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

FORM 10-Q

(Mark one)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended March 31, 2002

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _________ to _________

Commission File Number: 0-24277

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)
15,578,147 shares outstanding as of May 8, 2002

INDEX

CLARUS CORPORATION

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>

<S>	March 31, 2002 <C>	December 31, 2001 <C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 32,822	$ 55,628
Marketable securities	80,752	65,264
Accounts receivable, less allowance for doubtful accounts of $690 and $675 in 2002 and 2001, respectively	2,438	2,566
Deferred marketing expense, current	391	391
Prepaids and other current assets	1,888	2,472
Total current assets	118,291	126,321
PROPERTY AND EQUIPMENT, NET	6,214	7,352
OTHER ASSETS:		
Deferred marketing expense, net of current portion	-	98
Investments	-	200
Goodwill	6,736	6,736
Other intangible assets, net of accumulated amortization of $1,721 and $1,493 in 2002 and 2001, respectively	3,851	4,079
Deposits and other long-term assets	555	488
TOTAL ASSETS	$ 135,647	$ 145,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 5,385	$ 6,506
Deferred revenue	3,967	5,206

Total current liabilities	9,352	11,712
LONG-TERM LIABILITIES:		
Deferred revenue	1,341	1,969
Long-term debt	5,000	5,000
Other long-term liabilities	261	265
	---------	---------
Total liabilities	15,954	18,946
STOCKHOLDERS' EQUITY:		
Preferred stock, $.0001 par value; 5,000,000 shares authorized; none issued	-	-
Common stock, $.0001 par value; 100,000,000 shares authorized; 15,653,142 and 15,638,712 shares issued and 15,578,142 and 15,563,712 outstanding in 2002 and 2001, respectively	2	2
Additional paid-in capital	360,758	360,670
Accumulated deficit	(241,080)	(234,623)
Treasury stock, at cost	(2)	(2)
Accumulated other comprehensive income	15	281
	---------	---------
Total stockholders' equity	119,693	126,328
	---------	---------
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 135,647	$ 145,274
	=========	=========

</TABLE>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

<TABLE>
<CAPTION>

	Three months ended March 31	
	2002	2001
<S>	<C>	<C>
REVENUES:		
License fees	$ 1,473	$ 2,310
Services fees	2,468	2,530
	-----------	-----------
Total revenues	3,941	4,840
COST OF REVENUES:		
License fees	14	44
Services fees	1,938	3,779
	-----------	-----------
Total cost of revenues	1,952	3,823
OPERATING EXPENSES:		
Research and development	2,629	5,555
Sales and marketing, exclusive of noncash expense	3,548	8,069
Noncash sales and marketing	98	1,688
General and administrative, exclusive of noncash expense	1,504	2,694
Provision for doubtful accounts	2	2,055
Noncash general and administrative	-	112
Depreciation and amortization	1,357	2,865
	-----------	-----------
Total operating expenses	9,138	23,038
OPERATING LOSS	(7,149)	(22,021)
OTHER INCOME	15	1

LOSS ON IMPAIRMENT OF INVESTMENTS	-	(3,099)
INTEREST INCOME	733	2,422
INTEREST EXPENSE	(56)	(64)
NET LOSS	$(6,457)	$(22,761)

Loss per common share:		
Basic	$ (0.41)	$ (1.47)
Diluted	$ (0.41)	$ (1.47)
Weighted average shares outstanding		
Basic	15,572	15,508
Diluted	15,572	15,508

</TABLE>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

<TABLE>
<CAPTION>

	Three months ended March 31,	
	2002	2001
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net loss	$ (6,457)	$ (22,761)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization on property and equipment	1,129	845
Amortization of intangible assets	228	2,020
Loss on impairment of investments	-	3,099
Gain on sale of marketable securities	-	(1)
Noncash sales and marketing expense	98	1,688
Noncash general and administrative expense	-	112
Provision for doubtful accounts	2	2,055
Gain on sale of assets	(10)	-
Changes in operating assets and liabilities:		
Accounts receivable	126	(2,383)
Prepaid and other current assets	584	(763)
Deposits and other long-term assets	(67)	6
Accounts payable and accrued liabilities	(1,121)	(510)
Deferred revenue	(1,867)	686
Other long-term liabilities	(4)	5
NET CASH USED IN OPERATING ACTIVITIES	(7,359)	(15,902)
INVESTING ACTIVITIES:		
Purchase of marketable securities	(15,919)	(23,264)
Proceeds from sale and maturity of marketable securities	250	36,853
Proceeds from sale of investments	200	-
Proceeds from sale of equipment	22	-
Purchases of property and equipment	(3)	(1,723)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(15,450)	11,866
FINANCING ACTIVITIES:		
Proceeds from the exercises of stock options	10	28
Proceeds from issuance of common stock related to employee stock purchase plan	78	96

NET CASH PROVIDED BY FINANCING ACTIVITIES	88	124
Effect of exchange rate change on cash	(85)	90
CHANGE IN CASH AND CASH EQUIVALENTS	(22,806)	(3,822)
CASH AND CASH EQUIVALENTS, beginning of period	55,628	118,303
CASH AND CASH EQUIVALENTS, end of period	$ 32,822	$ 114,481
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Cash paid for interest	$ 56	$ 64
NONCASH TRANSACTIONS:		
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.

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, 2002, have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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, 2002 are not necessarily indicative of the results to be obtained for the year ending December 31, 2002. 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, 2001, 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 three months ended March 31, 2002 and 2001 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,	
	2002	2001
Effect of shares issuable under stock options	168	332
Effect of shares issuable pursuant to warrants to purchase common stock	-	1
Total effect of dilutive common stock equivalents	168	333

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 were given the opportunity 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 the new options was equal to the fair market value of the Company's common stock on the date of grant. During the first phase of the program 366,174 options with a weighted average exercise price of $30.55 per share were canceled and new options to purchase 263,920 shares with an exercise price of $3.49 per share were issued on November 9, 2001. During the second phase of the program 273,188 options with a weighted average exercise price of $43.87 per share were canceled and new options to purchase 198,052 shares with an exercise price of $4.10 per share were issued on February 11, 2002. Employees who participated in the first exchange were not eligible for the second exchange. The exchange program was designed to comply with Financial Accounting Standards Board ("FASB") Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" and did not result in any additional compensation charges or variable accounting. Members of the Company's Board of Directors and its executive officers were not eligible to participate in the exchange program.

