

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 March 31, 2001

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-24277

Clarus Corporation

-----  
(Exact name of registrant as specified in its charter)

Delaware

58-1972600

-----  
(State or other jurisdiction of incorporation or organization)

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

3970 Johns Creek Court  
Suwanee, Georgia 30024

-----  
(Address of principal executive offices)  
(Zip code)

(770) 291-3900

-----  
(Registrant's telephone number, including area code)

-----  
(Former name, former address and former fiscal year, if changed since last report.)

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 periods 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 practical date.

Common Stock, (\$.0001 Par Value)

-----  
15,517,560 shares outstanding as of May 11, 2001

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CLARUS CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CLARUS CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(unaudited)  
(in thousands, except share and per share amounts)

<TABLE>  
<CAPTION>

	March 31, 2001	December 31, 2000	
	----- <C>	----- <C>	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$114,481	\$118,303	
Marketable securities	36,518	50,209	
Accounts receivable, less allowance for doubtful accounts of \$4,788 and \$3,917 in 2001 and 2000, respectively		8,454	8,126
Deferred marketing expense, current	3,890	5,321	
Prepays and other current assets	3,494	2,731	
Total current assets	----- 166,837	----- 184,690	
PROPERTY AND EQUIPMENT, NET		8,497	7,619
OTHER ASSETS:			
Deferred marketing expense, net of current portion		2,251	2,508
Investments	10,520	13,619	
Intangible assets, net of accumulated amortization of \$8,166 and \$6,146 in 2001 and 2000, respectively	54,740	58,214	
Deposits and other long-term assets	248	254	
Total other assets	----- 67,759	----- 74,595	
TOTAL ASSETS	----- \$243,093	----- \$266,904	

</TABLE>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

<TABLE>  
<CAPTION>

	March 31, 2001	December 31, 2000		
	-----	-----		
<S>	<C>	<C>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable and accrued liabilities		\$ 10,549	\$ 11,059	
Deferred revenue	2,831	2,295		
	-----	-----		
Total current liabilities	13,380	13,354		
<b>LONG-TERM LIABILITIES:</b>				
Deferred revenue	1,031	881		
Long-term debt	5,000	5,000		
Other long-term liabilities	852	847		
	-----	-----		
Total liabilities	20,263	20,082		
<b>STOCKHOLDERS' EQUITY:</b>				
Preferred stock, \$.0001 par value; 5,000,000 shares authorized; none issued	-	-		
Common stock, \$.0001 par value; 100,000,000 shares authorized; 15,586,184 and 15,609,029 shares issued and 15,511,184 and 15,534,029 outstanding in 2001 and 2000, respectively		2	2	
Additional paid-in capital	361,085	362,415		
Accumulated deficit	(137,530)	(114,769)		
Treasury stock, at cost	(2)	(2)		
Accumulated other comprehensive loss		(585)	(572)	
Deferred compensation	(140)	(252)		
	-----	-----		
Total stockholders' equity	222,830	246,822		
	-----	-----		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>			<b>\$ 243,093</b>	<b>\$ 266,904</b>
	=====	=====		

</TABLE>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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**CLARUS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**  
(in thousands, except per share amounts)

<TABLE>  
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	Three months ended March 31,			
	-----	-----		
	2001	2000		
	---	---		
<S>	<C>	<C>		
<b>REVENUES:</b>				
License fees	\$ 2,310	\$ 5,796		
Services fees	2,262	1,210		
	-----	-----		
Total revenues	4,572	7,006		
<b>COST OF REVENUES:</b>				
License fees	44	39		
Services fees	4,060	1,572		
	-----	-----		
Total cost of revenues	4,104	1,611		
<b>OPERATING EXPENSES:</b>				
Research and development, exclusive of noncash expense	5,006	3,084		
Noncash research and development	-	826		
Sales and marketing, exclusive of noncash expense	8,069	6,463		
Noncash sales and marketing	1,688	1,812		

General and administrative, exclusive of noncash expense	4,749	2,626
Noncash general and administrative	112	1,145
Depreciation and amortization	2,865	700
	-----	
Total operating expenses	22,489	16,656
OPERATING LOSS	(22,021)	(11,261)
LOSS ON IMPAIRMENT OF INVESTMENTS		(3,099)
REALIZED GAIN ON SALE OF INVESTMENTS		1
AMORTIZATION OF DEBT DISCOUNT		(982)
INTEREST INCOME	2,422	986
INTEREST EXPENSE	(64)	(174)
	-----	
NET LOSS	\$(22,761)	\$(11,431)
	=====	=====

NET LOSS PER SHARE--BASIC AND DILUTED: \$ (1.47) \$ (0.93)

WEIGHTED AVERAGE SHARES OUTSTANDING:		
BASIC	15,508	12,247
DILUTED	15,508	12,247

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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CLARUS CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
(in thousands, except share and warrant amounts)

<TABLE>  
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	Three months ended March 31,		
	2001	2000	
	-----	-----	
	<C>	<C>	
OPERATING ACTIVITIES:			
Net loss	\$ (22,761)	\$ (11,431)	
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization on property and equipment		845	473
Amortization of intangible assets	2,020	227	
Loss on impairment of investments	3,099	-	
Noncash interest expense associated with original issue discount on debt	-	982	
Provision for doubtful accounts	2,055	526	
Noncash research and development expense		-	826
Noncash sales and marketing expense	1,688	1,812	
Noncash general and administrative expense	112	1,145	
Exchange of software for cost-method investments		-	(750)
Changes in operating assets and liabilities:			
Accounts receivable	(2,383)	(4,163)	
Prepaid and other current assets	(763)	224	
Deposits and other long-term assets	6	(40)	
Accounts payable and accrued liabilities	(510)	68	
Deferred revenue	686	889	
Other long-term liabilities	5	-	
	-----	-----	
NET CASH USED IN OPERATING ACTIVITIES		(15,901)	(9,212)
INVESTING ACTIVITIES:			
Purchase of marketable securities	(23,265)	-	
Proceeds from sale and maturity of marketable securities		36,853	-
Purchases of property and equipment	(1,723)	(891)	
	-----	-----	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		11,865	(891)
FINANCING ACTIVITIES:			
Proceeds from issuance of common stock related to secondary offering		-	244,456

Proceeds from long-term debt	-	5,000		
Repayment of long-term debt and capital lease obligations		-	(7,013)	
Proceeds from the exercises of stock options	28	1,453		
Proceeds from issuance of common stock related to employee stock purchase plan	96	-		
	-----	-----		
NET CASH PROVIDED BY FINANCING ACTIVITIES			124	243,896
	-----	-----		
Effect of exchange rate change on cash		90	-	
CHANGE IN CASH AND CASH EQUIVALENTS			(3,822)	233,793
CASH AND CASH EQUIVALENTS, beginning of period			118,303	14,127
	-----	-----		
CASH AND CASH EQUIVALENTS, end of period			\$ 114,481	\$ 247,920
	=====	=====		
SUPPLEMENTAL CASH FLOW DISCLOSURE:				
Cash paid for interest	\$ 64	\$ 174		
	=====	=====		
NONCASH TRANSACTIONS:				
Issuance of warrants to purchase 50,000 shares of common stock in connection with marketing agreements at fair value			\$ -	\$ 986
	=====	=====		
Issuance of 39,118 shares of common stock in connection with marketing agreements	\$ -	\$ 4,361		
	=====	=====		
Retirement of 55,000 shares of common stock pursuant to a terminated employment agreement with a former owner of the SAI/Redeo Companies	\$ 1,454	\$ -		
	=====	=====		

</TABLE>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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CLARUS CORPORATION  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Clarus Corporation and subsidiaries (the "Company") for the three months ended March 31, 2001, have been prepared in accordance with generally accepted accounting principles and instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information in notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the unaudited condensed consolidated financial statements have been included. The results of the three months ended March 31, 2001 are not necessarily indicative of the results to be obtained for the year ended December 31, 2001. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2000, filed with the Securities and Exchange Commission.

NOTE 2. EARNINGS PER SHARE

Basic and diluted net loss per share were computed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," using the weighted average number of common shares outstanding. The diluted net loss per share for the quarters ended March 31, 2001 and 2000 does not include the effect of common stock equivalents, calculated using the treasury stock method, as their impact would be antidilutive. The potentially dilutive effect of excluded common stock equivalents are as follows (in thousands):

	Three months ended	
	March 31,	
	-----	-----
	2001	2000
	-----	-----
Effect of shares issuable under stock options	332	1,624
Effect of shares issuable pursuant to warrants		

to purchase common stock		1	214
	-----		
Total		333	1,838
	-----		

### NOTE 3. STOCK OPTION EXCHANGE PROGRAM

On April 9, 2001, the Company announced a voluntary stock option exchange program for its employees. Under the program, employees will be given the opportunity, if they so choose, to cancel outstanding stock options previously granted to them on or after November 1, 1999 in exchange for an equal number of new options to be granted at a future date. The exercise price of these new options will be equal to the fair market value of the Company's common stock on the date of grant, which will be no earlier than six months and one day after the date of cancellation. The Company intends to offer employees a second opportunity to exchange outstanding stock options beginning on or about July 9, 2001 and ending on or about August 6, 2001. Employees participating in the first exchange will not be eligible for the second exchange. The exchange program has been designed to comply with FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" and is not expected to result in any additional compensation charges or variable plan accounting. Members of the Company's Board of Directors and its officers are not eligible to participate in the exchange program.

