

Edgar Filing: OPUS360 CORP - Form 10-Q

OPUS360 CORP  
Form 10-Q  
November 19, 2001

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 September 30, 2001

OR

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

Commission File number 000-29793

Opus360 Corporation  
d/b/a  
Artemis International Solutions Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

13-4023714  
(I.R.S. Employer  
Identification Number)

39 W. 13th Street, New York, NY  
(Address of Principal Executive Offices)

10011  
(Zip Code)

212-687-1086  
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 for 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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 31, 2001.

Common Stock	123,636,708
(Class)	(Outstanding Shares)

Opus360 Corporation  
d/b/a  
Artemis International Solutions Corporation

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Opus360 Corporation  
d/b/a  
Artemis International Solutions Corporation

### Item 1. Financial Statements

Artemis International Solutions Corporation  
Combined and Consolidated Balance Sheets

	September 30, 2001 (unaudited)	December 31, 2001
-----		
(In thousands, except share)		
Assets		
Current assets:		
Cash	\$ 6,253	\$

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Trade accounts receivable, less allowance for doubtful accounts of \$278 at September 30, 2001 and \$138 at December 31, 2000	15,116	
Accounts receivable-affiliates/distributors	279	
Short-term investments	-	
Prepaid expenses and other current assets	3,668	
	-----	
Total current assets	25,316	
Property and equipment, net of depreciation of \$4,515 at September 30, 2001 and \$4,254 at December 31, 2000	3,823	
Goodwill, net of accumulated amortization of \$17,026 at September 30, 2001 and \$10,505 at December 31, 2000	18,488	
Other intangible assets, net of amortization of \$7,291 at September 30, 2001 and \$2,284 at December 31, 2000	32,735	
Deferred taxes	2,869	
Investment in affiliates and other assets	2,517	
	-----	
Total assets	\$ 85,748	\$
	=====	
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 6,861	\$
Accounts payable - parent company	-	
Short-term line of credit	1,025	
Current portion of long-term debt	1,082	
Deferred revenue	8,407	
Accrued liabilities	11,108	
Accrued taxes	3,403	
Other accrued liabilities	1,261	
	-----	
Total current liabilities	33,147	
Long-term debt, less current portion	2,593	
Accrued pension and other liabilities	1,058	
	-----	
Total liabilities	36,798	
	-----	
Minority interest	-	
Stockholders' equity:		
Common stock, \$0.001 par value, 150,000,000 shares authorized, 123,736,703 and 2,296,523 issued and outstanding, respectively	124	
Investment in stock of parent company	-	
Additional paid-in capital	80,073	
Accumulated deficit	(30,575)	(
Accumulated other comprehensive income (loss)	(672)	
	-----	
Total stockholders' equity	48,950	
	-----	
Total liabilities and stockholders' equity	\$ 85,748	\$
	=====	

See accompanying notes to combined consolidated financial statements

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Artemis International Solutions Corporation  
 Combined and Consolidated Statements of Operations  
 (Unaudited)  
 (in thousands except, per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenue:				
Software	\$ 2,731	\$ 5,959	\$ 10,757	\$13,421
Support	4,382	2,864	12,246	8,636
Services	8,802	3,891	27,373	12,149
Net Revenue	15,915	12,714	50,376	34,206
Cost of revenue:				
Software	546	569	1,423	1,210
Support	1,848	1,408	5,547	8,954
Services	5,968	3,106	18,349	4,047
	8,362	5,083	25,319	14,211
Gross margin	7,553	7,631	25,057	19,995
Operating expenses				
Selling and marketing	4,357	3,128	12,910	8,758
Research and development	3,223	1,887	8,225	5,904
General and administrative	3,202	1,176	7,036	3,551
Amortization expense	3,858	1,899	12,154	3,373
Management fees	-	352	806	1,349
Acquisition costs	363	1,809	363	1,809
	15,003	10,251	41,494	24,744
Operating loss	(7,450)	(2,620)	(16,437)	(4,749)
Interest expense, net	201	307	537	1,018
Equity in loss of unconsolidated affiliates	55		169	
Other (income) expense	11	(125)	(54)	103
	267	182	652	1,121
Loss before income taxes	(7,717)	(2,802)	(17,089)	(5,870)
Income tax expense (benefit)	(15)	(283)	135	(2,850)
Loss before minority interest	(7,702)	(2,519)	(17,224)	(3,020)
Minority interest in earnings of unconsolidated Subsidiary	-	-	(95)	-

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Net loss	\$ (7,702)	\$ (2,519)	\$ (17,129)	\$ (3,020)
Basic and diluted net loss per share	\$ (0.09)	\$ (1.17)	\$ (0.58)	\$ (1.43)
Weighted average common shares used in computing basic and diluted net loss per share	82,826	2,150	29,434	2,109

See accompanying notes to combined consolidated financial statements

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Artemis International Solutions Corporation  
Combined and Consolidated Statement of Stockholders' Equity  
September 30, 2001  
(in thousands)

	Common Stock		Investment in Stock of Parent Company	Additional Paid-in Capital	Accumulated Deficit	Ac Comp Inc
	Shares	Amount				
Balance December 31, 2000	2,242	23	(2,783)	74,555	(11,388)	
Cancellation of stock in parent	-	-	2,783	(2,783)	-	
Capital contribution - parent company contribution of subsidiaries	55	-	-	419	-	
Net Loss	-	-	-	-	(9,429)	
Foreign currency translation adjustment	-	-	-	-	-	
Comprehensive loss	-	-	-	-	-	
Balance June 30, 2001	2,297	23	-	72,191	(20,817)	
Recapitalization to reflect the historical Opus360 common stock on the date of its acquisition by Legacy Artemis	49,798	27	-	(21)	-	
Issuance of stock in connection with share exchange agreement	73,939	74	-	7,903	-	
Distribution of businesses retained by parent company	-	-	-	-	(2,056)	
Net Loss	-	-	-	-	(7,702)	
Foreign currency translation adjustment	-	-	-	-	-	
Comprehensive loss	-	-	-	-	-	

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Balance September 30, 2001                    123,737                    \$124                    \$ -                    \$80,073                    \$(30,575)

=====

See accompanying notes to combined consolidated financial statements

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Artemis International Solutions Corporation  
 Combined and Consolidated Statements of Cash Flows  
 (Unaudited)

	Nine Months Ended September	
	2001	2000
	(In thousands)	
Cash flow from operating activities:		
Net loss	\$(17,129)	\$(3,020)
Adjustments to reconcile net income (loss) to net cash provided		
Provided by operating activities:		
Depreciation and amortization	12,906	2,190
Equity in loss of unconsolidated affiliates	169	
Deferred income taxes and other	(452)	(1,030)
Changes in operating assets and liabilities		
(Increase) decrease in trade accounts receivable	4,117	(220)
(Increase) decrease in prepaid expenses	(1,336)	60
(Increase) decrease in other assets	(910)	(1,530)
Increase (decrease) in accounts payable	(2,070)	90
Increase (decrease) in accrued expenses	1,670	86
Increase (decrease) in accrued wages	(204)	(5)
Increase (decrease) in deferred revenues	(1,843)	9
Increase (decrease) in other liabilities	(184)	(330)
Net cash used in operating activities	(5,266)	(1,540)
Cash flow from investing activities:		
Capital expenditures, net	(552)	(500)
Cash provided by former parent contribution of subsidiaries	848	
Cash provided from acquisitions	13,554	
Net cash provided by (used in) investing activities	13,850	(500)
Cash flow from financing activities:		
Funding from debt and lines of credit	2,747	5,540
Assets retained by parent company	(2,056)	
Payments of debt and capital leases	(5,360)	(5,420)
Net cash used in (provided by) financing activities	(4,669)	120
Effect of exchange rate changes on cash	(862)	1,190

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Net increase (decrease) in cash	3,053	(73)
Cash at the beginning of the period	3,200	1,62
Cash at the end of the period	\$ 6,253	\$ 89

See accompanying notes to combined consolidated financial statements

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Opus360 Corporation  
d/b/a  
Artemis International Solutions Corporation  
Notes to the Consolidated Financial Statements  
(Unaudited)  
(all tabular amounts in thousands except per share amounts)

Note 1. Organization and Summary of Accounting Policies

(a) Organization and Description of Business

Opus360 Corporation was incorporated on August 17, 1998, under the laws of the State of Delaware and is currently doing business under the name "Artemis International Solutions Corporation". In April 2001, Opus360 Corporation and Proha Plc ("Proha"), a Finnish corporation, entered into a Share Exchange Agreement (the "Share Exchange Agreement") pursuant to which, upon completion of the transactions contemplated under such agreement (the "Share Exchange Transactions"), Opus360 Corporation would exchange 80% of its post-transaction outstanding Common Stock for all of the capital stock of Artemis Acquisition Corporation ("Legacy Artemis"), a Delaware corporation and 19.9% of two Finnish subsidiaries of Proha, Intellisoft OY and Accountor OY.