NOTE 4. RESTRUCTURING AND RELATED COSTS

During 2001, the Company's management approved restructuring plans to reorganize and reduce operating costs. Restructuring and related charges of $513,000, $498,000 and $3.1 million were expensed in the first, third and fourth quarters of 2001, respectively, to better align the Company's cost structure with projected revenue. The first and third quarter charges were comprised entirely of employee separation and related costs for 23 and 43 employees, respectively. The fourth quarter charge was comprised of $1.9 million for employee separation and related costs for 115 employees and $1.2 million for facility closure and consolidation costs. During the first quarter of 2002, the Company determined that amounts previously charged during 2001 of approximately $202,000 that related to employee separation and related charges were no longer required and this amount was credited to sales and marketing expense in the accompanying condensed consolidated statement of operations for the three months ended March 31, 2002.

The Company expects to complete the facility closure and consolidation during 2002. The facility closure and consolidation costs relate to the abandonment of the Company's leased facility near Toronto, Canada and the restructuring of the Company's leased

facility in Suwanee, Georgia. Total facility closure and consolidation costs include remaining lease liabilities, construction costs and brokerage fees to sublet the abandoned space offset by estimated sublease income. The estimated costs of abandoning these leased facilities, including estimated costs to sublease, were based on market information trend analysis provided by a commercial real estate brokerage firm retained by the Company. The Company anticipates annualized savings of approximately $18.3 million as a result of these actions.

In connection with the Company's restructuring program initiated in the first quarter of 2001, the Company has implemented a further reduction of its worldwide workforce and will incur a related restructuring charge of approximately $5.3 million during the quarter ended June 30, 2002. The second quarter charge is comprised of approximately $2.2 million for employee separation and related costs for 114 employees and approximately $3.1 million for facility closure and consolidation costs.

The following is a reconciliation of the components of the accrual for restructuring and related costs, the amounts charged against the accrual during 2002 and the balance of the accrual as of March 31, 2002:
<TABLE>
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	Balance December 31, 2001	Expenditures	Amounts Credited	Balance March 31, 2002

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

(in thousands)				
Employee separation costs	$ 680	$395	$202	$ 83
Facility closure costs	1,209	276	-	933
Total restructuring and related costs	$1,889	$671	$202	$1,016

</TABLE>

The accrual for restructuring and related costs is included in accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets.

NOTE 5. 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 loss for the three months ended March 31, 2002 and 2001 were as follows (in thousands):

	Three months ended March 31, 2002	Three months ended March 31, 2001
Net loss	$(6,457)	$(22,761)
Unrealized loss on marketable securities	(181)	(103)
Foreign currency translation adjustments	(85)	90
Comprehensive loss	$(6,723)	$(22,774)

NOTE 6. CREDIT AND CUSTOMER CONCENTRATIONS

The Company's accounts receivable potentially subject the Company to credit risk, as collateral is generally not required. As of March 31, 2002, three customers accounted for more than 10% each, totaling $1.5 million or 46.7% of the gross accounts receivable balance on that date. The percentage by customer was 18.1%, 17.1% and 11.5%, respectively, at March 31, 2002. As of December 31, 2001, four customers accounted for more than 10% each, totaling $1.7 million or 53.2% of the gross accounts receivable balance on that date. The percentage of total accounts receivable due from each of these four customers was 15.8%, 13.9%, 12.6% and 10.9%, respectively, at December 31, 2001.

During the quarter ended March 31, 2002, one customer accounted for more than 10% of total revenue, totaling $1.8 million or 45.3% of total revenue. During the quarter ended March 31, 2001, two customers accounted for more than 10% each, totaling $2.1 million or 43.8% of total revenue. The percentage by customer was 25.9% and 17.9% respectively, for the quarter ended March 31, 2001.

NOTE 7. 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 the following lawsuit could adversely affect the Company's business, results of operations, liquidity 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 complaint alleges 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 the Company's common stock was artificially inflated during the class periods. The class action complaint focuses 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 this lawsuit vigorously. As a result of consultation with legal representation and current insurance coverage, the Company does not believe the lawsuit will have a material impact on the Company's results of operations or financial position.

NOTE 8. NEW ACCOUNTING PRONOUNCEMENTS

At the November 2001 Emerging Issues Task Force ("EITF") meeting, the FASB released Staff Announcement Topic D-103, "Income Statement Characterization of Reimbursements Received for `Out-of-Pocket' Expenses Incurred" stating that the Staff believes that reimbursements received for out-of-pocket expenses should be characterized as revenue. The Company adopted this Staff Announcement effective January 1, 2002. Historically the Company has not reflected such reimbursements as revenue in its consolidated statements of operations. Upon adoption of this FASB Staff Announcement, comparative financial statements for prior periods were reclassified to provide consistent presentation. The adoption of this FASB Staff Announcement did not have any impact on the Company's financial position or results of operations, however, the Company's services fees revenue and cost of services fees revenue increased by an equal amount as a result of the gross-up of revenues and expenses for reimbursable expenses. For the three months ended March 31, 2001, the Company's services fees revenue and cost of services fees revenue increased by approximately $268,000 as a result of the reclassification of these reimbursements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Assets to Be Disposed Of". The Company adopted SFAS 144 effective January 1, 2002, which did not have a material impact on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values. The Company adopted SFAS 141 upon issuance and adopted SFAS 142 effective January 1, 2002. Upon adoption, the Company tested goodwill for impairment according to the provisions of SFAS 142, which resulted in no impairment required as a cumulative effect of accounting change. The Company recorded $1.8 million of amortization expense related to goodwill and other intangible assets with indefinite lives during the quarter ended March 31, 2001.

