereto, to the Best Knowledge of the Corporation, no third party has asserted or threatened to assert any

material valid claim against the Corporation or any present stockholder, director, officer or employee of, or consultant to, the Corporation, involving (i) the employment by, or association with, the Corporation, of any of the foregoing Persons or (ii) the use, in connection with the business of the Corporation or any of the foregoing Persons of any information which the Corporation or any such Persons would

be prohibited from using under any prior agreements or arrangements or any legal considerations applicable to unfair competition, trade secrets or proprietary information.

3.13. ERISA PLANS AND CONTRACTS.

(a) The Corporation does not maintain nor is it a party to (or ever maintained or was a party to) any "EMPLOYEE WELFARE BENEFIT PLAN", as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any other written, unwritten, formal or informal plan or agreement involving direct or indirect compensation other than workers' compensation, unemployment compensation and other government programs, under which the Corporation has any present or future obligation or liability. The Corporation does not maintain nor is it a party to (or ever maintained or was a party to) any "EMPLOYEE PENSION BENEFIT PLAN", as defined in Section 3(2) of ERISA, and the Corporation does not contribute to any "MULTIEMPLOYER PLAN" as defined in Section 3(37) of ERISA.

(b) There is no contract, agreement, plan or arrangement covering any employee or former employee of the Corporation that, individually or collectively, could give rise to the payment of any amount that would not be deductible by reason of Section 280G of the Internal Revenue Code of 1986, as amended (the "CODE") (other than potentially on the acceleration of stock options or the vesting of restricted stock upon a change of control).

3.14. AGREEMENTS, ETC.

(a) SCHEDULE 3.14 hereto contains a true and complete list and brief description of all contracts, agreements, commitments and other instruments (whether written or oral) to which the Corporation is a party (other than this Agreement and the Related Agreements) and (x) which were entered into or made outside the ordinary course of business or (y) which were entered into or made in the ordinary course of business and are described in CLAUSES (i) through (xvi) of this SECTION 3.14. Except as set forth on SCHEDULE 3.14, the Corporation is not a party to any of the following, whether written or oral:

(i) distributorship, dealer, sales, advertising, agency, manufacturer's representative or other contract relating to the payment of aggregate commissions in excess of $50,000;

(ii) contract for the future purchase of products, equipment or services which is not terminable by the Corporation without aggregate cost, forfeiture or other liability in excess of $30,000 individually or $100,000 in the aggregate for all such contracts;

(iii) contract or commitment for the employment of any officer, employee or consultant or any other type of contract or understanding with any officer, employee or consultant relating to the payment of aggregate consideration or severance in excess of $50,000 (other than the Employment Agreement dated as of November 15, 1996, between the Corporation and Andrew J. Frawley and offer letters from the Corporation to employees thereof (which are listed on SCHEDULE 3.14 and copies of which have been delivered by the Corporation to the Investors);

(iv) formal or informal profit sharing, bonus, stock option, pension, retirement, disability, stock purchase, hospitalization, insurance or similar plan or agreement providing benefits to any current or former director, officer, employee or consultant, whether or not subject to ERISA;

(v) indenture, mortgage, promissory note, loan agreement, pledge agreement, guarantee or other agreement or commitment for the borrowing of money, for a line of credit or for a leasing transaction of a type required to be capitalized in accordance with Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board;

(vi) contract or commitment for capital expenditures in excess of $75,000 (excluding contracts or commitments for the purchase of office equipment and personal computers in the ordinary course of business);

(vii) agreement or arrangement for the sale of any assets, properties or rights other than the sale of services or products in the ordinary course of business;

(viii) lease or other agreement pursuant to which it is a lessee of or holds or operates any machinery, equipment, motor vehicles, office furniture, fixtures, products, merchandise or similar personal property owned by any other Person;

(ix) contract with respect to the lending or investing of funds in excess of $75,000;

(x) confidentiality or nondisclosure contract with any Person (other than an Investor) who or which has (i) made or proposed to make a financial investment in the Corporation in order to receive from the Corporation goods, services, technology, expertise or other value in addition to a monetary return on any such financial investment or (ii) proposed to acquire the Corporation through a Sale of the Corporation (as defined in the Stockholders Agreement);

(xi) contract or commitment to issue or sell any securities of the Corporation (excluding any offer letter from the Corporation to an employee thereof a copy of which has been delivered by the Corporation to the Investors);

(xii) contract which restricts the Corporation from engaging in any aspect of its business anywhere in the world;

(xiii) contract or group of related contracts with the same Person (excluding purchase orders entered into in the ordinary course of business which are to be completed within three months of entering into such purchase orders) for the purchase or sale of products or services under which the undelivered balance of such products and services has a selling price in excess of $10,000;

(xiv) contract (x) that is not terminable by either party thereto without penalty upon not more than 30 days' advance notice and involves aggregate consideration in excess of $75,000 or (y) that involves aggregate consideration in excess of $75,000 (excluding in the case of CLAUSES (x) and (y) above any purchase order entered into in the ordinary course of business which is to be completed within six months of entering into such purchase order);

(xv) contract with any Affiliate of the Corporation; or

(xvi) other contract material to the business of the

Corporation.

(b) To the Best Knowledge of the Corporation, all items listed on SCHEDULE 3.14 are in full force and effect, constitute legal, valid and binding obligations of the respective parties thereto, and are enforceable in accordance with their respective terms. The Corporation has in all material respects performed all of the obligations required to be performed by it to date, and there exists no default, or any event which upon the giving of notice or the passage of time, or both, would give rise to a claim of a default in the performance by the Corporation or any other party to any of the foregoing of their respective obligations thereunder, except where such actual or potential default has not had, and in the future is not reasonably likely to have, a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole. The Corporation has previously furnished to the Investors true, complete and correct copies of all written items listed on SCHEDULE 3.14 and SCHEDULE 3.14 contains complete descriptions of all oral items listed on SCHEDULE 3.14. No consent or approval by, or any notification or filing with, any party to any of the agreements listed on SCHEDULE 3.14 is required in connection with the execution,

delivery and performance by the Corporation of this Agreement or any of the Related Agreements or the consummation by the Corporation of the transactions contemplated hereby or thereby, except for those consents, approvals, notifications or filings set forth on SCHEDULE 3.14, which, except as set forth on SCHEDULE 3.14, have been or shall be made or obtained prior to the Closing.

3.15. COMPLIANCE; GOVERNMENTAL AUTHORIZATIONS.

(a) The Corporation (i) has complied with, and is in compliance with, in all respects all Laws (including all Environmental and Safety Requirements) applicable to it and its business (including, but not limited to, any and all Laws relating in any manner to the environment or the generation, treatment, storage, recycling, transportation, release or disposal of any materials into the environment), except where such noncompliance has not had, and is reasonably likely not to have, a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole, and (ii) has all federal, state, local and foreign governmental licenses and permits (collectively, "PERMITS") used or necessary in the conduct of its business. Such Permits are in full force and effect, no violations with respect to any thereof have occurred or are or have been recorded, no Proceeding is pending or, to the Best Knowledge of the Corporation, threatened to revoke or limit any thereof. SCHEDULE 3.15 hereto contains a true and complete list of (i) all such Permits and (ii) all Orders under which the Corporation is operating or bound. The

Corporation has performed in all material respects all of the obligations required to be performed by it to date under all applicable Laws, Permits and Orders, and there exists no condition, or any event which upon the giving of notice or the passage of time, or both, would constitute a violation of any of such Laws, Permits or Orders, except where such violation is not reasonably likely to have a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole.

(b) The Corporation is not responsible, or potentially responsible, for the remediation or cost of remediation of wastes, substances or materials at, on or beneath any facilities or at, on or beneath any land adjacent thereto or in connection with any site or location, wherever located (including any well, tank, pit, sump, pond, lagoon, tailings pile, spoil pile, impoundment, ditch, trench, drain, landfill, warehouse or waste storage container), where pollutants, contaminants or hazardous or toxic wastes, substances or materials have been deposited, stored, treated, reclaimed, disposed of, placed or otherwise come to be located. The Corporation is not liable, directly or indirectly, in connection with any release by it of hazardous substance into the environment nor do there exist any facts upon which a finding of such liability could be based.

(c) As used herein, the term "ENVIRONMENTAL AND SAFETY REQUIREMENTS" means all Laws (including, but not limited to, common law), and all contractual obligations concerning public health and safety, worker health and safety, and pollution or protection of the environment, including, without limitation, all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, release, threatened release, control, or cleanup of any hazardous materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise or radiation, including, but not limited to, the Solid Waste Disposal Act, as amended, the Clean Air Act, as amended, 42 U.S.C. ss. 7401 et seq., the Federal Water Pollution Control Act, as amended, 33 U.S.C. ss. 1251 et seq., the Emergency Planning and Community Right-to-Know Act, as amended, 42 U.S.C. ss. 11001 et seq., the Comprehensive Environmental Response, Compensation, and Liability Act, as amended, the Hazardous Materials Transportation Uniform Safety Act, as amended, 49 U.S.C. ss. 1804 et seq., the Occupational Safety and Health Act of 1970, as amended, and the rules and regulations promulgated thereunder.

3.16. LABOR RELATIONS; EMPLOYEES.

Except as set forth on SCHEDULE 3.16 hereto, (i) the Corporation is

not delinquent in payments to any of its employees, for any wages, salaries, commissions, bonuses or other direct compensation for any services performed by them to the date hereof or amounts required to be reimbursed to such employees, (ii) there is no labor strike, dispute, slowdown or stoppage actually pending or, to the Best Knowledge of the Corporation, threatened against or involving the Corporation and (iii) the Corporation is not a party to or bound by any collective bargaining agreement and neither any grievance nor any arbitration Proceeding arising out of or under a collective bargaining agreement is pending and, to the Best Knowledge of the Corporation, no such claim has been asserted. To the Best Knowledge of the Corporation, the Corporation has not experienced, and is not experiencing, any material labor relations problems.

3.17. LITIGATION.

Except as set forth on SCHEDULE 3.17 hereto, there are (i) no Proceedings at law or in equity or by or before any Governmental Authority now pending or, to the Best Knowledge of the Corporation, threatened against, or affecting the assets or properties of, the Corporation, nor, to the Best Knowledge of the Corporation, does there exist any basis for any such pending or threatened Proceedings; (ii) customer claims of any nature against the Corporation in excess of $10,000, nor does there exist any basis therefor; or (iii) Orders of any Governmental Authority identifying the Corporation. As used herein, the term

"PROCEEDING" means any action, suit, complaint, charge, hearing, inquiry, investigation or legal or administrative or arbitration proceeding.

3.18. TAX MATTERS.

(a) Except as set forth on SCHEDULE 3.18 hereto, the Corporation has (i) filed all returns, declarations of estimated Tax, Tax reports, information returns and statements (collectively, the "RETURNS") required to be filed by it prior to the Closing (other than those for which extensions shall have been granted prior to the Closing) relating to any Taxes with respect to any income, properties or operations of the Corporation prior to the Closing; (ii) as of the time of filing, the Returns were complete and correct in all material respects and the Corporation has paid all Taxes shown on the Returns to be due; (iii) the Corporation has timely paid or made provisions for all Taxes payable for any period that ended on or before the Closing and for any period that began on or before the Closing and ends after the Closing, to the extent such Taxes are attributable to the portion of any such period ending on the Closing; (iv) the Corporation is not delinquent in the payment of any Taxes, nor has requested any extension of time within which to file any Return,

which Return has not since been filed; (v) there are no pending Tax audits of any Returns of the Corporation; (vi) no Tax liens have been filed and no deficiency or addition to Taxes, interest or penalties for any Taxes with respect to any income, properties or operations of the Corporation has been proposed, asserted or assessed in writing against the Corporation; (vii) the Corporation has not been granted any extension of the statute of limitations applicable to any Return or other Tax claim with respect to any income, properties or operations of the Corporation; (viii) the Corporation has not been a personal holding company within the meaning of Section 542 of the Code; and (ix) the Corporation has not made any election under Section 341(f) of the Code.

(b) As used herein, the term "TAX" means any of the Taxes, and the term "TAXES" means, with respect to any Person, (i) all income taxes (including any tax on or based upon net income, gross income, income as specially defined, earnings, profits or selected items of income, earnings or profits) and all gross receipts, sales, use, ad valorem, transfer, franchise, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property or windfall profits taxes, alternative or add-on minimum taxes, customs duties and other taxes, fees, assessments or charges of any kind whatsoever, together with all interest and penalties, additions to tax and other additional amounts imposed by any taxing authority (domestic or foreign) on such Person (if any) and (ii) any liability for the payment of any amount of the type described in CLAUSE (i) above as a result of being a "TRANSFEREE" (within the meaning of Section 6901 of the Code or any other applicable Law) of another Person or a member of an affiliated or combined group.

21

3.19. RELATED TRANSACTIONS.

Except for this Agreement and the Related Agreements, except as set forth on SCHEDULE 3.19 hereto and in the Financial Statements and the footnotes thereto and except for compensation to regular employees of the Corporation for services rendered, no current or former Affiliate of the Corporation is presently (i) a party to any transaction with the Corporation (including, but not limited to, any contract, agreement or other arrangement providing for the furnishing of services by, or rental of real or personal property from, or otherwise requiring payments to, any such Affiliate) or (ii) to the Best Knowledge of the Corporation, the direct or indirect owner of an interest in any Person which is a present or potential competitor, supplier or customer of the Corporation (other than non-affiliated holdings in publicly held companies), nor, to the Best Knowledge of the Corporation, does any such Person receive income from any source other than the Corporation which relates to the business of, or should properly accrue to, the Corporation. Except as set forth on SCHEDULE 3.19, the Corporation is not a guarantor or otherwise liable for any actual or potential liability or obligation, whether direct or indirect, of the

Corporation or any of its Affiliates.

3.20. OFFERING EXEMPTION.

Based in part upon the accuracy of the representations of the Investors in SECTION 4.2, the offering, sale, issuance and delivery, as the case may be, of the Insight Preferred Shares and the Reserved Shares are, or, as of the date of issuance, shall be, exempt from registration under the Securities Act and the rules and regulations promulgated thereunder, and such offering, sale, issuance and delivery, as the case may be, is, or, as of the date of issuance, shall be, also exempt from registration under applicable state securities and "BLUE SKY" Laws. The Corporation has made or shall make all requisite filings and has taken or shall take all action necessary to be taken to comply with such state securities or "BLUE SKY" Laws.

3.21. BROKERS.

Neither the Corporation nor any of its officers, directors, stockholders or employees (or any Affiliate of the foregoing) has employed any broker or finder or incurred any actual or potential liability or obligation, whether direct or indirect, for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated by this Agreement or any of the Related Agreements.

3.22. REGISTRATION RIGHTS.

Except as contemplated by the Registration Rights Agreement (as defined below), no Person has any right to cause the Corporation to effect the registration under the Securities

Act of any shares of common stock or any other securities (including debt securities) of the Corporation.

3.23. INSURANCE.

All of the insurable properties of the Corporation are insured for its benefit in amounts and against all risks that are normal and customary for Persons conducting similar businesses and operating similar properties in the localities where the business of the Corporation is conducted and the properties of the Corporation are located, under policies in effect and issued by insurers of recognized responsibility.

3.24. USE OF PROCEEDS.

The Company will use proceeds received from the sale of the Insight

Preferred Shares for the general corporate purposes of the Corporation, including payment of expenses accrued in connection with the consummation of the transaction contemplated hereby and by the Related Agreements. Additionally, a portion of the proceeds may be used for the purpose of making a loan to Andrew J. Frawley in order to purchase the Series B Preferred, PROVIDED, HOWEVER, that such loan shall not exceed one hundred fifty thousand dollars ($150,000) and the form shall be subject to approval by the Investors.

3.25. DISCLOSURE.

Neither this Agreement or any of the Related Agreements or any of the SCHEDULES or EXHIBITS thereto or thereto, nor any other written material delivered to any Investor, when taken together, contains any untrue statement of a material fact or omits a material fact necessary to make the statements contained herein and therein, in light of the circumstances in which they were made, not misleading. To the Best Knowledge of the Corporation, there is no fact, circumstance or condition which has had, or in the future is reasonably likely to have, a Material Adverse Effect on the Corporation and its Subsidiaries (if any) taken as a whole which has not been set forth in this Agreement, the Related Agreements or in the SCHEDULES or the EXHIBITS hereto or thereto.

SECTION 4. REPRESENTATIONS AND WARRANTIES OF THE INVESTORS.

Each Investor, severally and not jointly, represents and warrants to the Corporation as follows:

SECTION 4.1. AUTHORIZATION OF THIS AGREEMENT AND THE RELATED AGREEMENTS.

Such Investor has all requisite power to execute, deliver and perform this Agreement and the Related Agreements to

which such Investor is a party and the transactions contemplated hereby and thereby, and the execution, delivery and performance by such Investor of this Agreement and the Related Agreements to which such Investor is a party have been duly authorized by all requisite action by such Investor and constitute valid and binding obligations of such Investor, enforceable against such Investor in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar Laws now or hereafter in effect and public policy and subject to general principles of equity.

4.2. INVESTMENT REPRESENTATIONS.

(a) Investors are acquiring the Insight Preferred Shares to be acquired by Investors hereunder and, in the event that Investors should acquire any Reserved Shares, shall be acquiring such Reserved Shares, for its own account, for investment and not with a view to the distribution thereof in violation of the Securities Act or applicable state securities Laws.

(b) Investors understand that (i) the Insight Preferred Shares to be acquired by Investors hereunder have not been, and that the Reserved Shares shall not be, registered under the Securities Act or applicable state securities Laws, by reason of their issuance by the Corporation in a transaction exempt from the registration requirements of the Securities Act and applicable state securities Laws and (ii) any Insight Preferred Shares or Reserved Shares acquired by Investors must be held by Investors indefinitely unless a subsequent disposition thereof is registered under the Securities Act and applicable state securities Laws or is exempt from registration.

(c) Investors further understand that, with respect to any Insight Preferred Shares or Reserved Shares acquired by Investors, the exemption from registration afforded by Rule 144 (the provisions of which are known to Investors) promulgated under the Securities Act depends on the satisfaction of various conditions, and that, if applicable, Rule 144 may only afford the basis for sales only in limited amounts.

(d) Investors have not employed any broker or finder in connection with the transactions contemplated by this Agreement or any of the Related Agreements.

(e) Investors are "ACCREDITED INVESTORS" (as defined in Rule 501(a) of Regulation D promulgated under the Securities Act). The Corporation has made available to Investors or its representatives all agreements, documents, records and books that Investors have requested relating to an investment in the Insight Preferred Shares or Reserved Shares being acquired by Investors. Investors have had an opportunity to ask questions of, and receive answers from, a Person or Persons acting on behalf of the Corporation, concerning the terms and conditions of

this investment, and answers have been provided to all of such questions to the full satisfaction of such Investors. No oral representations have been made or furnished to, or relied on by, Investors or Investors' representatives in connection with an investment in any Insight Preferred Shares or Reserved Shares. Investors have such knowledge and experience in financial and business matters that it is capable of evaluating the risks and merits of this

investment.

SECTION 5. CONDITIONS PRECEDENT TO THE INVESTORS' OBLIGATIONS AT THE CLOSING.

The several obligations of the Investors to perform this Agreement are subject to the satisfaction of the following conditions precedent:

SECTION 5.1. REPRESENTATIONS AND WARRANTIES.

The representations and warranties of the Corporation set forth in SECTION 3 (i) which are not qualified by materiality shall be true and complete in all material respects and (ii) which are qualified by materiality shall be true and complete in all respects, in each case on the date hereof and at and as of the Closing Date as though then made.

SECTION 5.2. PERFORMANCE OF OBLIGATIONS.

The Corporation shall have performed and complied in all material respects with all agreements, obligations and conditions required to be performed or complied with by the Corporation under this Agreement.

SECTION 5.3. AUTHORIZATION.

All action necessary to authorize the execution, delivery and performance by the Corporation of this Agreement and the Related Agreements, and the consummation of the transactions contemplated hereby and thereby, shall have been duly and validly taken, and the Corporation shall have full power and right to consummate the transactions contemplated hereby and thereby.

SECTION 5.4. OPINION OF COUNSEL.

The Investors shall have received an opinion dated the Closing Date and addressed to the Investors of Bingham, Dana & Gould LLP, counsel to the Corporation, in form and substance reasonably acceptable to the Investors.

SECTION 5.5. CONSENTS AND APPROVALS.

All corporate, stockholder and other proceedings to be taken and all waivers, consents, approvals, qualifications and registrations required to be obtained or effected in connection

with the issuance, sale, execution, delivery and performance by the Corporation of this Agreement and the Related Agreements and the transactions contemplated

hereby and thereby, including the reservation, issuance, sale and delivery, as the case may be, of the Insight Preferred Shares and the Reserved Shares, shall have been taken, obtained or effected (except for the filing of any notice subsequent to the Closing that may be required under applicable Federal or state securities Laws, which notice shall be filed on a timely basis following the Closing as so required), and all documents incident thereto shall be satisfactory in form and substance to the Investors. The Investors shall have received all such originals or certified or other copies of such documents as have been reasonably requested.

5.6. AMENDMENT OF 1996 STOCK INCENTIVE PLAN.

The 1996 Stock Incentive Plan of the Corporation shall have been amended to provide that, notwithstanding anything contained therein to the contrary, subject to the completion of the Closing, the aggregate number of shares of Common Stock that may be issued after the Closing pursuant thereto shall be 2,156,388.

5.7. GOVERNMENT CONSENTS, AUTHORIZATIONS, ETC.

All consents, authorizations, orders and approvals of, filings or registrations with and the expiration of all waiting periods imposed by, any third party, including, without limitation, any Governmental Authority which are required for or in connection with the execution and delivery by the Parties of this Agreement and the Related Agreements to which they may be parties and the consummation by the Parties of the transactions contemplated hereby and thereby shall have been obtained or made, in form and substance satisfactory to the Investors and shall be in full force and effect.

5.8. DUE DILIGENCE.

The Investors shall be satisfied in their sole discretion with the results of their business, legal, environmental and accounting due diligence investigation and review of the Corporation and its business, properties and assets.

5.9. LAWS; PROCEEDINGS.

No Law shall have been enacted and no Proceeding shall be pending, the effect of which would be to prohibit, restrict, impair or delay the consummation of the transactions contemplated by this Agreement or any of the Related Agreements or any of the conditions to the consummation of the transactions contemplated hereby or thereby or to prohibit, restrict or otherwise impair the ability of the Investors to own equity interests in the Corporation.

5.10. BOARD AND GENERAL PARTNER APPROVALS.

The Investors each shall have obtained all requisite approvals from any governing body thereof for the execution, delivery and performance of this Agreement and the Related Agreements to which it is a party and the consummation of the transactions contemplated hereby and thereby.

5.11. RELATED AGREEMENTS.

Each of the following agreements (the "RELATED AGREEMENTS") shall have been executed and delivered by the parties thereto (excluding any Investor a party thereto whose execution and delivery of such agreement would otherwise be a condition precedent to the performance of its own obligations hereunder) and the transactions contemplated by the Related Agreements consummated or effected, as the case may be, in accordance with the terms thereof:

(a) the Amended and Restated Registration Rights Agreement dated as of the Closing Date (the "REGISTRATION RIGHTS AGREEMENT"), among the Corporation and the Investors (as defined therein), substantially in the form of EXHIBIT B hereto; and,

(b) the Amended and Restated Stockholders Agreement dated as of the Closing Date (the "STOCKHOLDERS AGREEMENT"), among the Corporation and the Stockholders (as defined therein), substantially in the form of EXHIBIT C hereto.

5.12. RELATED CERTIFICATES.

Each of the following certificates (the "RELATED CERTIFICATES") shall have been executed and/or delivered, as the case may be, by the Person who or which is the subject thereof:

(i) certificate of the secretary of the Corporation, certifying (i) that true and complete copies of the Corporation's Certificate of Incorporation and By-Laws as amended to and in effect on the Closing Date are attached thereto, (ii) as to the incumbency and genuineness of the signatures of each officer of such Person executing this Agreement or any of the Related Agreements on behalf of the Corporation; and (iii) the genuineness of the resolutions of the board of directors of the Corporation (the "BOARD") authorizing the execution, delivery and performance of this Agreement and the Related Agreements and the consummation of the transactions contemplated hereby and thereby;

(ii) certificates of the secretaries of state of the States of Delaware and Massachusetts dated as of the Closing Date, certifying as to the corporate good standing of the Corporation; and

27

(iii) a certificate signed by a principal executive officer of the Corporation, on behalf of the Corporation, dated as of the Closing Date, addressed to the Investors and certifying as to the fulfillment of the conditions set forth in SECTIONS 5.1 through 5.12 (but not as to the execution and delivery by any of the Investors of any Related Agreements).

SECTION 6. CONDITIONS PRECEDENT TO THE CORPORATION'S OBLIGATIONS AT THE CLOSING.

The obligation of the Corporation to issue and sell the Insight Preferred Shares to Investors at the Closing is subject to the following conditions precedent:

6.1. REPRESENTATIONS AND WARRANTIES.

The representations and warranties made by Investors and set forth in SECTION 4, as the case may be, shall (i) if not qualified by materiality, be true, correct and complete in all material respects and (ii) if qualified by materiality, be true, correct and complete in all respects, in each case on the date hereof and at and as of the Closing Date as though then made.

6.2. PERFORMANCE OF OBLIGATIONS.

The Investors shall have performed and complied in all material respects with all agreements, obligations and conditions required to be performed or complied with by the Investors under this Agreement.

6.3. RELATED AGREEMENTS.

Each of the Related Agreements shall have been executed and delivered by the parties thereto (other than the Corporation) and the transactions contemplated thereby consummated or effected, as the case may be, in accordance with the terms thereof.

6.4. RELATED CERTIFICATES.

Each of the Related Certificates shall have been executed and/or delivered, as the case may be, by the Person (other than the Corporation) who or which is the subject thereof.

SECTION 7. ADDITIONAL AGREEMENTS OF THE PARTIES.

7.1. EFFORTS TO CONSUMMATE.

Each Party shall use reasonable efforts to take or cause to be taken all actions and do or cause to be done all things required under applicable Laws, in order to consummate the

transactions contemplated by this Agreement and the Related Agreements.

7.2. FINANCIAL INFORMATION.

(a) The Corporation shall furnish to the Investors the following reports:

(i) As soon as practicable after the end of each fiscal year of the Corporation, and in any event within 90 days thereafter, consolidated balance sheets of the Corporation and its Subsidiaries (if any) as of the end of such fiscal year, and consolidated statements of income and consolidated statements of changes in cash flow of the Corporation and its Subsidiaries for such fiscal year, prepared in accordance with GAAP and setting forth in each case in comparative form the figures for the previous fiscal year and the budgeted figures for the current fiscal year, all in reasonable detail and audited by independent public accountants of national standing commonly known as "BIG 6" accountants selected by the Corporation.

(ii) As soon as practicable after the end of the first, second and third quarterly accounting periods in each fiscal year of the Corporation and in any event within 45 days thereafter, a consolidated balance sheet of the Corporation and its Subsidiaries (if any) as of the end of each such quarterly period, and consolidated statements of income and consolidated statements of changes in cash flow of the Corporation and its Subsidiaries for such period and for the current fiscal year to date, prepared in accordance with GAAP (other than for accompanying notes), subject to changes resulting from normal year-end audit adjustments, and setting forth in each case in comparative form the figures for the same periods of the previous fiscal year and the budgeted figures for the current periods, all in reasonable detail and signed by the principal financial or accounting officer of the Corporation.

(b) The Corporation shall, and shall cause its Subsidiaries (if any) to, maintain a system of accounting sufficient to enable the Corporation's independent certified public accountants to render the reports specified in SECTION 7.2(a).

(c) The Corporation shall submit to the Board at least 60 days prior to the beginning of each fiscal year, a budget (the "ANNUAL OPERATING BUDGET") for the Corporation and its Subsidiaries (if any) that contains, at least with respect to such fiscal year, annual, quarterly and monthly detail, including, but not limited to, limitations on capital expenditures, operating expenditures and the incurrence of unsecured, secured and aggregate indebtedness, and shall be subject to the approval of the Board.

7.3. ADDITIONAL INFORMATION.

The Corporation shall deliver or provide to the Investors (i) as soon as practicable after the end of each month and in any event within 45 days thereafter an unaudited consolidated balance sheet and statements of income and cash flow of the Corporation and its Subsidiaries (if any) for such month and for the year to date (in each case compared to the Annual Operating Budget and to the corresponding period of the prior year), (ii) the Annual Operating Budget as soon as practicable prior to the beginning of the next fiscal year, (iii) other budgets or financial plans prepared by the Corporation and presented to the Board, as soon as they are made available to the Board, (iv) a monthly letter from the management of the Corporation discussing in reasonable detail (A) the operations of the Corporation for the previous month period and (B) any deviations in the actual performance for the previous month period of the Corporation and its Subsidiaries from the projected performance of the Corporation and its Subsidiaries set forth in the Annual Operating Budget, and (v) with reasonable promptness, (A) all financial statements, reports, notices and other documents sent by the Corporation to its stockholders generally or released to the public and copies of all regular and periodic reports, if any, filed by the Corporation with the Securities and Exchange Commission, (B) all reports prepared for or delivered to the management of the Corporation and its Subsidiaries by its accountants, and (C) such other information and data, including access to books and records of the Corporation and its Subsidiaries as any Investor may from time to time reasonably request.

7.4. EMPLOYEE COMPENSATION.

The Corporation confirms that it submitted prior to May 16, 1997 to the Board a compensation plan (the "APPROVED COMPENSATION PLAN") acceptable to the Board, the eligible participants (the "ELIGIBLE PARTICIPANTS") of which are limited to the senior management and key employees of the Corporation (as determined by the Board in its sole discretion). The Corporation shall not provide any compensation (including bonuses) to any Eligible Participant (whether in respect of such Eligible Participant's services during the Corporation's fiscal year ended December 31, 1996 or any other fiscal year)

other than (i) in accordance with either existing commitments by the Corporation to Eligible Participants or the terms and conditions of the Approved Compensation Plan, or (ii) upon the prior approval of the Compensation Committee.

7.5. RIGHTS OF INSPECTION.

Each Investor shall have the right, at its expense, to visit and inspect any of the properties of the Corporation or any of its Subsidiaries and to discuss their affairs, finances and accounts with their officers, all at such reasonable times during

normal business hours and as often as may be reasonably requested.

7.6. INSURANCE.

The Corporation confirms that it and its Subsidiaries (if any), have obtained and shall, in the future, maintain such insurance, including director and officer insurance and error and omission insurance, with such coverages and in such amounts as shall be required to protect such Persons and their respective directors, officers and employees against all risks usually insured against by Persons conducting similar businesses and operating similar properties in the localities where the business of the Corporation and its Subsidiaries is conducted under policies issued by national insurers of recognized responsibility.

7.7. USE OF PROCEEDS.

The Corporation shall use the proceeds from the sale of the Insight Preferred Shares in the manner specified in SECTION 3.24.

7.8. LITIGATION.

The Corporation, promptly upon becoming aware thereof, shall notify each Investor in writing of any Proceeding in which it or any of its Subsidiaries is involved and which might, if determined adversely, materially and adversely effect the Corporation or any of its Subsidiaries.

7.9. COMPLIANCE WITH LAWS.

The Corporation shall, and shall cause its Subsidiaries (if any), each to, (i) in carrying out its business to comply in all material respects with all Laws applicable to it, its business and the ownership of its assets and (ii)

shall obtain and maintain in full force and effect all Permits material to and necessary in the conduct of its business and such Permits shall be maintained in full force and effect.

7.10. TAXES.

The Corporation shall, and shall cause each of its Subsidiaries to, pay and discharge all Taxes imposed upon it or upon its income or profits, or upon any property belonging to it, prior to the date on which penalties attach thereto, and all lawful claims which, if unpaid, might become an Encumbrance upon its property, unless contested in good faith by proceedings authorized by the Board.

7.11. TERMINATION.

Upon the closing of an Initial Public Offering (as defined in the Stockholders Agreement), the provisions of SECTIONS 7.1 through 7.10 shall terminate and shall be of no further force or effect and shall not be binding upon the Corporation.

SECTION 8. FEES.

(a) The Corporation will pay, and save the Investors harmless against all liability for the payment of, (i) all costs and other expenses incurred from time to time by the Corporation in connection with the Corporation's performance of and compliance with all agreements and conditions contained herein on its part to be performed or complied with (including the reasonable cost and expenses of counsel for the Corporation incurred in connection with the review of this Agreement and the Related Agreements), and (ii) the costs and expenses incurred by IVP II in connection with the transactions contemplated by this Agreement and the Related Agreements, including fees and charges of O'Sullivan Graev & Karabell, LLP, special counsel to IVP II, for services in connection with the consummation of transactions contemplated by this Agreement and the Related Agreements, which fees and charges relating to the transactions contemplated hereby and thereby shall be paid by the Corporation at the Closing (PROVIDED, HOWEVER, that the Corporation's obligations under this CLAUSE (ii) shall not exceed $[12],000.

(b) The Corporation further agrees that it shall pay, and will save the Investors harmless from, any and all liability with respect to any stamp or similar taxes which may be determined to be payable in connection with the execution and delivery and performance of the Agreement and the Related Agreements or any modification, amendment or alteration of the terms or

provisions of this Agreement or any of the Related Agreements, and that it shall similarly pay and hold the Investors harmless from all issue taxes in respect of the issuance of the Reserved Shares to the Investors.

SECTION 9. SURVIVAL OF REPRESENTATIONS, WARRANTIES AND AGREEMENTS, ETC.

(a) All statements contained in this Agreement, any Related Agreement, any Related Certificate or any other closing certificate (each, an "OTHER CERTIFICATE") delivered by the Corporation to any Investor, pursuant to this Agreement or in connection with the transactions contemplated by this Agreement or any of the Related Agreements shall constitute representations and warranties by the Corporation under this Agreement to the Investors identified as being the subject thereof and shall survive the Closing and the consummation of the transactions contemplated hereby and thereby for a period of 18 months after the Closing Date; PROVIDED, HOWEVER, that the representations and warranties of the Corporation set forth in SECTION 3.1 through

SECTION 3.5 shall survive indefinitely and the representations and warranties of the Corporation set forth in SECTIONS 3.13, 3.15, 3.18 and 3.20 shall survive until the expiration of the respective statutes of limitations applicable to the matters covered thereby.

(b) All statements contained in this Agreement, any Related Agreement, any Related Certificate or any Other Certificate delivered by any Investor to the Corporation pursuant to this Agreement or in connection with the transactions contemplated by this Agreement or any of the Related Agreements shall constitute representations and warranties by such Investor to the Corporation under this Agreement and shall survive the Closing and the consummation of the transactions contemplated hereby and thereby for a period of 18 months after the Closing Date; PROVIDED, HOWEVER, that the representations and warranties of any Investor set forth in SECTION 4.1 shall survive indefinitely, and the representations and warranties of any Investor set forth in SECTION 4.2 shall survive until the expiration of the respective statutes of limitations applicable to the matters covered thereby.

(c) All agreements contained herein shall survive indefinitely until, by their respective terms, they are no longer operative.

SECTION 10. INDEMNIFICATION.

