

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended September 30, 2005

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

(State or other jurisdiction of  
incorporation or organization)

58-1972600

(I.R.S. Employer  
Identification Number)

One Landmark Square  
Stamford, Connecticut 06901  
(Address of principal executive offices)  
(Zip code)

(203) 428-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter 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  NO

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES  NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  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)**

16,371,314 shares outstanding as of November 1, 2005

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CLARUS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
 (UNAUDITED)  
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	SEPTEMBER 30, 2005	DECEMBER 31, 2004
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 15,873	\$ 48,377
Marketable securities	67,380	35,119
Accrued interest receivable	235	350
Prepays and other current assets	146	182
<b>Total current assets</b>	<b>83,634</b>	<b>84,028</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>2,080</b>	<b>2,367</b>
<b>OTHER ASSETS:</b>		
Deposits and other long-term assets	43	42
<b>TOTAL ASSETS</b>	<b>\$ 85,757</b>	<b>\$ 86,437</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 606	\$ 1,468
<b>Total current liabilities</b>	<b>606</b>	<b>1,468</b>
<b>LONG-TERM LIABILITIES:</b>		
Deferred rent	190	115
<b>Total liabilities</b>	<b>796</b>	<b>1,583</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.0001 par value; 5,000,000 shares authorized; none issued	—	—
Common stock, \$.0001 par value; 100,000,000 shares authorized; 16,907,170 and 16,734,947 shares issued and 16,832,170 and 16,659,947 outstanding in 2005 and 2004, respectively	2	2
Additional paid-in capital	368,929	368,385
Accumulated deficit	(280,689)	(279,656)
Treasury stock, at cost	(2)	(2)
Accumulated other comprehensive loss	(113)	(130)
Deferred compensation	(3,166)	(3,745)
<b>Total stockholders' equity</b>	<b>84,961</b>	<b>84,854</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 85,757</b>	<b>\$ 86,437</b>

**SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.**

**CLARUS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS		NINE MONTHS	
	ENDED SEPTEMBER 30,		ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
<b>REVENUES:</b>				
Services fees	\$ —	\$ 1,106	\$ —	\$ 1,106
Total revenues	—	1,106	—	1,106
<b>OPERATING EXPENSES:</b>				
General and administrative	714	404	2,501	2,329
Transaction expenses	—	1,461	—	1,461
Depreciation	83	86	249	100
Total operating expenses	797	1,951	2,750	3,890
OPERATING LOSS	(797)	(845)	(2,750)	(2,784)
OTHER INCOME	2	—	—	17
INTEREST INCOME	668	313	1,717	801
<b>NET LOSS</b>	<b>\$ (127)</b>	<b>\$ (532)</b>	<b>\$ (1,033)</b>	<b>\$ (1,966)</b>
<b>Loss per common share:</b>				
Basic	\$ (0.01)	\$ (0.03)	\$ (0.06)	\$ (0.12)
Diluted	\$ (0.01)	\$ (0.03)	\$ (0.06)	\$ (0.12)
<b>Weighted average shares outstanding:</b>				
Basic	16,310	16,082	16,283	16,082
Diluted	16,310	16,082	16,283	16,082

**SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.**

**CLARUS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,033)	\$ (1,966)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation on property and equipment	249	100
Amortization of deferred employee compensation	279	426
Amortization of premium and discount on securities, net	(276)	857
Gain on sale of marketable securities	--	(17)
Changes in operating assets and liabilities:		
Accrued interest receivable, prepaids and other current assets	151	5
Accounts payable and accrued liabilities	(808)	935
Deferred revenue	--	(1,106)
Deferred rent	75	78
Deposits and other long-term assets	(1)	(2)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,364)</b>	<b>(690)</b>
<b>INVESTING ACTIVITIES:</b>		
Purchases of marketable securities	(66,588)	(55,091)
Proceeds from sale of marketable securities	--	51,244
Proceeds from maturity of marketable securities	34,620	38,258
Additions to property and equipment	(16)	(2,518)
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(31,984)</b>	<b>31,893</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from the exercises of stock options	844	51
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>844</b>	<b>51</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(32,504)</b>	<b>31,254</b>
CASH AND CASH EQUIVALENTS, Beginning of Period	48,377	15,045
<b>CASH AND CASH EQUIVALENTS, End of Period</b>	<b>\$ 15,873</b>	<b>\$ 46,299</b>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:</b>		
Issuance of Restricted Stock	\$ --	\$ 50

**SEE ACCOMPANYING NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.**

**CLARUS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Clarus Corporation and subsidiaries ("Clarus" or the "Company," which may be referred to as "we," "us," or "our") as of and for the three and nine months ended September 30, 2005 and 2004, 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 and nine months ended September 30, 2005 are not necessarily indicative of the results to be obtained for the year ending December 31, 2005. 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, 2004, filed with the Securities and Exchange Commission.