In September 1998, the 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 did not have any impact on the Company's results of operations or financial position.

NOTE 9. RECLASSIFICATIONS

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

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

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 "Risk Factors" herein.

Overview

The Company develops, markets, and supports Internet-based business-to-business ("B2B") e-commerce solutions that automate the procurement, sourcing, and settlement of goods and services. The Company's software helps organizations reduce the costs associated with the purchasing and payment settlement of goods and services, and helps to maximize procurement economies of scale. The Company's digital marketplace solution provides a framework that allows companies to create trading communities and additional revenue opportunities. The Company's solutions also benefit suppliers by reducing sales costs and providing the opportunity to increase revenues. The Company's products have been licensed by customers such as BarclaysB2B, the Burlington Northern and Santa Fe Railway Company, Cox Enterprises, Mastercard International, Union Pacific Corporation, Parsons Brinckerhoff, Sumurfit-Stone Container Corporation, and Wachovia Corporation.

Critical Accounting Policies and Use of Estimates

If demand for business-to-business software and related services remain soft our business, operating results, liquidity and financial condition will be adversely affected. Our success depends on market acceptance of e-commerce as a viable method for corporate procurement and other commercial transactions and market adoption of our current products and future products. We continue to reposition our products and our company in the markets we serve. This strategy may not be successful. The competitive landscape we face is continuously changing. It is difficult to estimate how competition will affect our revenues.

It is also very difficult to predict our quarterly results. We have incurred significant net losses in each year since our inception. We may not increase our customer base sufficient to generate the substantial additional revenues necessary to become profitable. We have established strategic selling relationships with a number of outside companies. There is no guarantee that these relationships will generate the level of revenues currently anticipated.

As we expand our international sales and marketing activities and international operations our business is more susceptible to the numerous risks associated with international sales and operations. We may not be successful in addressing these and other risks and difficulties that we may encounter. Please refer to the "Risk Factors" sections for additional information regarding the risks associated with our operations and financial condition.

The Company's discussion of financial condition and results of operations are based on the consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of

these financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. The Company continually evaluates its estimates and assumptions including those related to revenue recognition, allowance for doubtful accounts, impairment of long-lived assets, impairment of investments, and contingencies and litigation. The Company bases its estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The Company believes the following critical accounting policies include the more significant estimates and assumptions used by management in the preparation of its consolidated financial statements.

- 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" and related interpretations. 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.

- The Company maintains allowances for doubtful accounts based on expected losses resulting from the inability of the Company's customers to make required payments. As a result, the Company has recorded a provision for doubtful accounts of $2,000 and $2.1 million, respectively, in the three months ended March 31, 2002 and 2001. If the financial condition of these customers were to deteriorate additional allowances may be required.

- The Company has significant long-lived assets, primarily intangibles, as a result of acquisitions completed during 2000. The Company currently evaluates the carrying value of its long-lived assets, including intangibles, according to Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Previously, the Company periodically evaluated the carrying value of its long-lived assets, including intangibles, according to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". During the fourth quarter of 2001, the Company's evaluation of the performance of the SAI/Redeo companies compared to initial projections, negative economic trends and a decline in industry growth rate projections indicated that the carrying value of these intangible assets exceeded management's revised estimates of future undiscounted cash flows. This assessment resulted in a $36.8 million impairment charge of the intangible assets based on the amount by which the carrying amount of these assets exceeded fair value. Subsequent changes in projections may require additional impairment charges.

- The Company has made equity investments in several privately held companies. The Company records an impairment charge when it believes an investment has experienced a decline in value that is other than temporary. During the three months ended March 31, 2001, the Company recorded impairment charges on investments of $3.1 million.

- 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 the following lawsuit could adversely affect the Company's business, results of operations, liquidity 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 complaint alleges 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 the Company's common stock was artificially inflated during the class periods. The

  class action complaint focuses 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 this lawsuit vigorously. As a result of consultation with legal representation and current insurance coverage, the Company does not believe the lawsuit will have a material impact on the Company's results of operations or financial position.

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 suite of products. Services fees are generated from consulting, implementation, training, content aggregation and maintenance 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" and related interpretations. 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. Revenue allocated to maintenance is recognized ratably over the maintenance term, which is typically 12 months and revenue allocated to training and other service elements is recognized as the services are performed.

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, customer meetings, 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.

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.

Pro-forma Results

The Company prepares and releases quarterly unaudited financial statements prepared in accordance with generally accepted accounting principles ("GAAP"). The Company also discloses and discusses certain pro forma financial information in the related earnings releases and investor conference calls. This pro forma financial information excludes restructuring costs and expenses related to reductions in employee workforce and office closure and consolidation, depreciation and amortization charges, stock-based compensation expenses, gain realized on the sale of assets, and loss on impairment of investments, all of which are included in our financial results for GAAP reporting purposes. The Company believes the disclosure of the pro forma financial information helps investors more meaningfully evaluate the results of the Company's ongoing operations. The pro forma measures are not in accordance with GAAP and may be different from pro forma measures used by other companies including our competitors. Therefore, we urge you to carefully review the GAAP financial information included as part of this Form 10-Q, compare GAAP financial information with the pro forma financial results disclosed below and read the associated reconciliation.