(a) The Corporation shall indemnify, defend and hold each Investor harmless against all liability, loss or damage (including diminution in value of the Insight Preferred Shares issued to such Investor pursuant to this

Agreement or any Reserved Shares issued upon the conversion of the Insight Preferred Shares), together with all reasonable costs and expenses (including legal and accounting fees and expenses) related thereto or incurred in enforcing this SECTION 10(a) (collectively, "INVESTOR LOSSES"), (i) subject to SECTION 9, arising from the untruth, inaccuracy or breach of any of the representations or warranties of the Corporation made to such Investor contained in this Agreement or any Related Agreement, Related Certificate or Other Certificate or any facts or circumstances constituting any such untruth, inaccuracy or breach, (ii) subject to SECTION 9, arising from the untruth or inaccuracy of any information delivered to such Investor pursuant to the terms of this Agreement or any Related Agreement, Related Certificate or Other Certificate, (iii) arising from the breach of any covenant or agreement of the Corporation contained in this Agreement or any Related Agreement, Related Certificate or Other Certificate or any facts or circumstances constituting such breach, (iv) arising from any claim, demand, assessment, judgment, order, decree, action, cause of action, litigation, suit, investigation or other Proceeding by a third party (whenever made) arising out of or in connection with (A) the status or conduct of the Corporation, (B) the execution,

performance and delivery of this Agreement or any Related Agreement, Related Certificate or Other Certificate, or (C) any actions taken by or omitted to be taken by such Investor in connection with this Agreement or any Related Agreement, Related Certificate or Other Certificate, in each case by virtue of such Investor's acquisition of Insight Preferred Shares or such Investor or any Affiliate thereof acting as an adviser to the Corporation (unless the act or omission giving rise to such Claim resulted primarily out of or was based primarily upon the gross negligence, fraud or willful misconduct of such Investor or Affiliate), or (v) with respect to any liability for any brokers' or finders' fees or compensation owing or alleged to be owing in connection with the transactions contemplated by this Agreement or any of the Related Agreements due to the engagement by, or any other act of, the Corporation.

(b) Each Investor severally as to itself only and not jointly with or as to any other Investor, shall indemnify, defend and hold the Corporation harmless against all liability, loss or damage, together with all reasonable costs and expenses (including legal and accounting fees and expenses) related thereto or incurred in enforcing this SECTION 10(b) (collectively, "CORPORATION LOSSES"), arising from the untruth, inaccuracy or breach of any of the representations, warranties, covenants or agreements of such Investor made to the Corporation contained in this Agreement or any Related Agreement, Related Certificate, instrument or other writing delivered by or on behalf of such Investor pursuant to or in connection with the consummation of the transactions contemplated by this Agreement or any of the Related Agreements.

(c) Notwithstanding the foregoing provisions of this SECTION 10, (i) the maximum liability of the Corporation to indemnify an Investor pursuant to SECTION 10(a) for all Investor Losses arising under CLAUSES (i), (ii) and (iii) of SECTION 10(a) shall not exceed an amount equal to the aggregate Original Issuance Price (as defined in the Amended and Restated Certificate) of the Insight Preferred Shares acquired by such Investor pursuant to this Agreement, (but excluding from such amount any Investor Losses arising under CLAUSE (i) of SECTION 10(a) by reason of the untruth, inaccuracy or breach of any of the representations or warranties of the Corporation made to such Investor contained in SECTION 3.5 of this Agreement), and (ii) the maximum liability of any Investor to indemnify the Corporation pursuant to SECTION 10(b) for all Corporation Losses arising under SECTION 10(b) shall not exceed the amount of the maximum liability of the Corporation to indemnify such Investor pursuant to the foregoing CLAUSE (i).

SECTION 11. REMEDIES.

The Parties shall each have and retain all rights and remedies existing in their favor under this Agreement, at law or equity, including rights to bring actions for specific

performance and injunctive and other equitable relief (including, without limitation, the remedy of rescission) to enforce or prevent a breach or any violation of this Agreement. All such rights and remedies shall be cumulative and the existence, assertion, pursuit or exercise of any thereof by a Party shall not preclude the assertion, pursuit or exercise by such Party of any other rights or remedies available to it. Without limiting the generality of the foregoing, the Parties hereby agree that in the event the Corporation fails to convey, in accordance with the provisions of this Agreement, to the Investors Insight Preferred Shares or Reserved Shares being acquired by the Investors, the Investors' remedy at law may be inadequate. In such event, the Investors shall have the right, in addition to all other rights and remedies it may have, to specific performance of the obligation of the Corporation to convey the Insight Preferred Shares or Reserved Shares in accordance with the provisions of this Agreement.

SECTION 12. SUCCESSORS AND ASSIGNS.

Except as otherwise provided herein, this Agreement will bind and inure to the benefit of and be enforceable by the Corporation and its successors and assigns and the Investors and any subsequent holders of Insight Preferred Shares or Reserved Shares and the respective successors and assigns of each of them, so long as they hold Insight Preferred Shares or Reserved Shares.

SECTION 13. ENTIRE AGREEMENT.

This Agreement, together with the Related Agreements, embodies the complete agreement and understanding among the Parties with respect to the subject matter hereof and thereof and supersede and preempt any prior understandings, agreements or representations by or among the Parties, written or oral, which may have related to the subject matter hereof or thereof in any way.

SECTION 14. NOTICES.

All notices, consents or other communications which are required or otherwise delivered hereunder shall be in writing and shall be deemed to have been duly given if (i) personally delivered or sent by telecopier, (ii) sent by nationally recognized overnight courier or (iii) sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to the Corporation, to:

Exchange Applications, Inc.
695 Atlantic Avenue
Boston, Massachusetts 02110
Telephone: (617) 737-2244
Telecopy: (617) 443-9143
Attention: Andrew J. Frawley

with a copy to:

Bingham Dana LLP
150 Federal Street
Boston, Massachusetts 02110
Telephone: (617) 951-8866
Telecopy: (617) 951-8736
Attention: Neil W. Townsend, Esq.

If to IVP II

Insight Capital Partners II, L.P.
c/o Insight Venture Associates II, LLC
411 West Putnam Avenue, Suite 125
Greenwich, Connecticut 06830
Telephone: (203) 862-7054

Telecopy: (203) 862-7357
Attention: Ramanan Raghavendran

with a copy to:

O'Sullivan Graev & Karabell, LLP
30 Rockefeller Plaza, 41st Floor
New York, New York 10112
Telephone: (212) 408-2400
Telecopy: (212) 408-2420
Attention: John J. Suydam, Esq.

If to Wexford, to:

Wexford InSight LLC
c/o Wexford Management LLC
411 West Putnam Avenue, Suite 125
Greenwich, Connecticut 06830
Telephone: (203) 862-7054
Telecopy: (203) 862-7357
Attention: Robert Holtz

with a copy to:

Wexford InSight LLC
c/o Wexford Management LLC
411 West Putnam Avenue, Suite 125
Greenwich, Connecticut 06830
Telephone: (203) 862-7028
Telecopy: (203) 862-7328
Attention: Howard Sullivan, Esq.

or to such other address as the party to whom notice is to be given may have furnished to each other party in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (i) when delivered, if personally delivered or sent by telecopier, (ii) on the first Business Day

after dispatch, if sent by nationally recognized, overnight courier guaranteeing next Business Day delivery and (iii) on the fifth Business Day following the date on which the piece of mail containing such communication is posted, if sent by mail.

SECTION 15. MODIFICATIONS; AMENDMENTS; AND WAIVERS.

The terms and provisions of this Agreement may not be modified or amended, nor may any provision applicable to the Investors be waived, except pursuant to a writing signed by the Corporation and the Investors. The failure of any party to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of such party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

SECTION 16. COUNTERPARTS.

This Agreement may be executed simultaneously in two or more counterparts, any one of which need not contain the signatures of more than one party, but all such counterparts taken together will constitute one and the same agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

SECTION 17. INTERPRETATION; CONSTRUCTION.

The term "THIS AGREEMENT" means this agreement together with all schedules and exhibits hereto, as the same may from time to time be amended, modified, supplemented or restated in accordance with the terms hereof. In this Agreement, the term "BEST KNOWLEDGE" of any Person means (i) the actual knowledge of such Person and (ii) that knowledge which should have been acquired by such Person after making such due inquiry and exercising such due diligence as a prudent businessperson would have made or exercised in the management of his or her business affairs, including due inquiry of those key employees and professional advisers (including attorneys, accountants and consultants) of the Person who could reasonably be expected to have actual knowledge of the matters in question. When used in the case of the Corporation, the term "BEST KNOWLEDGE" shall include the Best Knowledge of the Corporation and its Subsidiaries (if any). The use in this Agreement of the term "INCLUDING" means "INCLUDING, WITHOUT LIMITATION." The words "HEREIN", "HEREOF", "HEREUNDER", "HEREBY", "HERETO", "HEREINAFTER", and other words of similar import refer to this Agreement as a whole, including the schedules and exhibits, as the same may from time to time be amended, modified, supplemented or restated, and not to any particular article, section, subsection, paragraph, subparagraph or clause contained in this Agreement. All references to articles, sections, subsections, clauses, paragraphs, schedules and exhibits mean such provisions of this Agreement and the schedules and exhibits attached to this Agreement, except where otherwise stated. The title of and the article, section and paragraph headings in this Agreement are for

convenience of reference only and shall not govern or affect the interpretation

of any of the terms or provisions of this Agreement. The use herein of the masculine, feminine or neuter forms shall also denote the other forms, as in each case the context may require. Where specific language is used to clarify by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict in any manner the construction of the general statement to which it relates. The language used in this Agreement has been chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party. Accounting terms used but not otherwise defined herein shall have the meanings given to them under GAAP.

SECTION 18. GOVERNING LAW.

All questions concerning the construction, interpretation and validity of this Agreement shall be governed by and construed and enforced in accordance with the domestic laws of the Commonwealth of Massachusetts, without giving effect to any choice or conflict of law provision or rule (whether in the Commonwealth of Massachusetts or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the Commonwealth of Massachusetts. In furtherance of the foregoing, the internal law of the Commonwealth of Massachusetts will control the interpretation and construction of this Agreement, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily apply. Notwithstanding the foregoing provisions of this SECTION 18, those provisions of this Agreement that relate to the internal governance of the Corporation shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware.

SECTION 19. MUTUAL WAIVER OF JURY TRIAL.

BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING BROUGHT TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIES UNDER THIS AGREEMENT OR ANY DOCUMENTS RELATED HERETO.

* * * * *

IN WITNESS WHEREOF, each of the undersigned has caused this Securities Purchase Agreement to be executed as of the date first written above.

EXCHANGE APPLICATIONS, INC.

By: /s/ Andrew J. Frawley

Andrew J. Frawley
President

INVESTORS:

INSIGHT CAPITAL PARTNERS II, L.P.

BY: Insight Venture Associates II, LLC,
its general partner

By: /s/ Jeffrey Horing

Name: Jeffrey Horing
Title:

WEXFORD INSIGHT LLC

BY: WEXFORD MANAGEMENT LLC,
its Investment Manager

By: /s/ Robert Holtz

Name: Robert Holtz
Title: Principal

EXHIBIT 10.11

STOCK PURCHASE AND WAIVER AGREEMENT dated as of December 4, 1997 (this "Agreement"), among Exchange Applications, Inc., a Delaware corporation ("Exchange Applications"), Insight Venture Partners I, L.P., a Delaware limited partnership, Patrick D. Brady, Gregory P. Shlopak, David H. Brault, Ted C. Axelrod, Terry B. Angstadt, James T. Brady, Dominic F. Mammola, James A. Dooley, Diane K. Green, Andrew J. Frawley, Steven Feldman, David McFarlane, Daniel Cox, Patrick McHugh, Stewart Vassie and Michael McGonagle, (all collectively, the "Purchasers") and GAP Coinvestment Partners, L.P., a New York limited partnership (the "Seller").

WHEREAS, certain of the Purchasers, the Seller and Exchange Applications, are parties to the Stockholders Agreement dated as of March 18, 1997 (the "Stockholders Agreement"); and

WHEREAS, the Seller is the owner of 246,006 shares of Series B Convertible Preferred Stock of Exchange Applications $.001 par value (the "Shares"). Upon the terms and subject to the conditions of this Agreement, each of the Purchasers will purchase that number of Shares listed on Schedule I hereto from the Seller, in each case for a cash purchase price listed on Schedule I hereto for an aggregate purchase price of Eight hundred three thousand, nine hundred forty-seven dollars and fifty eight cents ($803,947.58) (the "Purchase Price").

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained herein, the parties agree as follows:

1. WAIVER OF RIGHTS. Each of the undersigned which is a party to the Stockholders Agreement hereby waives its rights under Section 3 of the Stockholders Agreement with respect to the transaction contemplated hereby.

2. SALE AND PURCHASE OF SHARES. Upon the terms and subject to the conditions of this Agreement, the Seller shall sell, transfer and convey to each of the Purchasers, and each of the Purchasers shall purchase and acquire from the Seller, that number of Shares listed on Schedule I hereto for the cash consideration set forth herein.

3. DELIVERY.

(a) The Seller shall deliver to Exchange Applications for cancellation, against delivery to the Seller by the Purchasers of the aggregate purchase price therefor, a stock certificate representing the aggregate number of Shares to be purchased by the Purchasers (the "Stock Certificate"), with all necessary documentary or transfer tax stamps affixed (the "Document"), free and clear of all security interests, liens, pledges, claims, charges, escrows, encumbrances, options, rights of first refusal, mortgages, indentures, security agreements or other agreements, arrangements, contracts, commitments, understandings or obligations (collectively, "Liens"), whether written or oral and whether or not relating in any way to credit or the borrowing of money. Transfer of the Securities shall be deemed to have occurred upon cancellation of the Stock Certificate.

(b) upon receipt of an executed Agreement and the Document, Exchange Applications shall cause to be issued certificates to each Purchaser representing the number of shares to be purchased by such Purchaser, free and clear of all Liens.

4. PAYMENT. Concurrently with the receipt by Exchange Applications of an executed Agreement and the Document, each of the Purchasers shall deliver to the Seller the portion of the Purchase Price to be paid by such Purchaser, by a certified or bank check payable to the Seller or a wire transfer of immediately available funds to an account designated by the Seller.

5. REPRESENTATIONS AND WARRANTIES OF THE SELLER. The Seller represents and warrants to each of the Purchasers as follows:

(a) the Seller has full partnership power and authority to execute and deliver this Agreement and consummate the transactions contemplated hereby;

(b) the execution and delivery by the Seller of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite partnership action on the part of the Seller;

(c) this Agreement constitutes a legal, valid and binding obligation of the Seller, enforceable in accordance with its terms, except that such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors generally or by general equitable principles;

3

(d) the execution and delivery by the Seller of this Agreement

and the consummation by the Seller of the transactions contemplated hereby (i) will not violate any law, statute, rule or regulation, (ii) will not conflict with any provision of any partnership agreement, or other organizational or constitutive instrument, if any, of the Seller, (iii) will not require or make necessary any consent, approval or other action, or notice to, any person, except for those that have been obtained or made, and (iv) will not conflict with, or result in a violation of, any agreement or other document or instrument to which the Seller is a party or by which it, or any of its assets or properties, is bound; and

(e) the Seller has good and marketable title to all of the Shares, free and clear of all Liens.

(f) the Seller has complied with, and shall continue to comply with, the terms and conditions of the Investor Nondisclosure Agreement, dated as of March 18, 1997 (the "NDA"), between the Seller and Exchange Applications, provided that Exchange Application acknowledges that (i) the Seller has not received any confidential information about Exchange Application since not later than December 31, 1996 other than as set forth in the Securities Purchase Agreement, dated as of March 18, 1997, among Exchange Applications and the Investor, named therein, (ii) General Atlantic Partners, LLC ("GAP LLC" an affiliate of the Seller), has, through two of its affiliate, consummated an investment in Prime Response Group Inc., a direct marketing enterprise software company, (iii) GAP LLC is in the business of investing in companies in the software and information technology industry and (iv) Exchange Application has not received notice of and has no actual knowledge of any breach or violation of the NDA by the Seller, GAP LLC or any partner, member or employee thereof.

6. REPRESENTATIONS AND WARRANTIES OF PURCHASERS. Each of the Purchasers, severally and not jointly, represents and warrants to Seller as follows:

(a) Such Purchaser has the full power and authority to execute and deliver this Agreement and consummate the transactions contemplated hereby (solely or to itself);

(b) the execution and delivery by such Purchaser of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite action on the part of such Purchaser;

(c) the execution and delivery by such Purchaser of this Agreement and the consummation by such Purchaser of

the transactions contemplated hereby (i) will not violate any law, statute,

rule or regulation, (ii) will not conflict with any provision of any partnership agreement, certificate of incorporation, or other organizational or constitutive instrument, if any, of such Purchaser, (iii) will not require or make necessary any consent approval or other action, or notice to, any person, except for those that have been obtained or made, and (iv) will not conflict with, or result in a violation of, any agreement or other document or instrument to which such Purchaser is a party or by which it, or any of its assets or properties, is bound; and

(d) this Agreement constitutes a legal, valid and binding obligation of such Purchaser, enforceable in accordance with its terms, except that such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors generally or by general equitable principles;

(e) this Agreement is made with each of the Purchasers in reliance upon such Purchaser's representation to the Seller, which by executing this Agreement each Seller hereby severally confirms, that:

(i) with respect to Andrew J. Frawley, David McFarlane, Michael McGonagle, Patrick D. Brady, Gregory P. Shlopak, Ted E. Axelrod, Terry B. Angstadt and Insight, it is an "accredited investor" as such term is defined in Rule 501(a) of Regulation D promulgated under the Securities Act;

(ii) it understands that its interest in Exchange Applications will not be registered or qualified under any state securities or blue sky laws and cannot be resold without such registration or qualification or an exemption therefrom.

(iii) it understands that its Shares have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on an exemption from registration thereunder for transactions not involving a public offering, and that such Shares may not be sold, transferred or otherwise disposed of except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom;

(iv) it is acquiring its Shares for his own account for investment purposes only and not with a

view to resale, assignment or other distribution, in whole or in part, and no other person has or will have a direct or

indirect beneficial interest in such Shares;

(v) it understands that the Shares are a speculative investment and involve a high degree of risk, the transferability of the Shares is substantially restricted, there will be no public market for such Shares and it may not be possible for such Purchaser to liquidate its investment in Exchange Applications;

(vi) it is able to bear the substantial economic risks of an investment in such Shares and can afford a complete loss of such investment;

(vii) it has such knowledge and experience in financial, investment and business matters so as to enable it, to use the information made available to it in connection with the purchase of such Shares, to evaluate the merits and risks of such purchase, and to make an informed investment decision with respect thereto;

(viii) it has carefully considered and has, to the extent it believes such discussions necessary, discussed with its professional legal, tax, accounting and financial advisors he suitability of its purchase of such Shares;

(ix) it has had an opportunity to ask questions of, and receive answers from, Exchange Applications, or a person or persons acting on its behalf, concerning the terms and conditions of his purchase of such Shares, and all such questions have been answered to his full satisfaction;

(x) it has had the opportunity to review any documents relating to Exchange Applications requested by it and to conduct due diligence, and such due diligence review has been fully satisfactory to it; and

(xi) it is not purchasing such Shares as a result of, or subsequent to, any advertisement, article, notice or other communication published in any newspaper, magazine or similar medium or broadcast over radio or television, or any seminar or meeting whose attendees have

been invited by any general solicitation or general advertising.

7. REPRESENTATION AND WARRANTY OF EXCHANGE APPLICATIONS. Exchange Applications represents and warrants to the Seller that Exchange Applications has not engaged, on behalf of the Seller, in any General Solicitation (as defined under applicable Securities Laws), including, without limitation, acting as underwriter, of the Shares.

8. COUNTERPARTS. This Agreement may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

9. ENTIRE AGREEMENT; INTERPRETATION. This Agreement, embodies the complete agreement and understanding among the parties hereto with respect to the subject matter hereof and thereof and supersedes and preempts any prior understandings, agreements or representations by or among the Parties, written or oral, which may have related to the subject matter hereof or thereof in any way. Any terms defined in this Agreement shall apply to the singular and plural forms of the terms defined. Whenever the context requires, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation."

10. GOVERNING LAW. All questions concerning the construction, interpretation and validity of this Agreement shall be governed by and construed and enforced in accordance with the domestic laws of the State of New York, without giving effect to any choice or conflict of law provision or rule (whether in the State of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of New York. In furtherance of the foregoing, the internal law of the State of New York will control the interpretation and construction of this Agreement, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily apply.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered on the date first above written.

PURCHASERS:

/s/ Andrew J. Frawley

Andrew J. Frawley

/s/ David McFarlane

/s/ David McFarlane

David McFarlane

/s/ Michael McGonagle

Michael McGonagle

/s/ Daniel Cox

Daniel Cox

/s/ Patrick McHugh

Patrick McHugh

/s/ Stewart Vassie

Stewart Vassie

/s/ Steven Feldman

Steven Feldman

/s/ Patrick D. Brady

Patrick D. Brady

/s/ Gregory P. Shlopak

Gregory P. Shlopak

/s/ David H. Brault

David H. Brault

/s/ Ted L. Axelrod

Ted L. Axelrod

/s/ Terry B. Angstadt

Terry B. Angstadt

/s/ James T. Brady

James T. Brady

/s/ Dominic F. Mammola

Dominic F. Mammola

/s/ James A. Dooley

James A. Dooley

/s/ Diane K. Green

Diane K. Green

INSIGHT VENTURE PARTNERS I, L.P.

By: INSIGHT VENTURE ASSOCIATES, LLC
its general partner

By: /s/ Jeffrey Horing

Name: Jeffrey Horing
Title:

FOR PURPOSES OF SECTION 1 ONLY:

GRANT & PARTNERS LIMITED PARTNERSHIP

By: GRANT & PARTNERS, INC.,
its general partner

By: /s/ Alan W. H. Grant

Name: Alan W. H. Grant
Title: President

CYRK, INC.

By: /s/ Patrick Brady

Name: Patrick Brady
Title: President

WEXFORD INSIGHT LLC

By: WEXFORD MANAGEMENT LLC
its investment manager

By: /s/ Robert Holtz

Name: Robert Holtz
Title: Principal

SELLER:

GAP COINVESTMENT PARTNERS, L.P.

By: /s/ Steven A. Denning

Name: Steven A. Denning
Title: a general partner

EXCHANGE APPLICATIONS, INC.

By: /s/ Andrew J. Frawley

Andrew J. Frawley
President

SCHEDULE I

<TABLE>
<CAPTION>

Purchaser	Number of Shares to be purchased	Purchase Price to be paid	Total
<S>	<C>	<C>	<C>
EXCHANGE APPLICATIONS, INC. INVESTORS			
Andrew Frawley	38,249 shares	$3.268	$124,997.73
David McFarlane	26,009 shares	$3.268	$ 84,997.41
Daniel Cox	17,000 shares	$3.268	$ 55,556.00
Patrick McHugh	10,000 shares	$3.268	$ 32,680.00
Michael McGonagle	5,000 shares	$3.268	$ 16,340.00
Stewart Vassie	12,851 shares	$3.268	$ 41,997.07
Steven Feldman	6,119 shares	$3.268	$ 19,996.89
Subtotal:	115,228 shares		$376,565.10
CYRK, INC. INVESTORS			
Patrick D. Brady	41,317 shares	$3.268	$135,023.95
Gregory P. Shlopak	15,299 shares	$3.268	$ 49,997.13
David H. Brault	4,589 shares	$3.268	$ 14,996.85
Ted L. Axelrod	4,589 shares	$3.268	$ 14,996.85
Terry B. Angstadt	3,059 shares	$3.268	$ 9,996.81
James T. Brady	3,059 shares	$3.268	$ 9,996.81
Dominic F. Mammola	1,529 shares	$3.268	$ 4,996.77
James A. Dooley	1,529 shares	$3.268	$ 4,996.77
Diane K. Green	1,529 shares	$3.268	$ 4,996.77

</TABLE>

<TABLE>
<S> <C> <C> <C>

Subtotal:	76,499 shares		$249,998.71
INSIGHT INVESTORS			
Insight Venture Partners I, L.P.	54,279 shares	$3.268	$177,383.77
Total	246,006		$803,947.58

</TABLE>

EXHIBIT 10.12

NON-NEGOTIABLE NOTE

$124,997.73 December 4, 1997

FOR VALUE RECEIVED, the undersigned, ANDREW J. FRAWLEY (the "EXECUTIVE"), promises to pay to EXCHANGE APPLICATIONS, INC., a Delaware corporation (the "COMPANY"), at 695 Atlantic Avenue, Boston, Massachusetts 02110, or at such other place as the holder hereof may from time to time designate in writing, in lawful money of the United States of America and in immediately available funds, the principal sum of ONE HUNDRED TWENTY-FOUR THOUSAND NINE HUNDRED NINETY SEVEN DOLLARS AND SEVENTY-THREE CENTS ($124,997.73) in the amounts and at the times set forth below. Interest shall accrue on the outstanding principal amount hereof from the date hereof through and including the date on which such principal amount is paid in full, computed on the basis of a year of 365 or 366 days, as the case may be, at a rate per annum of 8%, compounded annually and payable on the maturity hereof.

THIS NOTE SHALL NOT BE NEGOTIABLE, ASSIGNABLE OR OTHERWISE TRANSFERABLE BY THE COMPANY. THE EXECUTIVE MAY NOT ASSIGN OR OTHERWISE TRANSFER THIS NOTE OR ANY OF HIS OBLIGATIONS HEREUNDER.

The principal of this Note, if not earlier paid in full, shall be due and payable in full on December 4, 2007.

The principal of and/or any accrued interest on this Note may be prepaid in whole or in part at any time without premium or penalty and without prior notice.

Any overdue payment of principal and, to the extent permitted by applicable law, overdue interest, shall bear interest until such overdue principal or interest is paid, computed on the basis of a year of 365 or 366 days, as the case may be, and paid for the actual number of days elapsed, at a rate per annum of 12%.

In order to secure the due and punctual payment and performance of his obligations hereunder, the Executive hereby pledges, assigns and grants a continuing security interest in and lien on 38,249 shares of issued and outstanding Series B Convertible Preferred Stock of the Company evidenced by Certificate Number B-4, issued by the Company in the name of the Executive (the "STOCK"), and all income therefrom, increases therein and

proceeds thereof, to be held by the Company subject to the terms and conditions hereinafter set forth. The certificate for the Stock, accompanied by stock powers or other appropriate instruments of assignment thereof duly executed in blank by the Executive, have been delivered to the Company simultaneously with the execution and delivery of this Note.

The Executive shall not sell, assign or otherwise transfer any of his right, title or interest in or to any Stock without the prior written consent of the Company, except for (a) the pledge of the Stock to the Company pursuant hereto, and (b) transfers of Stock pursuant to Section 3(a)(iv) of the Amended and Restated Stockholders Agreement, dated as of December 4, 1997, by and among the Company and the Stockholders named therein, provided that (i) any transfer of Stock pursuant to clause (b) above shall be subject to the Company's continuing security interest in and lien on such Stock hereunder and (ii) any transferee of Stock transferred pursuant to clause (b) above shall have executed and delivered to the Company a written acknowledgment in form and substance reasonably satisfactory to the Company to the effect that the transfer of such Stock is subject to the Company's continuing security interest in and lien on such Stock hereunder.

The Executive shall be entitled to receive all cash dividends paid in respect of the Stock and to vote the Stock and to give consents, waivers and ratifications in respect of the Stock unless and until (a) the Executive shall default in the payment of any installment of principal or interest due hereunder, or (b) a voluntary proceeding is filed by the Executive or an involuntary proceeding is filed against the Executive (which involuntary proceeding shall continue for a period of more than sixty (60) days without being dismissed) seeking liquidation, reorganization or an arrangement with the Executive's creditors under any provision of the United States Bankruptcy Code as then in effect (each of (a) and (b) above being referred to herein as an "EVENT OF DEFAULT"). Except as set forth in the immediately preceding sentence, all sums or other property paid or distributed upon or with respect to the Stock shall be paid over and delivered to the Company to be held as further security for the due and punctual payment and performance of the Executive's obligations hereunder. In the event that, notwithstanding the immediately preceding sentence, any such sums or other property are received by the Executive, such sums or property shall be held in trust for the Company and promptly paid over and delivered to the Company.

Upon the occurrence and during the continuance of an Event of Default, the Company shall thereafter have the following rights and remedies (to the extent permitted by applicable law) in addition to the rights and remedies of a secured party under the Uniform Commercial Code of Massachusetts, all

such rights and remedies being cumulative, not exclusive, and enforceable alternatively, successively or concurrently:

(i) If the Company so elects and gives written notice of such election to the Executive, the Company may vote any or all of the Stock possessing voting rights (whether or not the same shall have been transferred into its name or the name of its nominee or nominees) and give all consents, waivers and ratifications in respect of the Stock and otherwise act with respect thereto as though it were the outright owner thereof, the Executive hereby irrevocably constituting and appointing the Company the proxy and attorney-in-fact of the Executive, with full power of substitution, to do so;

(ii) The Company may demand, sue for, collect or make any compromise or settlement in respect of any Stock held by it hereunder that it deems suitable;

(iii) After fifteen (15) days' written notice to the Executive, the Company may sell, resell, assign and deliver, or otherwise dispose of any or all of the Stock, for cash and/or credit and upon such terms at such place or places and at such time or times and to such persons, firms, companies or corporations as the Company shall approve, all without demand for performance by the Executive or advertisement or any further notice whatsoever except such as may be required by law; and

(iv) The Company may at any time, at its option, cause all or any part of the Stock held by it to be transferred into its name or the name of its nominee or nominees, receive any income thereon and hold such income as additional collateral or apply it to the obligations hereunder.

Notwithstanding anything herein to the contrary, upon the occurrence of an Event of Default, all of the unpaid principal and interest hereunder shall be immediately due and payable automatically and without any requirement of any notice from or action by the Company and without presentment, demand, protest and other notice of any kind, all of which are hereby expressly waived by the Executive.

No provision of this Note shall require the payment of, or permit contracting for, charging, receiving or collecting interest in excess of the rate then permitted by applicable law. Regardless of any provision contained herein, the Company shall not be entitled to contract for, charge, take,

reserve, receive or apply, as interest hereunder, any amount in excess of the highest lawful rate, and, in the event the Company ever contracts for, charges, takes, reserves, receives or applies as interest any such excess, it

shall be deemed a partial prepayment of principal and treated hereunder as such, and if the principal debt is paid in full, any remaining excess shall forthwith be paid to the Executive.

The Executive hereby (i) waives presentment, demand, protest and notice of presentment, notice of dishonor of this debt and each and every other notice of any kind respecting this Note and (ii) agrees that this Note shall be binding upon it and its successors and assigns.

The Executive shall pay on demand all collection costs and expenses, including reasonable legal fees and disbursements, incurred by the holder of this Note in enforcing payment hereof.

THIS NOTE SHALL BE DEEMED TO TAKE EFFECT AS A SEALED INSTRUMENT UNDER AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE COMMONWEALTH OF MASSACHUSETTS, WITHOUT REFERENCE TO PRINCIPLES OF CONFLICTS OF LAW.

IN WITNESS WHEREOF, the Executive has executed this Note as an instrument under seal as of the day and year first above written.

THE EXECUTIVE:

Andrew J. Frawley

EXHIBIT 10.13

==========

EXCHANGE APPLICATIONS, INC.

(a Delaware corporation)

AMENDED AND RESTATED
STOCKHOLDERS AGREEMENT

DECEMBER 4, 1997

==========

SCHEDULES:

Schedule I - Stockholders
Schedule II - Directors

EXHIBITS:

Exhibit A - Amended and Restated Certificate of Incorporation

Exhibit B - Business Plan
Exhibit C - By-Laws
Exhibit D - Joinder Agreement
Exhibit E - Consent and Agreement of Spouse

AMENDED AND RESTATED STOCKHOLDERS AGREEMENT dated as of December 4, 1997, among EXCHANGE APPLICATIONS, INC., a Delaware corporation (the "CORPORATION"), and the STOCKHOLDERS (as defined below).

Attached hereto as EXHIBIT A is a copy of the Amended and Restated Certificate of Incorporation of the Corporation as filed with the Secretary of State of the State of Delaware. It is deemed to be in the best interest of the Corporation and the Stockholders that provision be made for the continuity and stability of the business and policies of the Corporation and its Subsidiaries (as defined below), as the same may exist from time to time (each, an "OPERATING COMPANY"), and, to that end, the Corporation and the Stockholders desire to set forth their agreement with respect to the shares of capital stock of the Corporation owned by them.

ACCORDINGLY, in consideration of the mutual covenants and agreements contained in this Agreement, the sufficiency of which is hereby acknowledged, the parties agree as follows:

1. DEFINITIONS; RULES OF CONSTRUCTION.

(a) DEFINITIONS. As used in this Agreement, the following terms shall have the meanings ascribed to them below:

"ACCEPTED SECURITIES" has the meaning ascribed to it in SECTION 4(B). "AFFILIATE" means, with respect to any Person, any of (a) a director, officer or partner of such Person, (b) a spouse, parent, sibling or descendant of such Person (or a spouse, parent, sibling or descendant of a director, officer or partner of such Person) and (c) any other Person that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under

common control with, such Person. For the purpose of the above definition, the term "CONTROL" (including, with correlative meaning, the terms "CONTROLLING", "CONTROLLED BY" and "UNDER COMMON CONTROL WITH"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"AGREEMENT" means this Stockholders Agreement.

"ANNUAL OPERATING BUDGET" has the meaning ascribed to it in the Securities Purchase Agreement.

"APPLICABLE LAW" means with respect to any Person, all provisions of laws, statutes, ordinances, rules, regulations,

permits, certificates or orders of any Governmental Authority applicable to such Person or any of such Person's assets or property or to which such Person or any of its assets or property is subject, and all judgments, injunctions, orders and decrees of all courts and arbitrators in proceedings or actions in which such Person is a party or by which it or any of its assets or properties is or may be bound or subject.

"ASSET SALE" means any sale, transfer, lease or other disposition of all or any substantial part of the assets, properties or rights of the Corporation or any of its Subsidiaries; PROVIDED, HOWEVER, that the term "ASSET SALE" shall not include any sale, transfer, license, lease or other disposition that (i) is in the ordinary course of business or (ii) is of worn-out or obsolete assets or properties.

"BOARD" and "BOARD OF DIRECTORS" means the Board of Directors of the Corporation.

"BUSINESS DAY" means any day that is not a Saturday, Sunday or other day on which banks are not required to be open in New York, New York or Boston, Massachusetts.

"BUSINESS PLAN" means the business plan for the Corporation and its Subsidiaries (if any) delivered to the Insight Stockholders and the Insight II Stockholders on or prior to the date hereof, a copy of which is attached hereto as EXHIBIT B, which Business Plan has been material to the Insight Stockholders and Insight II Stockholders in their respective decisions to enter into this Agreement and the Related Agreements to which they are parties.

"BY-LAWS" means the By-Laws of the Corporation as amended, modified, supplemented and restated and in effect from time to time. The By-Laws of the Corporation as in effect on the date hereof are attached hereto as EXHIBIT C and are hereby ratified, confirmed, adopted and approved by the Stockholders.

"CERTIFICATE OF INCORPORATION" means the Amended and Restated Certificate of Incorporation of the Corporation as filed with the Secretary of State of Delaware on December __, 1997, a copy of which is attached as EXHIBIT A, as the same may hereafter be amended, modified, supplemented and restated and in effect from time to time.

"COMMON STOCK" means the Common Stock, $.001 par value, of the Corporation.

"COMMON STOCK EQUIVALENT" means (i) a share of Common Stock or (ii) the right to acquire, whether or not immediately exercisable, one share of Common Stock, whether evidenced by an option, warrant, convertible security or other instrument or agreement.

"COMPETING TRANSFEREE" has the meaning ascribed to it in SECTION 3(a)(v).

"CORPORATION" has the meaning ascribed to it in the caption to this Agreement.

"CO-SALE NOTICE" has the meaning ascribed to it in SECTION 3(c)(ii).

"CO-SALE PERCENTAGE" has the meaning ascribed to it in SECTION 3(c)(iv).

"CYRK" means CYRK, Inc., a Delaware corporation.