**NOTE 2. SIGNIFICANT EVENTS**

As part of our previously announced strategy to limit operating losses and enable the Company to redeploy its assets and use its substantial cash and cash equivalent assets to enhance stockholder value, on December 6, 2002, we sold substantially all of our electronic commerce business, which represented substantially all of our revenue-generating operations and related assets. During January 2003, we sold the assets relating to our Cashbook product representing the remainder of our operating assets.

As previously disclosed in our Report on Form 8-K filed with the Securities and Exchange Commission on October 4, 2004, our securities were delisted from the Nasdaq National Market effective with the open of business on Tuesday, October 5, 2004. On October 11, 2004, the Company's common stock commenced trading on the OTC Bulletin Board, under the symbol "CLRS.OB".

In the third quarter of 2004, the Company recognized \$1.5 million in transaction expenses arising out of negotiations relating to a previously announced acquisition that terminated in September 2004 without the consummation of the acquisition. The expenses recognized in the period ended September 30, 2004 represent the costs incurred during negotiations, such as legal, accounting, appraisal and other related fees and expenses. There were no comparable expenses in the same period for 2005.

We are currently working to identify suitable merger partners or acquisition opportunities. Although we are not targeting specific business industries for potential acquisitions, we plan to seek businesses with substantial cash flow, experienced management teams, and operations in markets offering substantial growth opportunities.

**NOTE 3. EARNINGS (LOSS) PER SHARE**

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding for each period. Diluted net loss per share attributable to common stockholders is computed by giving effect to all potentially dilutive securities, including options, warrants and redeemable convertible preferred stock. Potentially dilutive securities are excluded from the computation of diluted net loss per share attributable to common stockholders if their effect is anti-dilutive. For the periods ended September 30, 2005 and 2004, basic net loss per share attributable to common stockholders is the same as diluted net loss per share attributable to common stockholders because all potentially dilutive securities were anti-dilutive in computing diluted net loss per share for these periods.

Options to acquire 435,000 and 400,000 shares of common stock during the periods ended September 30, 2005 and 2004, respectively, were outstanding, but not included in the calculation of weighted average number of diluted shares outstanding because the option exercise prices were higher than the average market price of the Company's common stock during that period. In addition, diluted net loss per share attributable to common stockholders excludes the potentially dilutive effect of options to purchase 1,371,250 and 1,714,138 shares of the Company's common stock whose exercise prices were lower than the average market price of the Company's common stock during the periods ended September 30, 2005 and 2004, respectively, as their inclusion would have been anti-dilutive because the Company incurred losses during those periods.

**NOTE 4. STOCK-BASED COMPENSATION PLAN**

The Company has an employee stock option plan that provides for the issuance of stock options and restricted stock. In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" which amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No.148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As permitted by SFAS No. 123, the Company has elected to follow the guidance of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" in measuring and recognizing its stock-based transactions with employees. As such, compensation

expense is measured on the date of grant only if the current market price on the date of the grant of the underlying stock exceeds the exercise price. Such compensation expense is recorded on a straight-line basis over the related vesting periods.

In April 2003, the Company granted 500,000 shares of restricted stock to Warren B. Kanders, the Executive Chairman of the Board. The shares vest over ten years or earlier upon the satisfaction of various conditions including performance based conditions relating to the price of the Company's common stock. Under the provisions of APB Opinion No. 25, the Company recognizes compensation expense for this variable award over the vesting period. Compensation expense is re-measured on a quarterly basis based upon the current market value of the underlying stock at the end of the period.

The following table shows the effect on net loss and loss per share if the fair value method of accounting had been applied. For purposes of this pro forma disclosure, the estimated fair value of an option utilizing the Black-Scholes option-pricing model is assumed to be amortized to expense over the option's vesting periods.