Pro Forma Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31	
	2002	2001
<S>	<C>	<C>
REVENUES:		
License fees	$ 1,473	$ 2,310
Services fees	2,468	2,530
TOTAL REVENUES	3,941	4,840
COST OF REVENUES:		
License fees	14	44
Services fees	1,938	3,618
TOTAL COST OF REVENUES	1,952	3,662
OPERATING EXPENSES:		
Research and development	2,629	5,555
Sales and marketing	3,750	7,935
General and administrative	1,504	2,476
Provision for doubtful accounts	2	2,055
TOTAL OPERATING EXPENSES	7,885	18,021
Operating loss	$(5,896)	$(16,843)
Gain on foreign currency transactions	5	-
Interest income, (net)	677	2,358
Pro forma net loss	$(5,214)	$(14,485)
Weighted average shares outstanding - basic and diluted	15,572	15,508
Pro forma net loss per share - basic and diluted	$ (0.33)	$ (0.93)

</TABLE>

Reconciliation of GAAP Net Loss to Pro Forma Net Loss
(in thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

	Three months ended March, 31 2002	2001
<S>	<C>	<C>
Net loss	$(6,457)	$(22,761)
Restructuring costs /1/	(202)	513
Depreciation and amortization	1,357	2,865
Stock-based compensation	98	1,800
Gain on sale of assets	(10)	-
Loss on impairment of investments	-	3,098
Pro forma net loss	$(5,214)	$(14,485)
Weighted average shares outstanding - basic and diluted	15,572	15,508
Pro forma net loss per share - basic and diluted	$ (0.33)	$ (0.93)

</TABLE>

- ---------
/1/ Restructuring costs are comprised of employee severance and termination costs. For the three months ended March 31, 2002 and 2001, these costs were classified in the consolidated statement of operations as follows:

<TABLE>
<CAPTION>

(in thousands)	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
<S>	<C>	<C>
Cost of services fees revenue	$ -	$161
Research and development	-	-
Sales and marketing	(202)	134
General and administrative	-	218
Total	$(202)	$513

</TABLE>

Restructuring and Related Costs

During 2001, the Company's management approved restructuring plans to reorganize and reduce operating costs. Restructuring and related charges of $513,000, $498,000 and $3.1 million were expensed in the first, third and fourth quarters of 2001, respectively, to better align the Company's cost structure with projected revenue. The first and third quarter charges were comprised entirely of employee separation and related costs for 23 and 43 employees, respectively. The fourth quarter charge was comprised of $1.9 million for employee separation and related costs for 115 employees and $1.2 million for facility closure and consolidation costs. During the first quarter of 2002, the Company determined that amounts previously charged during 2001 of approximately $202,000 that related to employee separation and related charges were no longer required and this amount was credited to sales and marketing expense in the accompanying condensed consolidated statement of operations for the three months ended March 31, 2002.

The Company expects to complete the facility closure and consolidation during

2002. The facility closure and consolidation costs relate to the abandonment of the Company's leased facility near Toronto, Canada and the restructuring of the Company's leased facility in Suwanee, Georgia. Total facility closure and consolidation costs include remaining lease liabilities, construction costs and brokerage fees to sublet the abandoned space offset by estimated sublease income. The estimated costs of abandoning these leased facilities, including estimated costs to sublease, were based on market information trend analysis provided by a commercial real estate brokerage firm retained by the Company. The Company anticipates annualized savings of approximately $18.3 million as a result of these actions.

In connection with the Company's restructuring program initiated in the first quarter of 2001, the Company has implemented a further reduction of its worldwide workforce and will incur a related restructuring charge of approximately $5.3 million during the quarter ended June 30, 2002. The second quarter charge is comprised of approximately $2.2 million for employee separation and related costs for 114 employees and approximately $3.1 million for facility closure and consolidation costs.

The following is a reconciliation of the components of the accrual for restructuring and related costs, the amounts charged against the accrual during 2002 and the balance of the accrual as of March 31, 2002:

<TABLE>
<CAPTION>

	Balance December 31, 2001	Expenditures	Amounts Credited	Balance March 31, 2002
<S>	<C>	<C>	<C>	<C>
(in thousands)				
Employee separation costs	$ 680	$395	$202	$ 83
Facility closure costs	1,209	276	-	933
Total restructuring and related costs	$1,889	$671	$202	$1,016

</TABLE>

The accrual for restructuring and related costs is included in accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets.

Results of Operations

Revenues

Total Revenues. Total revenues for the quarter ended March 31, 2002 decreased 18.6% to $3.9 million from $4.8 million during the same period in 2001. The decrease in total revenues resulted primarily from a decrease in license revenue due to the softening demand for business-to-business software and a decline in the information technology market generally. During the quarter ended March 31, 2002, one customer accounted for more than 10% of total revenue, totaling $1.8 million or 45.3%. During the quarter ended March 31, 2001, two customers accounted for more than 10% each, totaling $2.1 million or 43.8% of total revenue. The percentage by customer was 25.9% and 17.9% respectively, for the quarter ended March 31, 2001.

License Fees. License fees decreased 36.2% to $1.5 million or 37.4% of total revenues, for the quarter ended March 31, 2002 from $2.3 million, or 47.7% of total revenues, for the same period in 2001. The decrease in license fees was attributable to the softening demand for business-to-business software and the information technology market generally.

Services Fees. Services fees decreased 2.5% to $2.5 million, for the quarter ended March 31, 2002, from $2.5 million for the same period in 2001. However, services fees increased as a percentage of total revenues to 62.6%, for the quarter ended March 31, 2002, from 52.3% for the same period in 2001. This decrease is primarily attributable to a decrease in implementation and training services, a direct result of the decrease in the amount of software licensed, partially offset by an increase in maintenance fees.

Cost of Revenues

Total Cost of Revenues. Cost of revenues decreased 48.9% to $2.0 million, or 49.5% of total revenue, during the quarter ended March 31, 2002 from $3.8 million, or 79.0% of total revenue, during the same period in 2001. The decrease in cost of revenues is primarily a result of a decrease in the cost of services fees due to lower personnel related costs. During the three months ended March 31, 2002, the Company had an average of 53.4% fewer employees in services compared to the same period in 2001. The reduced personnel related costs are a result of Company instituted cost control measures that began during 2001.