"EXCLUDED SECURITIES" means any of the following Securities:

(i) shares of Common Stock or options to purchase shares of Common Stock which may after March 18, 1997 be issued to employees, officers and directors of, and consultants to, the Corporation or any of its Subsidiaries, in each case upon the approval of the Compensation Committee specified in SECTION 2(F) or pursuant to a commitment made by the Corporation prior to March 18, 1997 reasonably documented in writing, not exceeding 2,156,388 shares of Common Stock on a Common Stock Equivalent basis in the aggregate (as adjusted to reflect any stock dividend or distribution, stock split, reverse stock split or combination or other similar PRO RATA recapitalization event affecting the Common Stock and as increased by any such shares repurchased by the Corporation at cost or any such options terminated upon any such employees, officers or directors ceasing to be employees, officers or directors of the Corporation, respectively);

(ii) Securities issued by the Corporation upon the conversion of any shares of Series B Preferred Stock, Series C Preferred Stock, or the exercise of any Common Stock Equivalents;

(iii) Securities issued by the Corporation to give effect to any stock dividend or distribution, stock split, reverse stock split or combination or other similar PRO RATA recapitalization event affecting any class or series of the Corporation's capital stock;

(iv) shares of Common Stock issued by the Corporation in a Public Offering; and

(v) shares of Common Stock issued by the Corporation as consideration for the purchase or acquisition of the

assets or Securities of another Person relating to a business concern other than the Corporation.

"FELDMAN" means Michael J. Feldman, a stockholder of the Corporation.

"FIRST OFFER" has the meaning ascribed to it in SECTION 4(a).

"FIRST OFFER ACCEPTANCE NOTICE" has the meaning ascribed to it in SECTION 4(b).

"FIRST OFFER NOTICE" has the meaning ascribed to it in SECTION 4(a).

"FIRST OFFER PERIOD" has the meaning ascribed to it in SECTION 4(a).

"FRAWLEY" means Andrew J. Frawley, a stockholder of the Corporation.

"FUNDAMENTAL DOCUMENTS" means the documents by which any Person (other than a natural Person) establishes its legal existence or which govern its internal affairs. The "FUNDAMENTAL DOCUMENTS" of the Corporation are the Certificate of Incorporation and the By-Laws.

"GAAP" means United States generally accepted accounting principles, consistently applied.

"GOVERNMENTAL AUTHORITY" means any domestic or foreign government or political subdivision thereof, whether on a federal, state or local level and whether executive, legislative or judicial in nature, including any agency, authority, board, bureau, commission, court, department or other instrumentality thereof.

"GPLP" means Grant & Partners Limited Partnership, a Delaware limited partnership.

"GROUP" means, with respect to any Person, (i) such Person, (ii) any of such Person's stockholders, limited or general partners or members, (iii) any corporation or other business organization to which such Person shall sell or transfer all or substantially all of its assets or with which it shall be merged and (iv) any Affiliate of such Person. For purposes of this Agreement, GPLP and CYRK shall be deemed members of each other's Group, the Insight Stockholders shall be deemed members of each other's Group, and the Insight II Stockholders shall be deemed members of each others Group.

"INDEBTEDNESS" of any Person means, without duplication, (a) all obligations of such Person for borrowed money, (b) all

obligations of such Person with respect to deposits or advances of any kind not occurring in the ordinary course of business, (c) all obligations of such Person evidenced by (or which customarily would be evidenced by) bonds, debentures, notes or similar instruments, (d) all reimbursement obligations of such Person with respect to letters of credit and similar instruments, (e) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (f) all obligations of such Person incurred, issued or assumed for the deferred purchase price of property or services, other than accounts payable incurred and paid on terms customary in the business of such Person, (g) all obligations secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any lien, security interest or other encumbrance on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed by such Person, (h) all obligations of such Person under forward sales, futures, options and other similar hedging arrangements, (i) all obligations of such Person to purchase or otherwise pay for merchandise, materials, supplies, services or other property under an arrangement which provides that payment for such merchandise, materials, supplies, services or other property shall be made regardless of whether delivery of such merchandise, materials, supplies, services or other property is ever made or tendered, (j) all obligations, contingent or otherwise, of such Person to guarantee or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person in any manner, whether directly or indirectly, and (k) all obligations of such Person under any lease of any property (whether real, personal or mixed) by such Person which would, in accordance with GAAP, be required to be accounted for as a capital lease on the balance sheet of such Person.

"INITIAL PUBLIC OFFERING" means the initial Public Offering of the Common Stock, registered pursuant to the Securities Act.

"INSIGHT" means Insight Venture Partners I, L.P., a Delaware limited partnership.

"INSIGHT II" means Insight Capital Partners II, L.P., a Delaware limited partnership

"INSIGHT STOCKHOLDERS" means Insight and Wexford.

"INSIGHT II STOCKHOLDERS" means Insight II and Wexford.

"JOINDER AGREEMENT" has the meaning ascribed to it in SECTION 3(a)(ii).

"NOTICE OF OFFER" has the meaning ascribed to it in SECTION 3(b)(i).

"OFFER" has the meaning ascribed to it in SECTION 3(b)(i).

"OFFER PERCENTAGE" has the meaning ascribed to it in SECTION 3(b)(i).

"OFFER PERIOD" has the meaning ascribed to it in SECTION 3(b)(i).

"OFFERED SECURITIES" has the meaning ascribed to it in SECTION 4(a).

"OFFEREES" has the meaning ascribed to it in SECTION 3(b)(i).

"OFFEROR" has the meaning ascribed to it in SECTION 3(b)(i).

"OPERATING COMPANY" has the meaning ascribed to it in the preamble of this Agreement and shall include any of the Corporation and any Subsidiary of the Corporation.

"OTHER STOCKHOLDERS" has the meaning ascribed to it in SECTION 3(c)(ii).

"PERMITTED DESIGNEES" has the meaning ascribed to it in SECTION 4(b).

"PERMITTED TRANSFER" has the meaning ascribed to it in SECTION 3(a)(iv).

"PERMITTED TRANSFEREE" of any Person means another Person acquiring Securities from such Person in a Permitted Transfer.

"PERSON" shall be construed broadly and shall include an individual, a partnership, a corporation, an association, a joint stock company, a limited liability company, a trust, a joint venture, an unincorporated organization and

a governmental entity or any department, agency or political subdivision thereof.

"PREFERRED STOCK" means (i) the Series A Stock, (ii) the Series B Stock, (iii) the Series C Stock, and (iv) each other series of the Corporation's Preferred Stock, $.001 par value (if any).

"PUBLIC OFFERING" means a public offering of Common Stock pursuant to a registration statement declared effective under the Securities Act, except that a Public Offering shall not include an offering of Common Stock to be issued as consideration in connection with a business acquisition or an offering of Common Stock issuable pursuant to an employee benefit plan.

"PUBLIC SALE" means any sale, occurring simultaneously with or after the consummation of the Initial Public Offering, of Securities to the public pursuant to an offering registered under the Securities Act or to the public through a broker, dealer or market maker (pursuant to the provisions of Rule 144 or otherwise).

"REFUSED SECURITIES" has the meaning ascribed to it in SECTION 4(b).

"REGISTRATION RIGHTS AGREEMENT" means the Amended and Restated Registration Rights Agreement dated as of the date hereof entered into simultaneously with the execution and delivery of this Agreement among the Corporation and the Investors named therein.

"REQUISITE COMMON STOCKHOLDERS" means those Stockholders (other than holders of Preferred Stock) which or who hold in the aggregate in excess of 50% of all of the shares of Common Stock held by all Stockholders.

"REQUISITE SERIES B STOCKHOLDERS" means those Stockholders which or who hold in the aggregate in excess of 50% of all of the shares of Series B Stock held by all Stockholders.

"REQUISITE SERIES C STOCKHOLDERS" means those Stockholders which or who hold in the aggregate in excess of 50% of all of the shares of Series C Stock held by all Stockholders.

"REQUISITE STOCKHOLDERS" means those Stockholders which or who hold in the aggregate in excess of 50% of all of the Common Stock Equivalents held by all Stockholders.

"RESTRICTED PAYMENT" has the meaning ascribed to it in SECTION 2(i)(ii).

"RESTRICTED SECURITIES" shall mean all Securities of the Corporation which have not theretofore been Transferred in a Public Sale.

"RULE 144" means Rule 144 promulgated by the Securities and Exchange Commission under the Securities Act as such rule may be amended from time to time, or any similar rule then in force.

"SALE OF THE CORPORATION" means (i) the sale of all or substantially all of the Corporation's assets to any Person which or who is not a wholly owned Subsidiary of the Corporation, (ii) the sale or transfer (or a series of related sales or transfers) of the outstanding capital stock of the Corporation to one or more Persons, or (iii) the merger or consolidation of the Corporation with or into another Person (each, a "TRANSACTION"), in the case of CLAUSES (II) and (III) above under circumstances in which the holders of a majority in voting power of the

outstanding capital stock of the Corporation, immediately prior to the Transaction, own less than a majority in voting power of the outstanding capital stock of the Corporation or the surviving or resulting corporation or acquirer, as the case may be, immediately following such Transaction. A sale (or multiple related sales) of one or more Subsidiaries of the Corporation (whether by way of merger, consolidation, reorganization or sale of all or substantially all assets or Securities) which constitutes all or substantially all of the consolidated assets of the Corporation and its Subsidiaries to a Person (other than the Corporation or a wholly owned Subsidiary thereof) shall be deemed a Sale of the Corporation.

"SECURITIES" means, with respect to any Person, such Person's "SECURITIES" as defined in Section 2(1) of the Securities Act and includes, without limitation, such Person's capital stock or other equity interests or any options, warrants or other securities that are directly or indirectly convertible into, or exercisable or exchangeable for, such Person's capital stock or other equity interests. Whenever a reference herein to Securities is referring to any derivative Securities, the rights of a Stockholder shall apply to such derivative Securities and all underlying Securities directly or indirectly issuable upon conversion, exchange or exercise of such derivative securities.

"SECURITIES ACT" means the Securities Act of 1933, as amended, or any similar federal law then in force.

"SECURITIES AND EXCHANGE COMMISSION" means the Securities and Exchange Commission or any governmental body or agency succeeding to the functions thereof.

"SECURITIES EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended, or any similar federal law then in force.

"SECURITIES PURCHASE AGREEMENT" means the Securities Purchase Agreement dated as of the March 18, 1997 among the Corporation, the Insight Stockholders and certain other parties.

"SECURITIES PURCHASE AGREEMENT II" means the Securities Purchase Agreement dated as of the date hereof entered into simultaneously with the execution and delivery of this Agreement among the Corporation and the Insight II Stockholders.

"SERIES A STOCK" means the Corporation's Series A Preferred Stock, $.001 par value.

"SERIES B STOCK" means the Corporation's Series B Convertible Preferred Stock, $.001 par value.

"SERIES C STOCK" means the Corporation's Series C Convertible Preferred Stock $.001 par value.

"SHARES" means any shares or other units of Stock issued by the Corporation and purchased or otherwise acquired by any Stockholder. As to any particular Securities constituting Shares, such Securities will cease to be Shares for all purposes of this Agreement when they (a) have been transferred in a Public Sale or (b) cease to be outstanding.

"SPOUSAL CONSENT" has the meaning ascribed to it in SECTION 13.

"STOCK" means all Common Stock Equivalents and other capital stock or equity Securities (including derivative Securities therefor) of the Corporation.

"STOCKHOLDERS" means the Persons holding Stock set forth on SCHEDULE I hereto, as the same may hereafter be amended, modified, supplemented and restated, in their capacities as holders of Stock, for so long as they hold Stock, and any Person which or who hereafter becomes a party to this Agreement as a Stockholder pursuant to a Joinder Agreement executed and delivered pursuant to SECTION 3(a).

"SUBSIDIARY" means, with respect to any other Person, any Person (i) whose shares of stock or other Securities having a majority of the general voting power in electing the board of directors or equivalent governing body (excluding shares or other Securities entitled to vote only upon the failure to pay dividends thereon or other contingencies) are, at the time as of which any determination is being made, owned by such other Person either directly or

indirectly through one or more other Persons constituting Subsidiaries of such other Person or (ii) more than a 50% interest in the profits or capital of whom is, at the time as of which any determination is being made, owned by such other Person either directly or indirectly through one or more other Persons constituting Subsidiaries of such other Person.

"TAG-ALONG NOTICE" has the meaning ascribed to it in SECTION 3(c)(iii).

"TRANSFER" shall be construed broadly and shall include any transfer (whether voluntary, involuntary or by operation of law) of Securities of the Corporation or any interest therein, including, without limitation, by way of issuance, sale, participation, gift, bequeath, intestate transfer, division of marital or community property, distribution, liquidation, merger or consolidation, in each case whether voluntary or involuntary or by operation of law or otherwise. "TRANSFEROR" means a Person Transferring Securities, and "TRANSFEREE" means a Person acquiring Securities through a Transfer.

"TRANSFERRING STOCKHOLDER" has the meaning ascribed to it in SECTION 3(c)(ii).

"WEXFORD" means Wexford Insight LLC, a Delaware limited liability company.

(b) RULES OF CONSTRUCTION. The use in this Agreement of the term "INCLUDING" means "INCLUDING, WITHOUT LIMITATION." The words "HEREIN", "HEREOF", "HEREUNDER" and other words of similar import refer to this Agreement as a whole, including the schedules and exhibits, as the same may from time to time be amended, modified, supplemented or restated, and not to any particular section, subsection, paragraph, subparagraph or clause contained in this Agreement. All references to sections, schedules and exhibits mean the sections of this Agreement and the schedules and exhibits attached to this Agreement. The title of and the section and paragraph headings in this Agreement are for convenience of reference only and shall not govern or affect the interpretation of any of the terms or provisions of this Agreement. The use herein of the masculine, feminine or neuter forms shall also denote the other forms, as in each case the context may require. Where specific language is used to clarify by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict in any manner the construction of the general statement to which it relates. The language used in this Agreement has been chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party.

2. BOARD OF DIRECTORS

(a) NUMBER OF DIRECTORS; COMPENSATION COMMITTEE. Each Stockholder

shall from time to time take such action, in its or his capacity as a stockholder of the Corporation and including the voting, in person or by proxy, of the Securities issued by the Corporation and owned or controlled by such Stockholder and entitled to vote, as may be necessary (i) to cause the number of Directors constituting the Board to be six (6) or seven (7), as provided in SECTION 2(b) below, (ii) to cause the election or appointment to the Board as Directors of the nominees specified in SECTION 2(b) below, each of whom shall have one vote, and (iii) to ensure that the Corporation maintains a Compensation Committee of the Board consisting of three members, each of whom shall have one vote, one of whom shall be the Director nominated pursuant to SECTION 2(b)(i) below, one of whom shall be a Director nominated pursuant to SECTION 2(b)(iii) below, and one of whom shall be the Director nominated pursuant to SECTION 2(b)(iv) below.

(b) ELECTION OF DIRECTORS. Each Stockholder, in its or his capacity as a stockholder of the Corporation, shall, promptly after the execution of this Agreement and at any time and from time to time thereafter that Directors of the Corporation are to be elected, vote, in person or by proxy, all of the Securities issued by the Corporation and owned or controlled by such Stockholder and entitled to vote at any annual or special meeting

of the stockholders of the Corporation called for the purpose of voting on the election of directors, or to execute a written consent in lieu thereof, and take all such other action as may be necessary to provide for the election of the Directors nominated as follows:

(i) one Person nominated by Frawley's Group of Stockholders;

(ii) one Person nominated by Feldman's Group of Stockholders;

(iii) two Persons nominated by Insight and Insight II;

(iv) one Person nominated by CYRK; and

(v) if Frawley ceases to be employed by the Corporation as its Chief Executive Officer, one Person (who shall be an employee of the Corporation) nominated by the Board in its sole discretion, who shall have first been proposed by the senior management of the Corporation to serve as a Director of the Corporation; and

(vi) Dean Goodermote, nominated by the Board of Directors on _____, 1998.

At such time as Frawley's, Feldman's, the Insight Stockholders', Insight II Stockholders or CYRK's and GPLP's Group collectively owns,

beneficially and of record, less than (x)(A) in the case of Frawley's or Feldman's Group, 50% of the Common Stock Equivalents held by Frawley or Feldman on March 18, 1997 (after giving effect to the transactions contemplated by the Securities Purchase Agreement), (B) in the case of the Insight Stockholders' Group, 50% of the Common Stock Equivalents purchased by the Insight Stockholders pursuant to the Securities Purchase Agreement, and in the case of the Insight II Stockholders' Group, 50% of the Common Stock purchased by the Insight II Stockholders pursuant to the Securities Purchase Agreement II, and (C) in the case of CYRK's and GPLP's Group, 50% of the shares of Common Stock acquired by GPLP upon GPLP's conversion of the Old Preferred Stock (as defined in the Securities Purchase Agreement) or (y) 3% of all outstanding Common Stock Equivalents at such time, the provisions of this SECTION 2(B), as they relate to the nomination by such Stockholder or by such Stockholder's Group of one or more Persons as Directors of the Corporation, shall terminate automatically and be of no further force and effect.

The execution and delivery of this Agreement by those Stockholders entitled to vote for the election of Directors of the Corporation constitutes such Stockholders' approval, by written consent pursuant to Section 228 of the Delaware General Corporation Law, of the election as the Directors of the Corporation of the nominees set forth on SCHEDULE II hereto.

No Person shall be nominated as a Director if such Person is, or as a Director would cause the Corporation to be, disqualified under Rule 262 of the Securities Act, unless such nomination is approved by the Requisite Stockholders.

(c) REMOVAL OF DIRECTORS.

(i) At all times, any Stockholder or Group of Stockholders having the right to nominate a Director pursuant to this Agreement shall have the right to require the removal, with or without cause, of such Director.

(ii) In the event that any Stockholder or Group of Stockholders acting as described in SECTION 2(C)(I) above shall, in accordance with its or his rights specified therein, require the removal of any Director or Directors with respect to whom it or he has such right, then each of the other Stockholders hereby agrees to join with such acting Stockholder in recommending such removal as described above, and in causing the Corporation either to promptly hold a special meeting of its stockholders and to vote, in person or by proxy, all of its Securities issued by the Corporation and entitled to vote at such meeting or to execute a written consent in lieu thereof, as the case may be, in favor of such removal.

(d) VACANCIES. If a vacancy is created on the Board by reason of the death, removal (in accordance with SECTION 2(c) above) or resignation of any Director nominated by a Stockholder, Group of Stockholders or the Board pursuant to SECTION 2(b) above, each of the Stockholders shall, in its or his capacity as a stockholder of the Corporation, vote, in person or by proxy all of the Securities issued by the Corporation and owned or controlled by such Stockholder and entitled to vote at any annual or special meeting of the stockholders of the Corporation called for the purpose of voting on the election of Directors, or to execute a written consent in lieu thereof, and take all such other action as may be necessary, to elect, a Person to fill such vacancy who is nominated by the Stockholder, Group of Stockholders or the Board entitled to make such nomination. Such election shall occur upon the earlier of the first meeting of the Board of Directors, or the next presentation of a written consent of Directors in lieu of a meeting, after such vacancy occurs. In the event the remaining Directors fail to select a Director to fill any such vacancy within such period or in the event such Directors fill such vacancy other than in accordance with the nomination and selection procedures set forth in SECTION 2(b) above, each Stockholder shall, in its or his capacity as a stockholder of the Corporation, use its or his reasonable efforts to cause the Corporation either to promptly hold a special meeting of stockholders or to execute a written consent in lieu thereof and vote all of its or his Securities issued by the Corporation and entitled to vote at such meeting, in person or by proxy, or

pursuant to such written consent of stockholders, in favor of the Person or Persons nominated and selected in accordance with SECTION 2(b) above to fill such vacancy and, if necessary, in favor of removing any Director elected to fill such vacancy other than in accordance with the nomination and selection procedures of SECTION 2(b) above.

(e) MEETINGS. The Corporation shall convene meetings of the Board at least once every calendar quarter. Upon any failure by the Corporation to convene any meeting required by this SECTION 2(e), the Requisite Series B Stockholders or Requisite Series C Stockholders may request that a meeting be convened, and if a meeting is not promptly convened, the Requisite Series B Stockholders or Requisite Series C Stockholders may convene such meeting upon giving the notice provided for in the By-Laws.

(f) COMPENSATION COMMITTEE. The Corporation shall establish and maintain the Compensation Committee and such Compensation Committee shall be responsible for approving (i) all future stock sales, stock option grants, bonuses, salary adjustments and payments or other contractual arrangements entered into by any Operating Company with any employee of the Corporation or any of its Subsidiaries or any Affiliates of such employee and (ii) all

repurchases at other than cost of shares of Common Stock (whether vested or otherwise) previously issued by the Corporation to any of the Persons described in CLAUSE (i).

(g) SUBSIDIARIES. The Corporation shall use its best efforts, in its capacity as a stockholder, partner or member of each of its Subsidiaries, to cause the composition of the board of directors or equivalent governing body of such Subsidiary to be identical, or as nearly identical as possible, to the composition of the Board.

(h) EXPENSES. The Corporation shall pay such reasonable and customary fees to compensate the Directors for serving as Directors of the Corporation as the Board may from time to time approve and shall pay or reimburse each member of the Board for the reasonable out-of-pocket expenses incurred by such member in connection with attending the meetings of the Board and any committees thereof.

(i) NEGATIVE COVENANTS. The Corporation shall not, and shall cause its Subsidiaries not to, take any of the following actions or permit to occur or exist any of the following events or conditions, without first obtaining the approval of such action, event or condition by (x) the Board at a meeting duly called for such purpose or by unanimous written consent and (y) at least one of the Directors nominated by Insight and Insight II pursuant to SECTION 2(b)(iii):

(i) issue any equity or equity-linked Security (including, but not limited to, Common Stock Equivalents and nonconvertible Preferred Stock), unless (A) such Security is issued to the Corporation or a wholly owned Subsidiary of the Corporation or (B) such Security is an Excluded Security;

(ii) declare or pay any dividends or make any other distribution on or in respect of its capital stock or other ownership interests, whether in cash, property, securities or a combination thereof, or directly or indirectly redeem, repurchase, retire or otherwise acquire for consideration, any shares of any class of its capital stock or set apart any sum for the aforesaid purposes (any such dividend, distribution, redemption, purchase, retirement or acquisition being referred to herein as a "RESTRICTED PAYMENT"); PROVIDED, HOWEVER, that (x) the Corporation may make the Restricted Payments specified in SECTIONS 2(b), 3, 4, 4(a), and 5(b) of the Certificate of Incorporation, (y) upon the approval of the Compensation Committee (including the approval of the member thereof nominated by Insight and Insight II as a Director pursuant to SECTION 2(b)(iii) above), the Corporation may repurchase at cost any shares of Common Stock (whether vested or otherwise) previously issued by the Corporation to any of the

Persons described in SECTION 2(f)(i) above, and (z) the Operating Companies may make Restricted Payments to other Operating Companies wholly owned by the Corporation (whether directly or indirectly);

(iii) effect any Asset Sale;

(iv) effect a Sale of the Corporation;

(v) purchase or acquire (whether by way of merger, consolidation, operation of law or otherwise) all or a significant portion of the assets or Securities of another Person in one or a series of transactions involving aggregate consideration therefor in excess of $1,000,000;

(vi) make any expenditure or series of expenditures in a fiscal year which are not specified in the Annual Operating Budget for such fiscal year and which in the aggregate are in excess of $500,000 for such fiscal year;

(vii) appoint, retain or change auditors; PROVIDED, HOWEVER, that the auditors may be changed from Coopers & Lybrand L.L.P. to Arthur Andersen, LLP;

(viii) make any change in (A) any accounting policy, principle, procedure or practice followed or (B) the method of applying any such policy, principle, procedure or practice, in each case other than by virtue of any change of

auditors from Coopers & Lybrand L.L.P. to Arthur Andersen, LLP;

(ix) pledge or hypothecate any assets, other than in respect of Indebtedness incurred (A) to a bank or other financial institution in respect of working capital financing or (B) otherwise in the ordinary course of business;

(x) amend, alter or repeal of any of the provisions of the Fundamental Documents of the Operating Company, if such amendment, alteration or repeal would have a material adverse effect on the rights of the holders of any Preferred Stock;

(xi) engage or prepare to engage in any business or line of business other than (A) the business of the Corporation and its Subsidiaries as set forth in the Business Plan or previously approved pursuant to this SECTION 2(i) or (B) businesses reasonably related thereto;

(xii) enter into any dissolution, liquidation or winding up or file a petition or commence any proceeding under any bankruptcy, reorganization or insolvency law of any jurisdiction; or

(xiii) enter into any agreement or commitment or otherwise become bound or obligated to do or perform any of the foregoing actions.

The covenants of the Corporation set forth in this SECTION 2(i) shall terminate and be of no further force or effect if (i) the Group of Stockholders to which the Insight Stockholders belong at any time collectively owns, beneficially and of record, less than 50% of the then-outstanding Common Stock Equivalents purchased by the Insight Stockholders pursuant to the Securities Purchase Agreement; and (ii) the Group of Stockholders to which the Insight II Stockholders belong at any time collectively owns, beneficially and of record, less than 50% of the then-outstanding Common Stock Equivalents purchased by the Insight II Stockholders pursuant to the Securities Purchase Agreement II.

3. TRANSFERS OF STOCK

(a) GENERAL; JOINDER AGREEMENT; ADDITIONAL SHARES.

(i) Anything contained in any agreement, contract, instrument, commitment or similar document to which a Stockholder is a party or by which a Stockholder may be bound to the contrary notwithstanding, the provisions regarding Transfers of Stock contained in this SECTION 3

shall apply to all Stock now owned or hereafter acquired by a Stockholder, including, but not limited to, Stock acquired by reason of original issuance, dividend, distribution, exchange, conversion, and acquisitions of outstanding Stock from another Person, and such provisions shall apply to any Stock obtained by a Stockholder upon the exercise, exchange or conversion of any option, warrant or other derivative Security.

(ii) No Stockholder shall Transfer any Stock to a Person not already a party to this Agreement as a Stockholder (other than a Transfer which constitutes a Public Sale), and the Corporation shall not be required to record any such Transfer on its books, unless and until such Person executes and delivers to the Corporation a joinder agreement in substantially the form attached hereto as EXHIBIT D (the "JOINDER AGREEMENT") and otherwise in form and substance reasonably acceptable to the Corporation pursuant to which such Person will thereupon become a party to, and be bound by and obligated to comply with the terms and provisions of, this Agreement and the Registration

Rights Agreement.

(iii) If any Stock is issued by the Corporation at any time during the term of this Agreement, the Corporation agrees that the proposed recipient of such Stock, if not already a Stockholder and as a condition to receiving such Stock, shall agree that, upon becoming the owner, beneficially and of record, at any time of at least 1% of all outstanding Common Stock Equivalents or any nonconvertible Preferred Stock with an aggregate original issuance price of at least $500,000, to become a party to, and be bound by the terms and provisions of, this Agreement as a Stockholder and such recipient shall execute and deliver a Joinder Agreement to the Corporation.

(iv) Except for Permitted Transfers and Transfers in accordance with SECTIONS 3(b) and (c) below, no Transfer by a Stockholder of any Stock shall be valid, and the Corporation shall not (nor shall it be required to) record any such Transfer on its books. As used herein, a "PERMITTED TRANSFER" shall mean any Transfer of Stock by (A) any member of the Group to which Feldman belongs to any member of the Group to which Frawley belongs or (B) a Stockholder (v) to the spouse or lineal descendant of such Person (as applicable), (w) to any trust for the benefit of such Person or his spouse or lineal descendants, (x) to the estate of such Person, (y) to any member of the Group to which such Person belongs, or (z) to any other Person, all of whose outstanding Securities are held, beneficially and of record, by such Person and/or such Person's Permitted Transferees described in CLAUSES (v) through (y) of this sentence; PROVIDED, HOWEVER, that in each case such

Permitted Transferee agrees to be bound by this Agreement and the Registration Rights Agreement in the same capacity and to the same extent as the Transferor.

(v) Anything contained herein to the contrary notwithstanding, no Stockholder shall, without the prior written consent of the Board, Transfer any Securities of the Operating Company, or any interest therein, to any Person (a "COMPETING TRANSFEREE") which or who is directly or indirectly engaged in any business or activity that competes with the Operating Company, whether such engagement shall be as an employee, director, officer, consultant, partner, owner or other participant in any such business or activity; PROVIDED, HOWEVER, such Transfer shall not be prohibited by this SECTION 3(a)(v) if the proposed Competing Transferee is a member of the Group to which such Stockholder belongs and is a Competing Transferee by virtue of its investment in the Securities of other Competing Transferees.

(vi) Anything contained herein to the contrary notwithstanding, (i) any member of Feldman's Group may pledge Stock as collateral security to the Corporation for a bona fide obligation of Newco (as defined in the Securities Purchase Agreement) to the Corporation, pursuant to the Pledge Agreement (as defined in the Securities Purchase Agreement), and (ii) any Stockholder may pledge Stock for a bona fide obligation of such Stockholder or an Affiliate thereof to the proposed pledgee, but only if the proposed pledgee, as a condition to such Transfer, agrees to be bound by this Agreement and the Registration Rights Agreement in the same capacity and to the same extent as such Stockholder and such proposed pledgee executes and delivers a Joinder Agreement to the Corporation. Anything contained herein to the contrary notwithstanding, the provisions of SECTION 3(b) and (C) below shall not be applicable to the exercise by the Corporation of any of its rights and remedies as a secured creditor of Newco with respect to any Stock pledged by any member of Feldman's Group pursuant to the Pledge Agreement.

(vii) Anything contained herein to the contrary notwithstanding, the provisions of this SECTION 3 shall not be applicable to the grant by Wexford to either Insight, Insight II, or an Affiliate thereof, of a proxy to vote or Transfer any Shares held by Wexford from time to time.

(b) RIGHT OF FIRST OFFER.

(i) If at any time prior to the effective date of a registration statement relating to the Initial Public Offering, any Stockholder (the "OFFEROR") desires to Transfer any Shares (other than pursuant to a Permitted Transfer), such Offeror shall first simultaneously deliver

to the Corporation and each other Stockholder a notice (the "NOTICE OF OFFER"), which shall be irrevocable for a period of 45 days after delivery thereof (the "OFFER PERIOD"), offering (the "OFFER") to the Corporation and the Stockholders other than the Offeror (the "OFFEREES") all of the Shares proposed to be Transferred by the Offeror at the purchase price and on the terms specified therein (which Notice of Offer shall include all relevant terms of the proposed Transfer). The Offeror shall also furnish to the Corporation and such other Stockholders such additional information relating to the Offer as they may reasonably request. The Corporation shall have the first right and option, for a period of 30 days after delivery of the Notice of Offer by the Offeror, to accept all or any portion of the Shares so offered at the purchase price and on the terms stated in the Notice of Offer. The Corporation shall, if it does not elect to purchase all of the

offered Securities, immediately upon such election deliver notice thereof to the other Offerees. Each such Offeree shall have the right and option, for a period of 15 days after the expiration of the 30-day period provided above, (x) to accept all or any of its Offer Percentage of the Shares so offered and not accepted by the Company at the purchase price and on the terms stated in the Notice of Offer and (y) to offer, in any notice of acceptance, to purchase any Shares not accepted by the other Offerees, in which case the Shares not accepted by the other Offerees shall be deemed to be reofferred on the same terms and conditions from time to time during such 15-day period to and accepted by the Offerees which or who exercised their option under this CLAUSE (y), PRO RATA in accordance with their respective Offer Percentages (computed without including the Offerees which or who have not exercised their option to purchase Securities under this CLAUSE (y)), until all such Shares are fully subscribed or until all such Offerees have subscribed for all such offered Shares which they desire to purchase. As used herein, "OFFER PERCENTAGE" means, as to each Offeree, the fraction, expressed as a percentage, the numerator of which is the total number of Common Stock Equivalents held by such Offeree, and the denominator of which is the total number of Common Stock Equivalents held by all Offerees.

(ii) Transfers of Shares under the terms of this SECTION 3(b) shall be made at the offices of the Corporation on a mutually satisfactory Business Day within 15 days after the expiration of the 45-day time period provided in SECTION 3(b)(i) above. Delivery of certificates or other instruments evidencing such Shares, duly endorsed for transfer, shall be made on such date against payment of the purchase price therefor.

(iii) Nothing in this SECTION 3(b) shall preclude any Stockholder from engaging in discussions with any investment

banker, potential Transferee of Shares or other Person with respect to a possible sale of Shares by such Stockholder to any of them, so long as the provisions of this SECTION 3(b) are complied with prior to the consummation of any Transfer to which this SECTION 3(b) applies.

(iv) The Offeror may specify in the Notice of Offer that the Offer mentioned therein is conditioned upon receipt from the Corporation and the other Offerees, or any one of them, of notices of binding acceptance with respect to all Shares mentioned in such Notice of Offer.

(c) CO-SALE RIGHTS.

(i) If any shares of Common Stock, or Series B Stock or Series C Stock offered for sale pursuant to a Notice of Offer not accepted by any Offerees pursuant to SECTION 3(b) above but which are proposed by the Offeror to be Transferred to a third party represent, together with any other shares of any class or series being Transferred by other Stockholders in one or a series of Transfers relating to the proposed Transfer, in excess of 10% of all Common Stock Equivalents outstanding at such time, such Shares may be so Transferred by the Offeror only in accordance with the terms and conditions of this SECTION 3(c). The Transfer of any Shares proposed to be Transferred by the Offeror under circumstances other than those described in the foregoing sentence shall not be subject to the terms and conditions of this SECTION 3(c).

(ii) During the 180-day period after the expiration of the Offer contained in the Notice of Offer, any proposed Transfer of Shares by the Offeror which is subject to the terms and conditions of this SECTION 3(c) shall be consummated only at a price and on such other terms and conditions not more favorable to such third party than those contained in such Notice of Offer. At least 30 days prior to the closing of any proposed Transfer of Shares by the Offeror (other than pursuant to a Permitted Transfer) which is subject to the terms and conditions of this SECTION 3(c), the Offeror (the "TRANSFERRING STOCKHOLDER") shall deliver a notice (the "CO-SALE NOTICE") to the other Stockholders (the "OTHER STOCKHOLDERS") offering such Other Stockholders the option to participate in such proposed Transfer. Such Co-Sale Notice shall specify in reasonable detail the identity of the prospective Transferee(s) and the terms and conditions of the Transfer.

(iii) Any such Other Stockholder may, within 15 days of the receipt of a Co-Sale Notice, give notice (each, a "TAG-ALONG NOTICE") to the Transferring Stockholder that such Other Stockholder wishes to participate in such

proposed Transfer and specifying the amount of Shares that such Other Stockholder desires to include in such proposed Transfer, which shall be of the same class or series of Shares as any of the Shares proposed to be transferred in the Co-Sale Notice. Any Share included in any Tag-Along Notice in accordance with this SECTION 3(b)(iii) shall be transferred upon the terms and conditions set forth in the Co-Sale Notice.