As used herein, "Opus360" refers to Opus360 Corporation prior to the closing of the Share Exchange Transactions, "Artemis International" or the "Company" refers to Opus360 Corporation after the closing of the Share Exchange Transactions and Legacy Artemis refers to Artemis Acquisition Corporation, the parent corporation of the Artemis business organization and the entity treated as the accounting acquiror in the Share Exchange Transactions as more fully described below.

Legacy Artemis is a developer and supplier of comprehensive, project and resource collaboration application software products and consulting services, with operations in 27 countries and pro forma revenues of \$76.8 million for the year ended December 31, 2000.

On July 27, 1998, Legacy Artemis acquired 100% of the outstanding stock of Software Productivity Research, Inc. ("SPR") for cash of \$3,500,000 and a note to SPR stockholders in the amount of \$3,000,000. The note accrued interest at the rate of 8.5% annually and was payable in four equal annual installments with a final maturity date of July 27, 2002. This note was paid in full on August 24, 2000.

On August 24, 2000, Legacy Artemis was acquired by Proha PLC ("Proha"), a Finnish corporation.

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Subsequent to December 31, 2000, Proha entered into one or more agreements to contribute its interests in the following entities to the Company (the "Contributed Businesses"):

- Projektihallinto Proha Oy (now known as Artemis Finland Oy) ("Artemis Finland"), a wholly owned Finnish subsidiary of Proha. This interest was held by Proha on the date (August 24, 2000) the Company was acquired by Proha.
- Minority interests of 19.9% in each of Accountor Oy and Intellisoft Oy, two other wholly owned Finnish subsidiaries of Proha. These interests were held by Proha on the date (August 24, 2000) the Company was acquired by Proha. These companies are included in the financial results of the Company under the equity method of accounting.
- Majority interests in Enterprise Management Systems Srl, Artemis International S.p.A., Solutions International SA, Artemis International GMBH and Artemis International Sarl. These majority interests were acquired by Proha as of December 1, 2000. Prior to December 1, 2000, minority interests were held in each of these entities by Legacy Artemis. After the purchase of the majority interests on December 1, 2000, each of these entities was wholly owned through the combined ownership interest of Proha and Legacy Artemis, except for Artemis International GMBH, which continued to be owned 43.2% by entities outside of the parent company controlled group.
- Two entities, PMSoft Korea, Ltd. and JST Investments Pte Ltd., purchased by Proha on January 3, 2001, were subsequently contributed by Proha to Legacy Artemis.

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### (b) Basis of Presentation

Generally accepted accounting principles require in certain circumstances that a company whose shareholders retain the majority voting interest, governing body and senior management in the combined business to be treated as the acquiror for financial reporting purposes. As a result of the Share Exchange Transactions, Proha, the former shareholder of Legacy Artemis, will hold a majority interest in the Company, governing body and senior management in the combined company. Accordingly, for accounting purposes the transaction will be treated as a reverse acquisition in which Legacy Artemis is deemed to have purchased Opus360, although Opus360 remains the legal parent entity and the registrant for Securities and Exchange Commission ("SEC") reporting purposes.

The consolidated financial statements included herein represent the historical financial statements of Legacy Artemis, as the accounting acquiror, and the acquisition of Opus360 has been accounted for under the purchase method of accounting. The assets acquired and liabilities assumed of Opus360, as the acquired entity, are recorded at their fair values at July 31, 2001. The excess of the fair values of the identifiable net assets over the purchase price is treated as negative goodwill. Negative goodwill is first applied to reduce the assigned value of identifiable non-current assets other than long-term investments in marketable securities and deferred tax assets, until those assets are reduced to zero. The accounts of Legacy Artemis include its wholly owned subsidiaries: Artemis Acquisition



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Corporation, Artemis Holdings, Inc., Artemis International Corporation, Software Productivity Research, Inc., and Artemis International Corporation Systems Limited for all periods presented.

The acquisitions of PMSOft Korea, Ltd. and JST Investments Pte Ltd. were not material, either individually or collectively, to the Company's consolidated financial statements taken as a whole. The Consolidated Statements of Operations reflect the results of these companies' operations since acquisition.

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Each of the other Contributed Businesses is reflected as having been contributed by Proha as of the later of the date Legacy Artemis was acquired by Proha or the date these interests were effectively under the common control of Legacy Artemis. Accordingly, results of Artemis Finland and the 19.9% minority interests in Accountor Oy and Intellisoft Oy have been included in the accompanying financial statements since August 24, 2000. The results of the majority interests in Enterprise Management Systems Srl, Artemis International S.p.A., Solutions International SA, Artemis International GMBH and Artemis International Sarl have been included in the accompanying financial statements as of December 1, 2000.

All material intercompany transactions and balances have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles and reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarters or for the entire year ending December 31, 2001. These interim financial statements should be read with reference to the audited financial statements of Legacy Artemis appearing in the definitive Proxy Statement filed with the SEC on November 6, 2001.

### (c) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### (d) Impairment of Long-Lived Assets

The Company evaluates the carrying value of its long-lived assets under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 requires impairment losses to be recorded on long-lived assets used in operations, including goodwill, when indicators of impairment are present and the undiscounted future cash flows, estimated to be generated by those assets are less than the assets' carrying value. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair market value of the assets. Assets to be disposed of are reported at the lower of the carrying value or fair market value, less cost to sell. Since the Company's inception through September 30, 2001, no impairment

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losses have been identified.

(e) Translation of Foreign Currencies

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the end of the period exchange rates, and revenues and expenses are translated at average rates prevailing during the period. Translation adjustments are included as a component of stockholders' equity. Foreign currency transaction gains and losses, are included in results of operations.

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Note 2. Comprehensive Loss

The components of comprehensive loss, net of taxes, were as follows:

	For the Three Months Ended September 30,		For the Nine September
	2001	2000	2001
Net loss	\$ (7,702)	\$ (2,519)	\$ (17,129)
Other comprehensive income (loss)			
Foreign currency translation	101	(315)	(1,170)
Comprehensive loss	\$ (7,601)	\$ (2,834)	\$ (18,299)

Note 3. Acquisitions

On July 31, 2001, Opus360 acquired all of the capital stock of Legacy Artemis in exchange for 73,938,702 shares of Opus360 Common Stock. The consolidated financial statements included herein represent the historical financial statements of Legacy Artemis, as the accounting acquiror, and the acquisition of Opus360 has been accounted for under the purchase method of accounting. The assets acquired and liabilities assumed of Opus360, as the acquired entity, are recorded at their fair values at July 31, 2001, under the purchase method of accounting. The excess of the fair values of the identifiable net assets over the purchase price was treated as negative goodwill. Negative goodwill was first applied to reduce the assigned value of identifiable non-current assets other than long-term investments in marketable securities and deferred tax assets, until those assets were reduced to zero.

The purchase price was determined using the number of shares attributable to the Opus360 interest in the combined post merger entity and the five day average closing price of Opus360 common stock on April 11, 2001 and the two days preceding and following April 11, 2001, the date the terms were agreed by the parties and announced to the public.

Outstanding shares prior to Share Exchange Transaction..... 49,857,000

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Average closing price.....	\$0.20
Market value.....	\$9,971,000
Market value issued to acquiror per Share Exchange Agreement.....	\$7,977,000
Acquisition costs.....	747,000
Total purchase consideration .....	\$8,724,000
Fair value of net assets acquired.....	\$17,674,000
	-----
Excess of fair market value of net assets acquired over market value.....	\$8,950,000
	=====

The book value of net assets acquired at July 31, 2001 approximates fair market value as the current assets and liabilities are liquid in nature and the other long-term assets principally relate to recently acquired computer equipment and software. Fair market value of net assets acquired principally consisted of the following:

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Cash.....		\$13,555,000
Prepaid expenses and other current assets.....		1,269,000
Property, plant and equipment.....		7,481,000
Other assets		
Purchased software.....	2,036,000	
Capitalized software.....	2,214,000	
Other assets.....	782,000	
		-----
	Subtotal	5,032,000
		-----
Total assets.....		27,337,000
Current liabilities.....		(9,594,000)
Other liabilities.....		(69,000)
		-----
Net assets.....		\$17,674,000
		-----

The excess of the fair market value of the net assets acquired over the purchase price is negative goodwill. SFAS No. 141, "Business Combinations" provides that all business combinations initiated after June 30, 2001 must be accounted for using the purchase method. Negative goodwill, the amount by which the sum of the fair market values of the assets acquired and liabilities assumed exceeds the acquisition cost, must be allocated as a proportionate reduction in the basis of certain acquired assets.

