WEBHIRE INC
Form 10-Q
August 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2001
OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _______________ TO _______________

COMMISSION FILE NUMBER: 0-20735

WEBHIRE, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	04-2935271 (IRS Employer Identification No.)
91 HARTWELL AVENUE LEXINGTON, MA (Address of principal executive offices)	02421 (zip code)

(781) 869-5000
(Registrant's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of

1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes /X/ No / /

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

TITLE OF EACH CLASS

Common stock, $.01 par value, shares outstanding at August 14, 2001: 4,510,675 shares.

WEBHIRE, INC.
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PART I--FINANCIAL INFORMATION

PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WEBHIRE, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	JUNE 30, 2001	SEPTEMBER 30, 2000
	(UNAUDITED)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,105	$12,135
Short-term investments	1,452	2,410
Accounts and installments receivable, less allowance for doubtful accounts of $1,438 and $1,587 at June 30, 2001 and September 30, 2000, respectively	927	4,772
Prepaid income taxes	5	--
Other current assets	1,693	1,684
Total current assets	10,182	21,001
Long-term installments receivable, net	86	153
Property and equipment, net	2,983	4,248
Long-term investments	262	--
Acquired technologies, net of accumulated amortization of $18,499 and $15,909 at June 30, 2001 and September 30, 2000, respectively	999	3,589
Intangible assets and goodwill, net of accumulated amortization of $3,383 and $1,748 at June 30, 2001 and September 30, 2000, respectively	3,168	4,803
Other assets	398	509
TOTAL ASSETS	$18,078	$34,303
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of capital lease obligations	$ 254	$ 254
Convertible notes payable	300	3,425
Notes payable--bank	1,500	--
Accounts payable	1,551	1,504
Accrued expenses	1,543	4,502
Deferred revenue	5,642	8,145
Total current liabilities	10,790	17,830
Other liabilities	159	176
Stockholders' Equity:		
Preferred stock, $.01 par value--Authorized--5,000,000 shares, Issued and outstanding--none at June 30, 2001 and September 30, 2000	--	--
Common stock, $.01 par value--Authorized--30,000,000		

shares, Issued--4,648,055 and 3,872,474 shares at June 30, 2001 and September 30, 2000, respectively, Outstanding--4,510,675 and 4,284,614 shares at June 30, 2001 and September 30, 2000, respectively..............	46	44
Additional paid-in capital................................	70,192	68,940
Treasury stock, at cost--137,380 shares....................	(831)	(831)
Accumulated deficit..	(62,278)	(51,856)
Total stockholders' equity..........................	7,129	16,297
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY...........	$18,078	$34,303

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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WEBHIRE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		NINE MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Revenue:				
Services revenue--Internet.....................	$ 3,062	$ 2,796	$ 9,680	$ 6,912
Services revenue--Enterprise...................	1,677	2,601	5,985	8,476
Product revenue................................	530	391	1,325	3,176
Total revenue............................	5,269	5,788	16,990	18,564
Cost of Revenue:				
Services revenue--Internet.....................	2,231	2,918	7,543	7,478
Services revenue--Enterprise...................	320	883	1,101	3,079
Product revenue................................	91	369	310	884
Amortization of acquired technologies..........	438	2,352	2,590	6,915
Non cash write-off of other assets.............	--	284	--	284
Total cost of revenue......................	3,080	6,806	11,544	18,640
Gross profit.....................................	2,189	(1,018)	5,446	(76
Operating Expenses:				
Research and development.......................	1,346	2,955	5,430	9,298
Sales and marketing............................	1,754	3,019	5,851	10,004
General and administrative.....................	426	1,974	3,459	5,386
Non cash write-off of other assets.............	--	1,000	--	1,000
Amortization of intangible assets..............	545	545	1,636	1,203
Amortization of stock-based consideration.......	--	(1,723)	--	11
Total operating expenses..................	4,071	7,770	16,376	26,902

Loss from operations	(1,882)	(8,788)	(10,930)	(26,978
Loss from equity-method investments	--	(5)	--	(5
Other Income (Expense):				
Non-cash interest on warrants issued	--	--	(309)	--
Other income, net	46	42	747	420
Total other income	46	42	438	420
Loss before benefit for income taxes	(1,836)	(8,751)	(10,492)	(26,563
(Benefit) provision for income taxes	(69)	1,165	(69)	1,165
Net loss	$ (1,767)	$ (9,916)	$ (10,423)	$ (27,728
Basic and diluted net loss per common share	$ (.39)	$ (3.39)	$ (2.35)	$ (9.54
Basic and diluted weighted average number of common shares outstanding	4,510,624	2,921,126	4,435,419	2,907,597

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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WEBHIRE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	NINE MONTHS ENDED JUNE 30,	
	2001	2000
Cash Flows from Operating Activities:		
Net loss	$(10,423)	$(27,728)
Adjustments to reconcile net loss to net cash used in operating activities--		
Depreciation and amortization	5,724	10,115
Amortization of stock-based consideration	309	11
Non-cash write-off of other assets	--	1,284
Deferred income taxes, net	--	1,068
Deferred rent	--	(47)
Gain on sale of assets	(120)	--
Changes in assets and liabilities--		
Accounts and installments receivable	3,845	(1,111)
Other current assets	(9)	(487)
Prepaid income taxes	(5)	--
Refundable income taxes	--	299
Long-term installments receivable	67	269
Accounts payable	47	(310)
Accrued expenses	(2,960)	(76)

Deferred revenue	(2,502)	2,833
Other liabilities	(18)	--
Net cash used in operating activities	(6,045)	(13,880)
Cash Flows from Investing Activities:		
Purchases of acquired technologies and intangible assets	(3,125)	(1,570)
Purchases of property and equipment	(335)	(2,086)
Proceeds from sale of assets	223	--
Purchases of short- and long-term investments	(24,370)	(15,000)
Proceeds from sale and maturity of short- and long-term investments	25,066	12,971
Other assets	111	114
Net cash used in investing activities	(2,430)	(5,571)
Cash Flows from Financing Activities:		
Proceeds from line of credit	1,500	--
Proceeds from issuance of common stock in connection with private placement	1,000	--
Issuance costs in connection with private placement from common Stock	(122)	(57)
Proceeds from employee stock purchase plan stock issuance	67	174
Proceeds from exercise of common stock options	--	771
Payments of capital lease obligations	--	(446)
Net cash provided by financing activities	2,445	442
Net decrease in Cash and Cash Equivalents	(6,030)	(19,009)
Cash and Cash Equivalents, beginning of period	12,135	20,126
Cash and Cash Equivalents, end of period	$ 6,105	$ 1,117
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for		
Interest	$ 226	$ 123
Income taxes	$ 18	$ 15
Supplemental Disclosure of Noncash Financing Activities:		
Issuance of warrants and non-cash interest expense in connection with financing commitment	$ 309	$ --

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2001

(1) ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Webhire, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated.