	Three months ended		Nine months ended	
	September 30		September 30	
	2005	2004	2005	2004
Net loss, as reported	\$ (127)	\$ (532)	\$ (1,033)	\$ (1,966)
Add (deduct) stock-based employee compensation expense (credit)				
included in reported net loss, net of tax	121	(52)	278	426
Deduct total stock-based employee compensation expense determined				
under fair-value based method for all awards, net of tax	(358)	(670)	(1,067)	(2,007)
Pro forma net loss	\$ (364)	\$ (1,254)	\$ (1,822)	\$ (3,547)
Basic and diluted net loss per share:				
As reported	\$ (0.01)	\$ (0.03)	\$ (0.06)	\$ (0.12)
Add stock-based employee compensation expense included in reported				
net loss, net of tax	0.01	0.00	0.02	0.03
Deduct total stock-based employee compensation expense determined				
under fair-value based method for all awards, net of tax	(0.02)	(0.04)	(0.06)	(0.12)
Pro forma basic and diluted net loss per share	\$ (0.02)	\$ (0.07)	\$ (0.10)	\$ (0.21)

For computing the fair value of stock-based employee awards, the fair value of each option grant has been estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2005	2004
Dividend yield	0.0%	0.0%
Expected volatility	57.0%	62.0%
Risk-free interest rate	4.0%	2.7%
Expected life	Four years	Four years

Using these assumptions, the fair value of the stock options granted during the three- and nine-month period ended September 30, 2005, was approximately \$21,000 and \$144,000, respectively, which would be amortized over the vesting period of the options. The fair value of the stock options granted during the nine-month period ended September 30, 2004, was approximately \$148,000, which would be amortized over the vesting period of the options. There were no stock options granted in the three-month period ended September 30, 2004, so the above assumptions are not applicable. The weighted-average grant-date fair value per share of the stock options granted during the nine-month periods ended September 30, 2005 and 2004 were \$3.61 and \$4.24, respectively.

#### NOTE 5. RESTRUCTURING AND RELATED COSTS

During 2002 and 2001, the Company's management approved restructuring plans to reorganize and reduce operating costs. During 2003, the Company determined that actual restructuring and related costs would exceed the amount previously provided and recorded an additional restructuring cost of \$250,000, comprised of \$223,000 for employee separation costs and \$27,000 for facility closure and consolidation costs.

During 2004, the Company recorded an additional restructuring charge of \$33,000 for facility closure costs. For the period ended September 30, 2005, the Company made no additional restructuring charges. The facility closure costs relate to the abandonment of the Company's leased facilities near Toronto, Canada. Total facility closure and consolidation costs include remaining lease liability and brokerage fees to sublet the abandoned space, net of 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 employee separation costs relate to the employees who remained to close down the Suwanee, Georgia office and severance payments made to Mr. Stephen Jeffery, who resigned as the Company's Chief Executive Officer and Chairman of the Board of Directors after the closing of the sale of the e-commerce business in December 2002.

The following is a reconciliation of the components of the accrual for restructuring and related costs, the amounts charged against the accrual during 2004 and 2005 and the balance of the accrual as of September 30, 2005:

<i>(in thousands)</i>	Employee Separation Costs	Facility Closing Costs	Total Restructuring and Related Costs
Balance at December 31, 2003	\$ 125	\$ 105	\$ 230
Accruals during 2004	--	33	33
Expenditures during 2004	125	65	190
Balance at December 31, 2004	--	73	73
Expenditures during 2005	--	40	40
Balance at September 30, 2005	<u>\$ --</u>	<u>\$ 33</u>	<u>\$ 33</u>

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

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

The Company utilizes SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and presentation 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 and nine months ended September 30, 2005 and 2004, were as follows:

<i>(in thousands)</i>	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
Net loss	\$ (127)	\$ (532)	\$ (1,033)	\$ (1,966)
(Increase)/decrease in unrealized loss on marketable securities	1	34	17	(78)
Comprehensive loss	<u>\$ (126)</u>	<u>\$ (498)</u>	<u>\$ (1,016)</u>	<u>\$ (2,044)</u>

#### NOTE 7. CONTINGENCIES

We are not a party to nor are any of our properties subject to any pending legal, administrative or judicial proceedings other than routine litigation incidental to our business.