The negative goodwill of approximately \$9.0 million has been allocated as follows:

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Property and equipment.....	\$5,350,000
Other assets.....	3,600,000
	-----
	\$8,950,000
	-----

Pro forma information:

The following unaudited pro forma combined condensed financial data combine the historical combined and consolidated statements of operations of Legacy Artemis and Opus360, giving effect to the Share Exchange Transaction using the purchase method of accounting. The historical statements of operations for Legacy Artemis and Opus360 have been adjusted to conform to the pro-forma financial statement presentation of the combined companies. The pro forma combined condensed financial data for the three and nine months ending September 30, 2001 and 2000, respectively reflect the transaction as if it had occurred on January 1, 2000.

The report of KPMG LLP on the December 31, 2000 consolidated financial statement for Opus360 contained an explanatory paragraph that stated Opus360 has incurred substantial recurring losses from operations and expects to incur substantial losses in the near future. These factors raise substantial doubts about its ability to continue as a going concern. The combined condensed financial data do not include any adjustments that might result from the outcome of this uncertainty. The information should be read together with our historical financial statements and related notes contained in the annual reports and other information the Company has filed with the SEC.

	For the Three Months Ended September 30,		For the Se
	2001	2000	2001
	-----		
	(in thousands except, per share)		
Revenue	\$ 15,950	\$ 21,673	\$ 52,13
Net loss	\$ (13,584)	(17,154)	\$ (44,63
Loss per share	\$ (0.05)	\$ (0.07)	\$ (0.1

Opus360's results of operations at July 31, 2001 has been adjusted to reflect the pro forma adjustments required to eliminate an impairment charge of approximately \$23 million for the impairment of goodwill and the impairment of computer equipment. In addition the amortization of deferred compensation has been eliminated as the Company's deferred compensation was written off in connection with its acquisition by Legacy Artemis, and depreciation of amortization of property and equipment and intangibles have been adjusted to reflect the write-down of non-current assets for the

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allocation of negative goodwill.

On January 3, 2001, Proha purchased two entities, PMSoft Korea, Ltd. and JST Investments Pte Ltd. and subsequently contributed these entities to Legacy Artemis in exchange for 53,871 shares of Legacy Artemis's Series A Common Stock. These acquisitions were not material, either individually or collectively, to the Company's consolidated financial statements taken as a whole. The Consolidated Statements of Operations reflect the results of these companies' operations since acquisition.

On August 24, 2000 Proha purchased all of the outstanding stock of Legacy Artemis. The purchase was structured as a share exchange whereby Proha issued shares of its publicly traded (Helsinki Exchange) common stock to Legacy Artemis's equity holders in exchange for all of Legacy Artemis's stock. The purchase price was \$50 million, less post-closing adjustments of approximately \$6 million. The amount of the purchase price adjustments was determined subsequent to the effective date of the transaction, and as a result, Legacy Artemis' former shareholders were required to contribute to Legacy Artemis \$6,011,000 of the Proha stock. These contributions have been recorded on a net of taxes basis, as additional paid-in capital and as an offsetting reduction in stockholders' equity, similar to treasury stock, as an investment in the stock of the parent company. Subsequent to the receipt of the Proha shares, Legacy Artemis sold a portion of these shares, resulting in a gain of \$518,000, net of taxes of \$304,000, which has been recorded as additional paid-in capital. At December 31, 2000, the Company held 392,036 shares of Proha, recorded at \$2,783,000, net of deferred income taxes of \$1,634,000.

As a result of the transaction, Legacy Artemis recorded goodwill of approximately \$18.7 million with a corresponding increase in additional paid-in capital. Legacy Artemis also recorded approximately \$32.3 million of intangible assets and \$2.2 million of in-process research and development. The pro forma information above includes an adjustment to record the amortization of goodwill as if the acquisition had occurred at January 1, 2000

Note 4. Accounts Receivable, net:

At September 30, 2001 and December 31, 2000 the breakdown of accounts receivable was as follows:

	September 30, 2001	December 31, 2000
	-----	-----
Billed receivables	\$13,512	\$15,651
Unbilled receivables	1,882	1,856
	-----	-----
	15,394	17,507
Less allowance for doubtful receivables	(278)	(138)
	-----	-----
Net Trade Accounts Receivable	\$15,116	\$17,369
	-----	-----

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Changes in the allowance for doubtful receivables were as follows:

	September 30, 2001	December 31, 2000
	-----	-----
Beginning balance	\$ (138)	\$ 0
Provision for doubtful receivables	(178)	(138)
Write-offs	38	0
	-----	-----
Ending balance	\$ (278)	\$ (138)
	-----	-----

Note 5. Lines of Credit

In February 2000 and June 2000, the Company borrowed \$1.1 million and \$0.7 million, respectively, as part of a \$1.8 million equipment line of credit (the "Facility") with a bank. The annual interest rate on the Facility is equal to the bank prime rate plus 1.25%. The Company has an outstanding balance under the Facility at September 30, 2001 of \$0.8 million with an interest rate of prime plus 1.25%. The rate at September 30, 2001 was 8.75% per annum. The Company is in compliance with the debt covenants of the Facility.

Foothill Capital has extended a combination of Note Payable and a Line of Credit totaling approximately \$4.2 million (the "Foothill Facility"). This combined facility bears interest at the prime rate plus 2%, but not less than 9%, and is due in full on August 1, 2003. At September 30, 2001, \$2.4 million was drawn under the Foothill Facility.

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	September 2001
	-----
Note payable, line of credit, due to Foothills Capital Corporation. Interest rate of prime plus 2.00% (11.5% at December 31, 2000 and 9.5% at September 30, 2001).	\$2,431
Note payable to Proha Plc. Interest rate of 4% per annum which is payable on demand.	390
Other long-term debt. A bank facility bearing interest of 9% per annum payable in arrears at the end of each month.	48
Silicon Valley Bank line of credit facility. Interest rate of prime plus 1.25% (8.75% at September 30, 2001).	806
	-----

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Total	3,675
Less current portion of long term debt	1,082
Long term debt, less current portion	----- \$2,593 -----

Interest paid was approximately \$0.5 million and \$1.0 million for the nine months ended September 30, 2001 and 2000, respectively.

Note 6. Commitments

Advertising Agreements:

The Company remains contractually obligated for advertising commitments entered into by Opus360 prior to the combination of Legacy Artemis and Opus360 on July 31, 2001.

The Company has to purchase an aggregate of \$6.3 million in advertising from various media companies and their affiliated Internet sites through September 2002. Approximately \$3.6 million of the advertising commitment is contingent on the delivery of a specified number of monthly impressions, which if not delivered can result in a termination of the commitment. As of September 30, 2001, the Company has purchased and expensed \$4.0 million of the \$6.3 million advertising commitment.

Leases:

The Company leases certain facilities and equipment under noncancelable operating lease agreements. Rent expense for the nine months ended September 30, 2001 and 2000 was approximately \$2.2 million and \$2.1 million, respectively.

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Future minimum rental commitments for the operating leases are as follows:

2001 (Three months ended December 31, 2001).....	\$ 494
2002.....	1,578
2003.....	1,204
2004.....	317
2005.....	42
Total lease payments.....	\$3,635

Note 7. Basic and Diluted Net Loss Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

Three months ended

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	September 30,	
	2001	2000
	-----	-----
Numerator:		
Net loss	\$ (7,702)	\$ (2,519)
	-----	-----
Denominator:		
Basic and diluted loss per share weighted average shares	82,826	2,150
	-----	-----
Basic and diluted net loss per share	\$ (0.09)	\$ (1.17)
	-----	-----

	Nine months ended	
	September 30,	
	2001	2000
	-----	-----
Numerator:		
Net loss	\$ (17,129)	\$ (3,020)
	-----	-----
Denominator:		
Basic and diluted loss per share weighted average shares	29,434	2,109
	-----	-----
Basic and diluted net loss per share	\$ (0.58)	\$ (1.43)
	-----	-----

Diluted net loss for the three and nine months ended September 30, 2001 does not include the effect of options and warrants to purchase 15,540,848 shares of common stock.

Pro forma basic and diluted loss per share is computed by assuming the issuance of the 73,938,702 shares issued to Proha on July 31, 2001 and the issuance of the additional tranche of approximately 125,487,000 shares to be issued to Proha on a date as soon as practicable after all of the closing conditions set forth in the Share Exchange Agreement with respect to such delivery, are satisfied or waived, as if such shares were outstanding from the beginning of each of the periods presented.