(B) PREPARATION OF FINANCIAL STATEMENTS

As permitted by the rules of the Securities Exchange Commission applicable to Quarterly Reports on Form 10-Q, these notes are condensed and do not contain all disclosures required by generally accepted accounting principles.

The consolidated interim financial statements as of June 30, 2001 and 2000 and for the three and nine-month periods ended June 30, 2001 and 2000 are unaudited; however, in the opinion of the Company's management, the interim data include all adjustments, consisting only of recurring adjustments, necessary for a fair statement of the results for the interim period. The results for the interim period are not necessarily indicative of the results for the entire year. The consolidated financial statements should be read in conjunction with the consolidated financial statements of Webhire, Inc. for the year ended September 30, 2000 ("Fiscal 2000") included in its Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

(C) SHORT- AND LONG-TERM INVESTMENTS

The Company classifies its short- and long-term investments as available-for-sale. At June 30, 2001 and September 30, 2000 the Company had $1.7 million and $2.4 million available-for-sale investments. Realized and unrealized gains and losses for the periods presented were not material.

(D) RECENT ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, BUSINESS COMBINATIONS. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method for which the date of acquisition is after June 30, 2001. SFAS No. 141 requires that all business combinations be accounted for under the purchase method and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. The Company does not expect SFAS No. 141 to have an impact on the Company's financial statements.

In July 2001, the FASB also issued SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. SFAS No. 142 establishes new guidance on accounting for goodwill and other intangible assets. In addition, companies will be required to review goodwill and intangible assets reported in connection with prior acquisitions, possibly disaggregate and report separately previously identified intangible assets, and possibly reclassify certain intangible assets into goodwill. The Company expects to implement SFAS No. 142 at its earliest allowable adoption date, October 1, 2001. Upon adoption, existing goodwill will no longer be amortized, but instead will be assessed for impairment at least as often as annually.

Goodwill resulting from acquisitions initiated after June 30, 2001, will be immediately subject to the nonamortization provisions of SFAS No. 142. Goodwill amortization for the nine months ended June 30, 2001 was $1.6 million. The Company is currently assessing the impact of this new standard.

(2) STOCK SPLIT

On May 17, 2001, the stockholders of the Company approved an amendment to the Company's Third Amended and Restated Certificate of Incorporation to effect a 1-for-5 reverse split of the shares of the Company's common stock (the "Existing Common"). The reverse split became effective as of 9:00 a.m. on June 18, 2001. No fractional shares of newly issued common stock ("New Common") will be issued and, in lieu thereof, stockholders holding a number of shares of Existing Common not evenly divisible by five, and stockholders holding fewer than five shares of Existing Common, will receive cash in lieu of fractional shares of New Common. In the accompanying financial statements and related notes, all share and per share amounts have been retroactively adjusted to reflect the stock split.

(3) NET LOSS PER SHARE

As a net loss is presented for the three and nine-month periods ended June 30, 2001 and June 30, 2000, the loss per share was based only on the weighted average number of common shares outstanding.

For both the three and nine-month periods ended June 30, 2001 and June 30, 2000, all 556,860 and 396,795 potential common shares, respectively, were excluded from the above calculation, as their effect would have been anti-dilutive due to the Company's net loss in those periods.

(4) PRIVATE PLACEMENT OF COMMON STOCK

On December 29, 2000, the Company entered into an agreement with @viso Limited ("@viso"), pursuant to which @viso agreed to purchase 217,500 shares of common stock for issuance to @viso or its designated investors, at a price per share of $4.60, for an aggregate purchase price of approximately $1 million. The purchase price of $4.60 per share represents the average closing price of the common stock for the twenty days ending with the closing date of the transactions contemplated by this agreement.

(5) YAHOO! INVESTMENT AND SERVICE AGREEMENT

In connection with the service agreement dated June 3, 1999 between Yahoo! and the Company, the Company granted to Yahoo! warrants to purchase 39,843 shares of common stock at $24.75 per share. The warrants were accounted for under the variable method of accounting. The warrants were fully vested on June 3, 2000. The Company recognized the expense related to the warrants over the vesting period. For the three and nine-month periods ended June 30, 2000, the Company recorded a credit of $1,723,000 and a charge of $11,000, respectively.

(6) ACQUIRED TECHNOLOGIES AND INTANGIBLES

On December 13, 1999, the Company acquired certain assets and goodwill of Human Resources Sites International, Inc. ("HR Sites") in exchange for $1.5 million in cash plus junior subordinated convertible promissory notes (the "Notes") with a face amount totaling $3.425 million. These assets and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

JUNE 30, 2001

intangible assets are being amortized over a period of three to five years. The assets are recorded under Acquired technologies on the balance sheet and are equal to $999 as of June 30, 2001. Goodwill and non-compete agreements are recorded on the balance sheet under Intangible assets and are equal to $3,168 as of June 30, 2001. HR Sites was the developer of an Internet job-posting platform that provided online job posting connections to more than 2,000 career sites and Internet news groups. The Notes contain a beneficial conversion feature enabling the holder to convert the principal and any accrued interest into the Company's common stock one day prior to the scheduled maturities, or one day prior to redemption by the Company, at a price of $48.40 per share, which reflects the 1-for-5 reverse split of the shares of the Company's common stock. The Company may redeem the Notes at any time on or after January 1, 2000 at its sole discretion. The Notes are also convertible upon a change in control of the Company. The Company's common stock price on December 13, 1999, the date the Notes were executed, was $88.75. The conversion price is subject to adjustment upon certain anti-dilution events. The Notes contain the same terms other than differing maturities. The interest rate on both Notes is 5.6% per annum. The Notes consist of principal amounts of $2.5 million, which was repaid on December 14, 2000, and $0.925 million that was to mature on March 14, 2001. This Note was subsequently restructured so that $0.259 million was repaid on March 14, 2001, $0.366 million was repaid on April 5, 2001 and $0.300 million matured and was repaid on July 5, 2001.

