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WEBHIRE INC
Form 10-Q
August 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: June 30, 2002

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, including area code)

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, 2002:

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4,522,871 shares.

WEBHIRE, INC.
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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

WEBHIRE, INC.

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CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

ASSETS

Current assets:

Cash and cash equivalents \$
 Short-term investments
 Restricted cash
 Accounts and installments receivable, less allowance for doubtful accounts
 of \$650 and \$484 at June 30, 2002 and September 30, 2001, respectively
 Other current assets

Total current assets

Long-term installments receivable, net
 Property and equipment, net
 Acquired technologies, net of accumulated amortization of \$6,687 and \$5,068 at
 June 30, 2002 and September 30, 2001, respectively
 Other intangible assets, net of accumulated amortization of \$4,272 and \$3,928 at
 June 30, 2002 and September 30, 2001, respectively
 Other assets

TOTAL ASSETS \$
 ===

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable \$
 Accrued expenses
 Notes payable
 Current portion of capital lease obligations
 Deferred revenue

Total current liabilities

Other liabilities

Total liabilities

Stockholders' equity:

Preferred stock, \$.01 par value-- Authorized-- 5,000,000 shares,
 Issued and outstanding-- none at June 30, 2002 and September 30, 2001
 Common stock, \$.01 par value-- Authorized-- 30,000,000 shares;
 Issued -- 4,660,251 and 4,648,055 shares at June 30, 2002 and September 30,
 2001, respectively; Outstanding - 4,522,871 and 4,510,675 shares at
 June 30, 2002 and September 30, 2001, respectively

Additional paid-in capital
 Treasury stock, at cost - 137,380 shares at June 30, 2002 and September 30,
 2001, respectively
 Accumulated deficit

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| | |
|--|-----|
| Total stockholders' equity | --- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ |
| | === |

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

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WEBHIRE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)
(Unaudited)

| | Three Months Ended June 30, | |
|--|--------------------------------|---------|
| | 2002 | 2001 |
| Revenue: | | |
| Services revenue - Internet | \$ 3,080 | \$ 3,06 |
| Services revenue - Enterprise | 1,070 | 1,67 |
| Product revenue | 43 | 53 |
| Total revenue | 4,193 | 5,26 |
| Cost of revenue: | | |
| Services revenue - Internet | 1,354 | 2,23 |
| Services revenue - Enterprise | 326 | 32 |
| Product revenue | - | 9 |
| Amortization of acquired technologies and capitalized internal-use software (relates to services revenue-internet) | 727 | 43 |
| Total cost of revenue | 2,407 | 3,08 |
| Gross profit | 1,786 | 2,18 |
| Operating expenses: | | |
| Research and development | 557 | 1,34 |
| Sales and marketing | 797 | 1,75 |
| General and administrative | 1,075 | 42 |
| Amortization of other intangible assets | 66 | 54 |
| Total operating expenses | 2,495 | 4,07 |
| Loss from operations | (709) | (1,88) |

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| | | |
|---|-----------|------------|
| Other income, net: | | |
| Non-cash interest on warrants issued | - | |
| Other income (expense), net | 9 | 4 |
| | ----- | ----- |
| Total other income, net | 9 | 4 |
| | ----- | ----- |
| Loss before income taxes | (700) | (1,833) |
| Provision for (benefit from) income taxes | 6 | (6) |
| | ----- | ----- |
| Net loss | \$ (706) | \$ (1,766) |
| | ===== | ===== |
| | | |
| Basic and diluted net loss per common share | \$ (.16) | \$ (.33) |
| | ===== | ===== |
| | | |
| Basic and diluted weighted average number of common shares outstanding | 4,522,807 | 4,510,621 |
| | ===== | ===== |