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	September 30,	
	2001	2000
	-----	-----
Numerator:		
Net loss	\$ (7,702)	\$ (2,519)
	-----	-----
Denominator:		
Weighted average shares	82,826	2,150
Assumed issuance of additional shares to Proha	166,413	247,089
	-----	-----
	249,239	249,239
	-----	-----
Basic and diluted net loss per share	\$ (0.03)	\$ (0.01)
	-----	-----

	Nine months ended	
	September 30,	
	2001	2000
	-----	-----
Numerator:		
Net loss	\$ (17,129)	\$ (3,020)
	-----	-----
Denominator:		
Weighted average shares	29,434	2,109
Assumed issuance of additional shares to Proha	219,805	247,130
	-----	-----
	249,239	249,239
	-----	-----
Basic and diluted net loss per share	\$ (0.07)	\$ (0.01)
	-----	-----

Note 8: Segment and Geographic Information

The Company's chief operating decision maker reviews financial information presented on a country basis, accompanied by revenue and cost of revenue based upon the nature of the services, for purposes of assessing financial performance and making operating decisions. The Company has changed its segment reporting in the current period to align its segment reporting with how management operates its businesses. Previously the Company reported its segments as "Training and Consulting" and "Software License Sales and Other Recurring Services." The "Training and Consulting" revenues are classified below as Services revenue and the "Software License Sales and Other Recurring Services" is now classified separately as Software revenue and Support revenue. The Company is principally engaged in the design, development, marketing, licensing and support of integrated project and resource collaboration solutions operating on a diverse range of hardware

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platforms and operating systems.

The following table presents information about the Company's operations by geographic area for the three and nine months ended September 30, 2001 and 2000.

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For the Three and Nine Months Ended September 30, 2001 (in thousands):

Three Months Ended September 30, 2001

	US	UK	Japan	France	Germany	Italy	Finland
	-----	-----	-----	-----	-----	-----	-----
Revenue							
Software	\$735	\$581	\$446	\$94	\$393	\$286	\$353
Support	1,475	796	759	497	330	196	511
Services	5,117	666	478	724	232	815	426
	-----	-----	-----	-----	-----	-----	-----
Total Revenue	7,327	2,043	1,683	1,315	955	1,297	1,290
	-----	-----	-----	-----	-----	-----	-----
Cost of revenue:							
Software	63	3	154	51	22	3	220
Support	533	339	567	187	84	5	111
Services	3,110	363	513	792	245	136	628
	-----	-----	-----	-----	-----	-----	-----
Total cost of revenue	3,706	705	1,234	1,030	351	144	959
	-----	-----	-----	-----	-----	-----	-----
Operating income	\$ (5,644)	\$ (218)	\$ (111)	\$ (296)	\$85	\$190	\$ (937)
	-----	-----	-----	-----	-----	-----	-----

Nine Months Ended September 30, 2001

	US	UK	Japan	France	Germany	Italy	Finland
	-----	-----	-----	-----	-----	-----	-----
Revenue							
Software	\$3,309	\$2,569	\$1,133	\$1,189	\$750	\$1,133	\$1,249
Support	4,389	2,315	1,773	1,554	967	562	1,314
Services	13,420	2,223	2,201	2,598	657	2,991	2,294
	-----	-----	-----	-----	-----	-----	-----
Total Revenue	21,118	7,107	5,107	5,341	2,374	4,686	4,857
	-----	-----	-----	-----	-----	-----	-----
Cost of revenue:							
Software	169	187	284	120	41	28	514
Support	1,705	927	1,351	636	246	308	257
Services	8,067	1,228	1,636	2,439	669	1,632	2,056
	-----	-----	-----	-----	-----	-----	-----
Total cost of revenue	9,941	2,342	3,271	3,195	956	1,968	2,827
	-----	-----	-----	-----	-----	-----	-----
	-----	-----	-----	-----	-----	-----	-----

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Operating income	\$ (13,427)	\$ (194)	\$ (235)	\$251	\$1	\$1,098	\$ (2,070)
------------------	-------------	----------	----------	-------	-----	---------	------------

For the Three and Nine Months Ended September 30, 2000 (in thousands):

Three Months Ended September 30, 2000

	US	UK	Japan	France	Germany	Italy	Finland
Revenue							
Software	\$4,040	\$1,898	\$683	\$ -	\$ -	\$ -	\$ -
Support	1,405	826	633	-	-	-	-
Services	1,954	798	1,139	-	-	-	-
Total Revenue	7,399	3,522	2,455	-	-	-	-
Cost of revenue:							
Software	369	11	189	-	-	-	-
Support	583	312	513	-	-	-	-
Services	1,543	715	848	-	-	-	-
Total cost of revenue	2,495	1,038	1,550	-	-	-	-
Operating income	\$ (2,942)	\$159	\$163	\$ -	\$ -	\$ -	\$ -

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Nine Months Ended September 30, 2000

	US	UK	Japan	France	Germany	Italy	Finland
Revenue							
Software	\$8,292	\$3,763	\$2,028	\$ -	\$ -	\$ -	\$ -
Support	4,146	2,651	1,839	-	-	-	-
Services	6,105	2,550	3,494	-	-	-	-
Total Revenue	18,543	8,964	7,361	-	-	-	-
Cost of revenue:							
Software	639	68	503	-	-	-	-
Support	1,671	1,073	1,303	-	-	-	-
Services	4,102	1,952	2,900	-	-	-	-
Total cost of revenue	6,412	3,093	4,706	-	-	-	-

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Operating income	\$ (5,650)	\$419	\$482	\$ -	\$ -	\$ -	\$ -
	-----	-----	-----	-----	-----	-----	-----
Identifiable Assets							September 30, 2001
USA							90,
United Kingdom							9,
Japan							3,
France							2,
Other							12,
Eliminations							(32,
							-----
Consolidated							85,
							-----

Note 9. Related Party Transactions

Legacy Artemis had entered into a management agreement with Gores Technology Group ("Gores"). The management agreement called for Gores to provide certain management services to Legacy Artemis. In August 2000, Legacy Artemis entered into a management agreement with Proha pursuant to which Proha is required to provide certain management services to Legacy Artemis. Management fees incurred and paid were approximately \$352,000 for the three months ended September 30, 2000 and approximately \$806,000 and \$1,349,000 for the nine months ended September 30, 2001 and 2000, respectively. On August 24, 2000 Legacy Artemis terminated the agreement with Gores in conjunction with its acquisition by Proha.

At September 30, 2001 and December 31, 2000, the Company maintained the following equity holdings in joint ventures which are accounted for under the equity method, with the exception of Scandinavia and the Netherlands which are accounted for under the cost method:

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September 30, 2001:

	Percent	Investment	Total Revenue	Net Income (Loss)	Total Assets
	-----	-----	-----	-----	-----
Scandinavia	9.9%	44,071	3,113,728	(21,507)	2,125,1
Australia	0.0%	-	-	-	
Netherlands	7.6%	66,372	2,290,709	(30,136)	1,290,2
Finland	19.9%	248,081	918,833	(52,078)	316,1
Changepoint Germany	40.0%	14,787	32,933	(761,915)	49,4
Changepoint France	40.0%	2,773	528,651	(181,183)	569,6
Other	-	-	-	-	
CSC Guarantee	-	-	-	-	
		-----			

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376,084  
 =====

December 31, 2000

	Percent	Investment	Total Revenue	Net Income (Loss)	Total Assets
	-----	-----	-----	-----	-----
Scandinavia	9.9%	\$ -	\$3,306,000	\$ (129,000)	\$2,056,000
Australia	0.0%				
Singapore	49.0%	549,000	2,027,000	91,000	1,669,000
Netherlands	7.6%	67,000	2,618,000	(49,000)	1,670,000
Finland	19.9%	219,000	1,692,000	(683,000)	4,324,000
Other	-	(36,000)	-	-	-
CSC Guarantee	-	-	-	-	-
		-----			
		\$799,000			
		=====			

The interests in Scandinavia and the Netherlands were the result of investments by Proha and contributed to Legacy Artemis on August 24, 2000. The Changepoint Germany and France joint ventures were entered into on January 3, 2001. The Finnish minority equity holdings was contributed to Legacy Artemis on August 24, 2000 by Proha and is accounted for under the equity method as the Company exercises significant influence over these the investment. The Singapore investment was contributed to Legacy Artemis by Proha on January 3, 2001 and is included in the Company's financial statements thereafter as a wholly owned subsidiary.