Cost of License Fees. Cost of license fees decreased 68.2% to $14,000 in the first quarter of 2002 from $44,000 in the first quarter of 2001. 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 decreased 48.7% to $1.9 million, or 78.5% of total services fees revenues, during the quarter ended March 31, 2002 compared to $3.8 million, or 149.4% of total services fees revenues, during the same period in 2001. As discussed above, the decrease in the cost of services fees was primarily attributable to lower personnel related costs in both the services implementation and customer support areas.

Research and Development Expense

Research and development expenses decreased 52.7% to approximately $2.6 million, or 66.7% of total revenues, during the quarter ended March 31, 2002 from $5.6 million, or 114.8% of total revenues, during the same period in 2001. Research and development expenses decreased primarily as a result of a reduction in personnel related costs and consulting fees incurred to develop the Company's products. Consulting fees were $548,000 in the first quarter of 2002 compared to $1.3 million in the first quarter of 2001. During the three months ended March 31, 2002, the Company had an average of 36.7% fewer employees in the research and development area compared to the same period of 2001. The Company plans to utilize in-house research and development personnel in the future, but expects to incur consulting fees for certain specialized development projects.

Sales and Marketing, Exclusive of Noncash Expense

Sales and marketing expenses decreased 56.0% to $3.5 million, or 90.0% of total revenues, during the quarter ended March 31, 2002 from $8.1 million, or 166.7% of total revenues, during the same period in 2001. The decrease was primarily attributable to a decrease in variable compensation as a result of lower license revenue during the period and a decrease in sales and marketing personnel. The Company had an average of 59.9% fewer employees during the first quarter of 2002 in the sales, marketing and business development areas compared to the first quarter of 2001.

Noncash Sales and Marketing Expense

During the quarters ended March 31, 2002 and 2001, noncash sales and marketing expenses of approximately $98,000 and $1.7 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 decrease in noncash sales and marketing expense during 2002 is due to the termination of the sales and marketing agreement with one customer during the fourth quarter of 2001.

General and Administrative, Exclusive of Noncash Expense

General and administrative expenses, including the provision for doubtful accounts, decreased 68.3% to $1.5 million during the quarter ended March 31, 2002, or 38.2% of total revenue from $4.7 million, or 98.1% of total revenues, during the same period in 2001. The decrease in general and administrative expense for the three months ended March 31, 2002 was primarily attributable to a decrease in the provision for doubtful accounts and reduced headcount. The Company had an average of 50.4% fewer employees during the first quarter of 2002 in the general and administrative areas compared to the first quarter of 2001. The Company recorded a provision for doubtful accounts of $2,000 during the three months ended March 31, 2002 compared to a provision of $2.1 million for the three months ended March 31, 2001.

Noncash General and Administrative Expense

For the three months ended March 31, 2001, noncash general and administrative expenses were $112,000, or 2.3% of total revenues. 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. The amount expensed during 2001 relates primarily to these options.

Depreciation and Amortization

Depreciation and amortization decreased to $1.4 million in the quarter ended March 31, 2002 from $2.9 million in the same period of 2001. The decrease is primarily the result of adopting SFAS 142, effective January 1, 2002, which requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, partially offset by an increase in depreciation and amortization of property and equipment. The Company recorded $1.8 million of amortization expense related to goodwill and other intangible assets with indefinite lives during the quarter ended March 31, 2001.

Other Income

For the three months ended March 31, 2002, the Company recorded a gain on the sale of property and equipment of $10,000 and a gain on foreign currency transactions of $5,000. For the three months ended March 31, 2001, the Company recorded a gain on sale of investments of $1,000.

Loss on Impairment of Investments

During the three months ended March 31, 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 and capital market conditions.

Interest Income

Interest income decreased to $733,000 in the first quarter of 2002, or 18.6% of total revenues from $2.4 million, or 50.0% of total revenues, in the same period of 2001. The decrease in interest income was due to lower levels of cash available for investment and lower interest rates. 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

Interest expense decreased to $56,000 in the first quarter of 2002 from $64,000 in the same period of 2001. In March of 2000, the Company entered into a $5.0 million borrowing arrangement with an interest rate of 4.5% with Wachovia Capital Investments, Inc. The interest expense in 2002 and 2001 is primarily related to this agreement.

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 three months ended March 31, 2002 and 2001, respectively.

Liquidity and Capital Resources

The Company's cash and cash equivalents decreased to $32.8 million at March 31, 2002 from $55.6 million at December 31, 2001. Marketable securities increased to $80.8 million at March 31, 2002 from $65.3 million at December 31, 2001. The overall decrease in cash and cash equivalents and marketable securities is due primarily to cash used in operating activities.

Cash used in operating activities was approximately $7.4 million during the quarter ended March 31, 2002. The cash used was primarily attributable to the Company's net loss and to decreases in accounts payable and accrued liabilities and deferred revenue partially offset by noncash items and a decrease in prepaid and other current assets. Cash used in operating activities was approximately $15.9 million during the quarter ended March 31, 2001. 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 used for investing activities was approximately $15.5 million during the quarter ended March 31, 2002. The cash was used primarily for purchases of marketable securities partially offset by the sale of investments and the sale and maturity of marketable securities. 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 provided by financing activities was approximately $88,000 during the quarter ended March 31, 2002, and approximately $124,000 million during the quarter ended March 31, 2001. The cash provided by financing activities during the quarters ended March 31, 2002 and 2001 was primarily attributable to proceeds from shares issued under the employee stock purchase plan and stock option exercises.