(7) NOTES PAYABLE--BANK

On March 27, 2001, the Company secured a $3.0 million line of credit from Citizens Bank of Massachusetts, which expires on March 27, 2003. This line of credit is collateralized by all assets of the Company. Interest under this line of credit is to be charged at a fluctuating rate that is equal to the daily prime rate, or at such other rate agreed on from time to time by the Company and Citizens Bank. The average rate for the period ended June 30, 2001 was 7.4%. The borrowing base of this line of credit will initially be equal to 100% of the Company's pledged cash not to exceed $3.0 million. This line of credit has a conversion feature which, once all evidence is given to the bank's conditions of lending, will increase the borrowing base to the sum of 100% of the Company's pledged cash plus 70% of qualified accounts receivable plus the lesser of $1.0 million or 50% of the Company's deferred qualified accounts. At June 30, 2001 $1.5 million was outstanding under this line of credit, with $1.5 million still available.

(8) RELATED PARTY TRANSACTION

On January 11, 2001, a major investor in the Company, which is a related party, provided the Company with a written commitment to support the Company's cash liquidity requirements through September 2001, up to a maximum of $5 million, if necessary. In consideration of such commitment, the Company issued warrants to the investor to purchase 100,000 shares of the Company's common stock at a price of $6.25 per share. The warrants fully vested immediately on January 11, 2001. For the three and nine-month periods ended June 30, 2001 the Company recorded a one-time charge of $0 and $309,000, respectively.

(9) BUSINESS SEGMENT INFORMATION

The Company has two reportable segments: 1) Internet and transaction-based solutions and 2) Enterprise software solutions, the former of which started to emerge in Fiscal 1997 with the offering

of outsourced services (e.g., resume scanning, acknowledgement letters). The Internet and transaction-based solutions segment provides outsourced management of private candidate pools via WEBHIRE RECRUITER, subscription services to public resume pools and job-posting sites, resume scanning, reference checking and other fee-based staffing functions. The enterprise software solutions segment provides perpetual licenses to the Company's software products and the related maintenance, training, implementation and consulting services in support of such licenses.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K. Expenses such as depreciation, rent and utilities are allocated to the reportable segments based on relative headcount as a basis of relative usage. The Company has no intersegment sales and transfers, and does not allocate assets to the operating segments.

The Company's reportable segments are strategic business units that offer different solutions tailored to a customer's needs.

	THREE MONTHS ENDED JUNE 30, 2001:		
	INTERNET AND TRANSACTIONS	ENTERPRISE SOFTWARE	TOTAL COMPANY
Revenue	$3,062,000	$2,207,000	$ 5,269,00
Gross profit	393,000	1,796,000	2,189,00
Loss from operations			(1,882,00
Loss from equity-method investments			-
Other income, net			46,00
Loss before income taxes			$(1,836,00

	THREE MONTHS ENDED JUNE 30, 2000:		
	INTERNET AND TRANSACTIONS	ENTERPRISE SOFTWARE	TOTAL COMPANY
Revenue	$ 2,796,000	$2,992,000	$ 5,788,000
Gross (loss) profit	(2,474,000)	1,456,000	(1,018,000
Loss from operations			(8,788,000
Loss from equity-method investments			(5,000

Other income, net	42,000
Loss before income taxes	$(8,751,000

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WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

JUNE 30, 2001

	NINE MONTHS ENDED JUNE 30, 2001:		
	INTERNET AND TRANSACTIONS	ENTERPRISE SOFTWARE	TOTAL COMPANY
Revenue	$ 9,680,000	$7,310,000	$ 16,990,000
Gross (loss) profit	(453,000)	5,899,000	5,446,000
Loss from operations			(10,930,000)
Loss from equity-method investments			--
Other income, net			438,000
Loss before income taxes			$(10,492,000)

	NINE MONTHS ENDED JUNE 30, 2000:		
	INTERNET AND TRANSACTIONS	ENTERPRISE SOFTWARE	TOTAL COMPANY
Revenue	$ 6,912,000	$11,652,000	$ 18,564,000
Gross (loss) profit	(7,481,000)	7,405,000	(76,000)
Loss from operations			(26,978,000)
Loss from equity-method investments			(5,000)
Other income, net			420,000
Loss before income taxes			$(26,563,000)

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WEBHIRE, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND NINE-MONTH PERIODS ENDED JUNE 30, 2001

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE STATEMENTS CONTAINED IN THIS REPORT THAT ARE NOT PURELY HISTORICAL ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF

THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED. FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS "ANTICIPATES", "BELIEVES", "EXPECTS", "INTENDS", "FUTURE", AND WORDS OF SIMILAR MEANING WHICH EXPRESS MANAGEMENT'S BELIEF, EXPECTATIONS OR INTENTIONS REGARDING THE COMPANY'S FUTURE PERFORMANCE. ALL FORWARD-LOOKING STATEMENTS INCLUDED IN THIS REPORT ARE BASED ON INFORMATION AVAILABLE TO THE COMPANY ON THE DATE HEREOF, AND THE COMPANY HAS NO OBLIGATION TO UPDATE ANY SUCH FORWARD- LOOKING STATEMENTS. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM ITS HISTORICAL OPERATING RESULTS AND FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING, WITHOUT LIMITATION, THOSE SET FORTH BELOW, UNDER "FACTORS AFFECTING FUTURE OPERATING RESULTS".