### NOTE 4. INVESTMENTS

Prior to 2001, the Company made equity investments of \$17.7 million in eleven privately held companies. The Company's equity interest in these entities ranges from 3.5% to 12.5% and the Company is accounting for these investments using the cost method of accounting. During the first quarter of 2001 and the fourth quarter of 2000, the Company recorded a charge of \$3.1 million and \$4.1 million, respectively, for other than temporary losses on these investments. These companies are primarily early-stage companies and are subject to significant risk due to their limited operating history and current economic conditions. In the first quarter of 2001, the Company did not make any additional equity investments and did not recognize any revenue from these companies. During the year ended December 31, 2000, the Company recognized \$17.2 million in total revenue from these companies. In the first quarter of 2000, the Company made an equity investment of \$750,000 and recognized \$855,000 in total revenue in one privately held company. In the second quarter of 2001, the Company made an equity investment of \$2.0 million in a privately held company. No revenue has been recognized related to this investment.

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### NOTE 5. ACQUISITIONS

On May 31, 2000, the Company acquired all of the outstanding capital stock of SAI (Ireland) Limited, SAI Recruitment Limited, i2Mobile.com Limited and SAI America Limited (the "SAI/Redeo Companies"). The SAI/Redeo Companies specialize in electronic payment settlement. The purchase consideration was approximately \$63.2 million, consisting of approximately \$30.0 million in cash (exclusive of \$350,000 of cash acquired), 1,148,000 shares of the Company's common stock with a fair value of \$30.4 million, assumed options to acquire 163,200 shares of the Company's common stock with an exercise price of \$23.50 (estimated fair value of \$1.8 million using the Black-Scholes option pricing model) and acquisition costs of approximately \$995,000.

The acquisition was treated as a purchase for accounting purposes, and accordingly, the assets and liabilities were recorded based on their preliminary fair value at the date of acquisition. The Company evaluated the developed technologies and the in-process research and development to determine their stage of development, their expected income generating ability, as well as risk factors associated with achieving technological feasibility. The Company expensed approximately \$8.3 million to in-process research and development in the second quarter of 2000. The goodwill, \$48.2 million, and the developed technologies, \$4.1 million, are being amortized over eight years. The assembled workforce, \$450,000, and the customer base, \$100,000, are being amortized over seven and four years, respectively. The goodwill balance was reduced in the first quarter of 2001 by \$1.5 million as a result of 55,000 shares issued as part of the original purchase consideration being cancelled when a related employment agreement was terminated prior to the first anniversary of the acquisition date.

On April 28, 2000, the Company acquired all of the capital stock of iSold.com, Inc., a Delaware corporation ("iSold"). iSold has developed a software program that provides auctioning capabilities to its clients. The purchase consideration was approximately \$2.5 million in cash of which \$1.6 million was paid at the date of acquisition and \$900,000 was paid in April 2001. The acquisition was treated as a purchase for accounting purposes with approximately \$500,000 of the purchase consideration allocated to developed technologies and approximately \$2.0 million to goodwill. The developed technologies are being amortized over three years and the goodwill is being amortized over four years.

#### NOTE 6. COMPREHENSIVE INCOME (LOSS)

SFAS No. 130 "Reporting Comprehensive Income", establishes standards of reporting and display of comprehensive income (loss) and its components of net income (loss) and "Other Comprehensive Income (Loss)". "Other Comprehensive Income (Loss)" refers to revenues, expenses and gains and losses that are not included in net income (loss) but rather are recorded directly in stockholders' equity. The components of comprehensive income (loss) for the three months ended March 31, 2001 and 2000 were as follows (in thousands):

	Three months ended March 31,	
	2001	2000
Net loss	\$ (22,761)	\$ (11,431)
Unrealized loss on marketable securities	(103)	-
Foreign currency translation adjustments	90	-
Comprehensive loss	(22,774)	(11,431)

#### NOTE 7. CREDIT AND CUSTOMER CONCENTRATIONS

The Company's accounts receivable potentially subject the Company to credit risk, as collateral is generally not required. As of the first quarter ended March 31, 2001, three customers accounted for more than 10% each, totaling \$5.3 million or 39.7% of the gross accounts receivable balance on that date. The percentage by customer was 10.3%, 14.6%, and 14.8%, respectively, at March 31, 2001. As of December 31, 2000, four customers accounted for more than 10% each, totaling \$6.7 million or 56.0% of the gross accounts receivable balance on that date. The percentage by customer was 10.4%, 11.2%, 14.5%, and 19.9%, respectively, at December 31, 2000.

During the quarter ended March 31, 2001, two customers accounted for more than 10% each, totaling \$2.0 million or 44.2%, of total revenue. The percentage by customer was 16.9% and 27.3%, respectively, for the quarter ended March 31, 2001. During the quarter ended March 31, 2000, five customers accounted for more than 10% each, totaling \$5.5 million or 78.3% of total revenue. The percentage by customer was 11.1%, 12.2%, 13.3%, 17.4% and 24.3%, respectively, for the quarter ended March 31, 2000.

#### NOTE 8. CONTINGENCIES

The Company is a party to lawsuits in the normal course of its business. Litigation in general, and securities litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of one or more of the following lawsuits could adversely affect the Company's business, results of operations, or financial condition.

Following its public announcement on October 25, 2000, of its financial results for the third quarter, the Company and certain of its directors and officers were named as defendants in fourteen putative class action lawsuits filed in the United States District Court for the Northern District of Georgia on behalf of all purchasers of common stock of the Company during various periods beginning as early as October 20, 1999 and ending on October 25, 2000. The fourteen class action lawsuits filed against the Company were consolidated into one case, Case No. 1:00-CV-2841, pursuant to an order of the court dated November 17, 2000. On March 22, 2001, the Court entered an order appointing as the lead Plaintiffs John Nittolo, Dean Monroe, Ronald Williams, V&S Industries, Ltd., VIP World

Asset Management, Ltd., Atlantic Coast Capital Management, Ltd., and T.F.M. Investment Group. Pursuant to the previous Consolidation Order of the Court, a Consolidated Amended Complaint was filed on May 14, 2001.

The class action complaints allege claims against the Company and other defendants for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder with respect to alleged material misrepresentations and omissions in public filings made with the Securities and Exchange Commission and certain press releases and other public statements made by the Company and certain of its officers relating to its business, results of operations, financial condition and future prospects, as a result of which, it is alleged, the market price of our common stock was artificially inflated during the class periods. The class action complaints focus on statements made concerning an account receivable from one of the Company's customers. The plaintiffs seek unspecified compensatory damages and costs (including attorneys' and expert fees), expenses and other unspecified relief on behalf of the classes. The Company believes that it has complied with all of its obligations under the Federal securities laws and the Company intends to defend these lawsuits vigorously. As a result of consultation with legal representation and current insurance coverage, the Company does not believe the lawsuits will have a material impact on the Company's results of operations or financial position.

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#### NOTE 9. COMMITMENTS

In March 2001, the Company terminated a services agreement with a development partner. As a result, the Company must pay termination fees of \$300,000 in the second quarter of 2001 and \$300,000 in the third quarter of 2001. The total \$600,000 liability is included in the accounts payable and accrued liabilities balance in the accompanying condensed consolidated balance sheet as of March 31, 2001. The expense is recorded in research and development expenses in the accompanying condensed consolidated statement of operations for the three months ended March 31, 2001.

#### NOTE 10. RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current period presentation.

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

#### Overview

The Company develops, markets and supports Internet-based business-to-business electronic commerce solutions that automate the procurement and management of operating resources. The Company's multiple solutions provide a framework to enable Internet-based digital marketplaces, allowing companies to create trading communities and additional revenue opportunities. The Company's multiple solutions, based on a free trade model, provide a direct Internet-based connection between buyer and supplier without requiring transactions to be executed through a centralized portal. The Company's product line includes solutions that serve "market makers" (businesses utilizing the Internet for the purpose of facilitating and increasing the efficiency of the distribution channels of chosen vertical markets) as well as other solutions that best serve the purchasing processes of business enterprises. The Company also provides implementation and ongoing customer support services as part of its complete procurement solutions. To achieve broad market adoption of the Company's solutions and services, the Company has developed a multi-channel distribution strategy that includes both a direct sales force and a growing number of indirect channels, including application service providers, system integrators and resellers.