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

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WEBHIRE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

| | Nine Months Ended June 30, | |
|--|-------------------------------|-------------|
| | 2002 | 2001 |
| | ----- | ----- |
| Cash Flows from Operating Activities: | | |
| Net loss | \$ (2,319) | \$ (10,400) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 3,760 | 5,700 |
| Amortization of stock-based consideration | -- | 300 |
| Provision for doubtful accounts | 166 | |
| Loss on sale of property and equipment | 15 | (100) |
| Changes in operating assets and liabilities: | | |
| Accounts and installments receivable | 1,374 | 3,800 |
| Other current assets | 878 | |
| Prepaid income taxes | -- | |
| Long-term installments receivable | 63 | |
| Accounts payable | (1,283) | |
| Accrued expenses | (47) | (2,900) |
| Deferred revenue | 55 | (2,500) |
| Other liabilities | (35) | (100) |
| | ----- | ----- |
| Net cash provided by (used in) operating | | |

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| | | |
|---|----------|--------|
| activities | 2,627 | (6,0 |
| ----- | | |
| Cash Flows from Investing Activities: | | |
| Purchases of acquired technologies and intangible assets | -- | (3,1 |
| Additions to capitalized internal-use software . | (1,124) | (3 |
| Purchases of property and equipment | (304) | (1,5 |
| Deposit of restricted cash | -- | 2 |
| Proceeds from sale of property and equipment ... | 49 | (24,3 |
| Purchases of short-term investments | -- | 25,0 |
| Proceeds from sale and maturities of short-term investments | 695 | 1 |
| Proceeds from returns of security deposits | 96 | |
| ----- | | |
| Net cash used in investing activities | (588) | (3,9 |
| ----- | | |
| Cash Flows from Financing Activities: | | |
| Proceeds from line of credit | -- | 1,5 |
| Proceeds from issuance of common stock in connection with private placement | -- | 1,0 |
| Issuance costs in connection with private placement of common stock | -- | (12 |
| Proceeds from employee stock purchase plan stock issuance | 23 | |
| Payments of capital lease obligations | (170) | |
| ----- | | |
| Net cash (used in) provided by financing activities | (147) | 2,4 |
| ----- | | |
| Net increase (decrease) in cash and cash equivalents | 1,892 | (7,5 |
| Cash and cash equivalents, beginning of period | 2,982 | 12,1 |
| ----- | | |
| Cash and cash equivalents, end of period | \$ 4,874 | \$ 4,6 |
| ===== | | |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for | | |
| Interest | \$ 59 | \$ 2 |
| ----- | | |
| Income taxes | \$ 10 | \$ |
| ----- | | |
| Supplemental Disclosure of Non-cash Financing Activities: | | |
| Issuance of warrants in connection with financing commitment | | \$ 3 |
| ----- | | |

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

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(in thousands, except share and per share amounts)
(unaudited)

June 30, 2002

(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 in consolidation. Certain amounts in the prior period's financial statements have been reclassified to conform to the current period presentation.

(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, 2002 and for the three and nine-month periods ended June 30, 2002 and 2001 are unaudited; however, in the opinion of management, the interim data includes all adjustments, consisting only of normal, 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, 2001 ("fiscal 2001") included in its Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

(c) Short-Term Investments

The Company classifies its short-term investments as available-for-sale. At June 30, 2002 and September 30, 2001, the Company had \$0 and \$695 of available-for-sale investments, respectively. Realized and unrealized gains and losses for the periods presented were not material.

(d) Recent Accounting Standards

In August 2001, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets." SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively. The Company will adopt the provisions of SFAS No. 144 on October 1, 2002, the beginning of fiscal 2003. Had the Company applied this guidance during the reported periods, it would have had no impact on its financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share and per share amounts)
(unaudited)

June 30, 2002

In June 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. In contrast to EITF No. 94-3, under this statement, an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect that the adoption of SFAS No. 146 will have a material impact on its financial statements.

(2) Net Loss per Share

For the three and nine-month periods ended June 30, 2002 and 2001, 709,383 and 556,860 potential common shares, respectively, from the assumed exercise of stock options and warrants were excluded from the net loss per share calculation, as their effect would have been anti-dilutive due to the Company's net loss per share in those periods.