(iv) If none of the Other Stockholders gives the Transferring Stockholder a timely Tag-Along Notice with respect to the Transfer

proposed in the Co-Sale Notice, the Transferring Stockholder may thereafter transfer the Shares specified in the Co-Sale Notice on substantially the same terms and conditions set forth in the Co-Sale Notice. If one or more Other Stockholders give the Transferring Stockholder a timely Tag-Along Notice, then the Transferring Stockholder shall use all reasonable efforts to cause each prospective Transferee to agree to acquire all Shares identified in all Tag-Along Notices that are timely given to the Transferring Stockholder, upon the same terms and conditions. If such prospective Transferee is unwilling or unable to acquire all Shares proposed to be included in such sale upon such terms, then the Transferring Stockholder may elect either to cancel such proposed Transfer or to allocate the maximum number of Shares that each prospective Transferee is willing to purchase among the Transferring Stockholder and the Other Stockholders giving timely Tag-Along Notices in proportion to such Stockholders' (including the Transferring Stockholder's) Co-Sale Percentages. As used herein, "CO-SALE PERCENTAGE" means, as to each Other Shareholder which has delivered a timely Tag-Along Notice, the fraction, expressed as a percentage, the numerator of which is the number of Common Stock Equivalents which such Other Shareholder requested to be sold in its or his Tag-Along Notice and the denominator of which is the sum of (i) the number of Common Stock Equivalents requested to be included in such sale by all Other Stockholders delivering timely Tag-Along Notices and (ii) the number of Common Stock Equivalents specified in the Co-Sale Notice.

(v) In the event any Shares subject to SECTION 3(b) are not Transferred (whether pursuant to this SECTION 3(c) or otherwise) by the Transferring Stockholder during the 180-day period following the expiration of the Offer contained in the related Notice of Offer, the restrictions set forth in SECTIONS 3(b) and (c) shall again become applicable to any Transfer of such Shares by the Transferring Stockholder.

D. RIGHT TO PURCHASE SECURITIES.

(a) Except in the case of Excluded Securities, the Corporation shall not, and shall cause its Subsidiaries not to, issue, sell or exchange, agree to issue, sell or exchange, or reserve or set aside for issuance, sale or exchange, (i) any equity Security of any Operating Company, (ii) any debt security of any Operating Company which by its terms is convertible into or exchangeable for any equity Security of such Operating Company, or (iii) any option, warrant or other right to subscribe for, purchase or otherwise acquire any equity Security or any debt Security referred to in CLAUSE (I) or (II) above, respectively, unless in each case the Corporation shall have first offered, or caused such Subsidiary to

offer (the "FIRST OFFER"), to sell such Securities (the "OFFERED SECURITIES") to the Insight Stockholders and the Insight II Stockholders by delivery to the Insight Stockholders and Insight II Stockholders of notice of such offer (the "FIRST OFFER NOTICE") stating that such Operating Company proposes to sell such Offered Securities, the number or amount of the Offered Securities proposed to be sold, the proposed purchase price therefor and any other terms and conditions of such offer. The First Offer shall by its terms remain open and irrevocable for a period of 30 days from the date it is delivered by such Operating Company to either the Insight Stockholders or the Insight II Stockholders, whichever occurs later (the "FIRST OFFER PERIOD"). The Operating Company making the First Offer may condition the closing of the issuance and sale of Offered Securities pursuant thereto on the receipt by such Operating Company of certain gross proceeds or on the satisfaction of certain other conditions, determined by such Operating Company in its sole discretion, including, but not limited to, the sale of all of the Offered Securities (whether to the Insight Stockholders alone, the Insight II Stockholders alone or either Group together with third parties), and in either case may abandon any such proposed sale if such sale will not result in such gross proceeds or if any of such conditions is not satisfied.

(b) The Insight Stockholders and the Insight II Stockholders shall have the option, exercisable at any time during the First Offer Period by delivering notice to the Operating Company making the First Offer (a "FIRST OFFER ACCEPTANCE NOTICE"), to subscribe for such number or amount of the Offered Securities proposed to be issued (the "ACCEPTED SECURITIES") the product of (x) the total number or amount of such Offered Securities proposed to be issued, and (y) a fraction, the numerator of which is the total number of Common Stock Equivalents held by the Group of Stockholders to which the Insight Stockholders or the Insight II Stockholders, as the case may be, belong, and the denominator of which is the total number of Common Stock Equivalents held by all Persons. Each of the Insight Stockholders and the Insight II Stockholders may, in their First Offer Acceptance Notice, (i) allocate their

subscription for the Accepted Securities among themselves and any members of their respective Groups (the "PERMITTED DESIGNEES") by their mutual agreement, and (ii) condition their subscription for the Accepted Securities upon the satisfaction of certain conditions to be specified by them therein, including, but not limited to, the sale by the Operating Company making the First Offer of all of the Offered Securities which are not the subject of their subscription (the "REFUSED SECURITIES").

(c) If a First Offer Acceptance Notice is not given by the Insight Stockholders or the Insight II Stockholders for all of the Offered Securities, the Operating Company making such First Offer shall have 180 days from the expiration of the First Offer Period to sell all or any part of the Refused

Securities to any other Person(s), but only upon terms and conditions in all respects, including, but not limited to, unit price and interest rates, which are no more favorable, in the aggregate, to such other Person(s) or less favorable to such Operating Company than those set forth in the First Offer. Upon the closing, which shall include full payment of the purchase price to such Operating Company, of the sale to such other Person(s) of all of the Refused Securities, the Insight Stockholders, the Insight II Stockholders and the Permitted Designees shall severally purchase from such Operating Company, and such Operating Company shall sell to the Insight Stockholders, the Insight II Stockholders and the Permitted Designees, the Accepted Securities as allocated among the Insight Stockholders, the Insight II Stockholders and the Permitted Designees in the First Offer Acceptance Notice, upon the terms specified in the First Offer. Any Offered Securities not purchased by the Insight Stockholders, the Insight II Stockholders and the Permitted Designees and not otherwise sold by such Operating Company within the foregoing 180-day period in accordance with this SECTION 4(c) may not be sold or otherwise disposed of until they are again offered to the Insight Stockholders and the Insight II Stockholders under the procedures specified in this SECTION 4.

(d) The rights granted to the Insight Stockholders under this SECTION 4 shall terminate and be of no further force or effect if the Group of Stockholders to which the Insight Stockholders belong at any time collectively owns, beneficially and of record, less than 25% of the then-outstanding Common Stock Equivalents purchased by the Insight Stockholders pursuant to the Securities Purchase Agreement. The rights granted to the Insight II Stockholders under this SECTION 4 shall terminate and be of no further force or effect if the Group of Stockholders to which the Insight II Stockholders belong at any time collectively owns, beneficially and of record, less than 50% of the then-outstanding Common Stock Equivalents purchased by the Insight II Stockholders pursuant to the Securities Purchase Agreement II.

5. AMENDMENT AND WAIVER.

(a) Except as expressly set forth herein, the provisions of this Agreement may only be amended or waived with the prior written consent of the Board, the Requisite Series B Stockholders, the Requisite Series C Stockholders, the Requisite Common Stockholders and the Requisite Stockholders; PROVIDED, HOWEVER, that any such amendment or waiver that would adversely affect the rights of any Stockholder (including CYRK and GPLP) under this Agreement without similarly affecting the rights of all Stockholders under this Agreement shall not be effective as to such Stockholder without its prior written consent, and SCHEDULE I to this Agreement shall be deemed to be automatically amended from time to time to reflect Transfers of Stock made in accordance with SECTION 3 above without requiring the consent of any party hereto, and the Corporation shall distribute to the Stockholders a revised SCHEDULE I to reflect any such

changes.

(b) No course of dealing between the Corporation, its Subsidiaries and the Stockholders (or any of them) or any delay in exercising any rights hereunder will operate as a waiver of any rights of any party to this Agreement.

(c) For purposes of this Agreement, Shares held by the Corporation or any Subsidiaries shall not be deemed to be outstanding.

(d) The failure of any party to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of such party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

(e) In the event that the consent, waiver or approval of Insight is required under provision of this Agreement with respect to any action, event or condition, such consent, waiver or approval shall be deemed to have been given if such action, event or condition is approved by either of the Directors nominated by Insight and Insight II pursuant to SECTION 2(b)(iii) above.

(f) In the event that the consent, waiver or approval of Insight II Stockholders is required under provision of this Agreement with respect to any action, event or condition, such consent, waiver or approval shall be deemed to have been given if such action, event or condition is approved by the Directors appointed by Insight and Insight II.

(g) In the event that the consent, waiver or approval of GPLP or CYRK is required under provision of this Agreement with respect to any action, event or condition, such consent, waiver or approval shall be deemed to have been given if such

action, event or condition is approved by the Director nominated by CYRK pursuant to SECTION 2(b)(iv).

6. SECURITIES LAW COMPLIANCE; LEGENDS.

(a) RESTRICTION ON TRANSFER. In addition to any other restrictions on the Transfer of any Securities contained in this Agreement, the Stockholders shall not Transfer any Restricted Securities except in compliance with the conditions specified in this SECTION 6.

(b) RESTRICTIVE LEGENDS. Each certificate for the Restricted Securities shall (unless otherwise provided by the provisions of SECTION 6(d) below) be stamped or otherwise imprinted with a legend in substantially the following terms:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 OR ANY STATE SECURITIES OR BLUE SKY LAWS. THESE SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT OR LAWS."

(c) NOTICE OF TRANSFER. The holder of any Restricted Securities, by its acceptance or purchase thereof, agrees, prior to any Transfer of any such Restricted Securities (except pursuant to an effective registration statement), to give written notice to the Corporation of such holder's intention to effect such Transfer and agrees to comply in all other respects with the provisions of this SECTION 6. Each such notice shall describe the manner and circumstances of the proposed Transfer and, unless waived by the Corporation, shall be accompanied by the written opinion, addressed to the Corporation, of counsel for the holder of such Restricted Securities (which counsel shall be reasonably satisfactory to the Corporation), stating that in the opinion of such counsel (which opinion shall be reasonably satisfactory to the Corporation) such proposed Transfer does not involve a transaction requiring registration or qualification of such Restricted Securities under the Securities Act or the securities laws of any state of the United States. Subject to complying with the other applicable provisions hereof, such holder of Restricted Securities shall be entitled to consummate such Transfer in accordance with the terms of the notice delivered by it to the Corporation if the Corporation does not object (on the basis that such transfer violates the provisions of this SECTION 6) to such transfer within five (5) days after the delivery of such notice. Each certificate or other instrument evidencing the Securities issued upon the transfer of any Restricted Securities (and each certificate or other instrument evidencing any untransferred balance of such Securities) shall bear the legend set forth in SECTION 6(b) above unless (i) in

such opinion of such counsel registration of future transfer is not required by the applicable provisions of the Securities Act or the securities laws of any state of the United States or (ii) the Corporation shall have waived the requirement of such legend.

(d) REMOVAL OF LEGENDS, ETC. Notwithstanding the foregoing provisions of this SECTION 6, the restrictions imposed by SECTIONS 6(a) through (c) above upon the transferability of any Restricted Securities shall cease and terminate when (i) any such Restricted Securities are sold or otherwise disposed of in accordance with the intended method of disposition by the seller or sellers thereof set forth in a registration statement or are sold or otherwise disposed of in a transaction contemplated by SECTION 6(c) above which does not require that the Securities transferred bear the legend set forth in SECTION 6(b) above,

or (ii) the holder of such Restricted Securities has met the requirement of transfer of such Restricted Securities pursuant to subparagraph (k) of Rule 144. Whenever the restrictions imposed by SECTIONS 6(a) through (c) above shall terminate, as herein provided, the holder of any Restricted Securities shall be entitled to receive from the Corporation, without expense, a new certificate not bearing the restrictive legend set forth in SECTION 6(B) above and not containing any other reference to the restrictions imposed by SECTIONS 6(a) through (c) above.

(e) ADDITIONAL LEGEND. Each certificate evidencing Shares and each certificate issued in exchange for or upon the Transfer of any Shares (if such Shares remain Shares after such Transfer) shall be stamped or otherwise imprinted with a legend in substantially the following form:

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE ALSO SUBJECT TO A STOCKHOLDERS AGREEMENT DATED AS OF DECEMBER 4, 1997 AMONG THE ISSUER OF SUCH SECURITIES (THE "COMPANY") AND CERTAIN OF THE COMPANY'S STOCKHOLDERS. THE TERMS OF SUCH STOCKHOLDERS AGREEMENT INCLUDE, AMONG OTHER THINGS, VOTING AGREEMENTS AND RESTRICTIONS ON TRANSFERS. A COPY OF SUCH STOCKHOLDERS AGREEMENT WILL BE FURNISHED WITHOUT CHARGE BY THE COMPANY TO THE HOLDER HEREOF UPON WRITTEN REQUEST."

The Corporation shall imprint such legends on certificates evidencing Shares outstanding prior to the date hereof. The legend set forth above shall be removed from any certificate evidencing Shares (i) when such Shares cease to be Shares in accordance with the terms of this Agreement or (ii) upon the occurrence of any of the events set forth in SECTION 7(a) below.

7. TERMINATION.

(a) All of the provisions of this Agreement (other than SECTION 9) shall terminate and be of no further force or effect and shall not be binding upon any party hereto, upon the first to occur of (i) the dissolution, liquidation or winding-up of the Corporation, (ii) the closing of a Sale of the Corporation, (iii) the closing of an Initial Public Offering, and (iv) the approval of such termination by the Corporation, the Requisite Series B Stockholders, the Requisite Series C Stockholders, the Requisite Common Stockholders and the Requisite Stockholders; PROVIDED, HOWEVER, the provisions of SECTIONS 2(a) through (d) shall survive any Sale of the Corporation within the meaning of CLAUSE (II) of the definition thereof until any other event (other than such a Sale of the Corporation) occurs under any of CLAUSES (i) through (iv) of this SECTION 7(a).

(b) As to any particular Stockholder, this Agreement shall no longer

be binding or of further force or effect as to such Stockholder, except as otherwise expressly provided herein, as of the date such Stockholder has Transferred all such Stockholder's interest in the Securities of the Corporation and the transferee(s) of such Securities have, if required by SECTION 3(a) above, executed a Joinder Agreement; PROVIDED, HOWEVER, that no such termination shall be effective if such Stockholder is in breach of this Agreement.

8. SEVERABILITY.

It is the desire and intent of the parties hereto that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated by a court of competent jurisdiction to be invalid, prohibited or unenforceable for any reason, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction. Notwithstanding the foregoing, if such provision could be more narrowly drawn so as not to be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so narrowly drawn, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

9. TERMINATION OF EXISTING STOCKHOLDERS' AGREEMENT.

[Intentionally omitted]

10. ENTIRE AGREEMENT.

This Agreement, together with the Related Agreements, embodies the complete agreement and understanding among the

parties hereto with respect to the subject matter hereof and supersedes and preempts any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way; PROVIDED, HOWEVER, the Stockholders acknowledge and agree that all of the provisions (other than the repurchase provisions) of any restricted stock purchase agreements or similar agreements between the Corporation and any of the Stockholders who are current or former employees, officers or directors of the Corporation shall not be superseded or preempted by this Agreement or any of the Related Agreements.

11. CERTAIN STOCKHOLDERS.

Each Stockholder that is an entity that was formed for the

purpose of acquiring Stock or that has no substantial assets other than Stock or interests in such Stock agrees that (a) shares of its common stock or other instruments reflecting equity interests in such (and the shares of common stock or other equity interests in any similar entities controlling such Person) will note the restrictions contained in this Agreement on the transfer of Stock as if such common stock or other equity interests were Stock and (b) no shares of such common stock or other equity interests may be transferred to any Person other than in accordance with the terms and provisions of this Agreement as if such common stock or other equity interests were Stock.

12. SUCCESSORS AND ASSIGNS.

Except as otherwise provided herein, this Agreement shall bind and inure to the benefit of and be enforceable by the Corporation and its successors and assigns and the Stockholders and any subsequent holders of Shares and the respective successors and assigns of each of them, so long as they each hold shares of Series A Preferred Stock or at least 1% of all outstanding Common Stock Equivalents at the time in question. None of the provisions hereof shall create, or be construed or deemed to create, any right to employment in favor of any Person by the Corporation or any of its Subsidiaries. This Agreement is not intended to create any third party beneficiaries.

13. CONSENT AND AGREEMENT OF SPOUSES.

If requested by the Corporation, each Stockholder shall cause his or her spouse, as applicable, to execute and deliver to the Corporation a separate consent and agreement in substantially the form attached hereto as EXHIBIT E or otherwise reasonably acceptable to the Corporation (a "SPOUSAL CONSENT"). The signature of a spouse on a Spousal Consent shall not be construed as making such spouse a stockholder of the Corporation or a party to this Agreement except as may otherwise be set forth in such consent. Each Stockholder shall certify his or her marital status to the Corporation at the Corporation's request.

14. REMEDIES.

(a) Except as otherwise expressly provided in this Agreement, each Stockholder shall have all rights and remedies reserved for such Stockholder pursuant to this Agreement, the Related Agreements and the By-Laws and all rights and remedies which such holder has been granted at any time under any other agreement or contract and all of the rights which such holder has under any law or at equity. Any Person having any rights under any provision of this Agreement shall be entitled to enforce such rights specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights granted by law or equity.

(b) The parties hereto agree that if any parties seek to resolve any dispute arising under this Agreement pursuant to a legal proceeding, the prevailing parties to such proceeding shall be entitled to receive reasonable fees and expenses (including reasonable attorneys' fees and expenses) incurred in connection with such proceedings.

(c) It is acknowledged that it shall be impossible to measure in money the damages that would be suffered if the parties fail to comply with any of the obligations herein imposed on them and that in the event of any such failure, an aggrieved Person will be irreparably damaged and shall not have an adequate remedy at law. Any such Person shall, therefore, be entitled to injunctive relief, including specific performance, to enforce such obligations, and if any action should be brought in equity to enforce any of the provisions of this Agreement, none of the parties hereto shall raise the defense that there is an adequate remedy at law.

15. NOTICES.

All agreements, notices or other communications which are required or otherwise delivered hereunder shall be in writing and shall be deemed to have been duly given if (a) personally delivered or sent by telecopier, (b) sent by nationally recognized overnight courier or (c) sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to the Corporation, to:

Exchange Applications, Inc.
695 Atlantic Avenue
Boston, Massachusetts 02111
Telephone: (617) 737-2244
Telecopy: (617) 790-2821
Attention: Andrew J. Frawley

with a copy to:

Bingham Dana LLP
150 Federal Street
Boston, Massachusetts 02110
Telephone: (617) 951-8866
Telecopy: (617) 951-8736
Attention: Neil W. Townsend, Esq.

If to a Stockholder, to him or it at his or its address set forth

on SCHEDULE I hereto;

or to such other address as the party to whom notice is to be given may have furnished to each other party in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (i) when delivered, if personally delivered or sent by telecopier, (ii) on the first Business Day after dispatch, if sent by nationally recognized, overnight courier guaranteeing next Business Day delivery and (iii) on the fifth Business Day following the date on which the piece of mail containing such communication is posted, if sent by mail.

16. GOVERNING LAW.

All questions concerning the construction, interpretation and validity of this Agreement shall be governed by and construed and enforced in accordance with the domestic laws of the Commonwealth of Massachusetts, without giving effect to any choice or conflict of law provision or rule (whether in the Commonwealth of Massachusetts or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the Commonwealth of Massachusetts. In furtherance of the foregoing, the internal law of the Commonwealth of Massachusetts will control the interpretation and construction of this Agreement, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily apply. Notwithstanding the foregoing provisions of this SECTION 16, those provisions of this Agreement that relate to the internal governance of the Corporation provisions shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware.

17. FURTHER ASSURANCES.

Each party hereto shall do and perform or cause to be done and performed all such further acts and things and shall execute and deliver all such other agreements, certificates, instruments, and documents as any other party hereto reasonably may request in order to carry out the provisions of this Agreement and the consummation of the transactions contemplated hereby.

18. JURISDICTION; VENUE; PROCESS.

The parties to this Agreement agree that jurisdiction and venue in any action brought by any party hereto pursuant to this Agreement shall properly (but not exclusively) lie in any federal or state court located in the Commonwealth of Massachusetts or the State of New York. By execution and delivery of this Agreement, the parties hereto irrevocably submit to the jurisdiction of such courts for itself or himself and in respect of its or his property with respect to such action. The parties hereto irrevocably agree that

venue would be proper in such courts, and hereby waive any objection that any of such courts is an improper or inconvenient forum for the resolution of such action. The parties further agree that the mailing by certified or registered mail, return receipt requested, of any process required by any such court shall constitute valid and lawful service of process against them, without necessity for service by any other means provided by statute or rule any of such court.

19. REPRESENTATIONS AND WARRANTIES OF THE CORPORATION.

The Corporation hereby represents and warrants to the Stockholders that as of the date of this Agreement:

(a) it is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, it has full corporate power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby, and the execution, delivery and performance by it of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action;

(b) this Agreement has been duly and validly executed and delivered by the Corporation and constitutes a legal and binding obligation of the Corporation, enforceable against the Corporation in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws now or hereafter in effect and public policy and subject to general principles of equity; and

(c) the execution, delivery and performance by the Corporation of this Agreement and the consummation by the Corporation of the transactions contemplated hereby shall not, with or without the giving of notice or lapse of time, or both (i) violate any Applicable Law, or (ii) conflict with, or result in a breach or default under, any term or condition of the Certificate of Incorporation or the By-Laws or any agreement or instrument to which the Corporation is a party or by which it is bound.

20. REPRESENTATION AND WARRANTIES OF THE STOCKHOLDERS.

Each Stockholder (as to himself or itself only) represents and warrants to the Corporation and the other Stockholders that, as of the time such Stockholder becomes a party to this Agreement:

(a) if such Stockholder is not a natural Person, it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;

(b) this Agreement (or the separate joinder agreement executed by

such Stockholder) has been duly and validly executed and delivered by such Stockholder and this Agreement constitutes a legal and binding obligation of such Stockholder, enforceable against such Stockholder in accordance with its terms; and

(c) the execution, delivery and performance by such Stockholder of this Agreement and the consummation by such Stockholder of the transactions contemplated hereby shall not, with or without the giving of notice or lapse of time, or both (i) violate any Applicable Law, or (ii) conflict with, or result in a breach or default under, any term or condition of any agreement or other instrument to which such Stockholder is a party or by which such Stockholder is bound.

21. CONFLICTING AGREEMENTS.

No Stockholder shall enter into any stockholder agreements or arrangements of any kind with any Person with respect to any Shares on terms inconsistent with the provisions of this Agreement (whether or not such agreements or arrangements are with other Stockholders or with Persons that are not parties to this Agreement), including but not limited to, agreements or arrangements with respect to the acquisition or disposition of Shares in a manner which is inconsistent with this Agreement.

22. MUTUAL WAIVER OF JURY TRIAL.

BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING BROUGHT TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIES UNDER THIS AGREEMENT OR ANY DOCUMENTS RELATED HERETO.

23. COUNTERPARTS.

This Agreement may be executed simultaneously in two or more counterparts, any one of which need not contain the signatures of more than one party, but all such counterparts taken together will constitute one and the same agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

* * * * *

35

IN WITNESS WHEREOF, the undersigned have duly executed this Stockholders Agreement as of the date first written above.

EXCHANGE APPLICATIONS, INC.

By: /s/ Andrew J. Frawley

Andrew J. Frawley
President

36

STOCKHOLDERS:

INSIGHT VENTURE PARTNERS I, L.P.

BY: INSIGHT VENTURE ASSOCIATES, LLC,
its general partner

By: /s/ Jeffrey Horing

Name: Jeffrey Horing
Title:

INSIGHT CAPITAL PARTNERS II, L.P.

BY: INSIGHT VENTURE ASSOCIATES II, LLC,
its general partner

By: /s/ Jeffrey Horing

Name: Jeffrey Horing
Title:

WEXFORD INSIGHT LLC

BY: WEXFORD MANAGEMENT LLC,
its investment manager

By: /s/ Robert Holtz

Name: Robert Holtz
Title: Principal

CYRK, INC.

By: /s/ Patrick Brady

Name: Patrick Brady
Title: President

GRANT & PARTNERS LIMITED PARTNERSHIP

BY: GRANT & PARTNERS, INC.,
its general partner

By: /s/ Alan W. H. Grant

Name: Alan W. H. Grant
Title: President, Grant & Partners, Inc.

STOCKHOLDERS:

/s/ Andrew J. Frawley

Andrew J. Frawley

/s/ Michael J. Feldman

Michael J. Feldman

/s/ Michael McGonagle

Michael McGonagle

EXHIBIT 10.14

==========

EXCHANGE APPLICATIONS, INC.

(a Delaware corporation)

AMENDED AND RESTATED
REGISTRATION RIGHTS AGREEMENT

DECEMBER 4, 1997

==========

AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT dated as of December 4, 1997, among EXCHANGE APPLICATIONS, INC., a Delaware corporation (the "CORPORATION"), and the INVESTORS (as defined below).

The Investors own or have the right to purchase or otherwise acquire (by the exercise, exchange or conversion of shares of the Corporation's capital stock owned by the Investors) shares of the Corporation's Common Stock (as defined below). The Corporation and the Investors deem it to be in their respective best interests to set forth the rights of the Investors in connection with public offerings and sales of the capital stock of the Corporation.

ACCORDINGLY, in consideration of the mutual covenants and agreements contained herein, the sufficiency of which is hereby acknowledged, the parties agree as follows:

1. DEFINITIONS; RULES OF CONSTRUCTION.

(a) DEFINITIONS. As used in this Agreement, the following terms shall have the meanings ascribed to them below:

"BUSINESS DAY" means any day that is not a Saturday, Sunday or other day on which banks are not required to be open in New York, New York or Boston, Massachusetts.

"COMMISSION" means the Securities and Exchange Commission or any other Federal agency at the time administering the Securities Act.

"COMMON STOCK" means the Common Stock, $.001 par value, of the Company.

"COMMON STOCK EQUIVALENT" means (i) one share of Common Stock or (ii) the right to acquire, whether or not immediately exercisable, one share of Common Stock, whether evidenced by an option, warrant, convertible security or other instrument or agreement.

"CYRK" means CYRK, Inc., a Delaware corporation.

"CYRK/GPLP INVESTORS" means, collectively, CYRK, GPLP and their respective affiliates and partners, and each of their respective directors, officers, employees, partners and stockholders, in each case who hold Restricted Shares, and shall also include any successor to, or assignee or transferee of Restricted Shares held by, any of the foregoing Persons who or which executes and delivers to the Corporation an Investor Joinder.

"EXCHANGE ACT" means the Securities Exchange Act of 1934 or any successor Federal statute, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect from time to time.

"GPLP" means Grant & Partners Limited Partnership, a Delaware limited partnership.

"INITIAL PUBLIC OFFERING" means the initial Public Offering of the Common Stock, registered pursuant to the Securities Act.

"INSIGHT" means Insight Venture Partners I, L.P., a Delaware limited partnership.

"INSIGHT II" means Insight Capital Partners II, L.P., a Delaware limited partnership.

"INSIGHT INVESTORS" means, collectively, Insight, Wexford and their respective affiliates and partners, and each of their respective directors, officers, employees, partners and stockholders, in each case who hold Restricted Shares, and shall also include any successor to, or assignee or transferee of Restricted Shares held by, any of the foregoing Persons who or which executes and delivers to the Corporation an Investor Joinder.

"INSIGHT II INVESTORS" means, collectively, Insight II and Wexford and their respective affiliates and partners, and each of their respective directors, officers, employees, partners and stockholders, in each case who hold Restricted Shares, and shall also include any successor to, or assignee or transferee of Restricted Shares held by any of the foregoing Persons who or which executes and delivers to the Corporation an Investor Joinder.

"INVESTOR JOINDER" means a joinder agreement, substantially in the form of EXHIBIT A hereto, by which a Person may become an Investor after the date hereof.

"INVESTORS" means, collectively, each of the Persons listed on Schedule I hereto and any other Person who becomes a party to this Agreement as an Investor, and includes any successor to, or assignee or transferee of, any such Person and

who or which executes and delivers to the Corporation an Investor Joinder.

"MAJORITY OF THE INSIGHT INVESTORS" means those Insight Investors who hold in the aggregate in excess of 50% of the Restricted Shares (on a Common Stock Equivalent basis) held by all of the Insight Investors.

"MAJORITY OF THE INSIGHT II INVESTORS" means those Insight II Investors who hold in the aggregate in excess of 50% of the Restricted Shares (on a Common Stock Equivalent basis) held by all of the Insight II Investors.

"OTHER SHARES" means, at any time, those shares of Common Stock which do not constitute Primary Shares or Registrable Shares.

"PERSON" shall be construed broadly and shall include an individual, a partnership, an association, a joint stock company, a limited liability company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

"PRIMARY SHARES" means, at any time, the authorized but unissued shares of Common Stock and shares of Common Stock held by the Corporation in its treasury.

"PUBLIC OFFERING" means a public offering of Common Stock pursuant to a registration statement declared effective under the Securities Act, except that a Public Offering shall not include an offering of Common Stock to be issued as consideration in connection with a business acquisition or an offering of Securities issuable pursuant to an employee benefit plan.

"REGISTRABLE SHARES" means Restricted Shares which constitute Common Stock.

"REGISTRATION DATE" means the date upon which the registration statement pursuant to which the Corporation shall have initially registered shares of Common Stock under the Securities Act for sale to the public shall have been declared effective.

"RESTRICTED SHARES" means, at any time and with respect to any Investor, the shares of Common Stock and any other Securities issued by the Corporation which by their terms are exercisable or exchangeable for or convertible into Common Stock, and any Securities issued by the Corporation received on or with respect to any such Common Stock, which are held by such Investor and which heretofore have not been sold to the public pursuant to a registration statement under the Securities Act or pursuant to Rule 144 or may not be sold under Rule 144(k).

"RULE 144" means Rule 144 promulgated by the Securities and Exchange Commission under the Securities Act as such rule may be amended from time to time, or any similar rule then in force.

"SECURITIES" means, with respect to any Person, such Person's "SECURITIES" as defined in Section 2(1) of the Securities Act and includes, without limitation, such Person's capital stock or other equity interests or any options, warrants or other securities that are directly or indirectly convertible into, or exercisable or exchangeable for, such Person's capital stock or other equity interests.

"SECURITIES ACT" means the Securities Act of 1933, as amended, or any

similar federal law then in force.

"WEXFORD" means Wexford Insight LLC, a Delaware limited liability company. RULES OF CONSTRUCTION. The use in this Agreement of the term "INCLUDING" means "INCLUDING, WITHOUT LIMITATION." The words "herein", "HEREOF", "HEREUNDER" and other words of similar import refer to this Agreement as a whole, including the schedules and exhibits, as the same may from time to time be amended, modified, supplemented or restated, and not to any particular section, subsection, paragraph, subparagraph or clause contained in this Agreement. All references to sections, schedules and exhibits mean the sections of this Agreement and the schedules and exhibits attached to this Agreement. The title of and the section and paragraph headings in this Agreement are for convenience of reference only and shall not govern or affect the interpretation of any of the terms or provisions of this Agreement. The use herein of the masculine, feminine or neuter forms shall also denote the other forms, as in each case the context may require. Where specific language is used to clarify by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict in any manner the construction of the general statement to which it relates. The language used in this Agreement has been chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party.

2. REQUIRED REGISTRATION.

(a) If at any time from and after the Registration Date, the Corporation shall be requested by either a Majority of the Insight Investors or by a Majority of the Insight II Investors to effect the registration under the Securities Act of Registrable Shares with an anticipated aggregate offering price of at least $5,000,000 in a firm commitment, underwritten Public Offering to be managed by an underwriter selected by the Company and reasonably acceptable to a Majority of the Insight Investors, in the case where Registration was requested by the

Insight Investors, or by a Majority of the Insight II Investors, in the case where registration was requested by the Insight II Investors, it shall promptly give written notice to the other Investors of its requirement so to register such Registrable Shares and, upon the written request, delivered to the Corporation within 30 days after delivery of any such notice by the Corporation, of the other Investors to include in such registration Registrable Shares (which request shall specify the number of Registrable Shares proposed to be included in such registration), the Corporation shall, subject to SECTION 2(b), promptly use its best efforts to effect such registration under the Securities Act of the Registrable Shares which the Corporation has been so requested to register.

(b) Anything contained in SECTION 2(a) to the contrary

notwithstanding, the Corporation shall not be obligated to effect pursuant to SECTION 2(a) any registration under the Securities Act except in accordance with the following provisions:

(i) the Corporation shall not be obligated to use its best efforts to file and cause to become effective

(A) more than (1) two registration statements on Form S-1 (or any successor form thereto) (the "S-1 Registration") initiated pursuant to SECTION 2(a) by a majority of the Insight Investors and (2) two S-1 Registrations initiated by a Majority of the Insight II Investors pursuant to which the Registrable Shares requested to be included therein have been effectively sold thereunder or

(B) any registration statement during any period in which any other registration statement (other than on Form S-4 or Form S-8 promulgated under the Securities Act or any successor forms thereto) pursuant to which Primary Shares are to be or were sold has been filed and not withdrawn or has been declared effective within the prior 90 days;

(ii) the Corporation may delay the filing or effectiveness of any registration statement for a period of up to 90 days after the date of a request for registration pursuant to SECTION 2(a) if at the time of such request the Corporation is engaged, or has fixed plans to engage within 90 days of the time of such request, in a firm commitment, underwritten Public Offering of Primary Shares in which the holders of Registrable Shares may include Registrable Shares pursuant to SECTION 3;

(iii) with respect to any registration pursuant to SECTION 2(A), the Corporation may include in such registration any Primary Shares or Other Shares; PROVIDED, HOWEVER, that if the managing underwriter advises the Corporation that the inclusion of all of the Registrable Shares, Primary Shares and/or Other Shares proposed to be included in such registration would interfere with the successful marketing (including pricing) of all of such securities, then the number of Registrable Shares, Primary Shares and/or Other Shares proposed to be included in such registration shall be included in the following order:

(A) FIRST, the Registrable Shares requested by the Insight Investors and Insight II Investors to be included in such registration (or, if necessary, such Registrable Shares PRO RATA among the holders thereof based upon the number of Registrable

Shares requested to be registered by each such holder);

(B) SECOND, the Registrable Shares requested by the CYRK/GPLP Investors to be included in such registration (or, if necessary, such Registrable Shares PRO RATA among the holders thereof based upon the number of Registrable Shares requested to be registered by each such holder);

(C) THIRD, the Registrable Shares requested by Investors (other than the Insight Investors, Insight II Investors or the CYRK/GPLP Investors) to be included in such registration (or, if necessary, such Registrable Shares PRO RATA among the holders thereof based upon the number of Registrable Shares requested to be registered by each such holder);

(D) FOURTH, the Primary Shares; and

(E) FIFTH, the Other Shares.

(c) A requested registration under SECTION 2(a) may be rescinded prior to such registration being declared effective by the Commission by written notice to the Corporation either from the Majority of Insight Investors initiating such registration, in the case where the Insight Investors initiated registration pursuant to SECTION 2(a), or from the Majority of Insight II Investors initiating such registration, in the case where the Insight II Investors initiated registration pursuant to SECTION 2(a); PROVIDED, HOWEVER, that such rescinded registration shall not be deemed a registration statement initiated pursuant to SECTION 2(a) for the purpose of SECTION 2(a)(i)(A) if (x) such request of withdrawal shall have been caused by, or made in response to, the material adverse effect of an event on the business, operations, assets or

condition (financial or otherwise) of the Corporation and its subsidiaries taken as a whole or (y) the Corporation shall have been reimbursed for all out-of-pocket expenses incurred by the Corporation in connection with such rescinded registration.

3. PIGGYBACK REGISTRATION.

If the Corporation at any time proposes for any reason to register Primary Shares or Other Shares under the Securities Act (other than on Form S-4 or Form S-8 promulgated under the Securities Act or any successor forms thereto) (but not in connection with any Initial Public Offering), it shall promptly give written notice to the Investors of its intention to so register such Primary Shares or Other Shares and, upon the written request, delivered to the

Corporation within 30 days after delivery of any such notice by the Corporation, of any Investor to include in such registration Registrable Shares (which request shall specify the number of Registrable Shares proposed to be included in such registration), the Corporation shall use its best efforts to cause all such Registrable Shares to be included in such registration on the same terms and conditions as the securities otherwise being sold in such registration; PROVIDED, HOWEVER, that if the managing underwriter advises the Corporation that the inclusion of all Registrable Shares requested to be included in such registration would interfere with the successful marketing (including pricing) of the Primary Shares or Other Shares proposed to be registered by the Corporation, then the number of Primary Shares, Registrable Shares and Other Shares proposed to be included in such registration shall be included in the following order:

(i) FIRST, the Primary Shares;

(ii) SECOND, the Registrable Shares requested to be included in such registration (or, if necessary, PRO RATA among the holders thereof, based upon the number of Registrable Shares requested to be registered by each such holder); and

(iii) THIRD, the Other Shares.