#### Forward-Looking Statements

This report contains certain forward-looking statements, including or related to our future results, including certain projections and business trends. Assumptions relating to forward-looking statements involve judgments with



respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. When used in this report, the words "estimate," "project," "intend," "believe" and "expect" and similar expressions are intended to identify forward-looking statements. Although we believe that assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate, and we may not realize the results contemplated by the forward-looking statement. Management decisions are subjective in many respects and susceptible to interpretations and periodic revisions based upon actual experience and business developments, the impact of which may cause us to alter our business strategy or capital expenditure plans that may, in turn, affect our results of operations. In light of the significant uncertainties inherent in the forward-looking information included in this report, you should not regard the inclusion of such information as our representation that we will achieve any strategy, objectives or other plans. The forward-looking statements contained in this report speak only as of the date of this report, and we have no obligation to update publicly or revise any of these forward-looking statements.

These and other statements, which are not historical facts, are based largely upon our current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by such forward-looking statements. These risks and uncertainties include, among others, the risks and uncertainties described in the "Risk Factors" section of this discussion.

#### Sources of Revenue

The Company's revenue consists of license fees and services fees. License fees are generated from the licensing of the Company's products. Services fees are generated from consulting, implementation, training, content aggregation and maintenance and support services.

#### Revenue Recognition

The Company recognizes revenue from two primary sources, software licenses and services. Revenue from software licensing and services fees is recognized in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition", and SOP 98-9, "Software Revenue Recognition with Respect to Certain Transactions". Accordingly, the Company recognizes software license revenue when: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the fee is fixed or determinable; and (4) collectibility is probable.

SOP No. 97-2 generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of the elements. The fair value of an element must be based on evidence that is specific to the vendor. License fee revenue allocated to software products generally is recognized upon delivery of the products or deferred and recognized in future periods to the extent that an arrangement includes one or more elements to be delivered at a future date and for which fair values have not been established. Services fee revenue allocated to maintenance is recognized ratably over the maintenance term, which is typically twelve months, and services fee revenue allocated to training and other service elements is recognized as the services are performed.

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Under SOP No. 98-9, if evidence of fair value does not exist for all elements of a license agreement and post-contract customer support is the only undelivered element, then all revenue for the license arrangement is recognized ratably over the term of the agreement as license revenue. If evidence of fair value of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. Revenue from hosted software agreements are recognized ratably over the term of the hosting arrangements.

#### Operating Expenses

Cost of license fees includes royalties and software duplication and distribution costs. The Company recognizes these costs as the applications are

shipped.

Cost of services fees includes personnel related expenses and third-party consulting fees incurred to provide implementation, training, maintenance, content aggregation, and upgrade services to customers and partners. These costs are recognized as they are incurred.

Research and development expenses consist primarily of personnel related expenses and third-party consulting fees. The Company accounts for software development costs under Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." The Company charges research and development costs related to new products or enhancements to expense as incurred until technological feasibility is established, after which the remaining costs are capitalized until the product or enhancement is available for general release to customers. The Company defines technological feasibility as the point in time at which a working model of the related product or enhancement exists. Historically, the costs incurred during the period between the achievement of technological feasibility and the point at which the product is available for general release to customers have not been material.

Sales and marketing expenses consist primarily of personnel related expenses, including sales commissions and bonuses, expenses related to travel, trade show participation, public relations, promotional activities, regional sales offices, and advertising.

General and administrative expenses consist primarily of personnel related expenses for financial, administrative and management personnel, fees for professional services, and the provision for doubtful accounts. The Company allocates the total cost of its information technology function and costs related to the occupancy of its corporate headquarters, to each of the functional areas. Information technology expenses include personnel related expenses, communication charges, and software support. Occupancy charges include rent, utilities, and maintenance services.

The Company has incurred significant costs to develop its business-to-business e-commerce technology and products and to recruit and train personnel. The Company believes its success is contingent upon increasing its customer base and investing in further development of its products and services. This will require significant expenditures for sales, marketing, research and development, and to a lesser extent support infrastructure. The Company therefore expects to continue to incur substantial operating losses for the foreseeable future.

#### Limited Operating History

The Company has a limited operating history as an e-commerce business that makes it difficult to forecast its future operating results. Prior period results should not be relied on to predict the Company's future performance.

#### Results of Operations

##### Quarter Ended March 31, 2001 and 2000

##### Revenues

In the second half of 2000, the Company expanded its business model to include ratable revenue recognition. Total revenues in the first quarter of 2001 were impacted by the use of subscription programs, and other programs that result in revenues taken ratably. The impact from subscription programs was \$1.0 million in the first quarter of 2001. The impact from all other programs requiring ratable revenue recognition was \$2.9 million in the first quarter of 2001. Although lowering reported total revenue and license revenue in the first quarter of 2001, the benefits achieved over time of the ratable model are a more linear revenue pattern as well as increased visibility and predictability of financial results.

Total Revenues. Total revenues for the quarter ended March 31, 2001 decreased 34.7% to \$4.6 million from \$7.0 million during the same period in 2000. The decrease in total revenues resulted primarily from the expansion of the Company's business model

discussed above. The decrease in license fee revenues was partially offset by an increase in services fees, resulting from an increase in new license customers signed during 2000. During the first quarter of 2001, two customers accounted for more than 10% each, totaling \$2.0 million or 44.2% of total revenues, compared to five customers in the first quarter of 2000, totaling \$5.5 million or 78.3% of total revenues. The percentage by customer for the first quarter of 2001 was 16.9% and 27.3%, respectively, and the percentage by customer for the first quarter of 2000 was 11.1%, 12.2%, 13.3%, 17.4% and 24.3%, respectively.

**License Fees.** License fees decreased 60.1% to \$2.3 million, or 50.5% of total revenues, for the quarter ended March 31, 2001 from \$5.8 million, or 82.7% of total revenues, for the same period in 2000. The decrease in license fees was attributable to the expansion of the Company's business model, discussed above.

**Services Fees.** Services fees increased 86.9% to \$2.3 million, for the quarter ended March 31, 2001, from \$1.2 million for the same period in 2000, and also increased as a percentage of total revenues to 49.5%, for the period ended March 31, 2001, from 17.3% for the same period in 2000. The increase in services fees is primarily due to an increase in new license customers signed during 2000.

#### Cost of Revenues

**Total Cost of Revenues.** Cost of revenues increased 154.7% to \$4.1 million, or 89.8% of total revenue, during the quarter ended March 31, 2001 from \$1.6 million, or 23.0% of total revenue, during the same period in 2000. The increase in the cost of revenues, both in total and as a percentage of total revenues, is primarily a result of an increase in the cost of services fees due to higher personnel related costs. During the first quarter of 2001, the Company had an average of 79 employees in the services implementation and customer support areas compared to an average of 40 employees in the same period of 2000. Severance expenses, related to nine employees of approximately \$168,000, also negatively impacted the cost of revenues in the first quarter of 2001.

**Cost of License Fees.** Cost of license fees increased 12.8% to \$44,000 in the first quarter of 2001 from \$39,000 in the first quarter of 2000. Cost of license fees may vary from period to period depending on the product mix licensed, but are expected to remain a small percentage of license fees.

**Cost of Services Fees.** Cost of services fees increased 158.3% to \$4.1 million, or 179.5% of total services fees revenues, during the quarter ended March 31, 2001 compared to \$1.6 million, or 129.9% of total services fees revenues, during the same period in 2000. As discussed above, the increase in the cost of services fees for the first quarter of 2001 was primarily attributable to higher personnel related costs in both the services implementation and customer support areas. The Company has incurred cost of services fees in excess of services fees due primarily to the hiring and training of personnel in anticipation of future growth. As a result of slower than anticipated growth, the Company instituted cost control actions in the first quarter of 2001, including the reduction in personnel discussed above, to more closely align the cost structure with the anticipated growth. While the Company believes these costs will continue to be greater than services fees in the near term, the Company plans for services fees to exceed costs by late 2001.

#### Research and Development, Exclusive of Noncash Expense

Research and development expenses increased 62.3% to approximately \$5.0 million, or 109.5% of total revenues, during the quarter ended March 31, 2001 from \$3.1 million, or 44.0% of total revenues, during the same period in 2000. Research and development expenses increased primarily due to increased personnel related expenses and consulting fees incurred to develop the Company's products. During the first quarter of 2001, the Company had an average of 85 employees in the research and development area compared to an average of 60 employees in the same period of 2000. The first quarter of 2001 was also negatively impacted by \$600,000 as a result of terminating a services agreement with a development partner. The Company plans to utilize in-house research and development personnel moving forward, but expects to incur consulting fees for certain specialized development projects.