CONSOLIDATED RESULTS OF OPERATIONS
(IN THOUSANDS)

REVENUE

Total revenue for the three and nine-month periods ended June 30, 2001 was $5,269 and $16,990 compared to $5,788 and $18,564 for the three and nine-month periods ended June 30, 2000.

SERVICES REVENUE

Services revenue--Internet increased 10% to $3,062 for the three months ended June 30, 2001 from $2,796 for the three months ended June 30, 2000. For the nine months ended June 30, 2001, services revenue--Internet increased 40% to $9,680 from $6,912 for the comparable 2000 period. The increase for both periods was attributable to the increase in average selling price of our WEBHIRE RECRUITER product. The increase was also attributable to the growth in the OUTSOURCED WEBHIRE ENTERPRISE customer base.

Services revenue--Enterprise was $1,677 for the three months ended June 30, 2001 as compared to $2,601 for the three months ended June 30, 2000. For the nine months ended June 30, 2001, services revenue--Enterprise decreased to $5,985 from $8,476 for the comparable 2000 period. The decrease is primarily attributable to a decline in maintenance revenues as the Company's customer base continues to shift towards an Internet solution.

PRODUCT REVENUE. Product revenue, which relates to the enterprise software solutions segment, was $530 for the three months ended June 30, 2001 compared to $391 for the three months ended June 30, 2000. This increase was attributed to the Company's sale of software to one of its customers. For the nine months ended June 30, 2001, product revenue was $1,325 compared to $3,176 for the comparable 2000 period. This decrease is attributable to the Company's continued transition towards an Internet/ intranet product line.

COST OF REVENUE

COST OF SERVICES REVENUE

Cost of services revenue--Internet was $2,231 and $2,918 for the three months ended June 30, 2001 and June 30, 2000, respectively. For the nine months ended June 30, 2001 and June 30, 2000, cost of services revenue--Internet was $7,543 and $7,478, respectively. Internet gross margins, excluding

amortization of acquired technologies, improved to 27% compared to negative 4% for the three months ended June 30, 2001 and June 30, 2000, respectively, and improved to 22% compared to negative 8% for the nine months ended June 30, 2001 and June 30, 2000, respectively. The improved margins were mainly attributable to an increase in average selling price as well as a concerted effort on the Company's behalf to contain costs.

Cost of services revenue--Enterprise decreased 64% to $320 for the three months ended June 30, 2001 from $883 for the three months ended June 30, 2000. For the nine months ended June 30, 2001, cost of services revenue--Enterprise of $1,101 decreased 64% from $3,079 for the comparable 2000 period. The decrease for both periods is due to a reduction in headcount assigned to this product line and a shift of the Company's resources towards an Internet and transaction-based solution segment.

COST OF PRODUCT REVENUE. Cost of product revenue was $91 and $310 for the three and nine-month periods ended June 30, 2001, respectively, as compared to $369 and $884 for the three and nine-month periods ended June 30, 2000, respectively. The decrease in cost of product revenue is due primarily to the Company's transition from an enterprise software to an Internet/intranet solution as well as a further decrease in the Company's dependency on third party vendors.

AMORTIZATION OF ACQUIRED TECHNOLOGIES. Amortization of acquired technologies was $438 and $2,590 for the three and nine-month periods ended June 30, 2001, respectively, as compared to $2,352 and $6,915 for the comparable Fiscal 2000 periods. The decrease is a result of the completion of the amortization of an asset originally purchased from Amazon.com, Inc.

OPERATING EXPENSES

RESEARCH AND DEVELOPMENT. Research and development expenses were $1,346 or 26% of total revenue for the three months ended June 30, 2001 as compared to $2,955 or 51% of total revenue for the comparable Fiscal 2000 period. For the nine-month period ended June 30, 2001, research and development expenses were $5,430 or 32% of total revenue as compared to $9,298 or 50% of total revenue for the comparable Fiscal 2000 period. This decrease is primarily due to reductions in both personnel and consulting expenses related to the convergence of two research and development projects that led to substantial savings.

SALES AND MARKETING. Sales and marketing expenses were $1,754 or 33% of total revenue and $5,851 or 34% of total revenue for the three and nine-month periods ended June 30, 2001, respectively, as compared to $3,019 or 52% of total revenue and $10,004 or 54% of total revenue for the comparable Fiscal 2000 periods. This decrease is due primarily to reductions in headcount and postponement of certain marketing and sales programs.

GENERAL AND ADMINISTRATIVE. General and administrative expenses were $426 or 8% of total revenue and $3,459 or 20% of total revenue for the three and nine-month periods ended June 30, 2001, respectively, as compared to $1,974 or 34% of total revenue and $5,386 or 29% of total revenue for the comparable Fiscal 2000 periods. The absolute dollar decrease for the three-month period of Fiscal 2001 as compared to Fiscal 2000 is due to the significant improvement in the Company's collection of past due accounts which resulted in the reduction of bad debt expenses recorded. The absolute dollar decrease for the nine-month period of Fiscal 2001 as compared to Fiscal 2000 is the result of the reduction in bad debt expense, a reduction in personnel expenses and a one-time early cancellation fee of a sales office lease recorded during the first quarter of Fiscal 2000.

AMORTIZATION OF INTANGIBLE ASSETS

In connection with the acquisition of HR Sites during Fiscal 2000 the Company recorded intangible assets totaling $6,551 including non-compete agreements, a customer base and excess purchase price over identifiable assets which are being amortized over estimated lives of between three to five years.

OTHER INCOME

NON-CASH INTEREST ON WARRANTS ISSUED. Amortization of stock-based consideration was $0 and $309 for the three and nine-month periods ended June 30, 2001, respectively. In consideration of a written commitment by a related party to support the Company's cash liquidity requirements, the Company issued warrants to purchase 100,000 shares of the Company's common stock at a price of $6.25 per share. In connection with this warrant, the Company recorded a one-time charge of $309 during the second quarter of Fiscal 2001.