4. REGISTRATIONS ON FORM S-3.

Anything contained in SECTION 2 to the contrary notwithstanding, at such time as the Corporation shall have qualified for the use of Form S-3 promulgated under the Securities Act or any successor form thereto, a Majority of the Insight Investors and a Majority of the Insight II Investors shall have the right to request in writing an unlimited number of registrations on Form S-3 (or any successor form thereto) of Registrable Shares, which request or requests shall (i) specify the number of Registrable Shares intended to be sold or disposed of and the holders thereof, which shall have an anticipated aggregate offering price of at least $2,500,000, and (ii) state the intended method of disposition of such Registrable Shares. A requested registration on Form S-3 or any such successor form in compliance with this SECTION 4 shall not count as a registration statement initiated pursuant to SECTION 2 but shall otherwise be treated as a registration initiated pursuant to, and shall, except as otherwise expressly provided in this SECTION 4, be subject to SECTION 2.

5. HOLDBACK AGREEMENT.

If the Corporation at any time shall register shares of Common Stock under the Securities Act (including any registration pursuant to SECTION 2) for sale to the public, the Investors shall not sell publicly, make any short sale

of, grant any option for the purchase of, or otherwise dispose publicly of, any Registrable Shares (other than those shares of Common Stock included in such registration pursuant to SECTIONS 2, 3 or 4) without the prior written consent of the Corporation for a period designated by the Corporation in writing to the Investors, which period shall begin not more than 10 days prior to the effectiveness of the registration statement pursuant to which such Public Offering shall be made and shall not last more than 180 days after the effective date of such registration statement. The Corporation shall obtain the agreement of any Person permitted to sell shares of stock in a registration to be bound by and to comply with this SECTION 5 as if such Person was an Investor hereunder.

6. PREPARATION AND FILING.

If and whenever the Corporation is under an obligation pursuant to the provisions of this Agreement to use its best efforts to effect the registration of any Registrable Shares, the Corporation shall, as expeditiously as practicable:

(a) use its best efforts to cause a registration statement that registers such Registrable Shares to become and remain effective for a period of 180 days or until all of such Registrable Shares have been disposed of (if earlier);

(b) furnish, at least five business days before filing a registration statement that registers such Registrable Shares, a prospectus relating thereto or any amendments or supplements relating to such a registration statement or prospectus, to one counsel selected by Insight and Insight II (the "INVESTORS' COUNSEL"), copies of all such documents proposed to be filed (it being understood that such five-business-day period need not apply to successive drafts of the same document proposed to be filed so long as such successive drafts are supplied to the Investors' Counsel in advance of the proposed filing by a period of time that is customary and reasonable under the circumstances);

(c) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for at least a period of 180 days or until all of such Registrable Shares have been disposed of (if earlier) and to comply with the provisions of the Securities Act with respect to the sale or other disposition of such Registrable Shares;

(d) notify in writing the Investors' Counsel promptly of (i) the receipt by the Corporation of any notification with respect to any comments by the Commission with respect to such registration statement or prospectus or any amendment or supplement thereto or any request by the Commission for the

amending or supplementing thereof or for additional information with respect thereto, (ii) the issuance by the Commission of any stop order suspending the effectiveness of such registration statement or prospectus or any amendment or supplement thereto or the initiation or threatening of any proceeding for that purpose (and the Corporation shall use its best efforts to prevent the issuance thereof or, if issued, to obtain its withdrawal) and (iii) the receipt by the Corporation of any notification with respect to the suspension of the qualification of such Registrable Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purposes;

(e) use its best efforts to register or qualify such Registrable Shares under such other securities or blue sky laws of such jurisdictions as any seller of Registrable Shares reasonably requests, to keep such registrations or qualifications in effect for so long as the registration statement covering such Registrable Shares remains in effect and do any and all other acts and things which may be reasonably necessary or advisable to enable such seller of Registrable Shares to consummate the disposition in such jurisdictions of the Registrable Shares owned by such seller; PROVIDED, HOWEVER, that the Corporation will not be required to qualify generally to do business, subject itself to general taxation or consent to

general service of process in any jurisdiction where it would not otherwise be required to do so but for this SECTION 6(e);

(f) furnish to each seller of Registrable Shares such number of copies of a summary prospectus, if any, or other prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as such seller of Registrable Shares may reasonably request in order to facilitate the public sale or other disposition of such Registrable Shares;

(g) use its best efforts to cause such Registrable Shares to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of the Corporation to enable the seller or sellers thereof to consummate the disposition of such Registrable Shares;

(h) notify on a timely basis each seller of such Registrable Shares at any time when a prospectus relating to such Registrable Shares is required to be delivered under the Securities Act within the appropriate period mentioned in SECTION 6(A), of the happening of any event known to the Corporation as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing and, at the

request of such seller, prepare and furnish to such seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the offerees of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(i) make available upon reasonable notice and during normal business hours, for inspection by any seller of Registrable Shares, any underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other agent retained by any such seller or underwriter (collectively, the "INSPECTORS"), all pertinent financial and other records, pertinent corporate documents and properties of the Corporation (collectively, the "RECORDS"), as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Corporation's officers, directors and employees to supply all information (together with the Records, the "INFORMATION") reasonably requested by any such Inspector in connection with such registration statement (any of the Information which the Corporation determines in good faith to be confidential, and of

which determination the Inspectors are so notified, shall not be disclosed by the Inspectors, unless (i) the disclosure of such Information is necessary to avoid or correct a misstatement or omission in the registration statement, (ii) the release of such Information is ordered pursuant to a subpoena or other order from a court of competent jurisdiction or, upon the written advice of counsel, is otherwise required by law, or (iii) such Information has been made generally available to the public, and each seller of Registrable Shares agrees that it will, upon learning that disclosure of such Information is sought in a court of competent jurisdiction, give notice to the Corporation and allow the Corporation, at the Corporation's expense, to undertake appropriate action to prevent disclosure of the Information deemed confidential);

(j) use its best efforts to obtain from its independent certified public accountants "COLD COMFORT" letters in customary form and at customary times and covering matters of the type customarily covered by cold comfort letters;

(k) use its best efforts to obtain from its counsel an opinion or opinions in customary form, naming each seller of Registrable Shares as an additional addressee or party who may rely thereon;

(l) provide a transfer agent and registrar (which may be the same Person and which may be the Corporation) for such Registrable Shares;

(m) issue to any underwriter to which any seller of Registrable

Shares may sell shares in such offering, certificates evidencing such Registrable Shares;

(n) list such Registrable Shares on any national securities exchange on which any shares of the Common Stock are listed or, if the Common Stock is not listed on a national securities exchange, use its best efforts to qualify such Registrable Shares for inclusion on the automated quotation system of the National Association of Securities Dealers, Inc. (the "NASD"), or such other national securities exchange as the holders of a majority of such Registrable Shares shall request;

(o) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission and make available to its securityholders, as soon as reasonably practicable, earnings statements (which need not be audited) covering a period of 12 months beginning within three months after the effective date of the registration statement, which earnings statements shall satisfy the provisions of Section 11(a) of the Securities Act; and

(p) use its best efforts to take all other steps necessary to effect the registration of such Registrable Shares contemplated hereby.

7. EXPENSES.

All expenses incurred by the Corporation in complying with SECTION 6, including, without limitation, all registration and filing fees (including all expenses incident to filing with the NASD), fees and expenses of complying with securities and blue sky laws, printing expenses, fees and expenses of the Corporation's counsel and accountants and fees and expenses of the Investors' Counsel, shall be paid by the Corporation; PROVIDED, HOWEVER, that all underwriting discounts and selling commissions applicable to the Registrable Shares and Other Shares shall not be borne by the Corporation but shall be borne by the seller or sellers thereof, in proportion to the number of Registrable Shares and Other Shares sold by each such holder.

8. INDEMNIFICATION.

(a) In connection with any registration of any Registrable Shares under the Securities Act pursuant to this Agreement, the Corporation shall indemnify and hold harmless each seller of such Registrable Shares, each underwriter, broker or any other Person acting on behalf of such seller and each other Person, if any, who controls any of the foregoing Persons within the meaning of the Securities Act against any losses, claims, damages or liabilities, joint or several (or actions in respect thereof), to which any of the foregoing Persons may become subject under the Securities Act or otherwise,

insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or allegedly untrue statement of a material fact contained in the registration statement under which such Registrable Shares were registered under the Securities Act, any preliminary prospectus or final prospectus contained therein or otherwise filed with the Commission, any amendment or supplement thereto or any document incident to registration or qualification of any Registrable Shares, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or, with respect to any prospectus, necessary to make the statements therein in light of the circumstances under which they were made not misleading, or any violation by the Corporation of the Securities Act or state securities or blue sky laws applicable to the Corporation and relating to action or inaction required of the Corporation in connection with such registration or qualification under such state securities or blue sky laws; and shall reimburse such seller, such underwriter, such broker or such other Person acting on behalf of such seller and each such controlling Person for any legal or other expenses reasonably incurred by any of them in connection with

investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the Corporation shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon an untrue statement or allegedly untrue statement or omission or alleged omission made in said registration statement, preliminary prospectus, final prospectus, amendment, supplement or document incident to registration or qualification of any Registrable Shares in reliance upon and in conformity with written information furnished to the Corporation through an instrument duly executed by such seller or underwriter specifically for use in the preparation thereof.

(b) In connection with any registration of Registrable Shares under the Securities Act pursuant to this Agreement, each seller of Registrable Shares shall severally and not jointly indemnify and hold harmless (in the same manner and to the same extent as set forth in SECTION 8(a)) the Corporation, each director of the Corporation, each officer of the Corporation who shall sign such registration statement, each underwriter, broker or other Person acting on behalf of such seller and each Person who controls any of the foregoing Persons within the meaning of the Securities Act and each other seller of Registrable Shares under such registration statement with respect to any statement or omission from such registration statement, any preliminary prospectus or final prospectus contained therein or otherwise filed with the Commission, any amendment or supplement thereto or any document incident to registration or qualification of any Registrable Shares, if such statement or omission was made in reliance upon and in conformity with written information furnished to the Corporation or such underwriter through an instrument duly executed by such

seller or a Person duly acting on their behalf specifically for use in connection with the preparation of such registration statement, preliminary prospectus, final prospectus, amendment or supplement; PROVIDED, HOWEVER, that the maximum amount of liability in respect of such indemnification shall be limited, in the case of each seller of Registrable Shares, to an amount equal to the net proceeds actually received by such seller from the sale of Registrable Shares effected pursuant to such registration.

(c) Promptly after receipt by an indemnified party of notice of the commencement of any action involving a claim referred to in SECTIONS 8(a) and (b), such indemnified party will, if a claim in respect thereof is made against an indemnifying party, give written notice to the latter of the commencement of such action. In case any such action is brought against an indemnified party, the indemnifying party will be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified to the extent that it may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the

defense thereof, the indemnifying party shall not be responsible for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof; PROVIDED, HOWEVER, that if any indemnified party shall have reasonably concluded that there may be one or more legal or equitable defenses available to such indemnified party which are additional to or conflict with those available to the indemnifying party, or that such claim or litigation involves or could have an effect upon matters beyond the scope of the indemnity agreement provided in this SECTION 8, the indemnifying party shall not have the right to assume the defense of such action on behalf of such indemnified party and such indemnifying party shall reimburse such indemnified party and any Person controlling such indemnified party for that portion of the fees and expenses of any counsel retained by the indemnified party which are reasonably related to the matters covered by the indemnity agreement provided in this SECTION 8. The indemnifying party shall not be liable to indemnify any indemnified party for any settlement of any claim or action effected without the consent of the indemnifying party. The indemnifying party may not settle any claim or action brought against an indemnified party unless such indemnified party is released from all and any liability as part of such settlement.

(d) If the indemnification provided for in this SECTION 8 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, claim, damage, liability or action referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amounts paid or payable by such indemnified party as a result of such loss, claim, damage, liability or action in such proportion as is appropriate to reflect the relative fault of the indemnifying

party on the one hand and of the indemnified party on the other in connection with the statements or omissions which resulted in such loss, claim, damage, liability or action as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

9. UNDERWRITING AGREEMENT.

Notwithstanding the provisions of SECTIONS 5 through 8, to the extent that the Investors shall enter into an underwriting or similar agreement, which agreement contains provisions covering one or more issues addressed in such SECTIONS, the provisions contained in such SECTIONS addressing such issue or issues shall be of no force or effect with respect to such registration, but this provision shall not apply to the Corporation if the Corporation is not a party to the underwriting or similar agreement.

10. INFORMATION BY HOLDER.

Each holder of Registrable Shares to be included in any such registration shall furnish to the Corporation and the managing underwriter such written information regarding such holder and the distribution proposed by such holder as the Corporation or the managing underwriter may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Agreement.

11. EXCHANGE ACT COMPLIANCE.

From the Registration Date or such earlier date as a registration statement filed by the Corporation pursuant to the Exchange Act relating to any class of the Corporation's securities shall have become effective, the Corporation shall comply with all of the reporting requirements of the Exchange Act applicable to it (whether or not it shall be required to do so) and shall comply with all other public information reporting requirements of the Commission which are conditions to the availability of Rule 144 for the sale of the Common Stock. The Corporation shall cooperate with each Investor in supplying such information as may be necessary for such Investor to complete and file any information reporting forms presently or hereafter required by the Commission as a condition to the availability of Rule 144.

12. MERGERS, ETC.

The Corporation shall not, directly or indirectly, enter into any merger, consolidation or reorganization in which the Corporation shall not be the surviving corporation unless the surviving corporation shall, prior to such merger, consolidation or reorganization, agree in writing to assume the obligations of the Corporation under this Agreement, and for that purpose references hereunder to "REGISTRABLE SHARES" shall be deemed to include the shares of common stock, if any, that holders of Registrable Shares would be entitled to receive in exchange for Common Stock under any such merger, consolidation or reorganization; PROVIDED, HOWEVER, that, to the extent holders of

Registrable Shares receive securities that are by their terms convertible into shares of common stock of the issuer thereof, then only such shares of common stock as are issued or issuable upon conversion of said convertible securities shall be included within the definition of "REGISTRABLE SHARES."

13. NEW CERTIFICATES.

As expeditiously as possible after the effectiveness of any registration statement filed pursuant to this Agreement, the Corporation will deliver in exchange for any legended certificate evidencing Restricted Shares so registered, new stock certificates not bearing any restrictive legends, provided that in the event less than all of the Restricted Shares evidenced by such legended certificate are registered, the holder thereof agrees that a new certificate evidencing such unregistered shares will be issued bearing the appropriate restrictive legend.

14. NO CONFLICT OF RIGHTS.

The Corporation represents and warrants that the registration rights granted to the Investors hereby do not conflict with or impair any other registration rights granted by the Corporation. The Corporation shall not, after the date hereof, grant any registration rights which conflict with or impair the registration rights granted hereby, including, but not limited to, (i) registration rights superior to the registration rights granted herein, and (ii) registration rights that would allow any Person to register any Registrable Shares or Other Shares in a registration initiated under SECTIONS 2 or 4 other than in the manner and priority contemplated by such SECTIONS.

15. TERMINATION.

This Agreement shall terminate and be of no further force or effect when there shall no longer be any Restricted Shares outstanding.

16. SUCCESSORS AND ASSIGNS.

This Agreement shall bind and inure to the benefit of the Corporation and the Investors and, subject to SECTION 17, their respective successors and assigns.

17. ASSIGNMENT.

Each Investor may assign its rights hereunder to any purchaser or transferee from such Investor of Restricted Shares; PROVIDED, HOWEVER, that such purchaser or transferee shall, as a condition to the effectiveness of such assignment, be required to execute an Investor Joinder, whereupon such purchaser or transferee shall have the benefits of, and shall be subject to the restrictions contained in, this Agreement as if such

purchaser or transferee was originally included in the definition of "INVESTOR" herein and had originally been a party hereto.

18. SEVERABILITY.

It is the desire and intent of the parties hereto that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated by a court of competent jurisdiction to be invalid, prohibited or unenforceable for any reason, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction. Notwithstanding the foregoing, if such provision could be more narrowly drawn so as not to be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so narrowly drawn, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

19. ENTIRE AGREEMENT.

This Agreement contains the entire agreement among the parties with respect to the subject matter hereof and supersedes all prior arrangements or understandings with respect thereto.

20. NOTICES.

All notices or other communications which are required or otherwise delivered hereunder shall be in writing and shall be deemed to have been duly given if (a) personally delivered or sent by telecopier, (b) sent by nationally

recognized overnight courier or (c) sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to the Corporation, to:

Exchange Applications, Inc.
695 Atlantic Avenue
Boston, Massachusetts 02111
Telephone: (617) 737-2244
Telecopy: (617) 790-2821
Attention: Andrew Frawley

with a copy to:

Bingham, Dana & Gould LLP
150 Federal Street
Boston, Massachusetts 02110
Telephone: (617) 951-8866
Telecopy: (617) 951-8736
Attention: Neil W. Townsend, Esq.

If to an Investor, at his or its address set forth on SCHEDULE I hereto.

or to such other address as the party to whom notice is to be given may have furnished to each other party in writing in accordance herewith. Any such notice or communication shall be deemed to have been received (i) when delivered, if personally delivered or sent by telecopier, (ii) on the first Business Day after dispatch, if sent by nationally recognized, overnight courier guaranteeing next Business Day delivery and (iii) on the fifth Business Day following the date on which the piece of mail containing such communication is posted, if sent by mail.

21. MODIFICATIONS; AMENDMENTS; WAIVERS.

The terms and provisions of this Agreement may not be modified or amended, nor may any provision applicable to the Investors be waived, except pursuant to a writing signed by (i) the Corporation, (ii) a Majority of the Insight Investors, (iii) a Majority of the Insight II Investors and (iv) the holders of at least a majority of the Restricted Shares (on a Common Stock

Equivalent basis) held by all Investors (unless such amendment, modification or waiver affects such Investors in the same fashion as all Investors). The failure of any party to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of such party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

22. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the domestic laws of the Commonwealth of Massachusetts, without giving effect to any choice of law or conflicting provision or rule (whether of the Commonwealth of Massachusetts or any other jurisdiction) that would cause the laws of any jurisdiction other than the Commonwealth of Massachusetts to be applied, except to the extent that this Agreement relates to the internal affairs of the Corporation, which shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to any choice of law or conflicting provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the laws of any jurisdiction other than the State of Delaware to be applied to such matters. In furtherance of the foregoing, the internal law of the Commonwealth of Massachusetts or the State of Delaware, as the case may be, shall control the interpretation and construction of this Agreement, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily apply.

23. COUNTERPARTS; VALIDITY.

This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement. The failure of any Person holding Registrable Shares to execute this Agreement does not make it invalid as against any other Person holding Registrable Shares.

24. HEADINGS.

The headings of the various sections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be a part of this Agreement.

* * * * *

22

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement as of the date first written above.

EXCHANGE APPLICATIONS, INC.

By: /s/ Andrew J. Frawley

Andrew J. Frawley
President

23

INVESTORS:

INSIGHT VENTURE PARTNERS I, L.P.

BY: INSIGHT VENTURE ASSOCIATES, LLC,
its general partner

By: /s/ Jeffrey Horing

Name: Jeffrey Horing
Title:

INSIGHT CAPITAL PARTNERS II, L.P.

BY: INSIGHT VENTURE ASSOCIATES II, LLC,
its general partner

By: /s/ Jeffrey Horing

Name: Jeffrey Horing
Title:

24

WEXFORD INSIGHT LLC

BY: WEXFORD MANAGEMENT LLC,

its investment manager

By: /s/ Robert Holtz

Name: Robert Holtz
Title: Principal

CYRK, INC.

By: /s/ Patrick Brady

Name: Patrick Brady
Title: President

25

INVESTORS:

GRANT & PARTNERS LIMITED PARTNERSHIP

BY: GRANT & PARTNERS, INC.,
its general partner

By: /s/ Alan W. H. Grant

Name: Alan W. H. Grant
Title: President, Grant & Partners, Inc.

/s/ Andrew J. Frawley

Andrew J. Frawley

/s/ Michael J. Feldman

Michael J. Feldman

/s/ Michael McGonagle

Michael McGonagle

EXHIBIT 10.15

EXCHANGE APPLICATIONS, INC.
695 Atlantic Avenue
Boston, MA 02111

December 22, 1997

Fleet National Bank
75 State Street
Boston, MA 02109

Gentlemen:

This letter agreement will set forth certain understandings between Exchange Applications, Inc., a Delaware corporation (the "Borrower") and Fleet National Bank (the "Bank") with respect to Revolving Loans (hereinafter defined) to be made by the Bank to the Borrower and with respect to letters of credit which may hereafter be issued by the Bank for the account of the Borrower. In consideration of the mutual promises contained herein and in the other documents referred to below, and for other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, the Borrower and the Bank agree as follows:

I. AMOUNTS AND TERMS

1.1. REFERENCE TO DOCUMENTS. Reference is made to (i) that certain $2,000,000 face principal amount promissory note (the "Revolving Note") of even date herewith made by the Borrower and payable to the order of the Bank, (ii) that certain Inventory, Accounts Receivable and Intangibles Security Agreement and that certain Supplementary Security Agreement -Security Interest in Goods and Chattels, each of even date herewith, from the Borrower to the Bank (collectively, the "Security Agreement"), and (iii) assignments and notices of assignment (collectively, the "Intellectual Property Assignments") from the Borrower to the Bank relating to the Borrower's registered trademarks, patents and copyrights, if any.

1.2. THE BORROWING; REVOLVING NOTE. Subject to the terms and conditions hereinafter set forth, the Bank will make loans ("Revolving Loans") to the Borrower, in such amounts as the Borrower may request, on any Business Day prior to the first to occur of (i) the Expiration Date, or (ii) the earlier termination of the within-described revolving financing arrangements pursuant to ss.5.2 or ss.6.7; provided, however, that (1) the aggregate principal amount of

Revolving Loans outstanding shall at no time exceed the Maximum Revolving Amount (hereinafter defined) and (2) the Aggregate Bank Liabilities (hereinafter defined) shall at no time exceed the Borrowing Base (hereinafter defined). Within such limits, and subject to the terms and conditions hereof, the Borrower may obtain Revolving Loans, repay Revolving Loans and obtain Revolving Loans again on one or more occasions. The Revolving Loans shall be evidenced by the Revolving Note and interest thereon shall be payable at the times and at the rate provided for in the Revolving Note. Overdue principal of the Revolving Loans and, to the extent permitted by law, overdue interest shall bear interest at a fluctuating rate per annum which at all times shall be equal to the

sum of (i) four (4%) percent per annum plus (ii) the per annum rate otherwise payable under the Revolving Note (but in no event in excess of the maximum rate from time to time permitted by then applicable law), compounded monthly and payable on demand. The Borrower hereby irrevocably authorizes the Bank to make or cause to be made, on a schedule attached to the Revolving Note or on the books of the Bank, at or following the time of making each Revolving Loan and of receiving any payment of principal, an appropriate notation reflecting such transaction and the then aggregate unpaid principal balance of the Revolving Loans. The amount so noted shall constitute presumptive evidence as to the amount owed by the Borrower with respect to principal of the Revolving Loans. Failure of the Bank to make any such notation shall not, however, affect any obligation of the Borrower or any right of the Bank hereunder or under the Revolving Note. All payments of interest, principal and any other sum payable hereunder and/or under the Revolving Note shall be made to the Bank, in lawful currency of the United States in immediately available funds, at its office at 75 State Street, Boston, MA 02109 or to such other address as the Bank may from time to time direct. All payments received by the Bank after 2:00 p.m. on any day shall be deemed received as of the next succeeding Business Day. All monies received by the Bank shall be applied first to fees, charges, costs and expenses payable to the Bank under this letter agreement, the Revolving Note and/or any of the other Loan Documents, next to interest then accrued on account of any Revolving Loans or letter of credit reimbursement obligations and only thereafter to principal of the Revolving Loans and letter of credit reimbursement obligations. All interest and fees payable hereunder and/or under the Revolving Note shall be calculated on the basis of a 360-day year for the actual number of days elapsed.

1.3. REPAYMENT; RENEWAL. The Borrower shall repay in full all Revolving Loans and all interest thereon upon the first to occur of: (i) the Expiration Date or (ii) an acceleration under ss.5.2(a) following an Event of Default. The Borrower may repay, at any time, without penalty or premium, the whole or any portion of any Revolving Loan. In addition, if at any time the Borrowing Base is in an amount which is less than the then outstanding Aggregate Bank Liabilities, the Borrower will forthwith prepay so much of the Revolving Loans as may be required (or arrange for the termination of such letters of credit as may be required) so that the Aggregate Bank Liabilities will not exceed the Borrowing

Base. The Bank may, at its sole discretion, renew the financing arrangements described in this letter agreement by extending the Expiration Date in a writing signed by the Bank and accepted by the Borrower. Neither the inclusion in this letter agreement or elsewhere of covenants relating to periods of time after the Expiration Date, nor any other provision hereof, nor any action (except a written extension pursuant to the immediately preceding sentence), non-action or course of dealing on the part of the Bank will be deemed an extension of, or agreement on the part of the Bank to extend, the Expiration Date.

1.4. ADVANCES AND PAYMENTS. The proceeds of all Revolving Loans shall be credited by the Bank to a general deposit account maintained by the Borrower with the Bank. The proceeds of each Revolving Loan will be used by the Borrower solely for working capital purposes.

The Bank may charge any general deposit account of the Borrower at the Bank with the amount of all payments of interest, principal and other sums due, from time to time, under this letter agreement and/or the Revolving Note and/or with respect to any letter of credit; and will thereafter notify the Borrower of the amount so charged. The failure of the Bank so to charge any account or to give any such notice shall not affect the obligation of the Borrower to pay interest, principal or other sums as provided herein or in the Revolving Note or with respect to any letter of credit.

Whenever any payment to be made to the Bank hereunder or under the Revolving Note or with respect to any letter of credit shall be stated to be due on a day which is not a Business Day, such payment may be made on the next succeeding Business Day, and interest payable on each such date shall include the amount thereof which shall accrue during the period of such extension of time. All payments by the Borrower hereunder and/or in respect of the Revolving Note and/or with respect to any letter of credit shall be made net of any impositions or taxes and without deduction, set-off or counterclaim, notwithstanding any claim which the Borrower may now or at any time hereafter have against the Bank.

1.5. LETTERS OF CREDIT. At the Borrower's request, the Bank will, from time to time, subject to the conditions set forth in Section 1.6 issue one or more letters of credit for the account of the Borrower; provided that at the time of such issuance and after giving effect thereto (1) the Aggregate Letter of Credit Liabilities will in no event exceed $800,000 and (2) the Aggregate Bank Liabilities will in no event exceed the lesser of (i) $2,000,000 or (ii) the then effective Borrowing Base. Any such letter of credit will be issued for issuance and /or commitment fees as may be agreed upon by the Bank and the Borrower at the time of issuance and will be governed by the Bank's then customary documentation for similar credits. The Borrower hereby authorizes the Bank, without further request from the Borrower, to cause the Borrower's liability to the Bank for reimbursement of funds drawn under any such letter of credit to be repaid from the proceeds of a Revolving Loan to be made hereunder.

The Borrower hereby irrevocably requests that such Revolving Loans be made.

1.6. CONDITIONS TO ADVANCE. Prior to the making of the initial Revolving Loan or the issuance of any letter of credit hereunder, the Borrower shall deliver to the Bank duly executed copies of this letter agreement, the Security Agreement, the Intellectual Property Assignments, the Revolving Note and the documents and other items listed on the Closing Agenda delivered herewith by the Bank to the Borrower, all of which, as well as all legal matters incident to the transactions contemplated hereby, shall be satisfactory in form and substance to the Bank and its counsel.

Without limiting the foregoing, any Revolving Loan or letter of credit issuance (including the initial Revolving Loan or letter of credit issuance) is subject to the further conditions precedent that on the date on which such Revolving Loan is made or such letter of credit is issued (and after giving effect thereto):

(a) All statements, representations and warranties of the Borrower made in this letter agreement and/or in the Security Agreement shall continue to be correct in all material respects as of the date of such Revolving Loan or the date of issuance of such letter of credit, as the case may be.

(b) All covenants and agreements of the Borrower contained herein and/or in any of the other Loan Documents shall have been complied with in all material respects on and as of the date of such Revolving Loan or the date of issuance of such letter of credit, as the case may be.

(c) No event which constitutes, or which with notice or lapse of time or both could constitute, an Event of Default shall have occurred and be continuing.

(d) No material adverse change shall have occurred in the financial condition of the Borrower from that disclosed in the financial statements then most recently furnished to the Bank.

Each request by the Borrower for any Revolving Loan or for the issuance of any letter of credit, and each acceptance by the Borrower of the proceeds of any Revolving Loan or delivery of a letter of credit, will be deemed a representation and warranty by the Borrower that at the date of such Revolving Loan or the date of issuance of such letter of credit, as the case may be, and after giving effect thereto all of the conditions set forth in the foregoing clauses (a)-(d) of this ss.1.6 will be satisfied. Each request for a Revolving Loan or letter of credit issuance will be accompanied by a borrowing base certificate on a form satisfactory to the Bank, executed by the chief financial officer of the Borrower, unless such a certificate shall have been previously furnished setting forth the Borrowing Base as at a date not more than 30 days prior to the date of the requested borrowing or the requested letter of credit

issuance, as the case may be.

II. REPRESENTATIONS AND WARRANTIES

2.1. REPRESENTATIONS AND WARRANTIES. In order to induce the Bank to enter into this letter agreement and to make Revolving Loans hereunder and/or issue letters of credit hereunder, the Borrower warrants and represents to the Bank as follows:

(a) The Borrower is a corporation duly organized, validly existing and in good standing under the laws of Delaware. The Borrower has full corporate power to own its property and conduct its business as now conducted, to grant the security interests contemplated by the Security Agreement and the Intellectual Property Assignments and to enter into and perform this letter agreement and the other Loan Documents. The Borrower is duly qualified to do business and is in good standing in Massachusetts and is also duly qualified to do business in and is in good standing in each other jurisdiction in which the Borrower maintains any facility, sales office, warehouse or other location, and in each other jurisdiction where the failure so to qualify could (singly or in the aggregate with all other such failures) have a material adverse effect on the financial condition, business or prospects of the Borrower, all such jurisdictions being listed on item 2.1(a) of the attached Disclosure Schedule. At the date hereof, the Borrower has no

Subsidiaries, except as shown on said item 2.1(a) of the attached Disclosure Schedule. The Borrower is not a member of any partnership or joint venture.

(b) At the date of this letter agreement, all of the outstanding capital stock of the Borrower is owned, of record and beneficially, as set forth on item 2.1(b) of the attached Disclosure Schedule.

(c) The execution, delivery and performance by the Borrower of this letter agreement and each of the other Loan Documents have been duly authorized by all necessary corporate and other action and do not and will not:

(i) violate any provision of, or require any filings (other than filings under the Uniform Commercial Code), registration, consent or approval under, any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to the Borrower;

(ii) violate any provision of the charter or by-laws of the Borrower, or result in a breach of or constitute a default or require any waiver or consent under any indenture or loan or credit agreement or any other material agreement, lease or instrument to which the Borrower is a party or by which the Borrower or any of its properties may be bound or affected or require any other consent of any Person, except for such

consents as shall have been duly obtained and are in full force and effect as of the date hereof; or

(iii) result in, or require, the creation or imposition of any lien, security interest or other encumbrance (other than in favor of the Bank), upon or with respect to any of the properties now owned or hereafter acquired by the Borrower.

(d) This letter agreement and each of the other Loan Documents has been duly executed and delivered by the Borrower and each is a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its respective terms.

(e) Except as described on item 2.1(e) of the attached Disclosure Schedule, there are no actions, suits, proceedings or investigations pending or, to the knowledge of the Borrower, threatened by or against the Borrower or any Subsidiary before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which could hinder or prevent the consummation of the transactions contemplated hereby or call into question the validity of this letter agreement or any of the other Loan Documents or any action taken or to be taken in connection with the transactions contemplated hereby or thereby or which in any single case or in the aggregate might result in any material adverse change in the business, prospects, condition, affairs or operations of the Borrower or any Subsidiary.

(f) The Borrower is not in violation of any term of its charter or by-laws as now in effect. Neither the Borrower nor any Subsidiary of the Borrower is in material violation of any

term of any mortgage, indenture or judgment, decree or order, or any other instrument, contract or agreement to which it is a party or by which any of its property is bound.

(g) The Borrower has filed (and has caused each of its Subsidiaries to file) all federal, state and local tax returns, reports and estimates required to be filed by the Borrower and/or by any such Subsidiary. All such filed returns, reports and estimates are proper and accurate and the Borrower or the relevant Subsidiary has paid all taxes, assessments, impositions, fees and other governmental charges required to be paid in respect of the periods covered by such returns, reports or estimates. No deficiencies for any tax, assessment or governmental charge have been asserted or assessed, and the Borrower knows of no material tax liability or basis therefor.

(h) The Borrower is in compliance (and each Subsidiary of the Borrower is in compliance) with all requirements of law, federal, state and local, and all requirements of all governmental bodies or agencies having jurisdiction over it, the conduct of its business, the use of its properties and assets, and all

premises occupied by it, failure to comply with any of which could (singly or in the aggregate with all other such failures) have a material adverse effect upon the assets, business, financial condition or prospects of the Borrower or any such Subsidiary. Without limiting the foregoing, the Borrower has all the franchises, licenses, leases, permits, certificates and authorizations needed for the conduct of its business and the use of its properties and all premises occupied by it, as now conducted, owned and used.

(i) The audited financial statements of the Borrower as at December 31, 1996 and the management-generated statements of the Borrower as at September 30, 1997, each heretofore delivered to the Bank, are complete and accurate and fairly present the financial condition of the Borrower as at the respective dates thereof and for the periods covered thereby, except that the management-generated statements do not have footnotes and thus do not present the information which would normally be contained in footnotes to financial statements. The Borrower has no liability, contingent or otherwise, not disclosed in the aforesaid financial statements or in any notes thereto that could materially affect the financial condition of the Borrower. Since December 31, 1996, there has been no material adverse development in the business, condition or prospects of the Borrower, and the Borrower has not entered into any material transaction other than in the ordinary course and except as set forth on item 2.1(i).

(j) The principal place of business and chief executive offices of the Borrower are located at 695 Atlantic Avenue, Boston, MA 02111 (the "Premises"). All of the books and records of the Borrower are located at said address. Except as described on item 2.1(j) of the attached Disclosure Schedule, no assets of the Borrower are located at any other address. Said item 2.1(j) of the attached Disclosure Schedule sets forth the names and addresses of all record owners of the Premises.

(k) The Borrower owns or has a valid right to use all of the patents, licenses, copyrights, trademarks, trade names and franchises ("Intellectual Property") now being used to conduct its business, all of which are described on item 2.1(k) of the attached Disclosure Schedule. None of the Intellectual Property owned by the Borrower is represented by a

registered copyright, trademark, patent or other federal or state registration, except as shown on said item 2.1(k). To the Borrower's best knowledge, the conduct of the Borrower's business as now operated does not conflict with valid patents, licenses, copyrights, trademarks, trade names or franchises of others in any manner that could materially adversely affect the business, prospects, assets or condition, financial or otherwise, of the Borrower.