#### Noncash Research and Development Expense

Noncash research and development expenses of approximately \$826,000 were

recognized during the first quarter of 2000. The expenses resulted from the Company's agreement with a third party to develop certain software that the Company intends to sell in the future. The agreement required the third party to reach certain milestones related to the software development in order to receive warrants to purchase 50,000 shares of the Company' common stock with an exercise price of \$56.78. The third party completed two of the three scheduled milestones in the first quarter of 2000 and they were granted warrants to purchase 33,334 shares of common stock. The third milestone was not reached by the scheduled due date, and as a result the warrants to purchase the remaining 16,666 shares of common stock were forfeited. The warrants to purchase 33,334 shares remain outstanding at March 31, 2001 and expire in the first quarter of 2003. At the end of the first quarter of 2000, the value of the warrants earned approximated \$826,000 and was computed using the Black-Scholes option pricing model.

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#### Sales and Marketing, Exclusive of Noncash Expense

Sales and marketing expenses increased 24.8% to \$8.1 million, or 176.5% of total revenues, during the quarter ended March 31, 2001 from \$6.5 million, or 92.2% of total revenues, during the same period in 2000. The increase was primarily attributable to an increase in sales and marketing personnel related costs, partially offset by a decrease in promotional activities. The remaining increased personnel related costs are primarily related to additions made to the Company's sales force. During the first quarter of 2001, the Company had an average of 107 employees in the sales, marketing and business development areas compared to an average of 88 employees in the same period of 2000.

#### Noncash Sales and Marketing Expense

During the quarters ended March 31, 2001 and 2000, noncash sales and marketing expenses of approximately \$1.7 million and \$1.8 million, respectively, were recognized in connection with sales and marketing agreements signed by the Company during the fourth quarter of 1999 and the first quarter of 2000. In connection with these agreements, the Company issued warrants and shares of common stock to certain strategic partners, all of whom are also customers, in exchange for their participation in the Company's sales and marketing efforts. The Company recorded the value of these warrants and common stock as deferred sales and marketing expenses, which are being amortized over the life of the agreements which range from nine months to five years.

#### General and Administrative, Exclusive of Noncash Expense

General and administrative expenses increased 80.8% to \$4.7 million during the quarter ended March 31, 2001, or 103.9% of total revenue from \$2.6 million, or 37.5% of total revenues, during the same period in 2000. The increase in general and administrative expense was primarily attributable to increases in personnel related costs and an increase in the provision for doubtful accounts from \$526,000 in the first quarter of 2000 to \$2.0 million in the first quarter of 2001 for specifically identified accounts receivable. During the first quarter of 2001, the Company had an average of 58 employees in the finance and administration areas compared to an average of 37 employees in the same period of 2000.

#### Noncash General and Administrative Expense

Noncash general and administrative expenses decreased to approximately \$112,000, or 2.4% of total revenues, during the first quarter of 2001, from \$1.1 million, or 16.3% of total revenues, during the same period in 2000. The decrease in the quarter ended March 31, 2001 was primarily attributable to the termination in the fourth quarter of 2000 of an arrangement where the Company granted 160,000 options to a senior executive during the first quarter of 2000 at an exercise price below the fair market value at the date of grant. Fifteen percent of these options vested immediately and the remainder vested over four years. In the first quarter of 2000, the Company immediately expensed \$814,500 associated with the intrinsic value of the vested options and recorded the intrinsic value of the unvested options, \$4.6 million, as deferred compensation to be amortized evenly over the four-year vesting period. Approximately \$288,000 was expensed in the first quarter of 2000 related to the unvested options. As a result of the termination, all options except those that were vested on the original grant date were forfeited and the Company reversed in the fourth quarter of 2000 approximately \$864,000 of compensation expense related to the forfeited options. In the third quarter of 2000, the Company granted 18,750 options to a new board

member at a price below the fair market value at the date of grant. Deferred compensation of approximately \$266,000 was recorded related to this grant. The amount expensed in the first quarter of 2001 relates primarily to these options.

#### Depreciation and Amortization

Depreciation and amortization increased to \$2.9 million in the quarter ended March 31, 2001 from \$700,000 in the same period of 2000. The increase is primarily the result of the Company's amortization of its intangible assets associated with the acquisitions of iSold.com and the SAI/Redeo Companies completed in the second quarter of 2000.

#### Loss on Impairment of Investments

During the first quarter of 2001, the Company recorded a loss on impairment of investments of approximately \$3.1 million. The loss was necessitated by other than temporary losses to the value of investments the Company has made in privately held companies. These companies are primarily early-stage companies and are subject to significant risk due to their limited operating history and current economic conditions.

#### Interest Income

Interest income increased to \$2.4 million in the first quarter of 2001, or 53.0% of total revenues from \$986,000, or 14.1% of total revenues, in the same period of 2000. The increase in interest income was due to higher levels of cash available for investment, a

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direct result of the Company's follow-on offering completed in March 2000. The Company expects to continue to use cash to fund operating losses and, as a result, interest income on available cash is expected to decline in future quarters.

#### Interest Expense and Amortization of Debt Discount

Interest expense decreased 63.2% to \$64,000 in the first quarter of 2001 from \$174,000 in the same period of 2000. This decrease in interest expense is primarily due to higher levels of debt in the first quarter of 2000 as compared to 2001. The interest expense incurred in the first quarter of 2000 was the result of an interim funding of \$7.0 million received in December 1999 and repaid prior to the end of the first quarter of 2000. In March of 2000, the Company entered into a \$5.0 million borrowing arrangement with Wachovia Capital Investments, Inc. The interest expense in the first quarter 2001 is primarily related to this agreement.

As part of the interim funding agreement discussed above, the Company also issued warrants valued at approximately \$982,000 using the Black-Scholes option pricing model as debt discount to be amortized over the life of the financing agreement. The entire \$7.0 million plus interest was paid prior to the end of the first quarter of 2000. As result, the entire value of the warrants was amortized as a debt discount in the quarter ended March 31, 2000.

#### Income Taxes

As a result of the operating losses incurred since the Company's inception, no provision or benefit for income taxes was recorded during the quarters ended March 31, 2001 and 2000, respectively.

#### Liquidity and Capital Resources

On March 10, 2000, the Company completed a follow-on offering of 2,243,000 shares of common stock at an offering price of \$115.00 per share. The proceeds, net of expenses, from this public offering of approximately \$244.4 million were placed in investment grade cash equivalents and marketable securities. Although operating activities may provide cash in certain periods, to the extent the Company experiences growth in the future, the Company's operating and investing activities will use significant amounts of cash. The Company believes its liquid current assets and to the extent necessary, additional external financing, should adequately meet the Company's needs until the Company achieves break-even cash flow, which is currently forecasted to occur in the second quarter of 2002.

On March 14, 2000, the Company entered into a securities purchase agreement with Wachovia Capital Investments, Inc. Wachovia purchased a 4.5% convertible subordinated promissory note (the "Note") in the original principal amount of \$5.0 million. The Note provides for the ability of the holder to convert, at its option, all or any portion of the principal of the Note into common stock of the Company at the price of \$147.20 per share. If at any time after the date of the Note, the quoted price per share of the Company's common stock exceeds 200% of the conversion price then in effect for at least twenty trading days in any period of thirty consecutive trading days, the Company has the right to require that the holder of the Note convert all of the principal of the Note into common stock of the Company at the price of \$147.20 per share. The Note is due March 15, 2005 and the \$5.0 million principal amount was placed in investment grade cash equivalents.

Cash used in operating activities was approximately \$15.9 million during the quarter ended March 31, 2001. The cash used was primarily attributable to the Company's net loss, an increase in accounts receivable and prepaid and other current assets, and a decrease in accounts payable and accrued liabilities partially offset by noncash items and an increase in deferred revenue. Cash used in operating activities was approximately \$9.2 million during the quarter ended March 31, 2000. This was primarily attributable to the Company's net loss, and an increase in accounts receivable, partially offset by noncash items and an increase in deferred revenue.

Cash provided by investing activities was approximately \$11.9 million during the quarter ended March 31, 2001. The cash provided by investing activities was primarily attributable to proceeds received from the sale and maturity of marketable securities partially offset by the funds used to purchase marketable securities and property and equipment. Cash used in investing activities was approximately \$891,000 during the quarter ended March 31, 2000 and was used to purchase property and equipment.

Cash provided by financing activities was approximately \$124,000 during the quarter ended March 31, 2001, and the cash provided by financing activities was approximately \$243.9 million during the quarter ended March 31, 2000. The cash provided by financing activities during the period ended March 31, 2001 was primarily attributable to proceeds from shares issued under the employee stock purchase plan and stock option exercises. The cash provided by financing activities during the period ended March 31, 2000 was primarily attributable to the proceeds from the sale of 2,243,000 shares of common stock for approximately \$244.4 million, the issuance of long-term debt of \$5.0 million, and the proceeds from stock option exercises, partially offset by the repayment of \$7.0 million in interim funding provided by Transamerica Business Credit Corp., Silicon Valley Bank and Sand Hill Capital II, L.P.