OTHER INCOME, NET. Other income, net increased to $46 and $747 for the three and nine-month periods ended June 30, 2001 from $42 and $420 for the comparable Fiscal 2000 periods. This increase for the nine-month period is due primarily to a gain on a sale of assets and technology and a settlement from the discontinuation of a joint venture agreement.

BENEFIT FOR INCOME TAXES

For the three and nine-month periods ended June 30, 2001, the Company recorded a benefit for income taxes of $69. This benefit was the result of the Company's overpayment of past state income taxes. The Company has requested these funds from the various states to be refunded. For the three and nine-month periods ended June 30, 2000, the Company recorded a $1.2 million valuation allowance to reserve for the full amount of its net deferred tax assets since, based on the weight of available evidence, management had concluded that it was more likely than not that those future benefits would not be realized.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, BUSINESS COMBINATIONS. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method for which the date of acquisition is after June 30, 2001. SFAS No. 141 requires that all business combinations be accounted for under the purchase method and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. The Company does not expect SFAS No. 141 to have an impact on the Company's financial statements.

In July 2001, the FASB also issued SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. SFAS No. 142 establishes new guidance on accounting for goodwill and other intangible assets. In addition, companies will be required to review goodwill and intangible assets reported in connection with prior acquisitions, possibly disaggregate and report separately previously identified intangible assets, and possibly reclassify certain intangible assets into goodwill. The Company expects to implement SFAS No. 142 at its earliest allowable adoption date, October 1, 2001. Upon adoption, existing goodwill will no longer be amortized, but instead will be assessed for impairment at least as often as annually. Goodwill resulting from acquisitions initiated after June 30, 2001, will be immediately subject to the nonamortization provisions of SFAS No. 142. Goodwill amortization for the nine months ended June 30, 2001 was $1.6 million. The Company is currently assessing the impact of this new standard.

LIQUIDITY AND CAPITAL RESOURCES
(IN THOUSANDS)

At June 30, 2001, the Company had cash and cash equivalents and short- and long-term investments of $7,819, a decrease of $6,726 from $14,545 at September 30, 2000.

Accounts and installments receivable, less allowance for doubtful accounts, were $927 at June 30, 2001, a decrease of $3,845 from $4,772 at September 30, 2000. This decrease is attributed to significant improvement in the Company's collection of past due accounts. The accounts and installments receivable, less allowance for doubtful accounts, is a net amount and reflects the removal of unpaid amounts of deferred revenue off the Company's trial balance.

Cash used in operating activities was $6,046 during the nine-month period ended June 30, 2001. Use of cash in operating activities consisted mainly of the net loss for the nine-month period of $10,423, the offsetting effects of depreciation and amortization of $5,723 and amortization of stock-based consideration of $309 and fluctuations in certain assets and liabilities.

The Company used $2,430 in investing activities during the first nine months of Fiscal 2001, principally for the payment of notes payable of $3,125 in connection with previously acquired technologies and intangible assets partially offset by the net maturities of short and long-term investments of $696.

Net cash provided by financing activities for the nine-month period ended June 30, 2001 was $2,445, consisting primarily of $1,500 from proceeds on a line of credit and $878 from the issuance of common stock in connection with a private placement.

The Company has adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. To date, the Company has not invested in derivative securities or any other financial instruments that involve a high level of complexity or risk. Cash has been, and the Company contemplates that it will continue to be, invested in interest-bearing, investment grade securities.

From time to time, the Company may evaluate potential acquisitions of products, businesses and technologies that may complement or expand the Company's business. Any such transactions consummated may use a portion of the Company's working capital and/or require the issuance of equity or debt.

The Company believes that its current cash and cash equivalent balance will be sufficient to meet its working capital and capital expenditure requirements through Fiscal 2001.

FACTORS AFFECTING FUTURE OPERATING RESULTS

An investment in our common stock involves various risks. Before investing in our common stock, you should carefully consider the following risk factors. These risk factors are not exhaustive and should be read together with the other reports and documents that we file with the Securities and Exchange Commission, which may include additional or more current information that should be considered in making an investment in us.

IF WE ARE UNABLE TO OBTAIN ADDITIONAL CAPITAL AS NEEDED IN THE FUTURE, OUR BUSINESS MAY BE ADVERSELY AFFECTED.

We currently anticipate that our available cash will be sufficient to meet our anticipated working capital and capital expenditure requirements through the near term. However, we may need to raise additional capital to meet our current needs and also, in the longer term, to fund more rapid expansion to develop new services, to enhance existing services in response to competitive pressures, and to acquire complementary services, businesses or technologies. In the event our operations are not profitable or do not generate sufficient cash to fund the business, or if we fail to receive money to meet our obligations, we may have to substantially cut back our level of operations. These reductions could, in turn, affect our relationships with our strategic partners and customers and threaten our ability to continue as an ongoing concern. If we raise additional funds through issuances of equity or

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convertible debt securities, the percentage of ownership of our current stockholders will be reduced and such securities may have rights, preferences and privileges senior to those of our current stockholders. In addition, we may not be able to obtain such financing on terms favorable to us, if at all. If adequate funds are not available or are not available on terms favorable to us, our business, financial condition and results of operations could be materially and adversely affected.

TO COMPETE EFFECTIVELY, WE MUST ADAPT QUICKLY TO ADVANCES IN TECHNOLOGY AND CHANGES IN CUSTOMER REQUIREMENTS.

The market for automated recruiting products and services is undergoing rapid changes, including continuing advances in technology and changes in customer requirements and preferences. These market dynamics have been amplified by the emergence of the Internet as a tool for recruiting solutions. Our future success will depend in significant part on our ability to continually improve the performance, features and reliability of our software and services in response to the evolving demands of the marketplace and competitive product offerings. Any failure on our part to quickly develop products and services that address changes in technology or customer demands will likely result in loss of market share to a competitor.

OUR BUSINESS MODEL IS NOT YET FULLY PROVEN.