(l) None of the executive officers or key employees of the Borrower is subject to any agreement in favor of anyone other than the Borrower which limits or restricts that person's right to engage in the type of business activity

conducted or proposed to be conducted by the Borrower or which grants to anyone other than the Borrower any rights in any inventions or other ideas susceptible to legal protection developed or conceived by any such officer or key employee.

(m) The Borrower is not a party to any contract or agreement which now has or, as far as can be foreseen by the Borrower at the date hereof, may have a material adverse effect on the financial condition, business, prospects or properties of the Borrower.

III. AFFIRMATIVE COVENANTS AND REPORTING REQUIREMENTS

Without limitation of any covenants and agreements contained in the Security Agreement or elsewhere, the Borrower agrees that so long as the financing arrangements contemplated hereby are in effect or any Revolving Loan or any of the other Obligations shall be outstanding or any letter of credit issued hereunder shall be outstanding:

3.1. LEGAL EXISTENCE; QUALIFICATION; COMPLIANCE. The Borrower will maintain (and will cause each Subsidiary of the Borrower to maintain) its corporate existence and good standing in the jurisdiction of its incorporation. The Borrower will remain qualified to do business and in good standing in Massachusetts. Further, the Borrower will qualify to do business and will remain qualified and in good standing (and the Borrower will cause each Subsidiary of the Borrower to qualify and remain qualified and in good standing) in each other jurisdiction where the Borrower or such Subsidiary, as the case may be, maintains any facility, sales office, warehouse or other location and in each other jurisdiction in which the failure so to qualify could (singly or in the aggregate with all other such failures) have a material adverse effect on the financial condition, business or prospects of the Borrower or any such Subsidiary. The Borrower will comply (and will cause each Subsidiary of the Borrower to comply) with its charter documents and by-laws. The Borrower will comply with (and will cause each Subsidiary of the Borrower to comply with) all applicable laws, rules and regulations (including, without limitation, ERISA and those relating to environmental protection) other than (i) laws, rules or regulations the validity or applicability of which the Borrower or such Subsidiary shall be contesting in good faith by proceedings which serve as a matter of law to stay the enforcement thereof and (ii) those laws, rules and regulations the failure to comply with any of which could not (singly or in the aggregate) have a material adverse effect on the financial condition, business or prospects of the Borrower or any such Subsidiary.

3.2. MAINTENANCE OF PROPERTY; INSURANCE. The Borrower will maintain and preserve (and will cause each Subsidiary of the Borrower to maintain and preserve) all of its fixed assets in good working order and condition, making all necessary repairs thereto and replacements thereof. The Borrower will maintain all such insurance as may be required under the Security Agreement and will also maintain, with financially sound and reputable insurers, insurance

with respect to its property and business against such liabilities, casualties and contingencies and of such types and in such amounts as shall be reasonably satisfactory to the Bank from time to time and in any event all such insurance as may from time to time be customary for companies conducting a business similar to that of the Borrower in similar locales.

3.3. PAYMENT OF TAXES AND CHARGES. The Borrower will pay and discharge (and will cause each Subsidiary of the Borrower to pay and discharge) all taxes, assessments and governmental charges or levies imposed upon it or upon its income or property, including, without limitation, taxes, assessments, charges or levies relating to real and personal property, franchises, income, unemployment, old age benefits, withholding, or sales or use, prior to the date on which penalties would attach thereto, and all lawful claims (whether for any of the foregoing or otherwise) which, if unpaid, might give rise to a lien upon any property of the Borrower or any such Subsidiary, except any of the foregoing which is being contested in good faith and by appropriate proceedings which serve as a matter of law to stay the enforcement thereof and for which the Borrower has established and is maintaining adequate reserves. The Borrower will pay, and will cause each of its Subsidiaries to pay, in a timely manner, all lease obligations, all trade debt, purchase money obligations, equipment lease obligations and all of its other material Indebtedness. The Borrower will perform and fulfill all material covenants and agreements under any leases of real estate, agreements relating to purchase money debt, equipment leases and other material contracts. The Borrower will maintain in full force and effect, and comply with the terms and conditions of, all permits, permissions and licenses necessary or desirable for its business.

3.4. ACCOUNTS. The Borrower will maintain its principal depository and operating accounts with the Bank.

3.5. CONDUCT OF BUSINESS. The Borrower will conduct, in the ordinary course, the business in which it is presently engaged. The Borrower will not, without the prior written consent of the Bank, directly or indirectly (itself or through any Subsidiary) enter into any other lines of business, businesses or ventures materially different from those conducted by the Borrower at the date of this letter agreement.

3.6. REPORTING REQUIREMENTS. The Borrower will furnish to the Bank:

(i) Within 120 days after the end of each fiscal year of the Borrower, a copy of the annual audit report for such fiscal year for the Borrower, including therein consolidated and consolidating balance sheets of the Borrower and Subsidiaries as at the end of such fiscal year and related consolidated and consolidating statements of income, stockholders' equity and cash flow for the fiscal year then ended. The annual

consolidated financial statements shall be certified by independent public

accountants selected by the Borrower and reasonably acceptable to the Bank, such certification to be in such form as is generally recognized as "unqualified".

(ii) Within 45 days after the end of each fiscal quarter of the Borrower, consolidated and consolidating balance sheets of the Borrower and its Subsidiaries and related consolidated and consolidating statements of income and stockholders' equity and cash flow, unaudited but complete and accurate and prepared in accordance with generally accepted accounting principles consistently applied fairly presenting the financial condition of the Borrower as at the dates thereof and for the periods covered thereby (except that such quarterly statements need not contain footnotes) and certified as accurate (subject to normal year-end audit adjustments, which shall not be material) by the chief financial officer of the Borrower, such balance sheets to be as at the end of such fiscal quarter and such statements of income and stockholders' equity and cash flow to be for such fiscal quarter and for the fiscal year to date, in each case together with a comparison to budget.

(iii) Within 30 days after the end of each month, consolidated and consolidating balance sheets of the Borrower and its Subsidiaries and related consolidated and consolidating statements of income and stockholders' equity and cash flow, unaudited but complete and accurate and prepared in accordance with generally accepted accounting principles consistently applied fairly presenting the financial condition of the Borrower as at the dates thereof and for the periods covered thereby (except that such monthly statements need not contain footnotes) and certified as accurate (subject to normal year-end audit adjustments, which shall not be material) by the chief financial officer of the Borrower, such balance sheets to be as at the end of such month and such statements of income and stockholders' equity and cash flow to be for such month and for the fiscal year to date, in each case together with a comparison to budget.

(iv) At the time of delivery of each annual or quarterly statement of the Borrower, a certificate executed by the chief financial officer of the Borrower stating that he or she has reviewed this letter agreement and the other Loan Documents and has no knowledge of any default by the Borrower in the performance or observance of any of the provisions of this letter agreement or of any of the other Loan Documents or, if he or she has such knowledge, specifying each such default and the nature thereof. Each financial statement given as at the end of any fiscal quarter of the Borrower will also set forth the calculations necessary to evidence compliance with ss.ss.3.7-3.10.

(v) Monthly, within 10 days after the end of each month, (A) an aging report in form satisfactory to the Bank covering all Receivables of the Borrower outstanding as at the end of such month, and (B) a certificate of the chief financial officer of the Borrower setting forth the Borrowing Base as at the end of such month, all in form reasonably satisfactory to the Bank.

(vi) Promptly after receipt, a copy of all audits or reports submitted to the Borrower by independent public accountants in connection with any annual, special or interim audits of the books of the Borrower and any "management letter" prepared by any such accountants.

(vii) As soon as possible and in any event within five days of the occurrence of any Event of Default or any event which, with the giving of notice or passage of time or both, would constitute an Event of Default, the statement of the Borrower setting forth details of each such Event of Default or event and the action which the Borrower proposes to take with respect thereto.

(viii) Promptly after the commencement thereof, notice of all actions, suits and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, to which the Borrower or any Subsidiary of the Borrower is a party.

(ix) Promptly upon filing any registration statement or listing application (or any supplement or amendment to any registration statement or listing application) with the Securities and Exchange Commission ("SEC") or any successor agency or with any stock exchange or with the National Association of Securities Dealers quotations system, a copy of same.

(x) If the Borrower becomes a publicly-traded company, a copy of each periodic or current report filed with the SEC or any successor agency and each annual report, proxy statement and other communication sent to shareholders or other securityholders generally, such copy to be provided to the Bank promptly upon such filing with the SEC or such communication with shareholders or securityholders, as the case may be.

(xi) Promptly upon applying for, or being granted, a federal or state registration for any copyright, trademark or patent or purchasing any registered copyright, trademark or patent, written notice to the Bank describing same, together with all such documents as may be required to give the Bank a fully perfected first priority security interest in each such copyright, trademark or patent.

(xi) Promptly after the Borrower has knowledge thereof, written notice of any development or circumstance which may reasonably be expected to have a material adverse effect on the Borrower or its business, properties, assets, Subsidiaries or condition, financial or otherwise.

(xii) Promptly upon request, such other information respecting the financial condition, operations, Receivables, inventory, machinery or equipment of the Borrower or any Subsidiary as the Bank may from time to time reasonably request.

3.7. DEBT TO WORTH. The Borrower will maintain as at the end of each fiscal quarter (commencing with its results as at December 31, 1997) on a consolidated basis a Leverage Ratio of not more than 1.0 to 1. As used herein, "Leverage Ratio" means, as at any date when same is to be determined, the ratio of (x) all Indebtedness of the Borrower and/or its Subsidiaries then outstanding to (y) the Borrower's then consolidated Tangible Net Worth.

3.8. NET WORTH. The Borrower will maintain as at the end of each fiscal quarter (commencing with its results as at December 31, 1997) a consolidated Tangible Net Worth of not less than $3,750,000.

3.9. PROFITABILITY. The Borrower will not incur a consolidated quarterly Net Loss in excess of $425,000 for its fiscal quarter ending December 31, 1997. For each period of two consecutive fiscal quarters thereafter (commencing with the six months ending March 31, 1998), the Borrower will achieve consolidated Net Income of not less than $1.00.

3.10. LIQUIDITY. The Borrower will maintain as at the end of each fiscal quarter of Borrower (commencing with its results as at December 31, 1997) a ratio of Net Quick Assets to Current Liabilities, which ratio shall be not less than 1.75 to 1.

3.11. BOOKS AND RECORDS. The Borrower will maintain (and will cause each of its Subsidiaries to maintain) complete and accurate books, records and accounts which will at all times accurately and fairly reflect all of its transactions in accordance with generally accepted accounting principles consistently applied. The Borrower will, at any reasonable time and from time to time upon reasonable notice and during normal business hours (and at any time and without any necessity for notice following the occurrence of an Event of Default), permit the Bank, and any agents or representatives thereof, to examine and make copies of and take abstracts from the records and books of account of, and visit the properties of the Borrower and any of its Subsidiaries, and to discuss its affairs, finances and accounts with its officers, directors and/or independent accountants, all of whom are hereby authorized and directed to cooperate with the Bank in carrying out the intent of this ss.3.11. Each financial statement of the Borrower hereafter delivered pursuant to this letter agreement will be complete and accurate and will fairly present the financial condition of the Borrower and its Subsidiaries as at the date thereof and for the periods covered thereby.

3.12. LANDLORD'S WAIVER. Prior to the Bank making the first Revolving Loan, the Borrower will obtain, and will thereafter maintain in effect at all times, waivers from the owners of all premises in which any material amount of Collateral is located, such waivers to be in form and substance satisfactory to the Bank.

IV. NEGATIVE COVENANTS

Without limitation of any covenants and agreements contained in the Security Agreement or elsewhere, the Borrower agrees that so long as the financing arrangements contemplated hereby are in effect or any Revolving Loan or any of the other Obligations shall be outstanding or any letter of credit issued hereunder shall be outstanding:

4.1. INDEBTEDNESS. The Borrower will not create, incur, assume or suffer to exist any Indebtedness (nor allow any of its Subsidiaries to create, incur, assume or suffer to exist any Indebtedness), except for:

(i) Indebtedness owed to the Bank, including, without limitation, the Indebtedness represented by the Revolving Note and any Indebtedness in respect of letters of credit issued by the Bank;

(ii) Indebtedness of the Borrower or any Subsidiary for taxes, assessments and governmental charges or levies not yet due and payable;

(iii) unsecured current liabilities of the Borrower or any Subsidiary (other than for money borrowed or for purchase money Indebtedness with respect to fixed assets) incurred upon customary terms in the ordinary course of business;

(iv) purchase money Indebtedness (including, without limitation, Indebtedness in respect of capitalized equipment leases) owed to equipment vendors and/or lessors for equipment purchased or leased by the Borrower for use in the Borrower's business, provided that the total of Indebtedness permitted under this clause (iv) plus presently-existing equipment financing permitted under clause (v) of this ss.4.1 will not exceed $750,000 in the aggregate outstanding at any one time;

(v) other Indebtedness existing at the date hereof, but only to the extent set forth on item 4.1 of the attached Disclosure Schedule; and

(vi) any guaranties or other contingent liabilities expressly permitted pursuant to ss.4.3.

4.2. LIENS. The Borrower will not create, incur, assume or suffer to exist (nor allow any of its Subsidiaries to create, incur, assume or suffer to exist) any mortgage, deed of trust, pledge, lien, security interest, or other charge or encumbrance (including the lien or retained security title of a conditional vendor) of any nature (collectively, "Liens"), upon or with respect to any of its property or assets, now owned or hereafter acquired, except that the foregoing restrictions shall not apply to:

(i) Liens for taxes, assessments or governmental charges or levies on property of the Borrower or any of its Subsidiaries if the same shall not at the time be delinquent or thereafter can be paid without interest or penalty;

(ii) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar Liens arising in the ordinary course of business for sums not yet due or which are being contested in good faith and by appropriate proceedings which serve as a matter of law to stay the enforcement thereof and as to which adequate reserves have been made;

(iii) pledges or deposits under workmen's compensation laws, unemployment insurance, social security, retirement benefits or similar legislation;

(iv) Liens in favor of the Bank;

(v) Liens in favor of equipment vendors and/or lessors securing purchase money Indebtedness to the extent permitted by clause (iv) of ss.4.1; provided that no such Lien will extend to any property of the Borrower other than the specific items of equipment financed; or

(vi) other Liens existing at the date hereof, but only to the extent and with the relative priorities set forth on item 4.2 of the attached Disclosure Schedule.

4.3. GUARANTIES. The Borrower will not, without the prior written consent of the Bank, assume, guarantee, endorse or otherwise become directly or contingently liable (including, without limitation, liable by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in any debtor or otherwise to assure any creditor against loss) (and will not permit any of its Subsidiaries so to assume, guaranty or become directly or contingently liable) in connection with any indebtedness of any other Person, except (i) guaranties by endorsement for deposit or collection in the ordinary course of business and (ii) guaranties existing at the date hereof and described on item 4.3 of the attached Disclosure Schedule.

4.4. DIVIDENDS. The Borrower will not, without the prior written consent of the Bank, make any distributions to its shareholders, pay any dividends (other than dividends payable solely in capital stock of the Borrower) or redeem, purchase or otherwise acquire, directly or indirectly any of its capital stock, except that the Borrower may repurchase its common stock for a nominal price per share pursuant to restricted stock purchase agreements between the Borrower and its employees, provided (i) such repurchases shall not exceed $50,000 in the aggregate during the term of the revolving facility described herein, as such term may be extended from time to time, (ii) no default or Event of Default exists at the time of such repurchase, and (iii) immediately prior to and after giving effect to such repurchases, the Borrower is in compliance with

ss.ss. 3.7, 3.8 and 3.10 (compliance with each of said Sections being determined for this purpose as at the date of such repurchase, even if not a fiscal quarter end).

4.5. LOANS AND ADVANCES. The Borrower will not make (and will not permit any Subsidiary to make) any loans or advances to any Person, including, without limitation, the Borrower's directors, officers and employees, except advances to such directors, officers or employees with respect to expenses incurred by them in the ordinary course of their duties and advances against salary, all of which advances will not exceed, in the aggregate, $250,000 outstanding at any one time.

4.6. INVESTMENTS. The Borrower will not, without the Bank's prior written consent, invest in, hold or purchase any stock or securities of any Person (nor will the Borrower permit any of its Subsidiaries to invest in, purchase or hold any such stock or securities) except (i) readily marketable direct obligations of, or obligations guarantied by, the United States of America or any agency thereof, (ii) other investment grade debt securities, (iii) mutual funds, the assets of which are primarily invested in items of the kind described in the foregoing clauses (i) and (ii) of this ss.4.6, (iv) deposits with or certificates of deposit issued by the Bank and any other obligations of the Bank or the Bank's parent, (v) deposits in any other bank organized in the United States having capital in excess of $100,000,000, and (vi) investments in any Subsidiaries now existing or hereafter created by the Borrower pursuant to ss.4.7 below; provided that in any event the Tangible Net Worth of the Borrower alone (exclusive of its investment in Subsidiaries and any debt owed by any Subsidiary to the Borrower) will not be less than 90% of the consolidated Tangible Net Worth of the Borrower and Subsidiaries.

4.7. SUBSIDIARIES; ACQUISITIONS. The Borrower will not, without the prior written consent of the Bank, form or acquire any Subsidiary or make any other acquisition of the stock of any other Person or of all or substantially all of the assets of any other Person. The Borrower will not become a partner in any partnership.

4.8. MERGER. The Borrower will not, without the prior written consent of the Bank, merge or consolidate with any Person, or sell, lease, transfer or otherwise dispose of any material portion of its assets (whether in one or more transactions), other than sale of inventory in the ordinary course.

4.9. AFFILIATE TRANSACTIONS. The Borrower will not, without prior written consent of the Bank, enter into any transaction, including, without limitation, the purchase, sale or exchange of any property or the rendering of any service, with any affiliate of the Borrower, except in the ordinary course of and pursuant to the reasonable requirements of the Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than would be obtained in a comparable arms'-length transaction with any Person not an affiliate; provided

that nothing in this ss.4.9 shall be deemed to prohibit the payment of salary, bonuses or other similar payments to any officer or director of the Borrower at a level consistent with the salary and other payments being paid at the date of this letter agreement and heretofore disclosed in writing to the Bank, nor to prevent the hiring of additional officers at a salary level consistent with industry practice, nor to prevent reasonable periodic increases in salary and bonus. For the purposes of this letter agreement, "affiliate" means any Person which, directly or indirectly, controls or is controlled by

or is under common control with the Borrower; any officer or director or former officer or director of the Borrower; any Person owning of record or beneficially, directly or indirectly, 5% or more of any class of capital stock of the Borrower or 5% or more of any class of capital stock or other equity interest having voting power (under ordinary circumstances) of any of the other Persons described above; and any member of the immediate family of any of the foregoing. "Control" means possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of any Person, whether through ownership of voting equity, by contract or otherwise.

4.10. CHANGE OF ADDRESS, ETC. The Borrower will not change its name or legal structure, nor will the Borrower move its chief executive offices or principal place of business from the address described in the first sentence of ss.2.1(j) above, nor will the Borrower remove any books or records from such address, nor will the Borrower keep any Collateral at any location other than the Premises without, in each instance, giving the Bank at least 30 days' prior written notice and providing all such financing statements, certificates and other documentation as the Bank may request in order to maintain the perfection and priority of the security interests granted or intended to be granted pursuant to the Security Agreement. The Borrower will not change its fiscal year or methods of financial reporting unless, in each instance, prior written notice of such change is given to the Bank and prior to such change the Borrower enters into amendments to this letter agreement in form and substance satisfactory to the Bank in order to preserve unimpaired the rights of the Bank and the obligations of the Borrower hereunder.

4.11. HAZARDOUS WASTE. Except as provided below, the Borrower will not dispose of or suffer or permit to exist any hazardous material or oil on any site or vessel owned, occupied or operated by the Borrower or any Subsidiary of the Borrower, nor shall the Borrower store (or permit any Subsidiary to store) on any site or vessel owned, occupied or operated by the Borrower or any such Subsidiary, or transport or arrange the transport of, any hazardous material or oil (the terms "hazardous material", "oil", "site" and "vessel", respectively, being used herein with the meanings given those terms in Mass. Gen. Laws, Ch. 21E or any comparable terms in any comparable statute in effect in any other relevant jurisdiction). The Borrower shall provide the Bank with written notice of (i) the intended storage or transport of any hazardous material or oil by the Borrower or any Subsidiary of the Borrower, (ii) any known release or known

threat of release of any hazardous material or oil at or from any site or vessel owned, occupied or operated by the Borrower or any Subsidiary of the Borrower, and (iii) any incurrence of any expense or loss by any government or governmental authority in connection with the assessment, containment or removal of any hazardous material or oil for which expense or loss the Borrower or any Subsidiary of the Borrower may be liable. Notwithstanding the foregoing, the Borrower and its Subsidiaries may use, store and transport, and need not notify the Bank of the use, storage or transportation of, (x) oil in reasonable quantities, as fuel for heating of their respective facilities or for vehicles or machinery used in the ordinary course of their respective businesses and (y) hazardous materials that are solvents, cleaning agents or other materials used in the ordinary course of the respective business operations of the Borrower and its Subsidiaries, in reasonable quantities, as long as in any case the Borrower or the Subsidiary concerned (as the case may be) has obtained and maintains in effect any necessary governmental permits, licenses

and approvals, complies with all requirements of applicable federal, state and local law relating to such use, storage or transportation, follows the protective and safety procedures that a prudent businessperson conducting a business the same as or similar to that of the Borrower or such Subsidiary (as the case may be) would follow, and disposes of such materials (not consumed in the ordinary course) only through licensed providers of hazardous waste removal services.

4.12. NO MARGIN STOCK. No proceeds of any Revolving Loan shall be used directly or indirectly to purchase or carry any margin security.

V. DEFAULT AND REMEDIES

5.1. EVENTS OF DEFAULT. The occurrence of any one of the following events shall constitute an Event of Default hereunder:

(a) The Borrower shall fail to make any payment of principal of or interest on the Revolving Note on or before the date when due; or the Borrower shall fail to pay when due any amount owed to the Bank in respect of any letter of credit now or hereafter issued by the Bank; or

(b) Any representation or warranty of the Borrower contained herein shall at any time prove to have been incorrect in any material respect when made or any representation or warranty made by the Borrower in connection with any Revolving Loan or letter of credit shall at any time prove to have been incorrect in any material respect when made; or

(c) The Borrower shall default in the performance or observance of any agreement or obligation under any of sections 3.1, 3.3, 3.6, 3.7, 3.8, 3.9 or 3.10 or Article IV; or

(d) The Borrower (or any Subsidiary of the Borrower, as applicable) shall default in the performance of any other term, covenant or agreement contained in this letter agreement or in any foreign exchange contract or letter of credit agreement entered into with the Bank (or any affiliate of the Bank) and such default shall continue unremedied for 30 days after notice thereof shall have been given to the Borrower; or

(e) Any default shall exist and remain unwaived or uncured with respect to any other Indebtedness of the Borrower or any Subsidiary of the Borrower in excess of $100,000 in aggregate principal amount or with respect to any instrument evidencing, guaranteeing, securing or otherwise relating to any such Indebtedness, or any such Indebtedness in excess of $100,000 in aggregate principal amount shall not have been paid when due, whether by acceleration or otherwise, or shall have been declared to be due and payable prior to its stated maturity, or any event or circumstance shall occur which permits, or with the lapse of time or the giving of notice or both would permit, the acceleration of the maturity of any such Indebtedness by the holder of holders thereof; or

(f) The Borrower shall be dissolved, or the Borrower or any Subsidiary of the Borrower shall become insolvent or bankrupt or shall cease paying its debts as they mature or shall make an assignment for the benefit of creditors, or a trustee, receiver or liquidator shall be appointed for the Borrower or any Subsidiary of the Borrower or for a substantial part of the property of the Borrower or any such Subsidiary, or bankruptcy, reorganization, arrangement, insolvency or similar proceedings shall be instituted by or against the Borrower or any such Subsidiary under the laws of any jurisdiction (except for an involuntary proceeding filed against the Borrower or any Subsidiary of the Borrower which is dismissed within 60 days following the institution thereof); or

(g) Any attachment, execution or similar process shall be issued or levied against any of the property of the Borrower or any Subsidiary and such attachment, execution or similar process shall not be paid, stayed, released, vacated or fully bonded within 10 days after its issue or levy; or

(h) Any final uninsured judgment in excess of $100,000 shall be entered against the Borrower or any Subsidiary of the Borrower by any court of competent jurisdiction; or

(i) The Borrower or any Subsidiary of the Borrower shall fail to meet its minimum funding requirements under ERISA with respect to any employee benefit plan (or other class of benefit which the PBGC has elected to insure) or any such plan shall be the subject of termination proceedings (whether voluntary or involuntary) and there shall result from such termination proceedings a liability of the Borrower or any Subsidiary of the Borrower to the PBGC which in the reasonable opinion of the Bank may have a material adverse effect upon the financial condition of the Borrower or any such Subsidiary; or

(j) The Security Agreement or any other Loan Document shall for any reason (other than due to payment in full of all amounts secured or evidenced thereby or due to discharge in writing by the Bank) not remain in full force and effect; or

(k) The security interests and liens of the Bank in and on any of the Collateral shall for any reason (other than due to payment in full of all amounts secured thereby or due to written release by the Bank) not be fully perfected liens and security interests; or

(l) At any time, 50% or more of the outstanding shares of any class of equity securities of the Borrower shall be owned by any Person or by any "group" (as defined in the Securities Exchange Act of 1934, as amended, and the regulations thereunder), other than by one or more of the Persons listed on item 5.1(l) of the attached Disclosure Schedule; or

(m) Andrew J. Frawley shall for any reason not be an executive officer of the Borrower actively involved in the management of the Borrower.

5.2. RIGHTS AND REMEDIES ON DEFAULT. Upon the occurrence of any Event of Default, in addition to any other rights and remedies available to the Bank hereunder or otherwise, the

Bank may exercise any one or more of the following rights and remedies (all of which shall be cumulative):

(a) Declare the entire unpaid principal amount of the Revolving Note then outstanding, all interest accrued and unpaid thereon and all other amounts payable under this letter agreement, and all other Indebtedness of the Borrower to the Bank, to be forthwith due and payable, whereupon the same shall become forthwith due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrower.

(b) Terminate the revolving financing arrangements provided for by this letter agreement.

(c) Exercise all rights and remedies hereunder, under the Revolving Note, under the Security Agreement, under the Intellectual Property Assignments and under each and any other agreement with the Bank; and exercise all other rights and remedies which the Bank may have under applicable law.

5.3. SET-OFF. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default, the Bank is hereby authorized at any time or from time to time, without presentment, demand, protest or other notice of any kind to the Borrower or to any other Person, all

of which are hereby expressly waived, to set off and to appropriate and apply any and all deposits and any other Indebtedness at any time held or owing by the Bank or any affiliate thereof to or for the credit or the account of the Borrower against and on account of the obligations and liabilities of the Borrower to the Bank under this letter agreement or otherwise, irrespective of whether or not the Bank shall have made any demand hereunder and although said obligations, liabilities or claims, or any of them, may then be contingent or unmatured and without regard for the availability or adequacy of other collateral. As further security for the Obligations, the Borrower also grants to the Bank a security interest with respect to all its deposits and all securities or other property in the possession of the Bank or any affiliate of the Bank from time to time, and, upon the occurrence of any Event of Default, the Bank may exercise all rights and remedies of a secured party under the Uniform Commercial Code. ANY AND ALL RIGHTS TO REQUIRE THE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES ANY OF THE OBLIGATIONS PRIOR TO THE EXERCISE BY THE BANK OF ITS RIGHT OF SET-OFF UNDER THIS SECTION ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

5.4. LETTERS OF CREDIT. Without limitation of any other right or remedy of the Bank, (i) if an Event of Default shall have occurred and the Bank shall have accelerated the Revolving Loans or (ii) if this letter agreement and/or the revolving financing arrangements described herein shall have expired or shall have been earlier terminated by either the Bank or the Borrower for any reason, the Borrower will forthwith deposit with the Bank in cash a sum equal

to the total of all then undrawn amounts of all outstanding letters of credit issued by the Bank for the account of the Borrower.

VI. MISCELLANEOUS

6.1. COSTS AND EXPENSES. The Borrower agrees to pay on demand all costs and expenses (including, without limitation, reasonable legal fees) of the Bank in connection with the preparation, execution and delivery of this letter agreement, the Security Agreement, the Revolving Note and all other instruments and documents to be delivered in connection with any Revolving Loan or any letter of credit issued hereunder and any amendments or modifications of any of the foregoing, as well as the costs and expenses (including, without limitation, the reasonable fees and expenses of legal counsel) incurred by the Bank in connection with preserving, enforcing or exercising, upon default, any rights or remedies under this letter agreement, the Security Agreement, the Revolving Note and all other instruments and documents delivered or to be delivered hereunder or in connection herewith, all whether or not legal action is instituted. In addition, the Borrower shall be obligated to pay any and all stamp and other taxes payable or determined to be payable in connection with the execution and delivery of this letter agreement, the Security Agreement, the Revolving Note and all other instruments and documents to be delivered in connection with any Obligation. Any fees, expenses or other charges which the Bank is entitled to

receive from the Borrower under this Section shall bear interest from the date of any demand therefor until the date when paid at a rate per annum equal to 4% per annum plus the per annum rate otherwise payable under the Revolving Note (but in no event in excess of the maximum rate permitted by then applicable law).

6.2. CAPITAL ADEQUACY. If the Bank shall have determined that the adoption or phase-in after the date hereof of any applicable law, rule or regulation regarding capital requirements for banks or bank holding companies, or any change therein after the date hereof, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive of such entity regarding capital adequacy (whether or not having the force of law) has or would have the effect of reducing the return on the Bank's capital with respect to the Revolving Loans, the within-described revolving loan facility and/or letters of credit issued for the account of the Borrower to a level below that which the Bank could have achieved (taking into consideration the Bank's policies with respect to capital adequacy immediately before such adoption, phase-in, change or compliance and assuming that the Bank's capital was then fully utilized) but for such adoption, phase-in, change or compliance by any amount deemed by the Bank to be material: (i) the Bank shall promptly after its determination of such occurrence give notice thereof to the Borrower; and (ii) the Borrower shall pay forthwith to the Bank as an additional fee such amount as the Bank certifies to be the amount that will compensate it for such reduction with respect to the Revolving Loans, the within-described revolving loan facility and/or such letters of credit.

A certificate of the Bank claiming compensation under this Section shall be conclusive in the absence of manifest error. Such certificate shall set forth the nature of the occurrence giving

rise to such compensation, the additional amount or amounts to be paid to it hereunder and the method by which such amounts were determined. In determining such amounts, the Bank may use any reasonable averaging and attribution methods. No failure on the part of the Bank to demand compensation on any one occasion shall constitute a waiver of its right to demand such compensation on any other occasion and no failure on the part of the Bank to deliver any certificate in a timely manner shall in any way reduce any obligation of the Borrower to the Bank under this Section.

6.3. FACILITY FEES. With respect to the within arrangements for Revolving Loans, the Borrower will pay to the Bank, at the time of execution and delivery of this letter agreement and on the first day of each calendar quarter thereafter (commencing January 2, 1998), a non-refundable quarterly facility fee of $2,500.00 per calendar quarter (appropriately pro-rated for any partial calendar quarter), payable in advance. In addition, if the within-described revolving financing arrangements are terminated by the Borrower for any reason

or by the Bank as the result of the Borrower's default, the Borrower shall forthwith upon such termination pay to the Bank a sum equal to all of the fees which would have become due pursuant to the immediately preceding sentence from the date of such termination through the Expiration Date. The fees described in this Section are in addition to any balances and fees required by the Bank or any of its affiliates in connection with any other services now or hereafter made available to the Borrower.

6.4. OTHER AGREEMENTS. The provisions of this letter agreement are not in derogation or limitation of any obligations, liabilities or duties of the Borrower or any Subsidiary of the Borrower under any of the other Loan Documents or under any foreign exchange contract or letter of credit agreement with or for the benefit of the Bank (or any affiliate of the Bank). No inconsistency in default provisions between this letter agreement and any of the other Loan Documents or any such other agreement will be deemed to create any additional grace period or otherwise derogate from the express terms of each such default provision. No covenant, agreement or obligation of the Borrower contained herein, nor any right or remedy of the Bank contained herein, shall in any respect be limited by or be deemed in limitation of any inconsistent or additional provisions contained in any of the other Loan Documents or any such other agreement.

6.5. GOVERNING LAW. This letter agreement and the Revolving Note shall be governed by, and construed and enforced in accordance with, the laws of The Commonwealth of Massachusetts.

6.6. ADDRESSES FOR NOTICES, ETC. All notices, requests, demands and other communications provided for hereunder shall be in writing and shall be mailed or delivered to the applicable party at the address indicated below:

If to the Borrower:

Exchange Applications, Inc.

695 Atlantic Avenue
Boston, MA 02111
Attention: John O'Brien, Chief Financial Officer

If to the Bank:

Fleet National Bank
High Technology Group
75 State Street, Mail Stop: MABOF04M
Boston, MA 02109
Attention: Olaperi Onipede, Vice President

or, as to each of the foregoing, at such other address as shall be designated by such Person in a written notice to the other party complying as to delivery with

the terms of this Section. All such notices, requests, demands and other communications shall be deemed delivered on the earlier of (i) the date received or (ii) the date of delivery, refusal or non-delivery indicated on the return receipt if deposited in the United States mails, sent postage prepaid, certified or registered mail, return receipt requested, addressed as aforesaid.

6.7. BINDING EFFECT; ASSIGNMENT; TERMINATION. This letter agreement shall be binding upon the Borrower and the Bank and their respective successors and assigns and shall inure to the benefit of the Borrower and the Bank and their respective permitted successors and assigns. The Borrower may not assign this letter agreement or any rights hereunder without the express written consent of the Bank. The Bank may, in accordance with applicable law, from time to time assign or grant participations in this letter agreement, the Revolving Loans or the Revolving Note. Without limitation of the foregoing generality,

(i) The Bank may at any time pledge all or any portion of its rights under the Loan Documents (including any portion of the Revolving Note) to any of the 12 Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. No such pledge or the enforcement thereof shall release the Bank from its obligations under any of the Loan Documents.

(ii) The Bank shall have the unrestricted right at any time and from time to time, and without the consent of or notice to the Borrower, to grant to one or more banks or other financial institutions (each, a "Participant") participating interests in the Bank's obligation to lend hereunder and/or any or all of the Revolving Loans held by the Bank hereunder. In the event of any such grant by a Bank of a participating interest to a Participant, whether or not upon notice to the Borrower, the Bank shall remain responsible for the performance of its obligations hereunder and the Borrower shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations hereunder. The Bank

may furnish any information concerning the Borrower in its possession from time to time to prospective assignees and Participants; provided that the Bank shall require any such prospective assignee or Participant to agree in writing to maintain the confidentiality of such information to the same extent as the Bank would be required to maintain such confidentiality.

The Borrower may terminate this letter agreement and the financing arrangements made herein by giving written notice of such termination to the Bank, provided

that no such termination will release or waive any of the Bank's rights or remedies or any of the Borrower's obligations under this letter agreement or any of the other Loan Documents unless and until the Borrower has paid in full the Revolving Loans and all interest thereon and all fees and charges payable in connection therewith.