(3) Acquired Technologies and Intangibles

On December 13, 1999, the Company acquired certain assets from Human Resources Sites International, Inc. ("HR Sites"). 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. This purchase was treated as a purchase of a collection of assets. The Company paid \$1,500 in cash plus issued two junior subordinated convertible promissory notes (the "Notes") with face amounts totaling \$3,425. The interest rate on the Notes was 5.6% per annum. The first note had a principal amount of \$2,500 and matured on December 14, 2000. The second note, totaling \$925, had an original maturity date of March 14, 2001, which was subsequently restructured so that \$259 was repaid in cash on March 14, 2001, \$366 was repaid with cash on April 5, 2001, and \$300 was repaid with cash on July 5, 2001. The Notes were issued with below market value interest rates, and were issued with embedded beneficial conversion features. The Company determined the fair value of the Notes to be \$7,140, and as a result, the total acquisition consideration amounted to \$8,640. The purchase price was allocated to identifiable and unidentifiable assets as follows:

| | Amount | Estimated Life |
|---|----------|----------------|
| | ----- | ----- |
| Acquired technology | \$ 2,069 | 3 years |
| Non-compete agreements | 157 | 3 years |
| Customer base | 24 | 5 years |
| Property and equipment | 20 | 1 year |
| Excess purchase price over identifiable assets | 6,370 | 3 years |
| | ===== | |
| | \$ 8,640 | |

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WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share amounts)
 (unaudited)

June 30, 2002

Beginning in fiscal 2002, the Company adopted SFAS No. 142 under which the Company was required to reallocate the excess purchase price over identifiable assets to the identifiable intangible assets based on their relative fair values as of the date of reallocation. In accordance with the new pronouncement, the Company also reassessed the useful life of each intangible asset and evaluated the intangible assets for impairment. Based upon the forecasted use of the Company's intangible assets and their short useful lives, no impairment of the carrying values was recorded upon adoption of SFAS No. 142. The following represents the gross carrying amounts and accumulated amortization of acquired technologies and intangible assets acquired from HR Sites as of June 30, 2002, and the estimated amortization expense for the remaining estimated useful lives:

| | As of June 30, 2002 | |
|-------------------------------|---|--|
| | ----- Gross Carrying Amount ----- | ----- Accumulated Amortization ----- |
| Amortizable Intangible Assets | | |
| Acquired technologies | \$7,866 | \$6,687 |
| Customer list | 151 | 126 |
| Non-compete agreements | 603 | 514 |
| | ----- | ----- |
| Total | \$8,620 | \$7,327 |

As of June 30, 2002, other intangible assets totaled \$1,707 on the Company's balance sheet, which consisted of \$25 for the customer list, \$89 for non-compete agreements, and \$1,593 for capitalized internal-use software.

Estimated Amortization Expense

| | |
|--|---------|
| For the year ending September 30, | |
| 2002 (remaining) | \$ 583 |
| 2003 | 687 |
| 2004 | 18 |
| 2005 | 5 |
| Total estimated amortization expense | \$1,293 |

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WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share amounts)
 (unaudited)

June 30, 2002

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The amortization expense related to intangible assets purchased from HR Sites was \$2,157 for the nine months ended June 30, 2002. Had the provisions of SFAS No. 142 been applied in fiscal 2001, there would not have been a material change in amortization expense or the net loss reported for those periods.

(4) Business Segment Information

The Company has two reportable segments: 1) Internet and transaction-based solutions and 2) Enterprise software solutions, the former of which began 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, 2002: | | |
|-----------------------------------|-----------------------------------|------------------------|------------------|
| | Internet and Transactions | Enterprise Software | Total Company |
| | ----- | ----- | ----- |
| Revenue | \$3,080,000 | \$1,113,000 | \$ 4,193,000 |
| Gross profit | 999,000 | 787,000 | 1,786,000 |
| Loss from operations | | | (709,000) |
| Other income (expense), net | | | 9,000 |
| | | | ----- |
| Loss before income taxes | | | \$ (700,000) |
| | | | ===== |

| | Three months ended June 30, 2001: | | |
|-----------------------------------|-----------------------------------|------------------------|------------------|
| | Internet and Transactions | Enterprise Software | Total Company |
| | ----- | ----- | ----- |
| Revenue | \$3,062,000 | \$2,207,000 | \$ 5,269,000 |
| Gross profit | 393,000 | 1,796,000 | 2,189,000 |
| Loss from operations | | | (1,882,000) |
| Other income (expense), net | | | 46,000 |
| | | | ----- |
| Loss before income taxes | | | \$ (1,836,000) |
| | | | ===== |