Note 10. Stockholders' Equity

Proha contributed various subsidiaries, valued at \$0.4 million to Legacy Artemis on January 3, 2001 in exchange for approximately 55,000 shares of Legacy Artemis's common stock. During the six months ended June 30, 2001, Proha cancelled shares it had issued to Legacy Artemis, resulting in a decrease of approximately \$2.8 million in both treasury stock and paid in capital. For the six months ended June 30, 2001, Legacy Artemis reported a net loss of approximately \$9.4 million and a foreign currency translation adjustment of approximately \$(1.3) million.

On July 31, 2001, the date Opus360 was acquired by Legacy Artemis, Opus360 had approximately 50 million shares of common stock outstanding. Although the transaction is treated for accounting purposes as a reverse acquisition in which Legacy Artemis is deemed to have purchased Opus360, Opus360 remains the legal parent entity. As the legal parent entity, Opus360's historical shares outstanding on the acquisition date became the outstanding shares of the Company. In connection with its acquisition of Opus360, 2.3 million shares of Legacy Artemis were exchanged for approximately 74 million shares newly issued by Opus360 and valued at approximately \$8.0 million. The Company's aggregate common shares outstanding at September 30, 2001 of approximately 124 million is therefore comprised of the historical Opus360 50

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million shares and the additional 74 million shares issued in connection with the acquisition. The combined consolidated financial statements as of December 31, 2000 and June 30, 2001 included the combination of certain businesses under common control. Upon the consummation of the Share Exchange Transaction on July 31, 2001, the legal transfer of the interest in the assets was completed. Pursuant to the Share Exchange Agreement, certain assets with a book value of \$2.1 million included in the combined consolidated balance sheet as of December 31, 2000 and June 30, 2001 were retained by Proha. For the three months ended September 30, 2001, the Company reported a net loss of \$7.7 million and a foreign currency translation adjustment of approximately \$0.1 million.

### Stock Options:

Legacy Artemis historically had issued options to purchase its stock to employees and others. All such options were exercised, cancelled or expired prior to the consummation of the Share Exchange Transactions. The stock options issued by Opus360 prior to the consummation of the Share Exchange Transactions, and the option plans under which most of such options were issued, continue in full force and effect, as although Legacy Artemis is the acquiror for accounting purposes in the Share Exchange Transactions, Opus360 as a legal entity survived the consummation of such transaction. The following description of the Company's stock option plans reflects the stock option plans of Opus360 which are still issued and outstanding.

In March 2000, the Company adopted the (1) 2000 Stock Option Plan (the "2000 Plan"), which provides for the granting of non-qualified and incentive stock options to employees, board members and advisors (2) the 2000 Non-Employee Directors' Plan (the "Non-Employee Director Plan"), which provides for automatic, non-discretionary grants, of non-qualified stock options to non-employee board members, as defined, and (3) the 2000 Employee Stock Purchase Plan (the "ESPP"), which permits eligible employees to acquire, through payroll deductions, shares of the Company's common stock. The 2000 Plan and the Non-Employee Director Plan authorize the granting of up to 10.0 million and up to 1.1 million options, respectively, and provide for option terms not to exceed ten years. The ESPP authorizes the issuance of up to 2.8 million shares to participating employees. The Company's 1998 Stock Option Plan authorized the granting of up to 6.2 million options and provided for option terms not to exceed ten years. During the quarter ended September 30, 2001 the Company granted 3,083,000 options with exercise prices ranging from \$0.08 to \$0.09. The exercise price was equal to the fair market value on the date of grant.

### Note 11. Subsequent Events

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On November 6, 2001, the Company filed a definitive Proxy Statement with the SEC. The proxy solicited stockholder approval at a special meeting to be held on November 20, 2001 of two proposals: (1) to amend our restated certificate of incorporation to increase the number of authorized shares of common stock of the Company from 150,000,000 to 500,000,000; and (2) to amend our restated certificate of incorporation to change the name of the Company from "Opus360 Corporation" to "Artemis International Solutions Corporation."

In connection with the Share Exchange Agreement, Proha entered into a voting agreement (as amended, the "First Voting Agreement"), dated as of April 11, 2001 with Ari Horowitz. Pursuant to the First Voting Agreement, Ari Horowitz has agreed among other things to cause all of his 3,333,351 shares of our Common

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Stock to be cast in favor of proposal numbers 1 and 2.

In addition to the First Voting Agreement, and in connection with the amendment to the Share Exchange Agreement, Proha entered into a voting agreement (the "Second Voting Agreement"), dated as of July 31, 2001 with Ari Horowitz. Pursuant to the Second Voting Agreement, Proha has agreed among other things to cause all of its 73,938,702 shares of our Common Stock to be cast in favor of proposal numbers 1 and 2.

As a result of both the First Voting Agreement and the Second Voting Agreement, there are commitments outstanding representing approximately 62.44% of the outstanding shares of our Common Stock to vote in favor of proposal numbers 1 and 2. Because both proposal numbers 1 and 2 only require a majority vote of our outstanding Common Stock and pursuant to the First Voting Agreement and Second Voting Agreement, there are currently enough votes committed to approve both proposal numbers 1 and 2.

### Note 12. Contingencies

As of September 30, 2001, the Company had granted options to purchase approximately 97,125 shares of its common stock to its former FreeAgent e.office employees, which may not have complied with certain federal and state securities laws. On October 15, 2001, the Company paid to these former FreeAgent e.office employees approximately \$0.1 million, including interest, in exchange for all of the unexercised options issued to these FreeAgent e.office employees at 20% of the option exercise price multiplied by the number of shares subject to such options, plus interest at the rate of 10% per year from the date of issuance until October 15, 2001.

Acceptance of the Company's payment will terminate a purchaser's right to rescind a sale of stock, which was not registered as may have been required. Accordingly, if any FreeAgent e.office employees reject the payment, the Company may continue to be contingently liable for the purchase price of these options, which may not have been issued in compliance with applicable securities laws.

On April 6, 2001 a lawsuit purporting to be a class action and captioned CHARLES BLAND VS. OPUS360 CORPORATION, ET AL., 01 Civ. 2938 (the "BLAND Action") was filed in the United States District Court for the Southern District of New York. The BLAND Action is brought on behalf of a proposed class of all persons who acquired securities of the Company between April 7, 2000 and December 6, 2000. Named as defendants in the BLAND Action are the Company, eleven current and former officers and directors of the Company, the underwriters of the Company's initial public offering and two shareholders (the "Selling Shareholders") who sold stock in a secondary

offering (collectively with the initial public offering, the "Offering") concurrent with the initial public offering.

The amended and restated complaint in the BLAND Action alleges that, among other things, the plaintiff and members of the proposed class were damaged when they acquired securities of the Company because false and misleading information and material omissions in the registration statement relating to the Offering caused the prices of the Company's securities to be inflated artificially. It also alleges violations of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933 (the "Securities Act"). Damages in unspecified amounts

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and certain rescission rights are sought.

Since the filing of the BLAND Action, ten similar putative class actions (the "Additional Actions" and together with the BLAND Action, the "Actions") also have been filed in the United States District Court for the Southern District of New York. The Additional Actions are brought on behalf of all persons who acquired securities of the Company between April 7, 2000 and March 20, 2001. Named as defendants in the Additional Actions are the Company, ten current and former officers and directors of the Company, the underwriters of the Company's initial public offering and the Selling Shareholders. As in the BLAND Action, the complaints in the Additional Actions allege false and misleading information and material omissions in the registration statement relating to the Offering in purported violation of Sections 11, 12(a)(2), and 15 of the Securities Act. Damages in unspecified amounts and certain rescission rights are sought.

On or about June 5, 2001, an action captioned KENNETH SHIVES, ET AL. V. BANK OF AMERICA SECURITIES LLC, ET AL., 01 Civ. 4956 (the "SHIVES Action") was filed in the United States District Court for the Southern District of New York. The complaint in the SHIVES Action asserts claims against the Company, certain of its present or former officers and directors (collectively, the "Opus360 Defendants"), two shareholders (the "Selling Shareholders") who sold stock in a secondary offering and the underwriters that managed the Company's April 2000 Offering, for alleged violations of the federal securities laws (principally Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934.) The complaint is based on allegations that the various underwriter defendants engaged in (and involved other defendants in) a broad scheme to artificially inflate and maintain the market price of the common stock of various companies named as defendants (including Opus360), and to cause the named plaintiffs and other members of the putative class to purchase the stock of those companies at artificially inflated prices.