6.8. CONSENT TO JURISDICTION. The Borrower irrevocably submits to the non-exclusive jurisdiction of any Massachusetts court or any federal court sitting within The Commonwealth of Massachusetts over any suit, action or proceeding arising out of or relating to this letter agreement and/or the Revolving Note. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any such suit, action or proceeding brought in such a court and any claim that any such suit, action or proceeding has been brought in an inconvenient forum. The Borrower agrees that final judgment in any such suit, action or proceeding brought in such a court shall be enforced in any court of proper jurisdiction by a suit upon such judgment, provided that service of process in such action, suit or proceeding shall have been effected upon the Borrower in one of the manners specified in the following paragraph of this ss.6.8 or as otherwise permitted by law.

The Borrower hereby consents to process being served in any suit, action or proceeding of the nature referred to in the preceding paragraph of this ss.6.8 either (i) by mailing a copy thereof by registered or certified mail, postage prepaid, return receipt requested, to it at its address set forth in ss.6.6 (as such address may be changed from time to time pursuant to said ss.6.6) or (ii) by serving a copy thereof upon it at its address set forth in ss.6.6 (as such address may be changed from time to time pursuant to said ss.6.6).

6.9. SEVERABILITY. In the event that any provision of this letter agreement or the application thereof to any Person, property or circumstances shall be held to any extent to be invalid or unenforceable, the remainder of this letter agreement, and the application of such provision to Persons, properties or circumstances other than those as to which it has been held invalid and unenforceable, shall not be affected thereby, and each provision of this letter agreement shall be valid and enforced to the fullest extent permitted by law.

6.10. REPLACEMENT NOTE. Upon receipt of an affidavit of an officer of the Bank as to the loss, theft, destruction or mutilation of the Revolving Note or of any other Loan Document which is not of public record and, in the case of any such mutilation, upon surrender and cancellation of such Revolving Note or other Loan Document, the Borrower will issue, in lieu thereof, a

replacement Revolving Note or other Loan Document in the same principal amount (as to the Revolving Note) and in any event of like tenor.

6.11. USURY. All agreements between the Borrower and the Bank are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of maturity of the Revolving Note or otherwise, shall the amount paid or agreed to be paid to the Bank for the use or the forbearance of the Indebtedness represented by the Revolving Note exceed the maximum permissible under applicable law. In this regard, it is expressly agreed that it is the intent of the Borrower and the Bank, in the execution, delivery and acceptance of the Revolving Note, to contract in strict compliance with the laws of The Commonwealth of Massachusetts. If, under any circumstances whatsoever, performance or fulfillment of any provision of the Revolving Note or any of the other Loan Documents at the time such provision is to be performed or fulfilled shall involve exceeding the limit of validity prescribed by applicable law, then the obligation so to be performed or fulfilled shall be reduced automatically to the limits of such validity, and if under any circumstances whatsoever the Bank should ever receive as interest an amount which would exceed the highest lawful rate, such amount which would be excessive interest shall be applied to the reduction of the principal balance evidenced by the Revolving Note and not to the payment of interest. The provisions of this Section 6.11 shall control every other provision of this letter agreement and of the Revolving Note.

6.12. WAIVER OF JURY TRIAL. THE BORROWER AND THE BANK HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY MUTUALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS LETTER AGREEMENT, THE REVOLVING NOTE OR ANY OTHER LOAN DOCUMENTS OR OUT OF ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR THE BANK TO ENTER INTO THIS LETTER AGREEMENT AND TO MAKE THE REVOLVING LOANS AS CONTEMPLATED HEREIN.

VII. DEFINED TERMS

7.1. DEFINITIONS. In addition to terms defined elsewhere in this letter agreement, as used in this letter agreement, the following terms have the following respective meanings:

"Aggregate Bank Liabilities" - At any time, the sum of (i) the principal amount of all Revolving Loans then outstanding, PLUS (ii) all then undrawn amounts of letters of credit issued by the Bank for the account of the Borrower, PLUS (iii) all amounts then drawn on any such letter of credit which at said date shall not have been reimbursed to the Bank by the Borrower.

"Aggregate Letter of Credit Liabilities" - At any time, the sum of (i) all then undrawn amounts of letters of credit issued by the Bank for the account of the Borrower, PLUS (ii) all

amounts then drawn on any such letter of credit which at said date shall not have been reimbursed to the Bank by the Borrower.

"Borrowing Base" - As determined at any date, 75% of the aggregate principal amount of the Qualified Receivables of the Borrower then outstanding.

"Business Day" - Any day which is not a Saturday, nor a Sunday nor a public holiday under the laws of the United States of America or The Commonwealth of Massachusetts applicable to a national bank.

"Collateral" - All property now or hereafter owned by the Borrower or in which the Borrower now or hereafter has any interest which is described as "Collateral" in the Security Agreement or in ss.7.2(b) below.

"Current Liabilities" - All Indebtedness of the Borrower and/or any of its Subsidiaries which would properly be shown as current liabilities on a consolidated balance sheet of the Borrower prepared consistently with the financial statements and projections furnished by the Borrower to the Bank prior to the date of this letter agreement.

"ERISA" - The Employee Retirement Income Security Act of 1974, as amended.

"Expiration Date" - August 31, 1998, unless extended by the Bank, which extension may be given or withheld by the Bank in its sole discretion.

"Indebtedness" - All obligations of a Person, whether current or long-term, senior or subordinated, which in accordance with generally accepted accounting principles would be included as liabilities upon such Person's balance sheet at the date as of which Indebtedness, is to be determined, and shall also include guaranties, endorsements (other than for collection in the ordinary course of business) or other arrangements whereby responsibility is assumed for the obligations of others, whether by agreement to purchase or otherwise acquire the obligations of others, including any agreement, contingent or otherwise, to furnish funds through the purchase of goods, supplies or services for the purpose of payment of the obligations of others.

"Loan Documents" - Each of this letter agreement, the Revolving Note, the Security Agreement, the Intellectual Property Assignments and each other instrument, document or agreement evidencing, securing, guaranteeing or relating in any way to any of the Revolving Loans or any of the letters of credit issued hereunder, all whether now existing or hereafter arising or entered into.

"Maximum Revolving Amount" - At any date as of which same is to be determined, the amount by which (x) $2,000,000 exceeds (y) the then-existing Aggregate Letter of Credit Liabilities.

"Net Income" (or "Net Loss") - The book net income (or book net loss, as the case may be) of a Person for any period, after all taxes actually paid or accrued and all expenses and other charges determined in accordance with

generally accepted accounting principles applied consistently with the projections heretofore furnished to the Bank by the Borrower.

"Net Quick Assets" - Such current assets of the Borrower as consist of cash, cash-equivalents and Receivables (less an allowance for bad debt consistent with the Borrower's prior experience).

"Obligations" - All Indebtedness, covenants, agreements, liabilities and obligations, now existing or hereafter arising, made by the Borrower or any Subsidiary of the Borrower with or for the benefit of the Bank or owed by the Borrower to the Bank relating to this letter agreement, any letter of credit agreement or any foreign exchange contract.

"PBGC" - The Pension Benefit Guaranty Corporation or any successor thereto.

"Person" - An individual, corporation, company, partnership, joint venture, trust or unincorporated organization, or a government or any agency or political subdivision thereof.

"Qualified Receivables" - Only those Receivables of the Borrower which arise out of BONA FIDE sales made to customers of the Borrower (which customers are located in the United States and are unrelated to the Borrower) in the ordinary course of the Borrower's business and which remain unpaid no more than 90 days past the respective invoice dates of such Receivables, the payment of which is not in dispute. Unless the Bank in its sole discretion otherwise determines with respect to any Receivable, a Receivable which would otherwise be a Qualified Receivable shall be deemed not to be a Qualified Receivable (i) if the Bank does not have a fully perfected first priority security interest in such Receivable; (ii) if such Receivable is not free and clear of all adverse interests in favor of any Person other than the Bank; (iii) if such Receivable is subject to any deduction, off-set, contra account, counterclaim or condition; (iv) if a field examination made by the Bank fails to confirm that such Receivable exists and satisfies all of the criteria set forth herein to be a Qualified Receivable; (v) if such Receivable is not properly invoiced at the date of sale; (vi) if the customer or account debtor has disputed liability or made any claim with respect to the Receivable or the merchandise covered thereby or with respect to any other Receivable due from said customer to the Borrower; (vii) if the customer or account debtor has filed a petition for bankruptcy or any other application for relief under the Bankruptcy Code or has effected an assignment for the benefit of creditors, or if any petition or any other application for relief under the Bankruptcy Code has been filed against said customer or account debtor, or if the customer or account debtor has suspended business, become insolvent, ceased to pay its debts as they become due, or had or suffered a receiver or trustee to be appointed for any of its assets or affairs; (viii) if the customer or account debtor has failed to pay other Receivables so that an aggregate of 25% of the total Receivables owing to the Borrower by such customer or account debtor has been outstanding for more than 90 days past their respective due dates; (ix) if such Receivable is owed by the United States government or any agency or department thereof (unless assigned to the Bank under the Federal Assignment of Claims Act); or (x) if the Bank

reasonably believes that collection of such Receivable is insecure or that it may not be paid by reason of financial inability to pay or otherwise, or that such Receivable is not for any reason suitable for use as a basis for borrowing hereunder.

"Receivables" - All of the Borrower's present and future accounts, accounts receivable and notes, drafts, acceptances and other instruments representing or evidencing a right to payment for goods sold or for services rendered.

"Subsidiary" - Any corporation or other entity of which the Borrower and/or any of its Subsidiaries, directly or indirectly, owns, or has the right to control or direct the voting of, fifty (50%) percent or more of the outstanding capital stock or other ownership interest having general voting power (under ordinary circumstances).

"Tangible Net Worth" - An amount equal to the total assets of any Person (excluding (i) the total intangible assets of such Person and (ii) any assets representing amounts due from any officer or employee of such Person or from any Subsidiary of such Person) minus the total liabilities of such Person. Total intangible assets shall be deemed to include, but shall not be limited to, the excess of cost over book value of acquired businesses accounted for by the purchase method, formulae, trademarks, trade names, patents, patent rights and deferred expenses (including, but not limited to, unamortized debt discount and expense, organizational expense, capitalized software costs and experimental and development expenses).

Any defined term used in the plural preceded by the definite article shall be taken to encompass all members of the relevant class. Any defined term used in the singular preceded by "any" shall be taken to indicate any number of the members of the relevant class.

7.2. SECURITY AGREEMENT. (a) The Borrower acknowledges and agrees that the "Obligations" described in and secured by the Security Agreement include, without limitation, all of the obligations of the Borrower under the Revolving Note and/or this letter agreement and/or with respect to any letter of credit which may be issued by the Bank for the account of the Borrower.

(b) The Security Agreement is hereby modified to provide as follows:

(i) That the "Collateral" subject thereto includes, without limitation and in addition to the Collateral described therein, all of the Borrower's files, books and records (including, without limitation, all electronically recorded data) all whether now owned or existing or hereafter acquired, created or arising. The Borrower hereby grants to the Bank a security interest in all such Collateral in order to secure the full and prompt payment and performance of all of the Obligations.

(ii) That, upon the occurrence of any Event of Default (as defined in ss.5.1 of this letter agreement), the Bank may, at any time, notify account debtors that the Collateral has been assigned to the Bank and that payments by such account debtors shall

be made directly to the Bank. At any time after the occurrence of an Event of Default, the Bank may collect the Borrower's Receivables, or any of same, directly from account debtors and may charge the collection costs and expenses to the Borrower.

This letter agreement is executed, as an instrument under seal, as of the day and year first above written.

Very truly yours,

EXCHANGE APPLICATIONS, INC.

By: John G. O'Brien

Name: John G. O'Brien
Title: Chief Financial Officer

Accepted and agreed:

FLEET NATIONAL BANK

By: ???????? ??????

Its VP

By: ???????? ??????

Its ARP

PROMISSORY NOTE

$2,000,000.00 Boston, Massachusetts
December 22, 1997

FOR VALUE RECEIVED, the undersigned Exchange Applications, Inc., a Delaware corporation (the "Borrower") hereby promises to pay to the order of FLEET NATIONAL BANK (the "Bank") the principal amount of Two Million and 00/100 ($2,000,000.00) Dollars or such portion thereof as may be advanced by the Bank pursuant to ss.1.2 of that certain letter agreement of even date herewith between the Bank and the Borrower (the "Letter Agreement") and remains outstanding from time to time hereunder ("Principal"), with interest, at the rate hereinafter set forth, on the daily balance of all unpaid Principal, from the date hereof until payment in full of all Principal hereunder.

Interest on all unpaid Principal shall be due and payable monthly in arrears, on the first day of each month, commencing on the first such date after the advance of any Principal and continuing on the first day of each month thereafter and on the date of payment of this note in full, at a fluctuating rate per annum (computed on the basis of a year of three hundred sixty (360) days for the actual number of days elapsed) which shall at all times be equal to the sum of (i) three-quarters of one (0.75%) percent plus annum plus (ii) the Prime Rate as in effect from time to time (but in no event in excess of the maximum rate permitted by then applicable law). A change in the aforesaid rate of interest shall become effective on the same day on which any change in the Prime Rate is effective. Overdue Principal and, to the extent permitted by law, overdue interest shall bear interest at a fluctuating rate per annum which at all times shall be equal to the sum of (i) four (4%) percent per annum plus (ii) the per annum rate otherwise payable under this note (but in no event in excess of the maximum rate permitted by then applicable law), compounded monthly and payable on demand. As used herein, "Prime Rate" means the variable rate of interest per annum designated by the Bank from time to time as its prime rate, it being understood that such rate is merely a reference rate and does not necessarily represent the lowest or best rate being charged to any customer. If the entire amount of any required Principal and/or interest is not paid within ten (10) days after the same is due, the Borrower shall pay to the Bank a late fee equal to five percent (5%) of the required payment, provided that such late fee shall be reduced to three percent (3%) of any required Principal and interest that is not paid within fifteen (15) days of the date it is due if this note is secured by a mortgage on an owner-occupied residence of 1-4 units.

All outstanding Principal and all interest accrued thereon shall be due and payable in full on the first to occur of: (i) an acceleration under ss.5.2 of the Letter Agreement or (ii) August 31, 1998. The Borrower may at any time and from time to time prepay all or any portion of said Principal, without premium or penalty. Under certain circumstances set forth in the Letter Agreement, prepayments of Principal may be required.

Payments of both Principal and interest shall be made, in lawful currency of the United States in immediately available funds, at the office of the Bank located at 75 State Street, Boston, Massachusetts 02109, or at such other address as the Bank may from time to time designate.

The undersigned Borrower irrevocably authorizes the Bank to make or cause to be made, on a schedule attached to this note or on the books of the Bank, at or following the time of making any Revolving Loan (as defined in the Letter Agreement) and of receiving any payment of Principal, an appropriate notation reflecting such transaction and the then aggregate unpaid balance of Principal. Failure of the Bank to make any such notation shall not, however, affect any obligation of the Borrower hereunder or under the Letter Agreement. The unpaid Principal amount of this note, as recorded by the Bank from time to time on such schedule or on such books, shall constitute presumptive evidence of the aggregate unpaid principal amount of the Revolving Loans.

The Borrower hereby (a) waives notice of and consents to any and all advances, settlements, compromises, favors and indulgences (including, without limitation, any extension or postponement of the time for payment), any and all receipts, substitutions, additions, exchanges and releases of collateral, and any and all additions, substitutions and releases of any person primarily or secondarily liable, (b) waives presentment, demand, notice, protest and all other demands and notices generally in connection with the delivery, acceptance, performance, default or enforcement of or under this note, and (c) agrees to pay, to the extent permitted by law, all costs and expenses, including, without limitation, reasonable attorneys' fees, incurred or paid by the Bank in enforcing this note and any collateral or security therefor, all whether or not litigation is commenced.

This note is the Revolving Note referred to in the Letter Agreement. This note is secured by, and is entitled to the benefit of, the Security Agreement (as defined in the Letter Agreement). This note is subject to prepayment as set forth in the Letter Agreement. The maturity of this note may be accelerated upon the occurrence of an Event of Default, as provided in the Letter Agreement.

THE BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED ON THIS NOTE OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY RELATED DOCUMENTS OR OUT OF ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF ANY PERSON. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR THE BANK TO ACCEPT THIS NOTE AND TO MAKE THE REVOLVING LOANS AS CONTEMPLATED IN THE LETTER AGREEMENT.

Executed, as an instrument under seal, as of the day and year first above written.

CORPORATE SEAL

EXCHANGE APPLICATIONS, INC.

ATTEST:

By: /s/ John G. O'Brien

Secretary

Name: John G. O'Brien
Title: Chief Financial Officer

EXHIBIT 10.15

June 24th, 1998

Mr. John O'Brien
Chief Financial Officer
Exchange Applications, Inc.
695 Atlantic Avenue
Boston, MA 02111

Dear John:

Reference is hereby made to the Letter Agreement (the "Agreement") dated December 22, 1997, by and between Exchange Applications, Inc. ("Borrower" or the "Company") and Fleet National Bank (the "Bank"). I am pleased to inform you that we have approved the renewal your $2,000,000 line of credit from through May 30th, 1999.

The Borrower has informed the Bank that for the fourth fiscal quarter ended December 30, 1997 it is in violation of "Section 3.9 Profitability" with a loss for the quarter of $857,000, compared to a requirement that losses do not exceed $425,000. In addition, the Borrower is in violation of the requirement to achieve at least $1.00 for the two consecutive quarters ended March 31, 1998;

net losses for the two consecutive quarters ended March 31, 1998 totaled $1,242,000. The Borrower has requested a waiver of these two Profitability violations.

The Bank hereby waives the Borrower's violation of Section 3.9 as described above. This waiver is for the specific time period detailed above only and does not amend in any manner any other terms of the Agreement. This change will become effective upon our receipt of a countersigned copy of this letter.

The Borrower has informed the Bank that it wishes to revise certain financial covenants for the fiscal quarter ending June 30, 1998 and thereafter, specifically:

- TANGIBLE NET WORTH (SECTION 3.8): We have revised this covenant by setting the minimum base at $5,500,000 as of June 30, 1998. In addition, there will be a step-up added to the base which is defined as 80% of new equity raised and subordinated debt raised on or after June 30, 1998 and 80% of Net Income earned beginning with the quarter ending June 30, 1998.

- PROFITABILITY (SECTION 3.9): We have revised the definition of this covenant such that Profitability must exceed $1.00 for the fiscal year ending December 31, 1998. We have revised the quarterly requirements as shown below:

Quarter ending June 30, 1998	$500,000 maximum losses
Quarter ending September 30, 1998	$500,000 maximum losses
Each quarter thereafter	$1.00 minimum profit

- LIQUIDITY (SECTION 3.10): We have revised this covenant so that the Borrower must report a ratio that is equal to or exceeds 1.50:1.00 for the quarter ending June 30, 1998 and thereafter.

These changes are for the specific time period detailed above only and do not amend in any manner any other terms of the Agreement. These changes will become effective upon our receipt of a countersigned copy of this letter.

John, we are pleased to continue our relationship with Exchange Applications and look forward to expanding it in the future.

Sincerely,

Agreed and Accepted:

/s/ Olaperi Onipede

By: /s/ John G. O'Brien

Olaperi Onipede	John G. O'Brien
Vice President	Title: Vice President/CFO
High Technology Division	Date: June 30, 1998

ALLONGE TO PROMISSORY NOTE

The maturity date of the attached Promissory Note dated December 22, 1997 for $2,000,000 is hereby extended to May 30, 1999 from August 31, 1998. The interest rate shall remain at Prime +3/4%.

This Allonge will be governed by the terms and conditions of the Letter Agreement between Exchange Application, Inc. (the "Borrower") dated December 22, 1997 and Fleet National Bank (the "Bank"), referred to as the "Agreement". Nothing herein shall be deemed to constitute a waiver, release or amendment of any terms of the Agreement.

/s/ George Abatjoglou	/s/ John G. O'Brien
Witness	John G. O'Brien Chief Financial Officer Exchange Applications, Inc.
	/s/ Olaperi Onipede
Witness	Olaperi Onipede Vice President Fleet National Bank

EXHIBIT 10.16

STOCK PURCHASE AGREEMENT dated as of June 25, 1998 (this "Agreement"), among EXCHANGE APPLICATIONS, INC., a Delaware corporation ("Exchange Applications"), INSIGHT CAPITAL PARTNERS II, L.P., a Delaware limited partnership (the "Seller"), and MICHAEL J. FELDMAN (the "Purchaser").

WHEREAS, the Purchaser, the Seller, Exchange Applications, and certain other persons are parties to an Amended and Restated Stockholders Agreement, as amended, dated as of December 4, 1997 (the "Stockholders Agreement"); and

WHEREAS, the Seller is the owner of 30,000 shares of Series C Convertible Preferred Stock of Exchange Applications $.001 par value (the "Shares"). Upon the terms and subject to the conditions of this Agreement, the Purchaser will purchase a total of 30,000 Shares from the Purchasers for a Purchase Price of $3.268 per Share and an aggregate purchase price of Ninety-eight thousand, forty dollars and no cents $98,040.00 (the "Purchase Price").

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained herein, the parties agree as follows:

1. WAIVER OF RIGHTS. Exchange Applications waives its rights under Section 6(c) of the Stockholders Agreement with respect to the transaction contemplated hereby.

2. SALE AND PURCHASE OF SHARES. Upon the terms and subject to the conditions of this Agreement, the Seller shall sell, transfer and convey to the Purchaser, and the Purchaser shall purchase and acquire from the Seller, 30,000 shares for the cash consideration of $98,040.00.

3. DELIVERY.

(a) The Seller shall deliver to Exchange Applications for cancellation, against delivery to the Seller by the Purchaser of the aggregate purchase price therefor, a stock certificate representing the aggregate number of Shares to be purchased by the Purchaser (the "Stock Certificates") from the Seller, with all necessary documentary or transfer tax stamps affixed (the "Document"), free an clear of all security interests, liens, pledges, claims, charges, escrows, encumbrances, options, rights of first refusal, mortgages, indentures, security agreements or other agreements, arrangements, contracts,

commitments,

understandings or obligations (collectively, "Liens"), whether written or oral and whether or not relating in any way to credit or the borrowing of money.

(b) upon receipt of an executed Agreement, Exchange Applications shall cause to be issued to the Purchaser, or such other individual or entity as the Purchaser has designated in a written request submitted to the Company and the Seller, a certificate representing the number of Shares to be purchased by the Purchaser from the Seller, free and clear of all Liens.

(c) Exchange Applications shall also cause a certificate, free and clear of all Liens, to be issued to the Seller representing the difference between the number of Shares delivered by the Seller to Exchange Applications under subsection (a) of this Section 3 and the number of Shares sold, transferred and conveyed by the Seller to the Purchaser under Section 2 of this Agreement.

4. REPRESENTATIONS AND WARRANTIES OF THE SELLER. The Seller represents and warrants to the Purchaser as follows:

(a) the Seller has full legal power and authority to execute and deliver this Agreement and consummate the transactions contemplated hereby;

(b) the execution and delivery by the Seller of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite action on the part of the Seller;

(c) this Agreement constitutes a legal, valid and binding obligation to the Seller, enforceable in accordance with its terms, except that such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors generally or by general equitable principles

(d) Seller has good and marketable title to all of the Shares, free and clear of all Liens; and

(e) the execution and delivery by the Seller of this Agreement and the consummation by the Seller of the transactions contemplated hereby (i) will not violate any law, statute, rule or regulation, (ii) after giving effect to the waiver Agreement dated June 25, 1998 will not conflict with any provision of any agreement, certificate of incorporation, or other organizational or constitutive instrument, if any, of the Seller, (iii) will not require or make necessary any consent, approval or other action, or notice to, any person, except for

those that have been

obtained or made, and (iv) will not conflict with, or result in a violation of, any agreement or other document or instrument to which the Seller is a party or by which it, or any of its assets or properties, is bound.

5. REPRESENTATIONS AND WARRANTIES OF PURCHASER. The Purchaser represents and warrants to the Seller as follows:

(a) the execution and delivery by the Purchaser of this Agreement and the consummation by the Purchaser of the transactions contemplated hereby (i) will not violate any law, statute, rule or regulation, (ii) will not conflict with any provision of any agreement, certificate of incorporation, or other organizational or constitutive instrument, if any, of the Purchaser, (iii) will not require or make necessary any consent, approval or other action, or notice to, any person, except for those that have been obtained or made, and (iv) will not conflict with, or result in a violation of, any agreement or other document or instrument to which the Purchaser is a party or by which it, or any of its assets or properties, is bound; and

(b) this Agreement constitutes a legal, valid and binding obligation of the Purchaser, enforceable in accordance with its terms, except that such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors generally or by general equitable principles;

(c) the Purchaser confirms that:

(i) he is an "accredited investor" as such term is defined in Rule 501(a) of Regulation D promulgated under the Securities Act;

(ii) he understands that his interest in Exchange Applications will not be registered or qualified under any state securities or blue sky laws and cannot be resold without such registration or qualification or an exemption therefrom.

(iii) he understands that his Shares have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on an exemption from registration thereunder for transactions not involving a public offering, and that such Shares may not be sold,

transferred or otherwise disposed of except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom;

4

(iv) he is acquiring the Shares for his own account for investment purposes only and not with a view to resale, assignment or other distribution, in whole or in part, and no other person has or will have a direct or indirect beneficial interest in such Shares;

(v) he understands that the Shares are a speculative investment and involve a high degree of risk, the transferability of the Shares is substantially restricted, there will be no public market for such Shares and it may not be possible for such Purchaser to liquidate his investment in Exchange Applications;

(vi) he is able to bear the substantial economic risks of an investment in such Shares and can afford a complete loss of such investment;

(vii) he has such knowledge and experience in financial, investment and business matters so as to enable him, to use the information made available to him in connection with the purchase of such Shares, to evaluate the merits and risks of such purchase, and to make an informed investment decision with respect thereto;

(viii) he has carefully considered and has, to the extent he believes such discussions necessary, discussed with his professional legal, tax, accounting and financial advisors the suitability of his purchase of such Shares;

(ix) he has had an opportunity to ask questions of, and receive answers from, Exchange Applications, or a person or persons acting on its behalf, concerning the terms and conditions of his purchase of such Shares, and all such questions have been answered to his full satisfaction;

(x) he has had the opportunity to review any documents relating to Exchange Applications requested by him and to conduct due diligence, and such due diligence review has been fully satisfactory to him; and

(xi) he is not purchasing such Shares as a result of, or subsequent to, any advertisement, article, notice or other communication published in any newspaper, magazine or similar

medium or broadcast over radio or television, or any seminar or meeting whose attendees have been invited by any general solicitation or general advertising.

6. REGISTRATION RIGHTS AGREEMENT JOINDER. By execution and delivering this Agreement to the Corporation, the Purchaser hereby agrees to become a party to, to be bound by, and to comply with the provisions of the Amended and Restated Registration Rights Agreement dated as of December 4, 1997 among Exchange Applications and the Investors named therein as an Insight II Investor thereunder (as such term is defined and used therein), in the same manner as if the undersigned were an original signatory to the Registration Rights Agreement.

7. REPRESENTATION AND WARRANTY OF EXCHANGE APPLICATIONS. Exchange Applications represents and warrants to the Seller that Exchange Applications has not engaged, on behalf of the Seller, in any General Solicitation (as defined under applicable Securities Laws), including, without limitation, acting as underwriter, of the Shares.

8. COUNTERPARTS. This Agreement may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

9. ENTIRE AGREEMENT; INTERPRETATION. This Agreement, embodies the complete agreement and understanding among the parties hereto with respect to the subject matter hereof and thereof and supersedes and preempts any prior understandings, agreements or representations by or among the Parties, written or oral, which may have related to the subject matter hereof or thereof in any way. Any terms defined in this Agreement shall apply to the singular and plural forms of the terms defined. Whenever the context requires, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation."

10. GOVERNING LAW. All questions concerning the construction, interpretation and validity of this Agreement shall be governed by and construed and enforced in accordance with the domestic laws of the State of New York, without giving effect to any choice or conflict of law provision or rule (whether in the State of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of New

York. In furtherance of the foregoing, the internal law of the State of New York will control the interpretation and construction of this Agreement, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily apply.

6

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered on the date first above written.

PURCHASER:

/s/ Michael J. Feldman

Michael J. Feldman

7

SELLER:

INSIGHT CAPITAL PARTNERS II, L.P.

By: INSIGHT VENTURE ASSOCIATES II, LLC
its general partner

By: /s/ ???????

Name:
Title:

8

FOR PURPOSES OF SECTIONS
1, 3 AND 7:

EXCHANGE APPLICATIONS, INC.

By: /s/ Andrew J. Frawley

Andrew J. Frawley

President

9

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the date first written above.

EXCHANGE APPLICATIONS, INC.

By: /s/ Andrew J. Frawley

Andrew J. Frawley
President

10

WAIVER AGREEMENT
RELATING TO THE AMENDED AND RESTATED
STOCKHOLDERS AGREEMENT

WAIVER AGREEMENT (this "Agreement") dated as June 25, 1998 RELATING TO THE AMENDED AND RESTATED STOCKHOLDERS AGREEMENT dated as of December 4, 1997 among Exchange Applications, Inc., a Delaware corporation (the "Company") and the Stockholders (as such term is defined therein).

PRELIMINARY STATEMENTS:

1. The Company, InSight Capital Partners II, L.P. ("InSight") and the other Stockholders thereto have entered into the Stockholders Agreement, dated as of December 4, 1997 (the "Stockholders Agreement"). Capitalized terms not otherwise defined in this Amendment have the same meanings as specified in the Stockholders Agreement.

2. InSight and Michael J. Feldman have requested the Company and the Stockholders to waive and amend certain provisions of the Stockholders Agreement in order to permit InSight to complete the sale of 30,000 shares of the Company's Series C Preferred Stock, $.001 par value (the "Series C Preferred") to Michael J. Feldman (this "Transaction") for an aggregate purchase price of $98,040.00.

3. The Company and the Stockholders are, on the terms and conditions stated below, willing to grant the requests of InSight, and the Company, InSight and the Stockholders have agreed to waive the Stockholders Agreement as hereinafter set forth.

Section 1. WAIVERS.

(a) The Company hereby waives any and all rights under Section 6(c) of the Stockholders Agreement with respect to the Transaction.

(b) The Stockholders and the Company hereby agree that the Transaction shall be deemed to be a "Permitted Transfer" under the Stockholders Agreement and for all purposes of the Stockholders Agreement.

Section 2. REFERENCE TO AND EFFECT ON THE STOCKHOLDERS AGREEMENT

(a) On and after the effectiveness of this Agreement, each reference in the Stockholders Agreement to the Stockholders Agreement shall mean and be a reference to the Stockholders Agreement, as waived by this Agreement.

(b) The Stockholders Agreement, as specifically amended by this Agreement, is and shall continue to be in full force and effect and is hereby in all respect ratified and confirmed.

(c) The execution, delivery and effectiveness of this Agreement shall not operate as a waiver of any right, power or remedy of any Stockholder under the Stockholders Agreement, nor constitute a waiver of any provision of the Stockholders Agreement.

Section 3. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 4. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Massachusetts.

SECTION 5. EFFECTIVE TIME. This Agreement shall be effective upon (i) written consent of the Board and (ii) execution and delivery of this Agreement by (w) the Requisite Series B Stockholders, (x) the Requisite Series C Stockholders, (y) the Requisite Common Stockholders and (z) the Requisite Stockholders.

STOCKHOLDERS:

INSIGHT VENTURE PARTNERS I, L.P.

BY: INSIGHT VENTURE ASSOCIATES, LLC,
its general partner

By: /s/ Jeffrey Horing

Name: Jeffrey Horing
Title:

INSIGHT CAPITAL PARTNERS II, L.P.

BY: INSIGHT VENTURE ASSOCIATES II, LLC
its general partner

By: /s/ Jeffrey Horing

Name: Jeffrey Horing
Title:

WEXFORD INSIGHT LLC

BY: WEXFORD MANAGEMENT LLC
its investment manager

By: /s/ Robert Holtz

Name: Robert Holtz
Title: Principal

CYRK, INC.

By: /s/ Ted L. Axelrod

Name: Ted L. Axelrod
Title: Executive Vice President

13

GRANT & PARTNERS LIMITED PARTNERSHIP

BY: GRANT & PARTNERS, INC.,
its general partner

By: /s/ Alan W. H. Grant

Name: Alan W. H. Grant
Title: President, Grant & Partners, Inc.

14

STOCKHOLDERS:

/s/ Andrew J. Frawley

Andrew J. Frawley

/s/ Michael J. Feldman

Michael J. Feldman

/s/ Michael McGonagle

Michael McGonagle

/s/ David McFarlane

David McFarlane

/s/ Daniel Cox

Daniel Cox

/s/ Patrick McHugh

Patrick McHugh

/s/ Stewart Vassie

/s/ Stewart Vassie

Stewart Vassie

/s/ Steven Feldman

Steven Feldman

/s/ Patrick D. Brady

Patrick D. Brady

/s/ Gregory P. Schlopak

Gregory P. Schlopak

/s/ David H. Brault

David H. Brault

/s/ Ted L. Axelrod

Ted L. Axelrod

/s/ Terry B. Angstadt

Terry B. Angstadt

/s/ James T. Brady

James T. Brady

/s/ Dominic F. Mammola

Dominic F. Mammola

/s/ James A. Dooley

James A. Dooley

/s/ Diane K. Green

Diane K. Green

EXHIBIT 10.17

STANDARD FORM COMMERCIAL LEASE

THIS INSTRUMENT IS A LEASE, dated as of November 15, 1997, in which the LESSOR and LESSEE are the parties hereinafter named, and which relates to space in the building (the "Building") located at 89 South Street, Boston, Massachusetts. The parties to this instrument hereby agree with each other as follows:

1. BASIC LEASE PROVISIONS: The following set forth basic data and, where appropriate, constitute definitions of the terms hereinafter listed.

A. BASIC DATA.

LESSOR: Lincoln Plaza Limited Partnership, a Massachusetts limited partnership

LESSOR'S Address: c/o Capital Properties, Inc., 80 Lincoln Street, Boston, MA 02111

LESSEE: Exchange Applications, Inc., a Delaware corporation

LESSEE'S Original Address: 695 Atlantic Avenue, Boston, MA 02111

LESSEE'S Notice Address / Prior to Commencement Date (Section 20): Mr. John O'Brien, VP/CFO, Exchange Applications, Inc., 695 Atlantic Avenue, Boston, MA 02111

LESSEE'S Notice Address / After Commencement Date (Section 20): Mr. John O'Brien, VP/CFO, Exchange Applications, Inc., at the Premises

With a copy to Neil Townsend, Esq., Bingham, Dana & Gould, 150 Federal Street, Boston, MA 02110

Basic Rent: The sum of $1,080,000 ($27 per square foot Of Premises Rentable Area) per annum as the same may be adjusted and/or abated.

Premises Rentable Area: Agreed to be 40,000 square feet located on the seventh and eighth floor of the Building.

Permitted Uses: General business office use.

Escalation Factor: 17.32%, as computed in accordance with the Escalation Factor Computation.

Construction Completion Date:

Approximately June 1, 1998.

Initial Term: Five years commencing on the Commencement Date and expiring at the close of the day immediately preceding the fifth anniversary of the

Date, except that if the Commencement Date shall be other than the first day of a calendar month, the expiration of the Initial Term shall be at the close of the day on the last day of the calendar month on which such anniversary shall fall.

<TABLE>
<CAPTION>

<S>	<C>
Lease Security:	
Thirty days prior to the commencement of construction (approximately) January 1, 1998	LESSEE shall provide LESSOR with a Letter of Credit in the amount of $600,000.
At the second anniversary of the Commencement Date	The Letter of Credit may reduce to $480,000 so long as there has been no default from the Commencement Date through this reduction date.
At the third anniversary of the Commencement Date	The Letter of Credit may reduce to $360,000 so long as there has been no default from the Commencement Date through his reduction date.
At the fourth anniversary of the Commencement Date	The Letter of Credit may reduce to $240,000 so long as there has been no default from the Commencement Date through this reduction date.