In Fiscal 1998 we expanded our technology into products and services that could be offered over the Internet to foster long-term growth. Since that time, revenue from Internet-based transactions has grown in relation to revenue from our software licensing and maintenance business, becoming a majority of our total revenue for the first time in the first quarter of Fiscal 2001. We expect our reliance on Internet-based transactions for revenues to continue to increase in the future, and we expect product revenue from software license sales and maintenance to continue to become a smaller component of our revenue over time. Our long-term business model and profit potential are not yet fully proven. To be successful, we must develop and market online recruitment offerings that achieve broad market acceptance by employers, job seekers and interactive media companies. It is possible that we will be required to further adapt our business model in response to additional changes in the online recruitment market or if our current business model is not successful. If we are not able to anticipate changes in the online recruitment market or if our business model is not successful, our business, financial condition and results of operations will be materially and adversely affected.

WE MAY BE UNABLE TO CONTINUE TO BUILD CUSTOMER AWARENESS.

We believe that continuing to build brand recognition is critical to achieving widespread acceptance of our online recruitment offerings. Brand recognition is a key differentiating factor among providers of online recruitment offerings and we believe it could become more important as competition in the online recruitment market increases. We may find it necessary to accelerate expenditures on our sales and marketing efforts or otherwise increase our financial commitment to creating and maintaining brand awareness among potential customers. If we fail to successfully promote and maintain our brand or incur significant expenses in promoting our brand, our business, financial condition and results of operations could be materially and adversely affected.

THE DEMAND FOR AUTOMATED RECRUITING SOFTWARE AND SERVICES MAY FAIL TO GROW AND GENERATE BUSINESS.

Our future success substantially depends on broader recognition of the potential benefits of automated recruiting software and services and the growth in demand for these products and services. It is difficult to assess the size of the market that will develop and the rate at which it will develop. If the market does not develop as we anticipate, or if it develops more slowly than we expect, our business, financial condition and results of operations will be materially and adversely affected.

OUR BUSINESS IS DEPENDENT ON THE CONTINUED DEVELOPMENT AND MAINTENANCE OF THE INTERNET INFRASTRUCTURE.

Our success will depend, in large part, upon the continued development and maintenance of the Internet infrastructure as a reliable network backbone with the necessary speed, data capacity and security, and timely development of enabling products, such as high-speed modems, for providing reliable Internet access and services. We cannot assure you that the Internet infrastructure will continue to effectively support the demands placed on it as the Internet continues to experience increased numbers of users, greater frequency of use or increased bandwidth requirements of users. Even if the necessary infrastructure or technologies are developed, we may have to spend considerable resources to adapt our offerings accordingly. Furthermore, in the past, the Internet has experienced a variety of outages and other delays. Any future outages or delays could affect the Internet sites on which our customers' job advertisements are posted and the willingness of employers and job seekers to use our online recruitment offerings. If any of these events occur, our business, financial condition and results of operations could be materially and adversely affected.

OUR BUSINESS IS DEPENDENT ON THE CONTINUED GROWTH OF THE INTERNET AS A RECRUITING MEDIUM.

Our future is highly dependent on the continuing increase in the use of the Internet as a recruiting medium. The online recruitment market is rapidly evolving, and we cannot yet gauge its effectiveness as compared to traditional recruiting methods. As a result, demand and market acceptance of online recruitment offerings are uncertain. The adoption of online recruiting, particularly by those entities that have historically relied upon traditional methods of recruiting, requires the acceptance of a new way of conducting business, exchanging information and advertising for jobs. We cannot assure you that the online recruitment market will continue to emerge or become sustainable. If the online recruitment market develops more slowly than we expect, our business, financial condition and results of operations will be materially and adversely affected.

OUR COMPUTER SYSTEMS COULD FAIL OR OVERLOAD.

The success of our online recruitment offerings depends highly on the efficient and uninterrupted operation of our computer and communications systems. Power loss, telecommunications failures, computer viruses, electronic break-ins or other similar disruptive problems could damage or cause interruptions in these systems. If our systems are affected by any of these occurrences, our business, financial condition and results of operations could be materially and adversely affected. Our insurance policies may not cover, or if covered, may not adequately compensate us for, any losses that may occur due to any failures or interruptions in our systems. We do not presently have any secondary "off-site" systems or a formal disaster recovery plan.

In addition, we must accommodate a high volume of traffic and deliver frequently updated information. Our web sites have in the past and may in the future experience slower response times or decreased traffic for a variety of reasons. In addition, our users depend on Internet service providers and other Internet site operators for access to our web sites. Many of the Internet service providers have experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems.

If we experience any of these problems, our business, financial condition and results of operations could be materially and adversely affected.

OUR NEW PRODUCT AND SERVICE INTRODUCTIONS MAY HAVE DEFECTS WHICH COULD RESULT IN ADVERSE PUBLICITY OR HAVE OTHER NEGATIVE EFFECTS.

As the marketplace for recruiting solutions continues to evolve, we plan to develop and introduce new products and services to enable us to effectively meet the changing needs of the market. Products as complex as the ones that we offer may contain undetected errors when first introduced or when new

versions are released. In the past, despite prior testing, we have discovered software errors in some of our products after their introduction. Defects in product and services may result in adverse publicity, loss of or delay in market acceptance, injury to our reputation and brand awareness, or claims against us, any one of which could have a material adverse effect on our business, financial condition and results of operations.

WE HAVE SIGNIFICANT COMPETITION FROM A VARIETY OF SOURCES.

The market for recruitment solutions is intensely competitive and highly fragmented. Although few companies directly compete with us, there are a large number of job boards, search firms, and Internet portal sites that are vying for their share of the overall corporate recruiting budget. We expect to face additional competition as other established and emerging companies, including print media companies and employee recruiting agencies with established brands, enter the online recruitment market.

Many of our current and potential competitors have significantly greater financial, technical, marketing and other resources than we do. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships to expand their offerings and to offer more comprehensive solutions.