The Company's accounts receivable potentially subject the Company to credit risk, as collateral is generally not required. As of March 31, 2002, three customers accounted for more than 10% each, totaling $1.5 million or 46.7% of the gross accounts receivable balance on that date. The percentage by customer was 18.1%, 17.1% and 11.5%, respectively, at March 31, 2002. As of December 31, 2001, four customers accounted for more than 10% each, totaling $1.7 million or 53.2% of the gross accounts receivable balance on that date. The percentage of total accounts receivable due from each of these four customers was 15.8%, 13.9%, 12.6% and 10.9%, respectively, at December 31, 2001.

During the quarter ended March 31, 2002, one customer accounted for more than 10% of total revenue, totaling $1.8 million or 45.3% of total revenue. During the quarter ended March 31, 2001, two customers accounted for more than 10% each, totaling $2.1 million or 43.8% of total revenue. The percentage by customer was 25.9% and 17.9% respectively, for the quarter ended March 31, 2001.

At March 31, 2002, the Company had net operating loss carryforwards, research and experimentation credit, and alternative minimum tax credit carryforwards for U.S. federal income tax purposes 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.

Although operating activities may provide cash in certain periods, to the extent the Company incurs continuing operating losses or

experiences growth in the future, the Company's operating and investing activities will continue to use cash. The Company currently estimates uses of cash to fund operating losses and for purchases of property and equipment. The actual use of cash in operations during 2002 will be impacted dramatically by any fluctuations in projected revenue as the Company's operating expenses are relatively fixed in the short term. The Company currently believes that existing cash and cash equivalents and marketable securities will be sufficient to meet operating and investing needs during 2002.

The following summarizes the Company's contractual obligations and commercial commitments at March 31, 2002, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:
<TABLE>
<CAPTION>

	Total	2002	2003	2004	2005	2006	Thereafter
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
(in thousands)							
Long-term debt	$ 5,000	$ -	$ -	$ -	$5,000	$ -	$ -
Operating leases	7,521	1,445	1,774	1,803	1,802	644	53
Total	$12,521	$1,445	$1,774	$1,803	$6,802	$ 644	$ 53

</TABLE>

The Company does not have commercial commitments under capital leases, lines of credit, standby lines of credit, guaranties, standby repurchase obligations or other such arrangements.

The Company does not engage in any transactions or have relationships or other arrangements with an unconsolidated entity. These include special purpose and similar entities or other off-balance sheet arrangements. The Company also does not trade in energy, weather or other commodity based contracts.

Related Party Transactions

On November 1, 2001, the Company engaged E.Com Consulting to perform market research and provide recommendations concerning the needs and opportunities associated with the Company's settlement product. E.Com Consulting subcontracted with e-RM International, Inc. ("e-RMI") to assist with a portion of this project. e-RMI is a Delaware corporation whose sole shareholder is Chrismark Enterprises LLC. Chrismark Enterprises LLC is owned by Mark Johnson, a director of the Company and his wife. The contract period of the engagement was November 1, 2001 through January 31, 2002 for which the Company agreed to pay total professional fees of $50,000 plus out-of-pocket expenses. Of this amount, $7,805 was paid to e-RMI. The Company expensed a total of $42,164 in connection with the engagement during the fourth quarter of 2001 and had a balance due E.Com of $34,359 at December 31, 2001 that is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet. The contract was terminated by the Company during January 2002. No expense was incurred during 2002 and all amounts due E.Com were paid in January, 2002.

On February 7, 2002 Todd Hewlin joined the Company's board of directors. Mr. Hewlin is a managing director of The Chasm Group, LLC, a consultancy organization focusing on helping technology companies develop and implement strategies that create and sustain market leadership positions for their core products while building shareholder value and a sustainable competitive advantage. During 2001, the Company engaged The Chasm Group to assist the Company on various strategic and organizational issues. The contract period of the engagement was November 15, 2001 through February 15, 2002 for which the company agreed to professional fees of $225,000 plus out-of-pocket expenses. The Company expensed a total of $145,000 during the three months ended March 31, 2002 that is included in general and administrative in the accompanying consolidated statement of operations and expensed $131,000 during the fourth quarter of 2001. The Company expensed an additional $54,000 during the three months ended March 31, 2002 related to further services performed by The Chasm Group that is included in general and administrative in the accompanying consolidated statement of operations.

In the opinion of management, the rates, terms and considerations of the transactions with the related parties described above approximate those that the Company would have received in transactions with unaffiliated parties.

New Accounting Pronouncements

At the November 2001 Emerging Issues Task Force ("EITF") meeting, the FASB released Staff Announcement Topic D-103, "Income Statement Characterization of Reimbursements Received for `Out-of-Pocket' Expenses Incurred" stating that the Staff believes that reimbursements received for out-of-pocket expenses should be characterized as revenue. The Company adopted this Staff Announcement effective January 1, 2002. Historically the Company has not reflected such reimbursements as revenue in its consolidated statements of operations. Upon adoption of this FASB Staff Announcement, comparative financial statements for prior periods were reclassified to provide consistent presentation. The adoption of this FASB Staff Announcement did not have any impact on the Company's financial position or results of operations, however, the Company's services fees revenue and cost of services fees revenue increased by an equal amount as a result of the gross-up of revenues and expenses for reimbursable expenses. For the three months ended March 31, 2001, the Company's services fees revenue and cost of services fees revenue increased by approximately $268,000 as a result of the reclassification of these reimbursements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Assets to Be Disposed Of". The Company adopted SFAS 144 effective January 1, 2002, which did not have a material impact on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values. The Company adopted SFAS 141 upon issuance and adopted SFAS 142 effective January 1, 2002. Upon adoption, the Company tested goodwill for impairment according to the provisions of SFAS 142, which resulted in no impairment required as a cumulative effect of accounting change. The Company recorded $1.8 million of amortization expense related to goodwill and other intangible assets with indefinite lives during the quarter ended March 31, 2001.

In September 1998, the 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 did not have any 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, liquidity 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.

The softening demand for business-to-business software and related services could negatively affect our business, operating results, liquidity, financial condition, and stock price.