</TABLE>

Base Operating Expenses: The actual Operating Expenses for the calendar year commencing January 1, 1998 and ending December 31, 1998.

Base Taxes: The actual Taxes for the Tax Year commencing July 1, 1997 and ending June 1, 1998.

Broker: CB/Whittier Partners

B. ADDITIONAL DEFINITIONS.

Agent: Capital Properties, Inc., 80 Lincoln Street, Boston, Massachusetts 02111.

Business Days: All days except Saturday, Sunday, New Year's Day, President's Day, Patriot's Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans' Day, Thanksgiving Day, Christmas Day (and the following Monday when any such day occurs on Sunday). Unless specifically referred to herein as Business Days, all references in this Lease to "days" shall mean calendar days.

Commencement Date: June 1, 1998 or upon substantial completion of LESSOR'S Work, whichever is later.

Escalation Factor Computation: Premises Rentable Area divided by 100% of building rentable area. (the total building rentable area is 231,000 square feet.)

3

Initial Public Liability Insurance: $1,000,000.00 per occurrence (combined single limit) for property damage, personal injury or death.

LESSOR'S Work: As defined in Section 26.

LESSOR'S Plans: As defined in Section 26.Premises: A portion of the Building as shown on Exhibit A attached hereto.

Extended Term: As defined in Section 34.

First Offered Space: As defined in Section 35.

2. PREMISES. A portion of the building owned by LESSOR consisting of approximately 40,000 SQUARE FEET OF RENTABLE AREA ON THE SEVENTH AND EIGHTH FLOORS OF THE BUILDING AND SUBSTANTIALLY KNOWN AS SUITES 701 & 801 on the plan attached hereto as "Exhibit A" (the "Premises") together with the right to use in common, with others entitled thereto, the hallways, stairways, and elevators, necessary for access to said Premises. and lavatories nearest thereto.

3. TERM. The term of this lease shall be for five years commencing on the Commencement Date and ending sixty months later.

4. BASIC RENT. The LESSEE shall pay to the LESSOR rent at the rate of $1,080,000 per year, payable in advance on the first day of each month commencing without deduction or set off in sixty monthly installments of $90,000.

5. SECURITY DEPOSIT. Upon the execution of this lease, the LESSEE shall provide LESSOR with a Letter of Credit in accordance with Section I of this Lease. The Letter of Credit shall be held as security for the LESSEE'S performance as herein provided and may be drawn in the event that LESSEE is in default of this Lease.

6. ADDITIONAL RENT.

A. TAX. If, in any tax year, the real estate taxes on the land and buildings, of which the Premises are a part, are in excess of the amount of the Base Taxes, as finally abated (hereinafter called the "Base Year"), LESSEE will pay to LESSOR, as additional rent hereunder, when and as designated by notice in writing by LESSOR, the amount of the excess multiplied by the Escalation Factor. If the LESSOR obtains an abatement of any such excess real estate tax, a proportionate share of such abatement, less the reasonable fees and costs incurred in obtaining the same, if any, shall be refunded to the LESSEE.

B. OPERATING. If, in any calendar year, the Operating Expenses for the Property of which the Premises are a part, are in excess of the amount of the Base Operating Expenses, LESSEE will pay to LESSOR, as

additional rent hereunder, when and as designated by notice in writing by LESSOR, the amount of the excess multiplied by the Escalation Factor. Operating expenses are defined for the purposes of this agreement as: The aggregate costs or expenses reasonably incurred by LESSOR with respect to the operation, administration, cleaning, repair, maintenance and management of the premises including, without limitation, those items enumerated in "Exhibit C" attached hereto. Any such accounting by LESSOR shall be binding and conclusive upon LESSEE unless within thirty (30) days after that giving by LESSOR of such

accounting, LESSEE shall notify LESSOR that LESSEE disputes the correctness of such accounting, specifying the particular respects in which the accounting is claimed to be incorrect.

7. UTILITIES. The LESSEE shall pay, as they become due, all bills for electricity and other utilities that are furnished to the Premises and presently separately metered or check metered by LESSOR. The LESSOR agrees to provide all other utility service and to furnish reasonably hot and cold water and reasonable heat and air conditioning to the Premises, the hallways, stairways, elevators, and lavatories during normal building business hours (8:00 A.M. - 6:00 P.M. on weekdays and 8:00 A.M - 12:00 NOON on Saturdays) on regular Business Days as outlined in Section I above of the heating and air conditioning seasons of each year, to furnish elevator service and to light passageways and stairways and to furnish such cleaning service as is customary in similar buildings in said city or town, all subject to interruption due to any accident, to the making of repairs, alterations, or improvements, to labor difficulties, to inability to obtain fuel, electricity, service, or supplies from the sources from which they are usually obtained for said building, or to any cause beyond the LESSOR'S control. LESSOR reserves the right to charge for after hours HVAC so long as this charge shall apply uniformly to the majority of tenants in the building.

LESSOR shall have no obligation to provide utilities or equipment other than the utilities and equipment within the premises as of the commencement date of this lease. In the event LESSEE requires additional utilities or equipment, the installation and maintenance thereof shall be the LESSEE'S sole obligation, provided that such installation shall be subject to the written consent of the LESSOR.

8. USE OF LEASED PREMISES. The LESSEE agrees to use the Premises in a manner consistent with the nature of the building and consistent with the other LESSEES in the building. The LESSEE shall use the Premises only for the purpose of listed in Section I of this Lease. LESSEE shall have access to the Premises twenty four hours a day, seven days a week, fifty-two weeks per year.

9. COMPLIANCE WITH THE LAWS. The LESSEE acknowledges that no trade or occupation shall be conducted in the Premises or use made thereof which will be unlawful, improper, noisy or offensive, or contrary to any law or any municipal by-law or ordinance in force in the city or town in which the Premises are situated. LESSEE agrees to comply with all such laws. LESSOR makes no representation that uses contemplated by the LESSEE are permitted by law.

10. FIRE INSURANCE. The LESSEE shall not permit any use of the Premises which will make voidable any insurance on the property of which the Premises are a part, or on the contents of said property or which shall be contrary to any law or regulation from time to time established by the New England Fire

Insurance Rating Association, or any similar body, succeeding to its powers. The LESSEE shall not use the Premises in any way which will cause an extra insurance premium. However, in the event that LESSEE does so, the LESSEE shall, on demand, reimburse the LESSOR, and all other lessees, all extra insurance premiums caused by the LESSEE'S use of the Premises.

11. MAINTENANCE OBLIGATIONS. The LESSEE agrees to maintain the Premises, in good condition, damage by fire and other casualty only excepted, and whenever necessary, to replace plate glass and other glass therein.

A. LESSEE'S OBLIGATIONS. The Premises are now in good order and the glass whole. The LESSEE shall not permit the Premises to be overloaded, damaged, stripped, or defaced, nor suffer any waste. LESSEE shall obtain written consent of LESSOR before erecting any sign on the Premises. The LESSEE shall keep and maintain the Premises in good order and repair at its own expense. The LESSOR shall at LESSEE'S expense and upon LESSEE'S request,

furnish and install all replacement lamps, lighting tubes, bulbs and ballast's which may be required in the Premises during the terms hereof

B. LESSOR'S OBLIGATIONS. The LESSOR agrees to maintain the structure of the building of which the Premises are a part in the same condition as it is at the commencement of the Term or as it may be put in during the Term of this Lease, reasonable wear and Lear, damage by fire and other casualty only excepted, unless such maintenance is required because of the LESSEE or those for whose conduct the LESSEE is legally responsible.

LESSOR shall never be liable for any failure to make repairs unless LESSEE has given notice to LESSOR of the need to make such repairs and LESSOR has failed to commence to make such repairs within a reasonable time after receipt of such notice, or fails to proceed with reasonable diligence to complete such repairs.

12. ADDITIONS & ALTERATIONS. The LESSEE shall not make structural alterations or additions to the Premises or that will affect the building's systems, but may make non-structural alterations provided the LESSOR consents thereto in writing, which consent shall not be unreasonably withheld or delayed. Minor Alterations which costs LESSEE less than $1,000 may be made without LESSOR'S prior written consent. All such allowed alterations shall be at LESSEE'S expense and shall be in quality at least equal to the present construction. LESSEE shall not permit any mechanics' liens, or similar liens, to remain upon the Premises for labor and material furnished to LESSEE or claimed to have been furnished to LESSEE in connection with work of any character performed or claimed to have been performed at the direction of LESSEE and shall cause any such lien to be released of record forthwith without cost to LESSOR. Any alterations or improvements made by the LESSEE shall become the property of the LESSOR at the termination of occupancy as provided herein.

13. ASSIGNMENT & SUBLEASING.

A. Short Term - Sublease(s) of up to 10,000 square feet for the first two years of the term. The LESSEE shall not assign or sublet the whole or any part of the Premises without LESSOR'S prior written consent, which consent shall not be unreasonably withheld or delayed.

Notwithstanding such consent, LESSEE shall remain liable to LESSOR for the payment of all rent and for the full performance of the covenants and conditions of this lease. If SUBLESSEE is paying rent at an amount greater than outlined in Section 4 of this agreement, the amount over less LESSEE'S subleasing expenses which shall include tenant improvement costs, legal fees and brokerage fees shall be due to LESSOR. LESSOR'S permission shall also be necessary for any subdivision of the Premises.

B. Long Term - Sublease(s) which begin or extend past the second anniversary of the Commencement Date or for space in excess of 10,000 square feet for any portion of the Term. The LESSEE shall not assign or sublet the whole or any part of the Premises without LESSOR'S prior written consent, such consent shall not be withheld or delayed. Notwithstanding such consent, LESSEE shall remain liable to LESSOR for the payment of all rent and for the full performance of the covenants and conditions of this lease. If SUBLESSEE is paying rent at an amount greater than outlined in Section 4 of this agreement, the amount over less LESSEE'S subleasing expenses which shall include tenant improvement costs, legal fees and brokerage fees shall be due to LESSOR. LESSEE shall not sublease to a current or prospective tenant of the Building. Prospective tenants are those tenants who have been introduced to the Property within thirty (30) days of the sublease proposal or any tenant in negotiation with LESSOR. LESSEE shall not sublease below Fair Market Value, without LESSOR'S prior written consent.

Fair Market Value shall take the length of the proposed term into consideration. LESSOR shall designate Fair Market Value, (the "Fair Market Value") by written notice to LESSEE within five (5) days of receipt of notice of intent to sublease from LESSEE. If LESSEE disagrees with such designation, (the "Designation"), LESSEE shall by written notice, advise LESSOR of such disagreement; otherwise LESSEE shall conclusively be deemed to have agreed to such Designation.

In the event that the Parties are unable to agree, each Party shall appoint appraiser. Each appraiser so appointed shall be instructed to determine independently the Fair Market Value and then confer. If the two appraisers are unable to determine a Designation acceptable to both parties, they shall appoint a third appraiser. The Designation of this appraiser shall be considered final.

LESSOR may also elect to recapture the proposed sublease premises.

14. SUBORDINATION. This Lease shall be subject and subordinate to any and all mortgages, deeds of trust and other instruments in the nature of a mortgage, now or at any time hereafter, a lien or liens on the property of which the Premises are a part and the LESSEE shall, when requested, promptly execute and deliver written instruments as shall be necessary to show the subordination of this lease to said mortgages, deeds of trust or other such instruments in the nature of a mortgage. At LESSEE'S request and at LESSEE'S expense, LESSOR shall use good efforts to secure a so-called subordination and non-disturb agreement from LESSOR'S lender. In the event that LESSEE fails or refuses to execute same, LESSOR MAY DO SO AS LESSEE'S Attorney-in-Fact.

15. LESSOR'S ACCESS. The LESSOR or agents of the LESSOR may, at reasonable times and with reasonable notice, enter to view the Premises and may remove placards and signs not approved and affixed as herein provided, and make repairs and alterations as LESSOR should elect to do and may show the Premises to others, and at any time within six (6) months before the expiration of the term.

16. INDEMNIFICATION AND LIABILITY. LESSEE shall save LESSOR harmless, and shall exonerate and indemnify LESSOR, from and against any and all claims, liabilities or penalties or asserted by or on behalf of any person, firm, corporation or public authority:

(i) on account of or based upon any injury to person, or loss of or damage to property sustained or occurring or emanating from the Premises on account of or based upon the act, omission, fault, negligence or misconduct of any person except LESSOR;

(ii) on account of or based upon any injury to person, or loss of or damage to property, sustained on or occurring elsewhere (other than on the Premises) in or about the Property (and, in particular, without limitation, the elevators, stairways, public corridors, sidewalks, parking areas, concourses, arcades, approaches, areaways, roof, or other appurtenances and facilities used in connection with the Property or the Premises) arising out of the use or occupancy of the Property or Premises by the LESSEE or by any person claiming by, through or under LESSEE, except where such injury, loss or damage was caused by the negligence, fault or misconduct of the LESSOR;

and in addition to and not in limitation of either of the foregoing subdivisions (i) and (ii);

(iii) on account of or based upon (including moneys due on account of) any work or thing whatsoever done (other than by LESSOR or its contractors, or agents or employees or either) on the Leased Premises; and, in respect of any of the foregoing, from and against all costs, expenses (including reasonable attorneys' fees), and liabilities incurred in or in connection with any such claim, or any action or proceeding brought thereon; and in case any action or proceeding be brought against LESSOR by reason of any such claim. LESSEE upon notice from LESSOR shall at LESSEE'S expense resist or defend such action or proceeding and

employ counsel therefore reasonably satisfactory to LESSOR, it being agreed that such counsel as may act for insurance underwriters of LESSEE engaged in such defense shall be deemed satisfactory.

17. LESSEE'S LIABILITY INSURANCE. The LESSEE shall maintain with respect to the Premises and the property of which the Premises are a part commercial general liability insurance in the amount of $1,000,000 with property damage insurance in limits of $100,000 in responsible companies qualified to do business in Massachusetts and in good standing therein insuring the LESSOR as well as LESSEE against injury to persons or damage to property as provided. LESSEE agrees to increase limits as LESSOR'S mortgagee reasonably requires. The LESSEE shall deposit with the LESSOR certificates for such insurance at or prior to the commencement of the Term, and thereafter within thirty (30) days prior to the expiration of any such policies. All such insurance certificates shall provide that such policies shall not be canceled without at least ten (10) days prior written notice to each assured named therein.

18. FIRE, CASUALTY, EMINENT DOMAIN. Should a substantial portion of the Premises, or of the property of which they are a part, be substantially damaged by fire or other casualty, or be taken by eminent domain, the LESSOR may elect to terminate this lease. When such fire, casualty, or taking renders the Premises substantially unsuitable for their intended use, a just and proportionate abatement of rent shall be made, and the LESSEE may elect to terminate this lease if:

(a) The LESSOR fails to give written notice within thirty (30) days of the event of its intention to restore Premises, or

(b) The LESSOR fails to restore the Premises to a condition substantially suitable for their intended use within ninety (90) days of said fire, casualty or taking, as such date may be extended ninety (90) days if LESSOR is diligently working to restore the Premises and extended an additional ninety (90) days for force majeure. LESSOR reserves, and the LESSEE grants the LESSOR, all rights which the LESSEE may have for damages or injury to the Premises for any taking by eminent domain, except for damage to the LESSEE'S fixtures, property, or equipment.

19. DEFAULT AND BANKRUPTCY. In the event that:

(a) The LESSEE shall default in the payment of any installment of rent or other sum herein specified and such default shall continue for five (5) days after written notice thereof; or

(b) The LESSEE shall default in the observance or performance of any other of the LESSEE'S covenants, agreements, or obligations hereunder and such default shall not be corrected within fifteen (15) days after written notice thereof; or

(c) The LESSEE shall file or be filed against in any bankruptcy, insolvency or reorganization petition; or

(d) The LESSEE shall be declared bankrupt or insolvent

according to law, or, if any assignment shall be made of LESSEE'S property for the benefit of creditors, or

(e) Any attachment is made of the leasehold interest outlined in this lease; or

(f) The LESSEE shall abandon the premises; or

(g) A receiver is appointed to conduct LESSEE'S business (whether or not LESSOR has re-entered the premises) then the LESSOR shall have the right thereafter, while such default continues, to re-enter and take complete possession of the Premises, to terminate this lease, and remove the LESSEE'S effects without prejudice to any remedies which might be otherwise used for arrears of rent or other default. The LESSEE shall indemnify the LESSOR against all loss of rent and additional rent and other payments which the LESSOR may incur by reason of such termination during the residue of the term. If the LESSEE shall default, after reasonable notice thereof; in the observance or performance of any conditions or covenants on LESSEE'S part to be observed or performed under or by virtue of any of the provisions in any article of this lease, the LESSOR, without being under any obligation to do so and without thereby waiving such default, may remedy such default for the account and at the expense of the LESSEE. If the LESSOR makes any expenditures or incurs any obligations for the payment of money in connection therewith, including but not limited to, reasonable attorney's fees in instituting, prosecuting or defending any action or proceeding, such sums paid or obligations insured, with interest at the rate of 18 per cent per annum. and costs, shall be paid to the LESSOR by the LESSEE as additional rent. Any sums not paid when due shall bear interest at 18 per cent per annum until paid. LESSEE shall pay an administrative fee if a check does not clear.

20. NOTICE. Any Notice from the LESSOR to the LESSEE relating to the Premises or to the occupancy thereof, shall be in writing and be deemed duly served, if mailed to the Notice Address in Section I of this Lease, registered or certified mail, return receipt requested, postage prepaid or by overnight carrier, addressed to the LESSEE. Any Notice from the LESSEE to the LESSOR relating to the Premises or to the occupancy thereof, shall be deemed duly served, if mailed to the LESSOR by registered or certified mail, return receipt requested, postage prepaid or by overnight carrier, addressed to the LESSOR at the address in Section 1 of this Lease or such other address as the LESSOR may from time to time advise in writing. All rent notices shall be paid and sent to the LESSOR at its notice address or such other address as may be designated by LESSOR.

21. SURRENDER. The LESSEE shall at the expiration or other termination of this Lease remove all LESSEE'S goods and effects from the Premises, (including, without hereby limiting the generality of the foregoing, all signs and lettering affixed or painted by the LESSEE, either inside or outside the Premises). LESSEE shall deliver to the LESSOR the Premises and all keys, locks thereto, and other fixtures connected therewith and all alterations and additions made to or upon the Premises, in good condition, damage by fire or other casualty only excepted. In the event of the LESSEE'S failure to remove any of LESSEE'S property from the Premises, LESSOR is hereby authorized, without liability to LESSEE for loss or damage thereto, and at the sole risk of LESSEE, to remove and store any of the

property at LESSEE'S expense, or to retain same under LESSOR'S control or to sell at public or private sale, without notice any or all of the property not so removed and to apply the net proceeds of such sale to the payment of any sum due hereunder, or to destroy such property. The LESSEE shall restore all damage to the Premises which may have occurred during the use of Premises or while vacating the Premises. Any items which the LESSEE installs, which replace items on the Premises when LESSEE took occupancy are deemed to be LESSOR'S property.

22. BROKERAGE. LESSEE warrants and represents that LESSEE has dealt with no broker other than the broker listed in Section I of this lease in connection with the consummation of this Lease and, in the event of any brokerage claims against LESSOR predicated upon prior dealings with LESSEE, LESSEE agrees to defend the same and indemnify LESSOR against any such claim.

23. LESSOR'S LIABILITY. The LESSOR is not personally liable under this Lease. (a) LESSEE specifically agrees to look solely to the LESSORS then equity in the property of which the Premises are a part for recovery of any judgment from LESSOR it being specifically agreed that LESSOR (original or successor) shall never be personally liable for any such judgment or for the payment of any monetary obligation to LESSEE. The provisions contained in the foregoing sentence are not intended to, and shall not, limit any right the LESSEE might otherwise have to obtain injunctive relief against LESSOR or to take any action not involving the liability of LESSOR to respond in monetary damages from LESSOR'S assets other than from such property.

24. WAIVER. Failure on the part of the LESSOR or LESSEE to complain of any action or non-action on the part of the other, no matter how long the same may continue, shall never be a waiver by LESSOR or LESSEE, respectively, of its rights hereunder. Further, no waiver at any time of the provisions hereof, by LESSOR or LESSEE shall be construed as a waiver of any of the other provisions hereof, and a waiver at any time of any of the provisions hereof shall not be construed as a waiver at any subsequent time of the provisions. The consent or approval of LESSOR or LESSEE to or of any action by the other requiring such consent or approval shall not be construed to waive or render unnecessary LESSOR'S or LESSEE'S consent or approval to or of any subsequent similar act by the other.

25. STATUS REPORT. Recognizing that both parties may find it necessary to establish to third parties, from time to time, the then current status of performance hereunder, either party will, within ten (10) days after receipt of a request therefore, furnish a statement of the status of any matter pertaining to this Lease, including without limitation, acknowledgments that (or the extent to which) each party is in compliance with its obligations under the terms of the Lease.

26. CONDITION AND AREA. Except as otherwise provided in this Section, the Premises are being delivered strictly in their condition "as is" and LESSEE acknowledges that it has inspected the same and found them satisfactory. LESSOR WILL BUILD SPACE IN ACCORDANCE WITH LESSEE'S SPECIFICATIONS USING BUILDING STANDARD MATERIALS IN AN AMOUNT NOT TO EXCEED $15 PER SQUARE FOOT. On the Commencement Date, all mechanical and electrical systems shall be in working order.

A. PREPARATION OF THE PREMISES: Promptly upon execution of the Lease, LESSOR will have prepared, at its sole cost and expense, certain plans ("LESSOR'S Plans") for improvements to be made in the Premises and adjacent areas of the Building to prepare the Premises for LESSEE'S occupancy. Upon completion of LESSOR'S Plans, LESSOR shall submit the same to LESSEE for LESSEE'S approval, which approval shall not be

unreasonably delayed or withheld. To the extent that LESSEE does not disapprove LESSOR'S Plans in writing, and provide specific remedies that will make LESSOR'S Plans acceptable, within

fourteen (14) days after submission of the same by LESSOR, LESSEE shall be conclusively deemed to have approved LESSOR'S Plans. Promptly after approval of LESSOR'S Plans, LESSOR shall exercise all reasonable efforts to complete, at its sole cost and expense the work specified in LESSOR'S Plans. The work shall collectively be referred to as "LESSOR'S Work" Tenant shall have no claim against LESSOR for failure so to complete such Work. LESSOR shall bid LESSOR'S work to at least three contractors and shall share the bids with LESSEE.

B. SUBSTANTIAL COMPLETION: The Premises shall be deemed ready for occupancy on the first day (the "'Substantial Completion Date") as of which LESSOR'S Work has been completed except for items of work (and, if applicable, adjustment of equipment and fixtures) which can be completed after occupancy has been taken without causing undue interference with LESSEE'S use of the Premises (i.e. so-called "punch list" items) and LESSEE has been given notice thereof. LESSOR shall complete as soon as conditions permit all "punch list" items and LESSEE shall afford LESSOR access to the Premises for such purposes.

If the Substantial Completion Date has not occurred by August 1, 1998 (the "Construction Completion Date") as it may be extended pursuant to section 26.D. LESSEE shall have the right to terminate this Lease by giving notice to LESSOR not later than thirty (30) days after the Construction Completion Date (as so extended), of Tenant's desire so to do; and this Lease shall cease and come to an end without further liability or obligation on the part of either party thirty (30) days after the giving of such notice, unless, within such 30-day period, LESSOR substantially completes LESSOR'S Work; and such right of termination shall be LESSEE'S sole and exclusive remedy at law or in equity for LESSOR'S failure so to complete such Work.

C. CONCLUSIVENESS OF LESSOR'S PERFORMANCE. Except to the extent to which LESSEE shall have given LESSOR notice, not later than the end of the second full calendar month of the Term of the Lease next beginning after the Commencement Date, of any respects in which LESSOR has not performed LESSOR'S Work, LESSOR shall be deemed to have completed LESSOR'S Work as of the Commencement Date of this Lease.

D. LESSEES' DELAYS:

1. If a delay shall occur in the Substantial Completion Date as the result of:

i. Any request by LESSEE that LESSOR delay in the commencement of completion of LESSOR'S Work for any reason;

ii. Any change by LESSEE in any of LESSOR'S Plans after LESSEE'S approval thereof'.

iii. Any other act or omission of LESSEE or

its officers, agents, servants or contractors:

iv. Any special requirement of LESSOR'S Plans not in accordance with LESSOR'S Plans not in accordance with LESSOR'S building standards; or

v. Any reasonably necessary displacement of any of LESSORS Work from its place in LESSOR'S construction schedule resulting from any of the causes for delay referred to in clauses (i), (ii), (iii), (iv), or this

paragraph and the filling of such Work back into such schedule; then LESSEE shall, from time to time and within ten (10) business days after demand therefor, pay to LESSOR for each day of such delay the amount of Basic Rent, Escalation Charges and other charges that would have been payable hereunder and the LESSEE'S obligation to pay Basic Rent commenced immediately prior to such delay.

2. If a delay in the Substantial Completion Date, or if any substantial portion of such delay, is the result of Force Majeure, and such delay would not have occurred but for a delay described in paragraph above, such delay shall be deemed added to the delay described in that paragraph.

The delays referred to above are herein referred to collectively and individually as "LESSEE'S Delay."

3. If, as a result of LESSEE'S Delay(s), the Substantial Completion Date is delayed in the aggregate for more than thirty (30) days, LESSOR may (but shall not be required to) at any time thereafter terminate this Lease by giving written notice of such termination to LESSEE and thereupon this Lease shall terminate without further liability or obligation on the part of either party, except that LESSEE shall pay to LESSOR the cost theretofore incurred by LESSOR in performing LESSOR'S Work, plus an amount equal to LESSOR'S out-of-pocket expenses incurred in connection with this Lease, including, without limitation, brokerage and legal fees, together with any amount required to be paid pursuant to Section 26 through the effective termination date.

4. The Construction Completion Date shall automatically be extended for the period of any delays caused by LESSEE'S Delay(s) or Force Majeure.

27. LESSOR'S WARRANTY. LESSOR warrants and represents that it is the owner of record of the Premises and that it has authority to grant the leasehold interest conveyed hereby.

28. SEVERABILITY. If any term or provision of this Lease, or the application thereof to any person or circumstance shall, to the extent the same shall be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

29. RECORDING. LESSEE agrees not to record this Lease, but, if the Term of this Lease (including any extended term) is seven (7) years or longer, each party hereto agrees, on the request of the other, to execute a so-called Notice of Lease in recordable form and complying with applicable law and reasonably satisfactory to LESSOR'S attorneys. Such document shall expressly state that it is executed pursuant to the provisions contained in this Lease, and is not intended to vary the terms and conditions of this Lease.

30. HOLDING OVER. Any Holding Over by LESSEE after the expiration of the Term of this Lease shall be treated as a tenancy at sufferance at a rate equal to one and one half times the Basic Rent then in effect plus Additional Rent and other charges herein provided. LESSEE shall also pay to LESSOR all damages, direct and/or indirect, sustained by reason of any such as far as applicable.

31. GOVERNING LAW. This Lease shall be governed exclusively by the provisions hereof and by the laws of the Commonwealth of Massachusetts, as the same may from time to time exist.

32. RELOCATION. Deleted.

33. ENTIRE AGREEMENT. This Lease and the Exhibits made a part hereof contain the entire and only agreement between the parties and any and all statements and representations, written and oral, including previous correspondence and agreements between the parties hereto, are merged herein. LESSEE acknowledges that all representations and statements upon which it relied in executing this Lease are contained herein and that the LESSEE in no way relied upon any other statements or representations, written or oral. Any executory agreement hereafter made shall be ineffective to change, modify, discharge or effect an abandonment of this Lease in whole or in part unless such executory agreement is in writing and signed by the party against whom enforcement of the change, modification, discharge or abandonment is sought.

34. OPTION TO EXTEND: Provided that at the time of such exercise (i) there then exists no Default of LESSEE, (ii) this Lease is then in full force and effect, and (iii) LESSEE is in actual occupancy of all or substantially all of the Premises, LESSEE shall have the right and option to extend the term of this Lease for one (1) extended term of five years (the "Extended Term'). The Extended Term shall commence on the day immediately succeeding the expiration date of the Initial Term, and shall end on the day immediately preceding the fifth anniversary of the first day of such Extended Term. LESSEE shall exercise such option to extend by giving written notice to LESSOR of its desire to do so not earlier than twelve (12) months and not later than nine (9) months prior to the expiration date of the Initial Term. Provided the conditions of clauses (i), (ii) and (iii) of this section shall have been satisfied, the giving of such notice by LESSEE shall automatically extend the Term of this Lease for the Extended Term, and no instrument of renewal need be executed. In the event that LESSEE fails to give such notice to LESSOR, this Lease shall automatically

terminate at the end of the Initial Term, and LESSEE shall have no further option to extend the Term of this Lease. It is agreed that time is of the essence with respect to the giving of such notice. The Extended Term shall be on all the terms and conditions of this Lease, except that (I) option to extend that Term of this Lease shall be deleted, and (II) the Basic Rent for the Extended Term shall be at Fair Market Value, not less than the sum of the rent and all additional rent being paid by LESSEE during the final year of the Initial Term. LESSOR shall designate Fair Market Value, (the "Fair Market Value") by written notice to LESSEE within sixty (60) days of receipt of notice from LESSEE. If LESSEE disagrees with such designation, (the "Designation"), LESSEE shall by written notice, advise LESSOR of such disagreement; otherwise LESSEE shall conclusively be deemed to have agreed to such Designation.

In the event that the Parties are unable to agree, each Party shall appoint an appraiser. Each appraiser so appointed shall be instructed to determine independently the Fair Market Value and then confer. If the two appraisers are unable to determine a Designation acceptable to both parties, they shall appoint a third appraiser. The Designation of this appraiser shall be considered final.

35. RIGHT OF FIRST OFFER. If at any time during the Term of this Lease, LESSOR shall desire to lease any space on the third, fourth, fifth or sixth floor of the Building (the "First Offer Space"), LESSOR shall notify LESSEE and set forth the terms and conditions on which LESSOR is willing to lease all or a part of the First Offer Space, including, without limitation, rent, build-out allowance and other incentives or inducements to lease, if any. Provided that the time of such exercise (i) there then exists no Default of LESSEE, (ii) this Lease is then in full force and effect, and (iii) LESSEE is in actual occupancy of the entire Premises demised thereunder, LESSEE may, by giving notice in writing to LESSOR within five (5) business days after receipt of LESSOR'S notice, elect to lease the First Offer

Space on the terms so offered by LESSOR. If LESSEE shall so elect to lease the First Offer Space, it shall within ten (10) business days after such election enter into an amendment to this Lease incorporating the terms and contained in LESSOR'S notice. If LESSEE shall not elect to lease the First Offer Space within such five (5) business day period, or shall fail to enter into such amendment to this Lease within such ten-day period, LESSEE shall have no further rights under this section with respect to that portion of the First Offer Space and LESSOR shall be free to lease any or all of such space offered to other parties.

IN WITNESS WHEREOF, the said parties hereunto set their hands and seals this 15th day of November, 1997.

LESSEE: Exchange Applications, Inc.

By: /s/ John G. O'Brien

LESSOR: Lincoln Plaza Limited Partnership
BY: L.P. Properties, Inc. - its General Partner
BY: Richard D. Cohen - its President

By: /s/ Richard D. Cohen

John G. O'Brien
Vice President and CFO

Richard D. Cohen

Hereunto Duly Authorized

Exhibit 21.1

Subsidiaries of the Registrant

1. Exchange Applications Limited (United Kingdom)

2. Exchange Applications Pty. Ltd. (Australia)

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made part of this registration statement.

Arthur Andersen LLP

Boston, Massachusetts
July 21, 1998

<TABLE> <S> <C>

<ARTICLE> 5
<CIK> 0001065857
<NAME> EXCHANGE APPLICATIONS, INC.
<MULTIPLIER> 1,000

<S>	<C>	
<PERIOD-TYPE>	6-MOS	
<FISCAL-YEAR-END>		DEC-31-1998
<PERIOD-START>		JAN-01-1998
<PERIOD-END>		JUN-30-1998
<CASH>		3,977
<SECURITIES>		205
<RECEIVABLES>		5,452
<ALLOWANCES>		212
<INVENTORY>		0
<CURRENT-ASSETS>		10,149
<PP&E>		2,260
<DEPRECIATION>		633
<TOTAL-ASSETS>		12,134
<CURRENT-LIABILITIES>		6,634
<BONDS>		0
<PREFERRED-MANDATORY>		7,208
<PREFERRED>		1
<COMMON>		4
<OTHER-SE>		(1,841)
<TOTAL-LIABILITY-AND-EQUITY>		(12,134)
<SALES>		10,418
<TOTAL-REVENUES>		10,418
<CGS>		3,431
<TOTAL-COSTS>		3,431
<OTHER-EXPENSES>		8,095
<LOSS-PROVISION>		55
<INTEREST-EXPENSE>		27
<INCOME-PRETAX>		(1,079)
<INCOME-TAX>		0
<INCOME-CONTINUING>		(1,079)
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(1,079)
<EPS-PRIMARY>		(0.33)
<EPS-DILUTED>		(0.33)

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5
<CIK> 0001065857
<NAME> EXCHANGE APPLICATIONS, INC.
<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1997
<PERIOD-START>	JAN-01-1997
<PERIOD-END>	DEC-31-1997
<CASH>	361
<SECURITIES>	0
<RECEIVABLES>	2,045
<ALLOWANCES>	43
<INVENTORY>	0
<CURRENT-ASSETS>	2,363
<PP&E>	830
<DEPRECIATION>	224
<TOTAL-ASSETS>	4,189
<CURRENT-LIABILITIES>	3,216
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	2
<COMMON>	2
<OTHER-SE>	(1,299)
<TOTAL-LIABILITY-AND-EQUITY>	4,189
<SALES>	6,034
<TOTAL-REVENUES>	6,034
<CGS>	4,095
<TOTAL-COSTS>	4,095
<OTHER-EXPENSES>	3,350
<LOSS-PROVISION>	99
<INTEREST-EXPENSE>	197
<INCOME-PRETAX>	(1,606)
<INCOME-TAX>	0
<INCOME-CONTINUING>	(1,606)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(1,606)
<EPS-PRIMARY>	(1.33)
<EPS-DILUTED>	(1.33)

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5
<CIK> 0001065857
<NAME> EXCHANGE APPLICATIONS, INC.
<MULTIPLIER> 1,000

<S>	<C>	
<PERIOD-TYPE>	YEAR	
<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-START>		JAN-01-1996
<PERIOD-END>		DEC-31-1996
<CASH>		5,273
<SECURITIES>		202
<RECEIVABLES>		4,054
<ALLOWANCES>		206
<INVENTORY>		0
<CURRENT-ASSETS>		10,052
<PP&E>		1,318
<DEPRECIATION>		405
<TOTAL-ASSETS>		11,400
<CURRENT-LIABILITIES>		4,803
<BONDS>		0
<PREFERRED-MANDATORY>		7,088
<PREFERRED>		1
<COMMON>		4
<OTHER-SE>		(697)
<TOTAL-LIABILITY-AND-EQUITY>		11,400
<SALES>		12,669
<TOTAL-REVENUES>		12,669
<CGS>		6,934
<TOTAL-COSTS>		6,934
<OTHER-EXPENSES>		8,359
<LOSS-PROVISION>		180
<INTEREST-EXPENSE>		64
<INCOME-PRETAX>		(2,599)
<INCOME-TAX>		0
<INCOME-CONTINUING>		(2,599)
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(2,599)
<EPS-PRIMARY>		(1.12)
<EPS-DILUTED>		(1.12)

</TABLE>