We believe that there will be rapid business consolidation in the online recruitment industry. Accordingly, new competitors may emerge and rapidly acquire significant market share. In addition, new technologies will likely increase the competitive pressures that we face. The development of competing technologies by market participants or the emergence of new industry standards may adversely affect our competitive position. An increase in competition could result in price reductions, limitations of access to key content on the Internet, render our existing software and services obsolete or unmarketable and/or result in loss of market share.

WE MUST MANAGE OUR GROWTH IN ORDER TO ACHIEVE DESIRED RESULTS.

The evolution of our business and the expansion of our customer base has resulted in substantial growth in the scope of our operations over the last few years. Our future results of operations will depend in part on the ability of our officers and other key employees to continue to implement our operational, customer support, and financial control systems and to expand, train, and manage our employee base.

THE SUCCESSFUL OPERATION OF OUR BUSINESS DEPENDS IN LARGE PART ON OUR RELATIONSHIPS WITH THIRD PARTIES

A key element of our business strategy is to develop relationships with leading industry organizations in order to increase our market presence, expand distribution channels and broaden our product line. We believe that our continued success depends in large part on our ability to maintain such relationships and cultivate additional relationships. There can be no assurance that our existing strategic partners will not discontinue their relationships with us, or that we will be able to successfully develop additional strategic relationships.

In addition, certain technology incorporated in our software is licensed from third parties on a nonexclusive basis. The termination of any of these licenses, or the failure of the third-party licensors to adequately maintain or update their products, could result in delay in our ability to ship certain of our products while we seek to implement technology offered by alternative sources. In addition, any required replacement licenses could prove more costly than our current license relationships and might not provide technology as powerful and functional as the third-party technology we currently license. Also, any such delay, to the extent it becomes extended or occurs at or near the end of a fiscal quarter, could have a material adverse effect on our results of operations for that quarter. While it may be necessary or desirable in the future to obtain other licenses relating to one or more of our products or

relating to current or future technologies, we may not be able to do so on commercially reasonable terms or at all.

OUR OPERATING RESULTS MAY BE SUBJECT TO SIGNIFICANT QUARTERLY FLUCTUATIONS.

Our results of operations have been, and may in the future be, subject to significant quarterly fluctuations. Such fluctuations could be due to a variety of factors, including the following:

- the fact that our software license revenue (as opposed to Internet based service revenue) consists of a relatively small number of large dollar transactions and, as a result, may fluctuate significantly from one quarter to another if the number of transactions completed varies slightly;

- the introduction of new products by us or our competitors;

- the capital spending patterns of our customers;

- our sales incentive strategy which is based in part on annual sales targets;

- the fact that a substantial portion of our product revenue often occurs during the last few weeks of each quarter and, as a result, any delays in orders or shipments are more likely to result in revenue not being recognized until the following quarter; and

- our current expense levels are based in part on our expectations of future revenue and, as a result, net income for a given period could be disproportionately affected by any reduction in revenue.

To the extent our level of revenue in the future decreases from past levels or in some future quarter our revenue or operating results are below the expectations of stock market securities analysts and investors, our profitability and the price of our common stock is likely to be materially and adversely affected.

OUR BUSINESS MAY EXPERIENCE NEGATIVE EFFECTS FROM A SLOWDOWN IN THE U.S. AND/OR GLOBAL ECONOMIES.

In recent months, a downward trend in leading economic indicators points to a slowing of the U.S. economy. Customer demand in the markets in which our Company does business could experience the negative effects of a slowdown in the U.S. and/or global economies. As a result, downturns in the U.S. and/or global economies could have a material adverse effect on our Company's business, financial condition, results of operations or prospects.

AFFILIATES OF SOFTBANK CORP. BENEFICIALLY OWN APPROXIMATELY 35% OF OUR OUTSTANDING STOCK, ARE REPRESENTED ON OUR BOARD OF DIRECTORS AND HAVE RIGHTS TO PARTICIPATE IN CERTAIN OF OUR TRANSACTIONS. SOFTBANK'S INTERESTS COULD CONFLICT WITH YOUR INTERESTS AND SIGNIFICANT SALES OF STOCK HELD BY IT COULD HAVE A NEGATIVE EFFECT ON OUR STOCK PRICE.

Affiliates of SOFTBANK Corp. currently beneficially own approximately 35% of our outstanding common stock, which includes approximately 1% of our common stock that is owned by Yahoo! Inc., a SOFTBANK affiliate in which SOFTBANK is a major investor. As a result of their stock ownership, SOFTBANK and its affiliates have significant control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, and their interests could conflict with those of other stockholders. Such concentration of ownership may also have the effect of delaying or preventing a change in control of our Company. In addition, sales of significant amounts of shares held by these entities, or the prospect of these sales, could adversely affect the market price of our common stock.

SOFTBANK has the right to nominate two members of our Board of Directors, which currently consists of six members (one of whom is a SOFTBANK representative), and for so long as

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SOFTBANK or its affiliates continues to hold at least 10% of our outstanding common stock, it is entitled to nominate one director each time a class of directors in which one of its representatives serves is subject to election. Further, one of SOFTBANK's directors is entitled to serve as a member of the audit committee and compensation committee of the Board of Directors. As a result, SOFTBANK has significant influence on all matters requiring the approval of the Board of Directors.

In addition, in the event we propose to enter into a joint venture for operations in the United Kingdom, continental Europe or Japan or a business transaction with any competitor of SOFTBANK's affiliate ZDNet, we are required by the terms of the stock purchase agreement pursuant to which SOFTBANK acquired our common stock to offer SOFTBANK or one of its affiliates the opportunity to participate in the transaction on terms and conditions mutually acceptable to us and them. As a result of these contractual obligations, third parties may be reluctant to negotiate joint ventures or business transactions with us because they know SOFTBANK and its affiliates will be given the opportunity to participate in such transactions.

KORN/FERRY BENEFICIALLY OWNS APPROXIMATELY 15% OF OUR OUTSTANDING STOCK, IS

REPRESENTED ON OUR BOARD OF DIRECTORS AND HAS RIGHTS WITH RESPECT TO CERTAIN OF OUR TRANSACTIONS. KORN/FERRY'S INTERESTS COULD CONFLICT WITH YOUR INTERESTS AND SIGNIFICANT SALES OF STOCK HELD BY IT COULD HAVE A NEGATIVE EFFECT ON OUR STOCK PRICE.