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WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 (in thousands, except share and per share amounts)
 (unaudited)

June 30, 2002

| | Nine months ended June 30, 2002: | | |
|-----------------------------------|----------------------------------|------------------------|------------------|
| | Internet and Transactions | Enterprise Software | Total Company |
| | ----- | ----- | ----- |
| Revenue | \$8,660,000 | \$3,783,000 | \$12,443,000 |
| Gross profit | 2,091,000 | 2,765,000 | 4,856,000 |
| Loss from operations | | | (2,511,000) |
| Other income (expense), net | | | 27,000 |
| | | | ----- |
| Loss before income taxes | | | \$(2,484,000) |
| | | | ===== |

| | 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) |
| Other income (expense), net | | | 438,000 |
| | | | ----- |
| Loss before income taxes | | | \$(10,492,000) |
| | | | ===== |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results
 of Operations

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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, 2002

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 import 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" and elsewhere in this report.

Consolidated Results of Operations (in thousands)

Revenue

Total revenue for the three and nine-month periods ended June 30, 2002 was \$4,193 and \$12,443, respectively, compared with \$5,269 and \$16,990 for the three and nine-month periods ended June 30, 2001, respectively.

Services Revenue.

Services revenue - Internet remained flat at \$3,080 for the three months ended June 30, 2002 compared to \$3,062 for the three months ended June 30, 2001. For the nine months ended June 30, 2002, services revenue - Internet decreased 11% to \$8,660 from \$9,680 for the comparable 2001 period. The flat revenue is a result of higher average selling prices offsetting the loss of customers due to the impact of adverse economic conditions on technology and other growth companies that were early users of the Company's services. The decrease for these periods reflects the loss of customers due to adverse economic conditions.

Services revenue - Enterprise decreased 36% to \$1,070 for the three months ended June 30, 2002 from \$1,677 for the three months ended June 30, 2001. For the nine months ended June 30, 2002, services revenue - Enterprise decreased 40% to \$3,620 from \$5,985 for the nine months ended June 30, 2001. The decreases are primarily attributable to a reduction in maintenance revenues as contracts expired relating to product licenses.

Product Revenue. Product revenue, which relates to the enterprise software solutions segment, was \$43 and \$163 for the three and nine-month periods ended June 30, 2002 as compared with \$530 and \$1,325 for the three and nine-month periods ended June 30, 2001. The 92% decrease for the comparable

three month periods and the 88% decrease for the comparable nine month periods

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are attributable to the Company's evolution away from selling software licenses to providing Internet-service products.

Cost of Revenue

Cost of Services Revenue.

Cost of services revenue - Internet was \$1,354 and \$2,231 for the three months ended June 30, 2002 and June 30, 2001, respectively. For the nine months ended June 30, 2002 and June 30, 2001, cost of services revenue - Internet was \$4,449 and \$7,543, respectively. The decrease in absolute dollars is principally attributable to a reduction in headcount, process improvements and cost efficiencies in resume processing and hardware hosting. Internet gross margins, excluding amortization of acquired technologies of \$727, improved to 56% for the third quarter of fiscal 2002 from 27% for the comparable fiscal 2001 period. For the nine months ended June 30, 2002, Internet gross margin, excluding amortization of acquired technologies of \$2,120, was 49% as compared to 22% for the nine months ended June 30, 2001. These increases in Internet gross margins are the result of the Company providing services at a lower incremental cost per customer and billing efficiencies.

Cost of services revenue - Enterprise was \$326 and \$320 for the three months ended June 30, 2002 and June 30, 2001, respectively. For the nine months ended June 30, 2002 and June 30, 2001, cost of services revenue - Enterprise was \$967 and \$1,101 respectively. The decreases for both the three and nine month periods is primarily 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 solutions segment.