On or about July 20, 2001, counsel for the plaintiffs in the SHIVES Action and counsel for the Opus360 Defendants and the Selling Shareholders executed stipulations in which the plaintiffs agreed to drop the Opus360 Defendants and the Selling Shareholders as defendants in the SHIVES Action and to dismiss without prejudice the claims asserted in that action against each of those defendants. Those stipulations were so ordered by the Court on or about July 24, 2001, and the Opus360 Defendants and the Selling Shareholders are no longer defendants in the SHIVES Action.

On October 24, the Company and all other defendants filed motions to dismiss the claims in the Bland Action. The Company believes the claims made in the Actions are without merit and intends to vigorously defend the Actions.

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### ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical facts may be deemed to be



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forward-looking statements. For example, words such as "may", "will", "should", "estimates", "predicts", "potential", "continue", "strategy", "believes", "expects", "anticipates", "plans", "intends", and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements are detailed in the documents filed by the Company with the Securities and Exchange Commission including but not limited to those discussed under the caption "Risk Factors" in our definitive Proxy Statement filed with the SEC on November 6, 2001.

### Overview

On July 31, 2001, the Company consummated the first phase of a transaction contemplated by the Share Exchange Agreement in connection with which the Company exchanged approximately 74 million shares of its Common Stock for all outstanding shares of Legacy Artemis. Generally accepted accounting principles require in certain circumstances that a company whose shareholders retain the majority voting interest, governing body and senior management in the combined business to be treated as the acquiror for financial reporting purposes. As a result of the transaction contemplated by the Share Exchange Agreement, the former shareholder of Legacy Artemis will hold a majority interest in the Company, governing body and senior management in the combined company. Accordingly, for accounting purposes the transaction will be treated as a reverse acquisition in which Legacy Artemis is deemed to have purchased Opus360, although Opus360 remains the legal parent entity and the registrant for Securities and Exchange Commission reporting purposes.

Legacy Artemis is a developer and supplier of comprehensive, project management application software products and consulting services. Founded in 1976, Legacy Artemis has a history of leadership in the project and resource collaboration market. Legacy Artemis's products estimate, plan, track, and manage business projects using a comprehensive suite of integrated project and resource collaboration software solutions. These products help clients significantly improve their ability to execute projects in a timely, controlled manner. Using these products, clients can realize such tangible business benefits as higher project success rates, reduced cost overruns, quicker product development cycles, and more cost effective allocation and usage of critical corporate resources.

Market acceptance of Legacy Artemis's products has been successful in a wide range of vertical industries including information systems, application development, telecommunications, aerospace, pharmaceuticals, oil and gas, construction and engineering, banking and finance, and manufacturing.

On August 24, 2000, Proha, a publicly held Finnish company, purchased Legacy Artemis for approximately \$50 million in stock and cash. Subsequent to this acquisition, Proha contributed its wholly owned subsidiary, Artemis Finland to Legacy Artemis and purchased majority stakes in Enterprise Management Systems

Srl, Artemis International S.p.A., Solutions International SA, Artemis International GMBH, and Artemis Sarl which were subsequently transferred to Legacy Artemis. As a result of the Share Exchange Agreement between Proha and Opus360, 19.9% minority interests in each of Accountor and Intellisoft are to be

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transferred to Artemis International. The audited combined financial statements reflect the results of Artemis Finland and the 19.9% interests in Accountor and Intellisoft from August 24, 2000, Enterprise Management Systems Srl, Artemis International S.p.A., Solutions International SA, Artemis International GMBH, and Artemis Sarl from December 1, 2000, and PMSOft Korea Ltd., and JST Investments Pte Ltd. from January 3, 2001, the respective dates each of these businesses became under common control. The businesses contributed on December 1, 2000 and January 3, 2001; Enterprise Management Systems Srl, Artemis International S.p.A., Solutions International SA, Artemis International GMBH, Artemis Sarl, PMSOft Korea Ltd., and JST Investments Pte Ltd. are referred to as the Proha contributed businesses. In February 2000, Legacy Artemis elected to change its fiscal year from March 31 to December 31 to coincide with that of Proha.

### Results of Operations

Three Months Ended September 30, 2001 and 2000

#### Revenue

For the quarter ended September 30, 2001, total Revenue was \$15.9 million, an increase of 25% from total revenue of \$12.7 million for the quarter ended September 30, 2000. This increase is largely attributable to the addition of the Contributed Businesses that had combined revenues of \$5.4 million for the three months ended September 30, 2001. Proha contributed these enterprises in the period from August 24, 2000 to January 2001. These additional operations helped Services Revenues to more than double from the \$3.9 million for the quarter ending September 30, 2000 to \$8.8 million for the quarter ending September 30, 2001. Support Revenues, benefiting from the expanded maintenance base, also increased approximately 34%, from \$2.9 million to \$4.4 million. The \$3.3 million decrease in Software License Revenues reflects a particularly strong September 2000 quarter and fewer new client sales in the most recent quarter. The entities that are included in both the three months ended September 30, 2001 and September 30, 2000 had revenues of approximately \$10.5 million and \$12.7 million, respectively.

#### Cost of Revenue

Cost of revenue for the quarter ended September 30, 2001 increased to \$8.4 million, an increase of \$3.3 million or 65% from the \$5.1 million for the quarter ended September 30, 2000. The change was primarily a function of the increased third party consulting costs associated with the increased consulting revenues. Cost of Software Revenue was essentially flat despite decreasing software sales because of fixed third party royalty payments. The Contributed Businesses had combined cost of revenue of \$2.7 million for the three months ended September 30, 2001. The entities that are included in both the three months ended September 30, 2001 and September 30, 2000 had cost of revenues of approximately \$5.7 million and \$5.1 million, respectively.

#### Gross Profit

Total gross profit for the quarter ended September 30, 2001 was \$7.6 million, almost unchanged from the \$7.6 million for the quarter ended September 30, 2000. Gross profit margin for the 2001 period declined to 48% from

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60% for the three months in 2000 due to the substantial reduction in higher margin software revenues.

### Operating Expenses

Operating expenses for the quarter ended September 30, 2001 were \$15.0 million, an increase of \$4.8 million or 46% from the \$10.3 million for the quarter ending September 30, 2000. Operating expenses for the quarter ended September 30, 2001 included approximately \$2.1 million of operating expenses from Opus360, which was combined with Legacy Artemis on July 31, 2001, and \$3.6 million of operating expenses from the Contributed Businesses. These companies including Opus360 were not included in operating expenses for the quarter ended September 30, 2000.

**Selling and marketing:** Selling and marketing expenses for the quarter ended September 30, 2001 were \$4.4 million, an increase of \$1.3 million or 39% from the \$3.1 million for the quarter ended September 30, 2000. The increase in selling and marketing expenses resulted from the inclusion of the Contributed Businesses which had combined selling and marketing expenses of \$2.1 million for the three months ended September 30, 2001.

**Research and development:** Research and development expenses for the quarter ended September 30, 2001 were \$3.2 million, an increase of \$1.3 million or 70% from the \$1.9 million for the quarter ended September 30, 2000. The increase in research and development expenses resulted from the combination of the Company with Legacy Artemis. Research and development cost also increased as the Company continued to launch new products and upgrade existing products during the quarter. The Contributed Businesses had combined research and development expenses of \$0.2 million for the three months ended September 30, 2001.

**General and administrative:** General and administrative expenses for the quarter ended September 30, 2001 were \$3.6 million, an increase of \$2.4 million or 203% from the \$1.2 million for the quarter ended September 30, 2000. The increase in general and administrative expenses resulted from the combination of the Company with Legacy Artemis. The combined group has increased its overhead as a result of an increase in its facilities and personnel resulting from the combination. The Contributed Businesses had combined general and administrative expenses of \$0.7 million for the three months ended September 30, 2001.

**Amortization:** Amortization expense consists of the amortization of goodwill resulting from the acquisition of Legacy Artemis by Proha Plc in August of 2000. Amortization expense for the quarter ended September 30, 2001 was \$3.9 million, an increase of \$2.0 million or 103% from the quarter ended September 30, 2000. The current quarter includes amortization for three months compared to only approximately one and one-half months in the quarter ended September 30, 2000. The Contributed Businesses had combined amortization of \$0.7 million for the three months ended September 30, 2001.

**Management fees:** The Company incurred no management fees in the quarter ended September 30, 2001 since previously existing management agreements were terminated when the Company and Legacy Artemis entered into the Share Exchange Agreement. For the quarter ended September 30, 2000, management fees were \$0.4 million.

**Acquisition costs:** Acquisition costs for the quarter ended September 30, 2001 were \$0.3 million. For the quarter ended September 30, 2000 acquisition costs were \$1.8 million and related to the acquisition of Legacy Artemis by Proha

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Plc. As the acquired company, Legacy Artemis expensed the costs it incurred relating to its acquisition by Proha.