Korn/Ferry International currently beneficially owns approximately 15% of our outstanding common stock. As a result of its stock ownership, Korn/Ferry has significant control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, and its interests could conflict with those of our other stockholders. In addition, under the terms of the stock purchase agreement pursuant to which Korn/Ferry acquired our common stock, for so long as Korn Ferry continues to hold at least 5% of our common stock, we are required to first negotiate with Korn/Ferry in the event of a potential sale or acquisition of our Company or a substantial stock issuance by us. Such concentration of ownership and such contractual obligation may also have the effect of delaying or preventing a change in control of our Company. In addition, sales of significant amounts of shares held by Korn/Ferry, or the prospect of these sales, could adversely affect the market price of our common stock.

Korn/Ferry has the right to nominate one member of our Board of Directors, which currently consists of six members (one of whom is a Korn/Ferry representative), and for so long as Korn/Ferry continues to hold at least 5% of our outstanding common stock, it is entitled to nominate one director each time the class of directors in which its representative serves is subject to election. As a result, Korn/Ferry has significant influence on all matters requiring the approval of the Board of Directors.

WE DEPEND ON KEY PERSONNEL WHO MAY NOT CONTINUE TO WORK FOR US.

Our future success depends to a significant extent on our senior management and other key employees, many of whom have acquired specialized knowledge and skills with respect to our operations. As a result, if any of these individuals were to leave our Company, we could face substantial difficulty in hiring qualified successors and could experience a loss of productivity while any such successor obtains the necessary training and experience. We also believe that our future success will depend in large part on our ability to attract and retain additional key employees. Competition for qualified personnel in the high tech industry is intense. If we do not succeed in attracting new personnel, or retaining and motivating existing personnel, our business will be adversely affected.

OUR STOCK PRICE MAY EXPERIENCE EXTREME PRICE AND VOLUME FLUCTUATIONS AND OUR STOCKHOLDERS MAY NOT BE ABLE TO RESELL THEIR SHARES AT OR ABOVE THEIR PURCHASE PRICE.

We cannot predict the extent to which investors' interest in us will lead to a stable trading market or how liquid the market might become. The stock market in general and the market prices of shares

in technology companies, particularly those such as ours that offer Internet-based products and services, have been extremely volatile and have experienced fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. The market price of our common stock could be highly volatile and subject to wide fluctuations in response to many factors, including the following:

- quarterly variations in our results of operations;

- adverse business developments that have an impact on our business;

- changes in financial estimates by securities analysts;

- investor perception of our Company and online recruitment services in general;

- announcements by our competitors of new products and services; and

- fluctuations in our common stock price, which may affect our visibility and credibility in the online recruitment market.

In the event of broad fluctuations in the market price of our common stock, purchasers of our common stock may be unable to resell their shares at or above their purchase price.

IT IS DIFFICULT TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS.

We regard our intellectual property rights as critical to our success and rely on a combination of copyright and trade secret laws, employee and third-party non-disclosure agreements and other methods to protect these rights. We cannot be assured that the measures we have taken to protect our proprietary rights will be adequate to prevent misappropriation of our technology or independent development by others of similar technology. Our inability to protect our proprietary rights would have a material adverse effect on our business, results of operations and financial condition.

WE MAY BE SUBJECT TO COSTLY INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS.

As the number of products and services in our industry increases and as recruiting solutions further overlap, the likelihood that our current or future products may become subject to intellectual property infringement claims increases. Although we are not currently the subject of any intellectual property litigation, there has been substantial litigation in our industry regarding copyright, patent and other intellectual property rights involving computer software companies. Any claims or litigation, with or without merit, could be costly and could divert management's attention, which could have a material adverse effect on our business, financial condition and results of operations. Adverse determinations in such claims or litigation may require us to obtain a license and/or pay damages, which could also have a material adverse effect on our business, financial condition and results of operations.

WE MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS.

Although we have not experienced any product and service liability claims to date, the sale and support of our products and the incorporation of products from other companies may entail the risk of product liability claims. Our license agreements with our customers typically contain provisions intended to limit our exposure to such claims. There can be no guarantee, however, that such provisions will be effective in limiting our exposure. A successful product liability action brought against us could adversely affect our business, financial condition and results of operations.

ANTI-TAKEOVER PROVISIONS COULD MAKE IT MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE US.

Our Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those

shares without any further vote or action by the stockholders. The rights of the holders of common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of our Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock. We have no present plans to issue shares of preferred stock. Further, certain provisions of our charter documents, including provisions providing for a staggered board of directors and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of our Company, which could have an adverse effect on the market price of our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no significant changes in the Company's market risks since the year ended September 30, 2000. For more information please read the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2000.

PART II--OTHER INFORMATION:

ITEM 1. LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings other than those arising in the ordinary course of the Company's business. Management believes that the resolution of these matters will not materially affect the Company's business or the financial condition of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 17, 2001, the holders of 59% of the outstanding stock of the Company, representing a majority in interest, approved by written consent an amendment to the Company's Third Amended and Restated Certificate of Incorporation to effect a 1-for-5 reverse split of the Company's common stock. In connection with such approval by written consent, a definitive Information Statement Pursuant to Schedule 14C was filed with the Securities and Exchange Commission on May, 18, 2001 and subsequently mailed to all stockholders of record. The reverse split became effective on June 18, 2001.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits furnished as Exhibits hereto:

Exhibit No.	Description

None

(b) Reports on Form 8-K.

Registrant filed Current Report dated June 18, 2001 (Item 5).

WEBHIRE, INC.

PART III--SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WEBHIRE, INC.

By: /s/ MARTIN J. FAHEY
Martin J. Fahey
CHIEF EXECUTIVE OFFICER

By: /s/ STEPHEN D. ALLISON
Stephen D. Allison
CHIEF FINANCIAL OFFICER

Date: August 14, 2001