Cost of Product Revenue. Cost of product revenue was \$0 and \$91 for the three months ended June 30, 2002 and June 30, 2001, respectively. For the nine months ended June 30, 2002 and June 30, 2001, cost of product revenue was \$51 and \$310, respectively. The decrease in cost of product revenue is due primarily to the Company's transition towards an Internet and transaction-based solutions segment as well as the decrease in the Company's royalty payments.

Amortization of Acquired Technologies and Capitalized Internal-Use Software. Amortization of acquired technologies and capitalized internal-use software was \$727 and \$438 for the three months ended June 30, 2002 and 2001, respectively. For the nine-month periods ended June 30, 2002 and 2001, amortization of acquired technologies and capitalized internal-use software was \$2,120 and \$2,590, respectively. The increase for the comparable three-month periods is attributed to the amortization of internally developed internal-use software costs that the Company did not begin to capitalize until the third quarter of fiscal 2002. The increase is also attributed to an increase in amortization based on the adoption of SFAS No. 142, Goodwill and Other Intangible Assets, which required the Company to reallocate the purchase price in excess of identifiable intangible assets purchased from HR Sites to the acquired technologies and other identifiable intangible assets purchased, based on their relative fair values. The decrease for the comparable nine-month periods is primarily attributed to the Company fully amortizing the assets purchased from Amazon.com and HireWorks, Inc. during fiscal 2001, offset by the adoption of SFAS No. 142 and the amortization of internally-developed internal-use software costs which are being amortized over a five-year estimated life.

Operating Expenses

Research and Development. Research and development expenses were \$557 or 13% of total revenue for the three months ended June 30, 2002 as compared with \$1,346 or 26% of total revenue for the comparable fiscal 2001 period. For the nine months ended June 30, 2002, research and development

expenses were \$1,765 or 14% of total revenue as compared to \$5,430 or 32% for the comparable fiscal 2001 period. The decreases in absolute dollars and as a percentage of revenue are the result of a reduction in headcount, lower developmental consulting fees, and certain costs in fiscal 2002 that qualified for capitalization as internal-use software.

Sales and Marketing. Sales and marketing expenses were \$797 or 19% of total revenue for the three months ended June 30, 2002 as compared with \$1,754 or 33% of total revenue for the comparable fiscal 2001 period. For the nine months ended June 30, 2002, sales and marketing expenses were \$2,314 or 19% of total revenue as compared to \$5,851 or 34% for the comparable fiscal 2001 period. The decreases in absolute dollars and as a percentage of revenue are primarily due to reduced spending on specific marketing and sales programs. The Company expects that sales and marketing expenses may vary from quarter to quarter as a percentage of total revenue.

General and Administrative. General and administrative expenses were \$1,075 or 26% of total revenue for the three months ended June 30, 2002 as compared with \$426 or 8% of total revenue for the comparable three-month period of fiscal 2001. The fiscal 2001 expense is lower than the fiscal 2002 as a result of reduction of \$485 in the bad debt allowance in June 2001 due to significant improvements in collections of past due accounts. For the nine months ended June 30, 2002, general and administrative expenses were \$3,097 or 25% of total revenue as compared to \$3,459 or 20% of total revenue for the comparable fiscal 2001 period. The decreases in absolute dollars for the nine-month period of fiscal 2002 as compared with fiscal 2001 and the decrease as a percentage of revenue for the nine-month period is primarily the result of reduced headcount in the Human Resources, Finance and Accounting and Corporate IT organizations.

Amortization of Other intangible Assets. Amortization of intangible assets decreased to \$66 and \$190 for the three and nine months ended June 30, 2002 as compared with \$545 and \$1,636 for the three and nine months ended June 30, 2001. The decrease is a result of the Company adopting SFAS No. 142, Goodwill and Other Intangible Assets. The \$66 for the three months ended June 30, 2002 is expected to remain consistent in future quarters until all remaining intangible assets are fully amortized, which is expected to occur during fiscal 2003.