Our revenue growth and operating results depend significantly on the overall demand for technological goods and services, and in particular, demand for business-to-business software and services. Softening demand for these products and services caused by ongoing economic uncertainty may contribute to lower revenues. Continued delays or reductions in technology spending could have a material adverse effect on demand for our products and services, and consequently our business, operating results, liquidity, financial condition, and stock price.

Our settlement platform is a new technology product in an evolving market. We may not effectively implement our business strategy to develop and gain market acceptance of the product.

Our settlement product is a technology that is currently being marketed to early-adopting customers. We have limited experience in marketing this product. If the market for the settlement product fails to completely develop or develops more slowly than we anticipate or if we fail to develop and gain market acceptance of this product, our business, operating results, liquidity and financial condition could be materially and adversely affected.

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 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 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, liquidity and financial condition will be materially and adversely affected.

If the market for Internet-based procurement applications 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, liquidity 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 be sustained.

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 and other recurring forms of revenue 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 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;

. 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 intangibles;

. impairment of strategic investments;

. actions taken by our competitors, including new product introductions and enhancements;

. restructuring of our operations and related charges;

. 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 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.

We continue to invest 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.

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;

. 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 may be required to defer recognition of license fee revenue for a significant period of time after entering into a license agreement, which could negatively impact our financial results.

We may be required to defer recognition of license fee revenue for a significant period of time after entering into a license agreement for a variety of transactions, including:

- transactions that include both currently available software products and products that are under development or other undeliverable elements;

- transactions where the customers demand services that include signficant modifications or customizations that could delay product delivery or acceptance;

- transactions that involve acceptance criteria that may preclude revenue recognition or if there are identified product-related issues, such as performance issues; and

- transactions that involve payment terms or fees that depend on contingencies.

Generally accepted accounting principles ("GAAP") for software revenue recognition requires that our license agreements meet specific criteria in order to recognize revenue when we initially deliver software. Although we have standard form license agreements that meet the GAAP criteria for immediate revenue recognition on delivered elements, we do on some occasions negotiate the terms of our license agreements. Some of these negotiated agreements may not meet the GAAP criteria for immediate software revenue recognition on delivered elements.

Although our business model allows for time-based license agreements, we continue to record some of our license fee revenue upon software delivery. The deferral of license fee revenue recognition on these agreements could have an adverse effect on our financial results.

We may not generate the additional revenues and cut operating costs necessary to become profitable.

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 reducing operating costs. We cannot guarantee that we will be able to generate the additional revenue and cut operating costs necessary to be profitable.

If our flexible payment options are not well received, the market may adopt our products at a slower rate than anticipated, and our business may suffer materially.

We offer flexible payment methods to our customers. These programs are 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 execute these programs the market may adopt our products at a slower rate than anticipated, and our business may suffer materially.

We expect to evolve to our business model over time. The adoption rate of our flexible payment options may, from quarter to quarter, fluctuate or be rejected by the market altogether. As we continue this program, we may find that the majority of our revenues continue to come from traditional revenue recognition license arrangements that result in revenues being recognized upon delivery. If the results of our flexible payment options program fluctuate due to uneven adoption rates or if our program is rejected entirely, our business, results of operations, liquidity and financial condition would be materially and adversely affected.

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, liquidity 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.

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 solutions may not achieve significant market acceptance. In addition, current customers are subject to the effects of being acquired, which may jeopardize their use of our products and referencability in the future.

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 exclusively on third-party content services providers to provide catalog aggregation and management services to our customers, as part of our procurement solution. If we are unable to maintain effective, long-term relationships with our content services providers, or if their services do not meet our customers' needs or expectations, our business could be seriously harmed. If the demand for our solutions increases, 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 obtained 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.

We rely on strategic selling relationships with our partners.

We have established strategic selling relationships with a number of outside companies. Some of these strategic selling partners may not be able to generate a sufficient level of sales to justify continuing their relationship with us.

Much of our sales growth and future success is expected to come from our channel partners. While we expect to invest in these relationships including sales training, product integration and joint selling, we cannot predict the channel partner's commitment or level of success. Additionally the timetable for productivity of any channel partner may vary based on many factors out of our control. We expect that the development of most relationships will take three to six months, although we cannot be assured of this timetable or if these relationships will ever deliver any results. Should our channel relationships prove unproductive or take longer to deliver results, our financial results and path to profitability could suffer serious adverse consequences.

Our substantial reduction in headcount in 2001 and 2002 may make it more difficult for us to hire and retain personnel we need to develop, market and sell our settlement product.

We reduced our headcount during 2001 and in April, 2002 based on our current expectations of future revenue growth, and as part of our cost reduction initiatives. These reductions may make it more difficult for us to hire and retain the personnel we need including the personnel necessary to develop, market and sell our settlement product. If we are unable to hire or fail to retain competent personnel, our business, results of operations, liquidity and financial condition could be materially and adversely affected. We do not maintain key-man life insurance policies on any of our employees.

As we expand our international sales and marketing activities and international operations, our business is 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;
- increased transaction 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 intend to expand the geographic scope of our customer base. We have a sales and services office in the United Kingdom. We have limited experience in managing geographically dispersed operations and in operating in the United Kingdom.

We may not be able to recover the carrying value of our intangibles.

We periodically assess the impairment of long-lived assets, including identifiable intangibles and related goodwill, in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". We previously assessed the impairment of these assets in accordance with SFAS 121 "Accounting for the Impairment of Long-Lived Assets and Assets to be Disposed Of". An impairment review is performed whenever events or changes in circumstances indicate that the carrying value may not be recoverable, but at least annually for goodwill and intangible assets with indefinite useful lives. As a result of this assessment we incurred impairment charges in the fourth quarter of 2001.We can give no assurance that additional future impairment charges will not be required due to factors we consider important including, but not limited to, significant underperformance relative to historical or projected operating results, significant changes in the manner of use of the acquired assets and significant negative industry or economic trends.