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The Company's accounts receivable potentially subject the Company to credit risk, as collateral is generally not required. As of the first quarter ended March 31, 2001, three customers accounted for more than 10% each, totaling \$5.3 million or 39.7% of the gross accounts receivable balance on that date. The percentage by customer was 10.3%, 14.6%, and 14.8%, respectively, at March 31, 2001. As of December 31, 2000, four customers accounted for more than 10% each, totaling \$6.7 million or 56.0% of the gross accounts receivable balance on that date. The percentage by customer was 10.4%, 11.2%, 14.5%, and 19.9%, respectively, at December 31, 2000.

Prior to 2001, the Company made equity investments of \$17.7 million in eleven privately held companies. During the first quarter of 2001 and the fourth quarter of 2000, the Company recorded a charge of \$3.1 million and \$4.1 million, respectively, for other than temporary losses on these investments. These companies are primarily early-stage companies and are subject to significant risk due to their limited operating history and current economic conditions.

At March 31, 2001, the Company had net operating loss carryforwards, research and experimentation credit, and alternative minimum tax credit carryforwards for U.S. federal income tax purposes of approximately \$77.8 million, \$720,000, \$53,000, respectively, which expire in varying amounts beginning in the year 2009. The Company's ability to benefit from certain net operating loss carryforwards is limited under section 382 of the Internal Revenue Code as the Company is deemed to have had an ownership change of greater than 50%. Accordingly, certain net operating losses may not be realizable in future years due to this limitation.

During the first quarter of 2000, the Company issued 50,000 warrants and approximately 39,000 shares of the Company's common stock to certain strategic partners, all of whom are also customers, in exchange for their participation in the Company's sales and marketing efforts. The sales and marketing agreement signed with one strategic partner also included cash payments of \$300,000 in each of the last two years of the related agreement. For the quarter ended March 31, 2000, the Company recorded the fair value of these warrants, common stock, and cash payments as deferred sales and marketing expense of approximately \$986,000, \$3.8 million, and \$600,000, respectively. The strategic partners earned the warrants pro-rata on a quarterly basis over the first three quarters of 2000. One of the strategic partners failed to earn any of the 25,000 warrants while the other strategic partner met the predetermined sales and marketing milestones and earned all of the 25,000 warrants. Deferred sales and marketing expenses are amortized over the term of the sales and marketing agreements, which range from nine months to five years.

On May 31, 2000, the Company acquired the SAI/Redeo Companies. As part of the acquisition, a former executive of the SAI/Redeo Companies signed an employment agreement. As a result of the voluntary termination of this agreement prior to the first anniversary of the acquisition date, the executive was required to return to the Company for cancellation 55,000 shares of common stock issued in connection with the agreement. The Company recorded the fair value of these shares at the acquisition date, approximately \$1.5 million, as a reduction to the intangible balance associated with the SAI/Redeo acquisition.

#### New Accounting Pronouncements

In September 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement was amended in June 2000 by Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." The Company adopted these new pronouncements in January of 2001. The new Statements require all derivatives to be recorded on the balance sheet at fair value and establish accounting treatment for three types of hedges: hedges of changes in the fair value of assets, liabilities or firm commitments; hedges of the variable cash flows of forecasted transactions; and hedges of foreign currency exposures of net investments in foreign operations. The Company has no derivatives and the adoption of these pronouncements had no impact on the Company's results of operations or financial position.

#### Risk Factors

In addition to other information in this quarterly report on Form 10-Q, the following risk factors should be carefully considered in evaluating the Company and its business because such factors currently may have a significant impact on its business, operating results and financial condition. As a result of the risk factors set forth below, actual results could differ materially from those projected in any forward-looking statements.

We may not effectively implement our business strategy.

Our future performance will depend in part on successfully developing, introducing and gaining market acceptance of our products. On October 18, 1999, we sold substantially all of the assets of our financial and human resources software business to Geac Computer Systems, Inc. and Geac Canada Limited. Our financial and human resources software business had historically been our primary business. We began marketing our Clarus eProcurement solution in the second quarter of 1998. We added Clarus eMarket and Clarus Auctions to our product line in the second quarter of 2000, and introduced Clarus Settlement in the third quarter of 2000. If we do not successfully implement our business-to-business e-commerce growth strategy, our business will suffer materially and adversely. Our focus as an organization is on the large to mid-size enterprise (LME) market. While we anticipate that this market is increasingly more receptive to purchasing our solutions, we cannot be sure of the adoption rate. The

actual rate may be slower or less than our expectations, which would materially and adversely affect our business, results of operations and financial condition.

We may not be able to maintain referenceable accounts.

The implementation of our product suite by buying organizations can be complex, time consuming and expensive. In many cases, these organizations must change established business practices and conduct business in new ways. Our ability to attract additional customers for our product suite will depend on using our existing customers as referenceable accounts. As a result, our operating resource solutions may not achieve significant market acceptance. In addition, current customers are subject to the effects of being acquired, which may jeopardize their referencability in the future.

We expect our product line to appeal to early-stage companies, which expose us to higher than normal credit risk.

Our product line supports Internet-based business-to-business electronic commerce solutions that automate the procurement and management of operating resources. As a result of this functionality many early-stage businesses, in addition to many companies with traditional business models, are interested in acquiring our products. Many early-stage companies acquire their funding periodically based upon investor's perception of their progress and likelihood of success. Typically, they do not have internal operations sufficient to generate cash, which would guarantee their ongoing viability. While we evaluate all potential customers' ability to pay, if an increasing number of our customers fail in their operations and are unable to continue to pay amounts due under our license agreement, we will experience material and adverse financial losses related to these sales.

If our subscription-based model is unsuccessful, the market may adopt our products at a slower rate than anticipated, and our business may suffer materially.

We offer a subscription-based payment method to our customers. This model is unproven and represents a significant departure from the fee-based software licensing strategies that our competitors and we have traditionally employed. If we do not successfully develop and support our subscription-based model, the market may adopt our products at a slower rate than anticipated, and our business may suffer materially. As of March 31, 2001, we have signed several customers to subscription-based payment arrangements. Revenue associated with these customers in 2000 and the first quarter of 2001 was immaterial.

We may not generate the substantial additional revenues necessary to become profitable and anticipate that we will continue to incur losses.

We have incurred significant net losses in each year since our formation. In addition, we have incurred significant costs to develop our e-commerce technology and products, and to recruit and train personnel. We believe our success is contingent upon increasing our customer base and investing in further development of our products and services. This will require significant expenditures in research and development, sales and marketing, services, and support infrastructure. As a result, we will need to generate significant revenues to achieve and maintain profitability in the future. We cannot be certain that we will ever achieve such growth in the future.

As we expand our international sales and marketing activities and international operations, our business will be more susceptible to numerous risks associated with international operations.

To be successful, we believe we must expand our international operations and hire additional international personnel. As a result, we expect to commit significant resources to expand our international sales and marketing activities. We are subject to a number of risks associated with international business activities. These risks generally include:

- . currency exchange rate fluctuations;
- . seasonal fluctuations in purchasing patterns;
- . unexpected changes in regulatory requirements;
- . tariffs, export controls and other trade barriers;
- . longer accounts receivable payment cycles and difficulties in collecting accounts receivable;



- . difficulties in managing and staffing international operations;
- . potentially adverse tax consequences, including restrictions on the repatriation of earnings;

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- . increased transactions costs related to sales transactions conducted outside the U.S.;
- . reduced protection of intellectual property rights and increased risk of piracy;
- . challenges of retaining and maintaining strategic relationships with customers and business alliances in international markets;
- . foreign laws and courts may govern many of the agreements with customers and resellers;
- . difficulties in maintaining knowledgeable sales representatives in countries outside the U.S.;
- . adequacy of local infrastructures outside the U.S.;
- . differing technology standards, translations, and localization standards;
- . uncertain demand for electronic commerce;
- . linguistic and cultural differences;
- . the burdens of complying with a wide variety of foreign laws; and
- . political, social, and economic instability.

We have limited experience in marketing, selling and supporting our products and services in foreign countries. We do not have experience developing foreign language versions of our products.

We intend to expand the geographic scope of our customer base and operations. We opened our first international sales office in the United Kingdom during the first quarter of 2000 and acquired the SAI/Redeo companies, which have significant operations in Ireland, in the second quarter of 2000. We have limited experience in managing geographically dispersed operations and in operating in Ireland and the United Kingdom.

Our quarterly operations are volatile and difficult to predict. If we fail to meet the expectations of public market analysts or investors, the market price of our common stock may decrease significantly.