Other Income, net

Other income, net decreased to \$9 and \$27 for the three and nine-month periods ended June 30, 2002 from \$46 and \$438 for the comparable fiscal 2001 periods. Other income generally consists of interest earned on investments offset by interest paid on the outstanding note under the bank line of credit. For the period ended June 30, 2001, other income, net included \$309 in non-cash expense for warrants issued during the second quarter of fiscal 2001 in consideration of a written commitment by a related party to support the Company's cash liquidity requirements. For the three and nine-month periods ended June 30, 2001, other income, net also includes a gain of \$120 on a sale of assets and technology as well as a gain of \$300 from the settlement of a joint venture agreement.

Provision for (Benefit from) Income Taxes

For the three-month period ended June 30, 2002, a provision for income taxes of \$6 was recorded compared with a benefit from income taxes of \$69 for the comparable fiscal 2001 period. This increase in fiscal 2002 was the result

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of minimum state income tax payments made to various states in which the Company does business versus the fiscal year 2001 benefit for the Company's overpayment of past state income taxes. For the nine-month period ended June 30, 2002, a benefit from income taxes of \$165 was recorded compared with a benefit of \$69 for the comparable fiscal 2001 period. This increase is principally the result of refunds received in fiscal 2002 related to federal income taxes paid in a past period.

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Liquidity and Capital Resources (in thousands)

At June 30, 2002, the Company had cash and cash equivalents of \$4,874, an increase of \$1,197 from \$3,677 at September 30, 2001.

Cash provided by operating activities was \$2,627 during the nine-month period ended June 30, 2002. Operating activities generated cash primarily through a reduction of net loss. The cash effects of changes in working capital accounts primarily offset each other.

Net cash used in investing activities was \$587 during the nine-month period ended June 30, 2002, which consisted primarily of proceeds received from the sale and maturities of short-term investments of \$695 and proceeds from the return of security deposits of \$96 offset by the payments for capitalized internal-use software of \$1,125 and the purchase of new software of \$304.

Net cash used in financing activities for the nine-month period ended June 30, 2002 was \$148, which consisted of payments on the Company's capital lease obligations offset by proceeds from the employee stock purchase plan.

The Company has a \$3,000 line of credit from Citizens Bank of Massachusetts ("the bank"). The Company is required to maintain deposits with the bank in an amount at least sufficient to satisfy its obligations under this line of credit. As of June 30, 2002, the line of credit had an outstanding balance of \$1,500 and \$1,500 in cash was pledged under this arrangement and has been reflected as restricted cash.

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 balances in conjunction with its forecast of operating cash flows will be sufficient to meet its liquidity expenditure requirements for the foreseeable future.

Critical Accounting Policies and Judgments

We have identified the policies and judgments below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies and judgments on our business operations is discussed throughout this section where such policies affect our reported and expected financial results. For a detailed discussion on

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the application of all accounting policies, see Note 2 in the Notes to the Consolidated Financial Statements included in our Annual Report filed on Form 10-K. Note that the preparation of our Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of

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revenue and expenses during the reporting period. There can be no assurance that actual results will not differ significantly from those estimates.

The accounting policies and judgments most important to the portrayal of our financial condition and results, and those that require the highest degree of management judgment, relate to revenue recognition, accounts receivable, the allowance for doubtful accounts, software development costs, internal-use software and intangible assets, and deferred income taxes.

- (a) Revenue recognition, accounts receivable and allowance for doubtful accounts

The Company recognizes revenue under arrangements when the arrangement fee is fixed or determinable and collection of the amounts is reasonably assured. At the time of the transaction, we assess whether the fee associated with our revenue transaction is fixed or determinable based principally on the terms of the transaction. If a significant portion of a fee is due after our normal payment terms, which are 30 to 60 days from invoice date, we account for the fee as not being fixed or determinable. In these cases, we recognize revenue as the fee becomes due. Revenue from resellers of the Company's services is recognized in the same manner as revenue generated from direct customers, since the Company does not give resellers a right of return or refund for services or products purchased. The Company makes judgments concerning collectability of accounts that impact the recognition of revenue and the net realizable value of accounts receivable. The Company calculates the allowance for doubtful accounts based on historical collection experience, credit policy and the evaluation of aging categories. Collection history is evaluated based on write-off experience and based on current accounts that have been specifically identified as being in dispute, referred to a collection agency or in bankruptcy. The Company uses the same information to determine whether payments on revenue derived from a particular customer or class of customer is reasonably assured. If the Company notes a high level of write-offs for a particular customer or class of customer, or where there is no collection history for a particular customer, the Company defers recognition of revenue until payment is reasonably assured. Had the Company estimated collectability of its accounts receivable using different judgments, the revenue and accounts receivable recorded would have been different at each period end. If the Company used a more conservative interpretation of when payment is reasonably assured, less revenue would have been recognized upon shipment, or upon performance of services. If the Company used a less conservative definition of reasonable assurance of payment, more revenue would have been recognized on the date of shipment or upon performance of services.