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 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 incur costs and liabilities related to potential or pending litigation.

In a number of lawsuits filed against us in the fourth quarter of 2000 that are now consolidated into one lawsuit, 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. This lawsuit diverts the time and attention of management and an adverse judgment could cause our financial condition or operating results to suffer.

Our estimate of costs associated with our restructuring and related activities may not be adequate.

During 2001 and in April, 2002, our management approved restructuring plans to reorganize and reduce operating costs. Restructuring and related charges of $4.2 million were expensed during 2001 and $5.3 million in April, 2002 to better align our cost structure with projected revenue. These charges were comprised of employee separation related costs and facility closure and consolidation costs. If the estimates and assumptions used in the restructuring plan prove to be incorrect we may incur additional costs related to these activities.

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, liquidity 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, liquidity 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, liquidity and financial condition. Provisions in our license agreements may not effectively protect us from product liability claims.

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.

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 effectively in our current market or new markets we develop or enter. Competitive pressure may result in our reducing the price of our products, which would negatively affect our revenues and operating margins. Our competitors vary in size and in the scope and breath of the products and services they offer. If we are unable to compete effectively in our markets, our business, results of operations, liquidity and financial condition would be materially and adversely affected.

In 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 VerticalNet, PurchasePro, FreeMarkets, and i2. We also face 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. We are entering into new and developing markets and we expect to face competition as these markets develop.

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 their partners 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.

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, liquidity 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.

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, liquidity 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, liquidity 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 in customer or third party claims against us. This could materially and adversely affect our business, financial condition, operating results and liquidity. 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.

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, liquidity and financial condition.

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. For example, a number of comprehensive legislative and regulatory privacy proposals are now under consideration by federal, state, and local governments. 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, liquidity 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, liquidity or financial condition.

Foreign governmental regulations could also materially and adversely affect our business. For example, the European Union has enacted the European Data Privacy Directive, which relates to the protection and processing of certain types of personal data. Under the directive, personal data about citizens of European Union member states may not be transferred outside the European Union unless certain specified conditions are met. In addition, persons whose personal data is collected within the European Union are guaranteed certain rights, including the right to access and obtain information about their data and to object to certain forms of processing of their data. The directive therefore affects all companies that collect, process, or transfer personal data in the European Union or receive personal data from the European Union. Other countries outside the European Union have also recently enacted similar laws regulating the transmission of private data, including, without limitation, Argentina, Australia, Hong Kong, Poland and Switzerland. The potential effect of the European Union directive and other foreign data privacy regulations on our business is uncertain. These laws could create uncertainty in the marketplace that could reduce demand for our software or

increase the cost of doing business as a result of litigation costs or increased service delivery costs, or could in some other manner have a material and adverse effect on our business, results of operations, liquidity and financial condition.

In addition, because our services are accessible worldwide, and we facilitate sales of goods to users worldwide, other jurisdictions may claim that we are required to qualify to do business as a foreign corporation in a particular state or foreign country. Our failure to qualify as a foreign corporation in a jurisdiction could subject us to taxes and penalties and could result in our inability to enforce contracts in such jurisdictions. Any such new legislation or regulation or the application of laws or regulations from jurisdictions whose laws do not currently apply to our business, could have a material and adverse effect on our business, results of operations, liquidity and financial condition.

Security risks may affect the use of the Internet in electronic commerce.

The secure transmission of confidential information over public networks is necessary to the conduct of electronic commerce. Advances in cryptography and other computer capabilities, however, could result in compromises or breaches of our security systems or the security systems of other Web sites. If a particularly well-published compromise of security were to occur, the use of the Web for communications and commerce could be substantially affected.

Anyone circumventing our security measures could potentially misappropriate proprietary information or cause interruptions in our operations. Because the Internet is a public network, computer viruses could be introduced to our system or those of our customers or suppliers, thereby disrupting our operational network and making our services inaccessible. In the event our security measures ever failed, our business and financial condition would be substantially harmed. Furthermore, we may be required to expend substantial capital and other resources in order to protect against security breaches and interruptions and in order to keep our security system up-to-date.

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

As a result of customer demand, it is possible that our products 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 operating results and liquidity as a whole.

Future taxation could harm our business and Internet commerce generally.

We file tax returns in such states as required by law based on principles applicable to traditional businesses. We do not collect sales or similar taxes in respect of transactions conducted through our software products or trading communications created with our products. However, one or more states could seek to impose additional income tax obligations or sales tax collection obligations on out-of-state companies engaging in or facilitating online commerce. A number of proposals have been made at state and local levels that could impose such taxes on the sale of products and services through the Internet or the income derived from such sales. Such proposals, if adopted, could substantially impair the growth of electronic commerce and reduce the demand for our electronic commerce products and digital marketplaces in general.

Legislation limiting the ability of the states to impose taxes on Internet-based transactions was enacted by the United States Congress. This legislation was recently extended through November 1, 2003 as a result of the Internet Tax Non-discrimination Act, signed on November 28, 2001. If the moratorium is not renewed after November 1, 2003, any such taxes could adversely affect our ability to license our electronic commerce products.

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.

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 there is very little exposure. The Company's investments 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

During the second quarter of 2001, the Company made an equity investment of $2.0 million in a privately held strategic partner. 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 2.5% to 12.5% and the Company is accounting for these investments using the cost method of accounting. During 2001 and 2000 the Company recorded charges of $15.4 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 and capital market conditions.

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 the following lawsuit could adversely affect the Company's business, results of operations, liquidity 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 complaint alleges 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 the Company's common stock was artificially inflated during the class periods. The class action complaint focuses 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 this lawsuit vigorously. As a result of consultation with legal representation and current insurance coverage, the Company does not believe the lawsuit will have a material impact on the Company's results of operations or financial position.

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 14, 2002 /s/ James J. McDevitt

James J. McDevitt,
Chief Financial Officer