We believe that our quarterly and annual operating results will fluctuate significantly in the future, and our results of operations may fall below the expectations of securities analysts and investors. If this occurs or if market analysts perceive that it will occur, the market price of our common stock could decrease substantially. Recently, when the market price of a security has been volatile, holders of that security have often instituted securities class action lawsuits against the company that issued the security. We have been the subject of such lawsuits. These lawsuits divert the time and attention of our management and an adverse judgment could cause our financial condition or operating results to suffer.

Because the percentage of our revenues represented by maintenance services is smaller than that of many software companies with a longer history of operations, we do not have a significant recurring revenue stream that could lessen the effect of quarterly fluctuations in operating results. Many factors may cause significant fluctuations in our quarterly and annual operating results, including:

- . changes in the demand for our products;
- . the timing, composition and size of orders from our customers;
- . customer spending patterns and budgetary resources;

- . our success in generating new customers;
- . the timing of introductions of or enhancements to our products;
- . changes in our pricing policies or those of our competitors;
- . our ability to anticipate and adapt effectively to developing markets and rapidly changing technologies;

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- . our ability to attract, retain and motivate qualified personnel, particularly within our sales and marketing and research and development organizations;
- . the publication of opinions or reports about us, our products, our competitors or their products;
- . unforeseen events affecting business-to-business e-commerce;
- . changes in general economic conditions;
- . bad debt write-offs;
- . impairment of strategic investments;
- . actions taken by our competitors, including new product introductions and enhancements;
- . our ability to scale our network and operations to support large numbers of customers, suppliers and transactions;
- . our success in maintaining and enhancing existing relationships and developing new relationships with strategic partners, including application service providers, systems integrators, resellers, value-added trading communities and other partners; and
- . our ability to control costs.

Our quarterly revenues are especially subject to fluctuation because they can depend on the sale of relatively large orders for our products and related services. As a result, our quarterly operating results may fluctuate significantly if we are unable to complete one or more substantial sales in a given quarter.

Recently, we announced our strategy to serve the large to mid-size enterprise market that emphasizes license agreements that require the recognition of revenue over a fixed period of time. In these cases, we recognize revenues on a ratable basis over the life of the contract, which is typically 12 to 36 months. Therefore, if we do not book a sufficient number of large orders in a particular quarter, our revenues in future periods could be lower than expected. As we emphasize license agreements requiring ratable revenue recognition, the potential for fluctuations in our quarterly results could decrease but our revenues could be lower than expected. Furthermore, our quarterly revenues may be affected significantly by other revenue recognition policies and procedures. These policies and procedures may evolve or change over time based on applicable accounting standards and how these standards are interpreted.

We are increasing our investment in many areas, including research and development, sales and marketing, services, and support infrastructure, based upon our expectations of future revenue growth. These expenditures are relatively fixed in the short term. If our revenues fall below expectations and we are not able to quickly reduce spending in response, our operating results for that quarter and future periods may be harmed.

We may incur costs and liabilities related to potential or pending litigation.

In a number of lawsuits filed against us in the fourth quarter of 2000, our company and several of our officers have been named as defendants in a number of securities class action lawsuits filed in the United States District Court for the Northern District of Georgia. The plaintiffs purport to represent a class of all persons who purchased or otherwise acquired our common stock in

certain periods beginning on October 20, 1999 and through October 25, 2000. The complaints allege, among other things, that violations of Section 10(b) and (20)a of the Securities Exchange Act of 1934, as amended and Rule 10b-5 promulgated thereunder, with respect to alleged material misrepresentations and omissions made in public filings made with the Securities and Exchange Commission and certain press releases and other public statements. The plaintiffs seek unspecified damages and costs. These lawsuits divert the time and attention of management and an adverse judgment could cause our financial condition or operating results to suffer.

Competition from other electronic procurement providers may reduce demand for our products and cause us to reduce the price of our products.

The market for Internet-based procurement applications, and e-commerce technology generally, is rapidly evolving and intensely competitive. The intensity of competition has increased and is expected to further increase in the future. We may not compete

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effectively in our markets. Competitive pressure may result in our reducing the price of our products, which would negatively affect our revenues and operating margins. If we are unable to compete effectively in our markets, our business, results of operations and financial condition would be materially and adversely affected.

In targeting the e-commerce market, we must compete with electronic procurement providers such as Ariba and Commerce One. We also encounter competition with respect to different aspects of our solution from companies such as Concur Technologies, Extensify, Intelisys, VerticalNet, PurchasePro, FreeMarkets, and i2. We also anticipate competition from some of the large enterprise software developers, such as Oracle, PeopleSoft and SAP.

In addition, because there are relatively low barriers to entry in the business-to-business exchange market, we expect additional competition from other established and emerging companies, particularly if they acquire one of our competitors.

Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, significantly greater name recognition, and a larger installed base of customers than we do. In addition, many of our competitors have well-established relationships with our current and potential customers and have extensive knowledge of our industry. In the past, we have lost potential customers to competitors for various reasons, including lower prices and incentives not matched by us. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address customer needs. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share. We also expect that competition will increase as a result of industry consolidations.

We may not be able to compete successfully against our current and future competitors.

Market adoption of our solutions will be impeded if we do not continue to establish and maintain strategic relationships.

Our success depends in part on the ability of our strategic partners to expand market adoption of our solutions. If we are unable to maintain our existing strategic partnerships or enter into new partnerships, we may need to devote substantially more resources to direct sales of our products and services. We would also lose anticipated customer introductions and co-marketing benefits.

We rely, and expect to continue to rely, on a number of third-party application service providers to host our solutions. If we are unable to establish and maintain effective, long-term relationships with our application service providers, or if these providers do not meet our customers' needs or expectations, our business would be seriously harmed. In addition, we lose a significant amount of control over our solution when we engage application service providers, and we cannot adequately control the level and quality of their service. By relying on third-party application service providers, we are wholly reliant on their information technology infrastructure, including the

maintenance of their computers and communication equipment. An unexpected natural disaster or failure or disruption of an application service provider's infrastructure would have a material adverse effect on our business.

We rely exclusively on one third-party content services provider to provide catalog aggregation and management services to our customers, as part of our procurement solution. If we are unable to maintain an effective, long-term relationship with our content services provider, or if their services do not meet our customers' needs or expectations, our business could be seriously harmed.

If the demand for our solutions continues to increase, we will need to develop relationships with additional third-party service providers to provide these types of services. Our competitors have or may develop relationships with these third parties and, as a result, these third parties may be more likely to recommend competitors' products and services rather than ours.

Many of our strategic partners have multiple strategic relationships, and they may not regard us as important to their businesses. In addition, our strategic partners may terminate their relationships with us, pursue other partnerships or relationships or attempt to develop or acquire products or services that compete with our solutions. Further, our existing strategic relationships may interfere with our ability to enter into other desirable strategic relationships. A significant number of our Clarus eProcurement and Clarus eMarket customers have been retained through referrals from Microsoft, but Microsoft is not obligated to refer any potential customers to us, and it has entered into strategic relationships with other providers of electronic procurement applications.

Our stock price is highly volatile.

Our stock price has fluctuated dramatically. The market price of our common stock may decrease significantly in the future in response to the following factors, some of which are beyond our control:

- . Variations in our quarterly operating results;
  - . Announcements that our revenue or income are below analysts' expectations;
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- . Changes in analysts' estimates of our performance or industry performance;
  - . Changes in market valuations of similar companies;
  - . Sales of large blocks of our common stock;
  - . Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
  - . Loss of a major customer or failure to complete significant license transactions;
  - . Additions or departures of key personnel; and
  - . Fluctuations in stock market price and volume, which are particularly common among highly volatile securities of software and Internet-based companies.

We rely on strategic selling relationships with our partners.

We have established strategic selling relationships with a number of outside companies. Some of these companies have made significant revenue commitments to us as part of these relationships. While we do not reflect these commitments in our financial statements, this information is included in "backlog" information we share with market analysts and investors. Some of these strategic selling partners may not have the ability to meet their financial commitments to us, if they are not able to generate a sufficient level of sales to meet these commitments.

We expect to depend on our Clarus eProcurement and Clarus eMarket products for a

significant portion of our revenues for the foreseeable future.

We anticipate that revenues from our Clarus eProcurement and Clarus eMarket products and related services will continue to represent a significant portion of our revenues for the foreseeable future. As a result, a decline in the price of, profitability of or demand for our Clarus eProcurement and Clarus eMarket products would seriously harm our business. Our Clarus eMarket solution was introduced in the second quarter of 2000.

Our products may perform inadequately in a high volume environment.

Any failure by our principal products to perform adequately in a high volume environment could materially and adversely affect the market for these products and our business, results of operations and financial condition. Our products and the third party software and hardware on which it may depend may not operate as designed when deployed in high volume environments.