### Operating Loss

Operating loss for the quarter ended September 30, 2001 was \$7.5 million, an increase of \$4.8 million from the \$2.6 million for the same period in 2000. The increase is the result of lower software revenues, the additional costs of the Opus360 operation and amortization of goodwill for the Contributed Businesses, partially offset by elimination of management fees and acquisition costs.

### Non-operating Expenses

Non-operating expenses, consisting primarily of gains/(losses) from minority interests in joint ventures and interest expense, increased to \$0.3 million for the quarter ended September 30, 2001 from \$0.2 million for the quarter ended September 30, 2000. This was due to the start up losses experienced in two joint ventures, offset slightly by decreased interest costs accruing from lower borrowings and rates.

### Income Tax Benefit

Income tax benefit for the quarter ended September 30, 2001 was \$15,000, a decrease of approximately \$0.3 million from the \$0.3 million for the quarter ended September 30, 2000. The income tax benefit for the quarter ended September 30, 2000 resulted from the utilization of net operating loss by Legacy Artemis's foreign subsidiaries.

### Net Loss

As a result of the foregoing, the net loss for the quarter ended September 30, 2001 increased to \$7.7 million from \$2.5 million in the comparable quarter of 2000.

### Nine Months Ended September 30, 2001 and 2000

### Revenues

Total Revenues for the nine months ended September 30, 2001 were \$50.4 million. This represents an increase of \$16.2 million, or 47%, from \$34.2 million in the comparable period of 2000. Software license sales declined \$2.6 million to \$10.8 million for the nine months ended September 30, 2001, primarily due to the reduction experienced in the third quarter of 2001. Support Revenues, primarily software maintenance fees, were up \$4.2 million to \$12.8 million for the nine months ended September 30, 2001 as a function of the installed base added from the Contributed Businesses. Consulting revenue increased 120% to \$26.8 million, an increase of \$14.7 million from \$12.1 million for the first nine months of fiscal year 2000. This increase reflects more and lengthened consulting engagements in new and previously served locales. Sales for the nine months ended September 30, 2001 included \$18.9 million from the Contributed Businesses. For the nine months ended September 30, 2001 the Contributed Businesses had combined revenue of \$18.7 million. The entities that are included in both the nine months ended September 30, 2001 and September 30, 2000 had revenues of approximately \$31.5 million and \$34.2 million, respectively.

#### Cost of Revenues

For the nine months ended September 30, 2001, the total Cost of Revenue increased to \$25.3 million, an increase of \$11.1 million or 78% from the \$14.2 million for the period ended September 30, 2000. The increase was primarily a function of the increased third party consulting costs associated with the increase in consulting services provided to clients. Cost of Revenues for the nine months ended September 30, 2001 included \$9.8 million from the Contributed Businesses. The entities that are included in both the nine months ended September 30, 2001 and September 30, 2000 had cost of revenues of approximately \$15.5 million and \$14.2 million, respectively.

#### Gross Profit

Total Gross Profit for the period ended September 30, 2001 was \$25.1 million, an increase of \$5.1 million or 25%, from \$20.0 million for the nine months ended September 30, 2000. Gross profit margin for the first nine months of 2001 declined to 50% from 58% for the first nine months of 2000 due to reduced volume of high margin software sales in the most recent quarter.

#### Operating Expenses

Operating expenses for the nine months ended September 30, 2001 were \$41.5 million, an increase of \$16.8 million or 68% from the \$24.7 million for the quarter ending September 30, 2000. Operating expenses for the nine months ended September 30, 2001 included approximately \$2.1 million of operating expenses from Opus360 which was acquired by Legacy Artemis on July 31, 2001 and \$9.8 million from the Contributed Businesses. These companies including Opus360 were not included in operating expenses for the quarter ended September 30, 2000.

**Selling and marketing:** Selling and marketing expenses for the nine months ended September 30, 2001 were \$12.9 million, an increase of \$4.1 million or 47% from the \$8.8 million for the nine months ended September 30, 2000. The increase in Selling and Marketing expenses resulted from the inclusion of Selling and Marketing expenses for the Contributed Businesses which had combined selling and marketing expenses of \$5.5 million for the nine months ended September 30, 2001.

**Research and development:** Research and development expenses for the nine months ended September 30, 2001 were \$8.2 million, an increase of \$2.3 million or 39% from the \$5.9 million for the quarter ended September 30, 2000. The increase in Research and Development expenses resulted from the inclusion of Research and Development expenses of \$0.6 million from the Contributed Businesses and \$1.1 million from Opus360, which was acquired by Legacy Artemis in July 2001.

**General and administrative:** General and administrative expenses for the nine months ended September 30, 2001 were \$7.0 million, an increase of \$3.4 million or 94% from the \$3.6 million for the nine months ended September 30, 2000. The increase in general and administrative expenses resulted from the combination of the Company with Legacy Artemis and from the inclusion of general and administrative expenses for new members of the Contributed Businesses. The combined group has increased its overhead as a result of an increase in its facilities and personnel resulting from the combination. The Contributed Businesses had combined general and administrative expenses of \$1.8 million for the nine months ended September 30, 2001.

**Amortization:** Amortization expense consists of the amortization of goodwill resulting from the acquisition of Legacy Artemis by Proha Plc in August of 2000. Amortization expense for the nine months ended September 30, 2001 was \$12.2 million, an increase of \$8.8 million or 259% for the \$3.4 million for the nine months ended September 30, 2000. The nine months ended September 30, 2000 included amortization for only a few months compared to nine months for the comparable period in 2001. The Contributed Businesses had combined amortization of \$2.0 million for the nine months ended September 30, 2001.

**Management fees:** Management fees for the nine months ended September 30, 2001 were \$0.8 million, a decrease of \$0.5 million or 41% from the \$1.3 million for the nine months ended September 30, 2000. The Company terminated its management agreements in early 2001.

**Acquisition costs:** Acquisition costs for the nine months ended September 30, 2001 were \$0.3 million. For the nine months ended September 30, 2000 acquisition costs were \$1.8 million and related to the acquisition of Legacy Artemis by Proha Plc. As the acquired company, Legacy Artemis expensed the costs it incurred relating to its acquisition by Proha.

#### Operating Loss

The nine month Operating Loss for the period ended September 30, 2001 was \$16.4 million, an increase of \$11.7 million from the \$4.7 million for the same period in 2000. The increase is primarily attributable to amortization of goodwill expense of \$12.2 million and other operating expenses associated with the expanded operation.

#### Non-operating Expenses

Non-operating expenses consisting of interest expense and losses associated with minority holdings decreased by \$0.5 million to \$0.7 million for the nine months ended September 30, 2001 because of lower average rates and balances on borrowings. For the nine months ended September 30, 2000, non-operating expenses were \$1.1 million.

#### Income Tax Expense (Benefit)

During the nine month period ended September 30, 2000, utilization of domestic and foreign net operating loss carryforwards and a reduction in the valuation allowance resulted in a net tax benefit of \$2.9 million. Because of the effect of permanent goodwill differences in the September 2001 period, there was a net tax expense of \$0.1 million.

#### Net Income (Loss)

The aforementioned items increased the Net Loss for the nine months ended September 30, 2001 to \$17.1 million from \$3.0 million for the same period in 2000.

#### Liquidity and Capital Resources

Legacy Artemis has historically funded operations through the use of cash flow from internal cash flow and loans from Computer Sciences Corporation, the shareholders of Legacy Artemis, the shareholders of Software Productivity Research and Foothill Capital Corporation ("Foothill").

For the nine months ended September 30, 2001 and 2000, net cash used in operations was \$5.3 million and \$1.5 million, respectively. For the nine months ended September 30, 2001 the \$5.3 million cash used in operations was primarily due to the net loss of \$17.1 million adjusted for non-cash amortization of goodwill and depreciation of \$12.9 million, and changes in operating assets and liabilities. For the nine months ended September 30, 2000, the Company's net loss was \$3.0 million, which was reduced by non-cash expenses and tax benefits of \$1.2 million and changes in operating assets and liabilities of \$0.3 million, resulting in net cash used in operations of \$1.5 million.

Cash provided by investment activities for the nine months ended September 30, 2001 was \$13.9 million compared to cash used in investing activities of \$0.5 million for the nine months ended September 30, 2000. The cash provided in 2001 resulted from cash provided by entities, primarily Opus360, that was acquired during the period. Capital expenditures were approximately \$0.5 million for the nine months ended September 30, 2001 and 2000, respectively.