- (b) Software development costs

Research and software development costs are generally charged to operations as incurred. Statement of Financial Accounting Standards (SFAS) No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed, requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Judgment is used

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in determining when technological feasibility is reached for Enterprise software licenses to be sold. Based on our product development process, technological feasibility is established upon completion of a working model. We have determined costs incurred by the Company between the completion of the working model and the point at which the product is ready for general release to be immaterial. A different judgment about when technological feasibility is reached could result in more software development costs being capitalized.

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(c) Internal-use software and intangible assets

The Company capitalizes certain software development costs related to its Internet product line in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position 98-1 ("SOP 98-1"), Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Judgment is used to determine the useful lives and impairment of capitalized software and intangible assets. Capitalized internal-use software costs are being amortized over a period of five years commencing in the period in which the software is placed into use. The Company assigned a useful life of five years to capitalized software based on the Company's planned use of that software and historical experience of technological obsolescence. Use of a shorter life for capitalized software would result in more amortization expense being recognized each year, resulting in higher costs of revenues. Use of a longer life for capitalized software would result in less amortization expense being recorded during each year, resulting in lower costs of revenues.

Intangible assets include principally acquired technologies purchased from HR Sites. Acquired technologies are being amortized over three years from the date of purchase, which management determined to be the remaining useful life of the technology on the date of purchase. The Company intends to use the acquired technology through its remaining useful life.

The Company is required to evaluate each long-lived asset for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the Company's judgment, there have been no such events or changes in circumstances that would require an evaluation of impairment, since the acquired technologies and capitalized software continue to be used for the provision of Internet service offerings, the Company continues to derive revenue from the customers included in the customer list and the non-compete agreement continues to be enforceable. If the Company had determined that there was a significant event or change in circumstances indicating that there may be impairment to the long-lived assets, the Company would have performed an analysis of impairment and as a result may have reduced the carrying value of those assets or reduced their estimated useful lives.

(d) Deferred income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting For Income Taxes. Under SFAS No. 109, a deferred tax asset or liability is measured by the currently enacted tax rates applied to the differences between the financial statement and tax bases of assets and liabilities. Under SFAS 109, we are required to evaluate the likelihood that benefits will be realized from deferred tax assets and record a valuation allowance against the deferred tax asset if it is more likely than not that the Company will not recognize the benefits of those deferred tax assets. As a result of our evaluation of deferred tax assets, we concluded that it is more likely than not that the Company will not realize the benefit of the deferred tax assets, and as a result, we have provided a valuation allowance for the full

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amount of those deferred tax assets. Our evaluation took into consideration the Company's recurring losses from operations and current temporary differences that are expected to reverse.

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.

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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 and cash equivalents will be sufficient to meet our anticipated working capital and capital expenditure requirements through the near term. We may need to raise additional capital in the long 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 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 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. 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 revenue 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.

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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.

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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 development of the Internet as a recruiting medium.

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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.

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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 currently have a redundant system capability to deal with a service emergency, but we do not presently have a formal rollover 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. There are a large number of job boards, search firms, and Internet

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portal sites that are vying for a share of companies' corporate recruiting budgets. 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

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key content on the Internet, render our existing software and services obsolete or unmarketable and/or result in loss of market share.

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 a 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:

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

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- o the spending patterns of our customers;
- o our sales incentive strategy which is based in part on annual sales targets;
- o the fact that a substantial portion of our revenue often occurs during the last few weeks of each quarter and, as a result, any delays in orders are more likely to result in revenue not being recognized until the following quarter; and
- o 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.