Defects in our products could delay market adoption of our solutions or cause us to commit significant resources to remedial efforts.

We could lose revenues as a result of software errors or other product defects. As a result of their complexity, software products may contain undetected errors or failures when first introduced or as new versions are released. Despite our testing of our software products and their use by current customers, errors may appear in new applications after commercial shipping begins. If we discover errors, we may not be able to correct them.

Errors and failures in our products could result in the loss of customers and market share or delay in market adoption of our applications, and alleviating these errors and failures could require us to expend significant capital and other resources. The consequences of these errors and failures could materially and adversely affect our business, results of operations and financial condition. Because we do not maintain product liability insurance, a product liability claim could materially and adversely affect our business, results of operations and financial condition. Provisions in our license agreements may not effectively protect us from product liability claims.

Any acquisitions that we attempt or make could prove difficult to integrate or require a substantial commitment of management time and other resources.

As part of our business strategy, we may seek to acquire or invest in additional businesses, products or technologies that may complement or expand our business. If we identify an appropriate acquisition opportunity, we may not be able to negotiate the terms of that acquisition successfully, finance it, or integrate it into our existing business and operations. We have completed only three acquisitions to date. We may not be able to select, manage or absorb any future acquisitions successfully, particularly

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acquisitions of large companies. Further, the negotiation of potential acquisitions, as well as the integration of an acquired business, would divert management time and other resources. We may use a substantial portion of our available cash to make an acquisition. On the other hand, if we make acquisitions through an exchange of our securities, our stockholders could suffer dilution. In addition, any particular acquisition, even if successfully completed, may not ultimately benefit our business.

We may not be able to retain the existing employees of acquired companies.

We made two technology acquisitions in 2000: the SAI/Redeo Companies and iSold.com. In connections with these acquisitions, we acquired products complementary to our procurement solution. We have no experience in providing these types of software products or services. We may not have the industry experience or technical experience to successfully continue development, marketing and support of these technologies without the continued involvement of these existing employees. The accounting treatment of our acquisition of the SAI/Redeo Companies negatively impacted our results of operations.

The accounting treatment for our acquisition of the SAI/Redeo Companies negatively impacted our results of operations in the second quarter of 2000. We recognized a write-off of acquired in-process research and development and amortization expense related to this acquisition. Amortization of this

acquisition will adversely affect our results of operations through 2008. The amounts allocated under purchase accounting to developed technology and in-process research and development in the acquisition involved valuation estimations of future revenues, expenses, operating profit, and cash flows. The actual revenues, expenses, operating profits, and cash flows from the acquired technology recognized in the future may vary materially from such estimates. If the in-process research and development product is not successfully developed, our sales and profitability may be adversely affected in future periods. Additionally, the value of other intangible assets acquired may become impaired.

An increase in the length of our sales cycle may contribute to fluctuations in our operating results.

As our products and competing products become increasingly sophisticated and complex, the length of our sales cycle is likely to increase. The loss or delay of orders due to increased sales and evaluation cycles could materially and adversely affect our business, results of operations and financial condition and, in particular, could contribute to significant fluctuations in our quarterly operating results. A customer's decision to license and implement our solutions may present significant enterprise-wide implications for the customer and involve a substantial commitment of its management and resources. The period of time between initial customer contact and the purchase commitment typically ranges from four to nine months for our applications. Our sales cycle could extend beyond current levels as a result of lengthy evaluation and approval processes that typically accompany major initiatives or capital expenditures or other delays over which we have little or no control.

Our success depends on the continued use of Microsoft technologies or other technologies that operate with our products.

Our products operate with, or are based on, Microsoft's proprietary products. If businesses do not continue to adopt these technologies as anticipated, or if they adopt alternative technologies that we do not support, we may incur significant costs in redesigning our products or lose market share. Our customers may be unable to use our products if they experience significant problems with Microsoft technologies that are not corrected.

The failure to maintain, support or update software licensed from third parties could materially and adversely affect our products' performance or cause product shipment delays.

We have entered into license agreements with third-party licensors for products that enhance our products, are used as tools with our products, are licensed as products complementary to ours or are integrated with our products. If these licenses terminate or if any of these licensors fail to adequately maintain, support or update their products, we could be required to delay the shipment of our products until we could identify and license software offered by alternative sources. Product shipment delays could materially and adversely affect our business, operating results and financial condition, and replacement licenses could prove costly. We may be unable to obtain additional product licenses on commercially reasonable terms. Additionally, our inability to maintain compatibility with new technologies could impact our customers' use of our products.

If we are unable to manage our internal resources, we may incur increased administrative costs and be unable to capitalize on revenue opportunities.

The growth of our e-commerce business coupled with the rapid evolution of our market has strained, and may continue to strain, our administrative, operational and financial resources and internal systems, procedures and controls. Our inability to manage our internal resources effectively could increase administrative costs and distract management. If our management is distracted, we may not be able to capitalize on opportunities to increase revenues.

Our success depends on our continuing ability to attract, hire, train and retain a substantial number of highly skilled managerial, technical, sales, marketing and customer support personnel.

Competition for qualified personnel is intense, and we may fail to retain our key employees or to attract or retain other highly qualified personnel. In particular, there is a shortage of, and significant competition for, research

and development and sales personnel. Even if we are able to attract qualified personnel, new hires frequently require extensive training before they achieve desired levels of productivity. If we are unable to hire or fail to retain competent personnel, our business, results of operations and financial condition could be materially and adversely affected. We do not maintain key-man life insurance policies on any of our employees.

Illegal use of our proprietary technology could result in substantial litigation costs and divert management resources.

Our success will depend significantly on internally developed proprietary intellectual property and intellectual property licensed from others. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as on confidentiality procedures and licensing arrangements, to establish and protect our proprietary rights in our products. Existing patent, trade secret and copyright laws provide only limited protection of our proprietary rights. We have applied for registration of our trademarks. We enter into license agreements with our customers that give the customer the non-exclusive right to use the object code version of our products. These license agreements prohibit the customer from disclosing object code to third parties or reverse-engineering our products and disclosing our confidential information. Despite our efforts to protect our products' proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Third parties may also independently develop products similar to ours.

Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could harm our business, operating results and financial condition.

Claims against us regarding our proprietary technology could require us to pay licensing or royalty fees or to modify or discontinue our products.

Any claim that our products infringe on the intellectual property rights of others could materially and adversely affect our business, results of operations and financial condition. Because knowledge of a third party's patent rights is not required for a determination of patent infringement and because the United States Patent and Trademark Office is issuing new patents on an ongoing basis, infringement claims against us are a continuing risk. Infringement claims against us could cause product release delays, require us to redesign our products or require us to enter into royalty or license agreements. These agreements may be unavailable on acceptable terms. Litigation, regardless of the outcome, could result in substantial cost, divert management attention and delay or reduce customer purchases. Claims of infringement are becoming increasingly common as the software industry matures and as courts apply expanded legal protections to software products. Third parties may assert infringement claims against us regarding our proprietary technology and intellectual property licensed from others. Generally, third-party software licensors indemnify us from claims of infringement. However, licensors may be unable to indemnify us fully for such claims, if at all.

If a court determines that one of our products violates a third party's patent or other intellectual property rights, there is a material risk that the revenue from the sale of the infringing product will be significantly reduced or eliminated, as we may have to:

- . pay licensing fees or royalties to continue selling the product;
- . incur substantial expense to modify the product so that the third party's patent or other intellectual property rights no longer apply to the product; or
- . stop selling the product.

In addition, if a court finds that one of our products infringes a third party's patent or other intellectual property rights, then we may be liable to that third party for actual damages and attorneys' fees. If a court finds that we willfully infringed on a third party's patent, the third party may be able to recover treble damages, plus attorneys' fees and costs.

A compromise of the encryption technology employed in our solutions could reduce customer and market confidence in our products or result in claims against us.

A significant barrier to Internet-based commerce is the secure exchange of valued and confidential information over public networks. Any compromise of our security technology could result in reduced customer and market confidence in our products and

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in customer or third party claims against us. This could materially and adversely affect our business, financial condition and operating results. Clarus eProcurement and Clarus eMarket rely on encryption technology to provide the security and authentication necessary to protect the exchange of valuable and confidential information. Advances in computer capabilities, discoveries in the field of cryptography or other events or developments may result in a compromise of the encryption methods we employ in Clarus eProcurement and Clarus eMarket to protect transaction data.

Our success depends upon market acceptance of e-commerce as a reliable method for corporate procurement and other commercial transactions.