Net cash used in financing activities was \$4.7 million for the nine months ended September 30, 2001 compared to cash provided by financing activities of \$0.1 million for the nine months ended September 30, 2000. During the nine months ended September 30, 2001, the Company's financial statements reflect a reduction in shareholders' equity as a result of certain assets in the amount of \$2.1 million being retained by Proha, the parent company, which were excluded from the business combination pursuant to the Share Exchange Agreement. The Company also repaid approximately \$5.4 million of debt, primarily to Foothill, and received additional financing of \$2.7 million. During the nine months ended September 30, 2000, the Company received financing of \$5.5 million and repaid \$5.4 million of debt.

Foothill has extended a combination of a note payable and line of credit, bearing interest at the prime rate plus 2% (11% at September 30, 2000 and 9% at September 30, 2001) with a final maturity date of August 1, 2002. The combined balances, which are secured by the Company's assets, at September 30, 2001 and 2000, were \$2.4 and \$4.0 million, respectively.

Interest paid under all borrowings was approximately \$0.4 million for the nine months ended September 30, 2001 and \$0.7 million for the nine months ended September 30, 2000.

Legacy Artemis has a revolving \$1.8 million line of credit facility with Foothill Capital corporation which may be used to fund working capital requirements. The balance on the line of credit at September 30, 2001 was \$1.0 million at September 31, 2001. In addition Opus360 has two lines of credit with a bank aggregating \$2.5 million, which may be used to purchase equipment. The balance on these lines aggregated \$0.8 million at September 30, 2001. The management of the Company believes that the cash flow from operations will be sufficient to meet operating and other commitments.

#### Recent Accounting Pronouncements

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported

apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and will be adopted by the Company in 2002.

The Company is required to adopt the provisions of Statement 141 immediately, and Statement 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement 142.

Statement 141 will require upon adoption of Statement 142, that the Company evaluate its existing intangible assets that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

As of September 30, 2001, the Company has approximately \$51.2 million of unamortized goodwill and other intangible assets subject to the transition provisions of Statements 141 and 142. The Company has not yet determined the effects SFAS 142 will have on the Company's operating results or financial position.

In October 2001, the FASB issued Statements of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144"). SFAS 144, which replaces SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," requires long-lived assets to be measured at the lower of carrying amount or fair value less the cost to sell. SFAS 144 also broadens disposal transactions reporting related to discontinued operations. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has not yet determined the effects SFAS 144 will have on its financial position, results of operations or cash flows.

Qualitative and Quantitative Disclosure About Market Risk



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At September 30, 2001, the majority of our cash balances were held primarily in the form of short-term highly liquid investment grade corporate and government securities. As a result, our interest income may be sensitive to changes in the general level of U.S. interest rates. However, due to the short-term nature of our investments and the fact that we generally hold these investments until their maturity dates, we believe that we are not subject to any material interest or market rate risks.

The Company utilizes lines of credit to purchase equipment and to back certain financial obligations. The Company's outstanding balance under its lines of credit at September 30, 2001 was \$3.7 million.

The table below provides information about the Company's market sensitive financial instruments and constitutes a forward looking statement.

Principal Amount by Expected Maturity  
(in thousands)

	Year ending December 31,		
	2001	2002	2003
Foothill note payable	271,000	1,082,000	1,078,000
Average interest rate	10.25%	9.50%	9.50%
Proha note payable	-	390,000	
Average interest rate		4%	
Silicon Valley Bank note payable	120,000	546,000	140,000
Average interest rate	9.25%	8.75%	8.75%
Other note payable	48,000		
Average interest rate	9.00%		

ADDITIONAL INFORMATION

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

On April 6, 2001 a lawsuit purporting to be a class action and captioned CHARLES BLAND VS. OPUS360 CORPORATION, ET AL., 01 Civ. 2938 (the "BLAND Action") was filed in the United States District Court for the Southern District of New York. The BLAND Action is brought on behalf of a proposed class of all persons who acquired securities of the Company between April 7, 2000 and December 6, 2000. Named as defendants in the BLAND Action are the Company, eleven current and former officers and directors of the Company, the underwriters of the Company's initial public offering and two shareholders (the "Selling Shareholders") who sold stock in a secondary offering (collectively with the initial public offering, the "Offering") concurrent with the initial

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public offering.

The amended and restated complaint in the BLAND Action alleges that, among other things, the plaintiff and members of the proposed class were damaged when they acquired securities of the Company because false and misleading information and material omissions in the registration statement relating to the Offering caused the prices of the Company's securities to be inflated artificially. It also alleges violations of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933 (the "Securities Act"). Damages in unspecified amounts and certain rescission rights are sought.

Since the filing of the BLAND Action, ten similar putative class actions (the "Additional Actions" and together with the BLAND Action, the "Actions") also have been filed in the United States District Court for the Southern District of New York. The Additional Actions are brought on behalf of all persons who acquired securities of the Company between April 7, 2000 and March 20, 2001. Named as defendants in the Additional Actions are the Company, ten current and former officers and directors of the Company, the underwriters of the Company's initial public offering and the Selling Shareholders. As in the BLAND Action, the complaints in the Additional Actions allege false and misleading information and material omissions in the registration statement relating to the Offering in purported violation of Sections 11, 12(a)(2), and 15 of the Securities Act. Damages in unspecified amounts and certain rescission rights are sought.

On or about June 5, 2001, an action captioned KENNETH SHIVES, ET AL. V. BANK OF AMERICA SECURITIES LLC, ET AL., 01 Civ. 4956 (the "SHIVES Action") was filed in the United States District Court for the Southern District of New York. The complaint in the SHIVES Action asserts claims against the Company, certain of its present or former officers and directors (collectively, the "Opus360 Defendants"), the Selling Shareholders and the underwriters that managed the Company's April 2000 Offering, for alleged violations of the federal securities laws (principally Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934.) The complaint is based on allegations that the various underwriter defendants engaged in (and involved other defendants in) a broad scheme to artificially inflate and maintain the market price of the common stock of various companies named as defendants (including Opus360), and to cause the named plaintiffs and other members of the putative class to purchase the stock of those companies at artificially inflated prices.

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On or about July 20, 2001, counsel for the plaintiffs in the SHIVES Action and counsel for the Opus360 Defendants and the Selling Shareholders executed stipulations in which the plaintiffs agreed to drop the Opus360 Defendants and the Selling Shareholders as defendants in the SHIVES Action and to dismiss without prejudice the claims asserted in that action against each of those defendants. Those stipulations were so ordered by the Court on or about July 24, 2001 and the Opus360 Defendants and the Selling Shareholders are no longer defendants in the SHIVES Action.

On October 24, the Company and all other defendants filed motions to dismiss the claims in the Bland Action. The Company believes the claims made in the Actions are without merit and intends to vigorously defend the Actions.

### Item 2. Change in Securities and Use of Proceeds

On July 31, 2001, the Company issued 73,938,802 shares of its common stock to Proha Plc ("Proha") in exchange for all of the capital stock of Artemis

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Acquisition Corporation, the parent company of the Artemis business. This represented the closing of the first phase of the transaction contemplated by the Share Exchange Agreement dated as of April 11, 2001, as amended, between the Company and Proha. This offering was exempt from registration under Section 4(2) of the Securities Act and satisfied the terms and conditions of Rule 506 of the Securities Act. A Form D was filed on [August 14], 2001. The second phase of the transaction, in which the Company will issue an additional approximately 125.5 million shares of common stock to Proha, and receive 19.9% of each of two other subsidiaries of Proha, is expected to close promptly after the conclusion of the Company's special meeting of stockholders scheduled to be held on November 20, 2001

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Submission of Matters to a Vote of Security Holders

None.

### Item 5. Other Information

None.

### Item 6. Exhibits and Reports on Form 8-K.

#### a. Exhibits

"First Amendment to the Share Exchange Agreement, dated as of July 10 2001, between Opus360 Corporation and Proha Plc", is incorporated herein by reference to Form 8-K filed by the Company with the SEC on July 12, 2001.

#### b. Reports on Form 8-K

The Company filed a Current Report on Form 8-K on July 12, 2001 to report the execution of an amendment to the Share Exchange Agreement, dated April 11, 2001, by and among Opus360 Corporation and Proha Plc, pursuant to which the Company is expected to combine with Artemis Management Systems, Inc.

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The Company also filed a Current Report on Form 8-K on August 13, 2001, announcing that the first closing contemplated under the Share Exchange Agreement, as amended by the First Amendment, was consummated on July 31, 2001 and that Proha's Artemis subsidiaries and Opus360 have combined operations and will operate as Artemis International Solutions.

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## SIGNATURES

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

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Date: November 19, 2001

Opus360 Corporation  
(Registrant)

/s/ Peter Schwartz  
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Executive Vice President and  
Chief Financial Officer  
(Signature)