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Our business may continue to experience negative effects from a slowdown in the U.S. and/or global economies.

Over the past year the U.S. economy has experienced a significant slowdown. As a result of this decline, our business was adversely affected. A continuation of this economic trend could have a material adverse effect on our business, financial condition, results of operations or prospects.

Affiliates of SOFTBANK Corp. beneficially own approximately 34% 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 other stockholders' 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 34% of our outstanding common stock. As a result of their stock ownership, SOFTBANK and its affiliates have significant influence 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 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

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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 other stockholders' 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 influence 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.

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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

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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:

- o quarterly variations in our results of operations;
- o adverse business developments that have an impact on our business;
- o changes in financial estimates by securities analysts;
- o investor perception of our Company and online recruitment services in general;
- o announcements by our competitors of new products and services;
- o fluctuations in our common stock price, which may affect our visibility and credibility in the online recruitment market; and

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.

Our stock may not continue to meet applicable requirements for listing on the Nasdaq SmallCap Market.

The closing bid price for our common stock has been less than \$1.00 for more than 30 consecutive trading days, and we are thus not in compliance with the requirements for continued listing on the

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Nasdaq SmallCap Market. We have been in communication with the staff of the Nasdaq Stock Market regarding the matter, and have been notified that our securities may be subject to delisting unless we achieve compliance with the \$1.00 minimum bid price requirement for a least 10 consecutive trading days prior to January 6, 2003 .

If our common stock is no longer listed on the Nasdaq SmallCap Market, it would likely be traded either on the OTC Bulletin Board or "pink sheets," and the liquidity of the market for our shares would be adversely affected.

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.

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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 the 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

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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 the 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, 2001. 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, 2001.

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WEBHIRE, INC.

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

None

Item 5. Other Information

NASDAQ Marketplace Rule 4350(d)(2)(A) generally requires that an audit committee be composed of at least three directors, all of whom are "independent" as defined in Marketplace Rule 4200(a)(14). NASDAQ Marketplace Rule 4350(d)(2)(B) allows an audit committee to have one director who is not independent if the Board of Directors determines, in exceptional and limited circumstances, that such director's membership on the audit committee is required by the best interests of the Company and its shareholders.

On April 18, 2002, the Company's Board of Directors adopted a resolution determining that the continued membership of director Charles R. Lax on the Audit Committee of the Board of Directors is required by the best interests of the Company and its shareholders. This determination was made notwithstanding the fact that Mr. Lax is not "independent," as defined by NASDAQ Marketplace Rule 4200, by virtue of his being a general partner of SOFTBANK Capital Partners LLP ("SOFTBANK") which, together with its affiliates, owns approximately 34% of the Company's outstanding capital stock. The reasons for such determination were that Mr. Lax, who has been appointed under a contractual arrangement with SOFTBANK as SOFTBANK's representative on the Board of Directors and Audit Committee, is experienced and very knowledgeable with respect to financial matters, and his input is greatly valued. It is believed, moreover, that SOFTBANK's significant ownership position in the Company does not create a conflict of interest between SOFTBANK and the other shareholders, but rather creates an identity of interest which makes Mr. Lax an appropriate representative for the Company's shareholders in general.

NASDAQ Marketplace Rule 4450(a)(2) requires that for continued listing on the NASDAQ National Market, a company maintain a minimum market value of its publicly held shares (shares held by persons other than directors, officers and major stockholders) of at least \$5,000,000. The Company is not in compliance with that requirement. Accordingly, the Company applied to transfer listing of its securities from the NASDAQ National Market to the NASDAQ SmallCap Market which application was approved effective May 23, 2002.

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Item 6. Exhibits and Reports on Form 8-K

| Exhibit No. ----- | Description ----- |
|----------------------|----------------------|
|----------------------|----------------------|

(a) None

(b) No reports on Form 8-K were filed by the Company during the quarter ended June 30, 2002.

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.

/s/ MARTIN J. FAHEY

Martin J. Fahey
Chief Executive Officer

/s/ STEPHEN D. ALLISON

Stephen D. Allison
Chief Financial Officer

Date: August 14, 2002