Market acceptance of e-commerce, generally, and the Internet specifically, as a forum for corporate procurement is uncertain and subject to a number of risks. The success of our suite of business-to-business e-commerce applications, including Clarus eProcurement and Clarus eMarket, depends upon the development and expansion of the market for Internet-based software applications, in particular e-commerce applications. This market is new and rapidly evolving. Many significant issues relating to commercial use of the Internet, including security, reliability, cost, ease of use, quality of service and government regulation, remain unresolved and could delay or prevent Internet growth. If widespread use of the Internet for commercial transactions does not develop or if the Internet otherwise does not develop as an effective forum for corporate procurement, the demand for our product suite and our overall business, operating results and financial condition will be materially and adversely affected.

If the market for Internet-based procurement applications fails to develop or develops more slowly than we anticipate or if our Internet-based products or new Internet-based products we may develop do not achieve market acceptance, our business, operating results and financial condition could be materially and adversely affected. The adoption of the Internet for corporate procurement and other commercial transactions requires accepting new ways of transacting business. In particular, enterprises with established patterns of purchasing goods and services that have already invested substantial resources in other means of conducting business and exchanging information may be particularly reluctant to adopt a new strategy that may make some of their existing personnel and infrastructure obsolete. Also, the security and privacy concerns of existing and potential users of Internet-based products and services may impede the growth of online business generally and the market's acceptance of our products and services in particular. A functioning market for these products may not emerge or be sustained.

The market for business-to-business e-commerce solutions is characterized by rapid technological change, and our failure to introduce enhancements to our products in a timely manner could render our products obsolete and unmarketable.

The market for e-commerce applications is characterized by rapid technological change, frequent introductions of new and enhanced products and changes in customer demands. In attempting to satisfy this market's demands, we may incur substantial costs that may not result in increased revenues due to the short life cycles for business-to-business e-commerce solutions. Because of the potentially rapid changes in the e-commerce applications market, the life cycle of our products is difficult to estimate.

Products, capabilities or technologies others develop may render our products or technologies obsolete or noncompetitive and shorten the life cycles of our products. Satisfying the increasingly sophisticated needs of our customers requires developing and introducing enhancements to our products and technologies in a timely manner that keeps pace with technological developments, emerging industry standards and customer requirements while keeping our products priced competitively. Our failure to develop and introduce new or enhanced e-commerce products that compete with other available products could materially



and adversely affect our business, results of operations and financial condition.

Losses from our investments in strategic partners could negatively impact our operating results.

We have made several financial investments in private companies. These companies are primarily early-stage enterprises with limited operated histories. If these partners are unsuccessful in executing their business plans, we may experience losses on these investments, which would negatively impact our operating results.

Failure to expand Internet infrastructure could limit our growth.

Our ability to increase the speed and scope of our services to customers is limited by and depends on the speed and reliability of both the Internet and our customers' internal networks. As a result, the emergence and growth of the market for our services depends on improvements being made to the entire Internet infrastructure as well as to our individual customers' networking infrastructures. The recent growth in Internet traffic has caused frequent periods of decreased performance. If the Internet's infrastructure is unable to support the rapid growth of Internet usage, its performance and reliability may decline, and overall Internet usage could grow more slowly or decline. If Internet reliability and performance declines, or if necessary improvements do not increase the Internet's capacity for increased traffic, our customers will be hindered in their use of our solutions, and our business, operating results and financial condition could suffer.

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Future governmental regulations could materially and adversely affect our business and e-commerce generally.

We are not subject to direct regulation by any government agency, other than under regulations applicable to businesses generally, and few laws or regulations specifically address commerce on the Internet. In view of the increasing use and growth of the Internet, however, the federal government or state governments may adopt laws and regulations covering issues such as user privacy, property ownership, libel, pricing and characteristics and quality of products and services. We could incur substantial costs in complying with these laws and regulations, and the potential exposure to statutory liability for information carried on or disseminated through our application systems could force us to discontinue some, or all of our services. These eventualities could adversely affect our business operating results and financial condition. The adoption of any laws or regulations covering these issues also could slow the growth of e-commerce generally, which would also adversely affect our business, operating results or financial condition. Additionally, one or more states may impose sales tax collection obligations on out-of-state companies that engage in or facilitate e-commerce. The collection of sales tax in connection with e-commerce could impact the growth of e-commerce and could adversely affect sales of our e-commerce products.

Legislation limiting further levels of encryption technology may adversely affect our sales

As a result of customer demand, it is possible that Clarus eProcurement and Clarus eMarket will be required to incorporate additional encryption technology. The United States government regulates the exportation of this technology. Export regulations, either in their current form or as they may be subsequently enacted, may further limit the levels of encryption or authentication technology that we are able to use in our software and our ability to distribute our products outside the United States. Any revocation or modification of our export authority, unlawful exportation or use of our software or adoption of new legislation or regulations relating to exportation or use of software and encryption technology could materially and adversely affect our sales prospects and, potentially, our business, financial condition and operating results as a whole.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion concerning the Company's market risk involves forward-looking statements that are subject to risks and uncertainties. Actual results could differ materially from those discussed in the forward-looking

statements. The Company is exposed to market risk related to foreign currency exchange rates, interest rates and investment values. The Company currently does not use derivative financial instruments to hedge these risks or for trading purposes.

#### Foreign Currency Risk

Substantially all of the revenue recognized to date by the Company has been denominated in U.S. dollars, including sales made internationally. As a result, a strengthening of the U.S. dollar could make the Company's products less competitive in foreign markets. In addition, the Company has foreign subsidiaries which subject the Company to risks associated with foreign currency exchange rates and weak economic conditions in these foreign markets. An increase or decrease in foreign currency exchange rates of 10% would not have a material effect on the Company's financial position or results of operations. The Company does not use derivatives as a means of hedging against foreign currency risk.

#### Interest Rate Risk

The Company is exposed to market risk from changes in interest rates primarily through its investing activities. The primary objective of the Company's investment activities is to manage interest rate exposure by investing in short-term, highly liquid investments. As a result of this strategy, the Company believes that the Company is subject to minimal interest rate exposure. The Company's marketable securities are carried at market value, which approximates cost. An increase or decrease in interest rates of 10% would not have a material effect on the Company's financial position or results of operations.

#### Investments

Prior to 2001, the Company made equity investments of \$17.7 million in eleven privately held companies. The Company's equity interest in these entities ranges from 3.5% to 12.5% and the Company is accounting for these investments using the cost method of accounting. During the first quarter of 2001 and the fourth quarter of 2000, the Company recorded a charge of \$3.1 million and \$4.1 million, respectively, for other than temporary losses on these investments. These companies are primarily early-stage companies and are subject to significant risk due to their limited operating history and current economic conditions. In the first quarter of 2001, the Company did not make any equity investments in privately held companies and did not recognize any revenue from these companies. During the year ended December 31, 2000, the Company recognized \$17.2 million in total revenue from these companies. In the first quarter of 2000, the Company made an equity investment of \$750,000 and

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recognized \$855,000 in total revenue in one privately held company. Subsequent to the first quarter of 2001, the Company made an equity investment of \$2.0 million in a privately held company. No revenue has been recognized related to this investment.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The Company is a party to lawsuits in the normal course of its business. Litigation in general, and securities litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of one or more of the following lawsuits could adversely affect the Company's business, results of operations, or financial condition.

Following its public announcement on October 25, 2000, of its financial results for the third quarter, the Company and certain of its directors and officers were named as defendants in fourteen putative class action lawsuits filed in the United States District Court for the Northern District of Georgia on behalf of all purchasers of common stock of the Company during various periods beginning as early as October 20, 1999 and ending on October 25, 2000. The fourteen class action lawsuits filed against the Company were consolidated into one case, Case No. 1:00-CV-2841, pursuant to an order of the court dated November 17, 2000. On March 22, 2001, the Court entered an order appointing as the lead Plaintiffs John Nittolo, Dean Monroe, Ronald Williams, V&S Industries, Ltd., VIP World

Asset Management, Ltd., Atlantic Coast Capital Management, Ltd., and T.F.M. Investment Group. Pursuant to the previous Consolidation Order of the Court, a Consolidated Amended Complaint was filed on May 14, 2001.

The class action complaints allege claims against the Company and other defendants for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder with respect to alleged material misrepresentations and omissions in public filings made with the Securities and Exchange Commission and certain press releases and other public statements made by the Company and certain of its officers relating to its business, results of operations, financial condition and future prospects, as a result of which, it is alleged, the market price of our common stock was artificially inflated during the class periods. The class action complaints focus on statements made concerning an account receivable from one of the Company's customers. The plaintiffs seek unspecified compensatory damages and costs (including attorneys' and expert fees), expenses and other unspecified relief on behalf of the classes. The Company believes that it has complied with all of its obligations under the Federal securities laws and the Company intends to defend these lawsuits vigorously.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits-none

(b) Reports on Form 8-K-none

SIGNATURE

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

CLARUS CORPORATION

Date: May 15, 2001 /s/ James J. McDevitt

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James J. McDevitt,  
Chief Financial Officer