In the normal course of business, we are subjected to claims and litigations in the areas of general liability. We believe that we have adequate insurance coverage for most claims that are incurred in the normal course of business. In such cases, the effect on our financial statements is generally limited to the amount of our insurance deductibles. At this time, we do not believe any such claims will have a material impact on the Company's consolidated financial position or results of operations.

#### NOTE 8. NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R). This statement requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. Compensation cost is to be measured based on the estimated fair value of the equity-based compensation awards issued as of the grant date. The related compensation expense will be based on the estimated number of awards expected to vest and will be recognized over the requisite service period (often the vesting period) for each grant. The statement requires the use of assumptions and judgments about future events and some of the inputs to the valuation models will require considerable judgment by management. SFAS No. 123R replaces FASB Statement No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock

Issued to Employees.” The provisions of SFAS No. 123R are required to be applied by public companies as of the first annual reporting period that begins after June 15, 2005 (as of January 1, 2006 for

the Company). The Company intends to continue applying APB Opinion No. 25 to equity-based compensation awards until the effective date of SFAS No. 123R. At the effective date of the SFAS No. 123R, the Company expects to use the modified prospective application transition method without restatement of prior interim periods in the year of adoption. This will result in the Company recognizing compensation cost based on the requirements of SFAS No. 123R for all equity-based compensation awards issued after January 1, 2005. For all equity-based compensation awards that are unvested as of January 1, 2006, compensation cost will be recognized for the unamortized portion of compensation cost not previously included in the SFAS No. 123 pro forma footnote disclosure. The Company is currently evaluating the impact that the adoption of the SFAS No. 123R may have on its results of operations or financial position and expects that the adoption may have a material effect on the Company's results of operations depending on the level and form of future equity-based compensation awards issued.

#### **NOTE 9. RELATED PARTY TRANSACTIONS**

In September 2003, the Company and Kanders & Company, an entity owned and controlled by the Company's Executive Chairman, Warren B. Kanders, entered into a 15-year lease with a five-year renewal option, as co-tenants to lease approximately 11,500 square feet in Stamford, Connecticut. The Company and Kanders & Company have initially agreed to allocate the total lease payments of \$32,583 per month on the basis of Kanders & Company renting 2,900 square feet for \$8,146 per month, and the Company renting 8,600 square feet for \$24,437 per month, which are subject to increases during the term of the lease. Rent expense is recognized on a straight line basis. The lease provides the co-tenants with an option to terminate the lease in years eight and ten in consideration for a termination payment. The Company and Kanders & Company agreed to pay for their proportionate share of the build-out construction costs, fixtures, equipment and furnishings related to preparation of the space. In connection with the lease, the Company obtained a stand-by letter of credit in the amount of \$850,000 to secure lease obligations for the Stamford facility. Kanders & Company reimburses the Company for a pro rata portion of the approximately \$5,000 annual cost of the letter of credit.

The Company provides certain telecommunication, administrative and other office services as well as accounting and bookkeeping services to Kanders & Company that are reimbursed by Kanders & Company. Such services aggregated \$18,000 during the quarter ended September 30, 2005. During the quarter ended September 30, 2004, the Company had outstanding receivables of less than \$1,000 from Kanders & Company.

During the quarter ended September 30, 2005, the Company incurred charges of approximately \$6,000 for payments to Kanders Aviation LLC, an affiliate of the Company's Executive Chairman, Warren B. Kanders, relating to aircraft travel by directors and officers of the Company for potential redeployment transactions, pursuant to the Transportation Services Agreement, dated December 18, 2003 between the Company and Kanders Aviation LLC. During the quarter ended September 30, 2004, the Company expensed \$7,000 for accruals and payments to Kanders Aviation LLC for reimbursement of expenses relating to aircraft travel incurred during the acquisition process.

After the closing of the sale of the e-commerce software business in December 2002, Stephen Jeffery, resigned as the Company's Chief Executive Officer and Chairman of the Board of Directors. Under Mr. Jeffery's employment agreement, he was entitled to receive a severance payment equal to one year's salary of \$250,000, payable over one year. In addition, Mr. Jeffery entered into a three-year consulting agreement with the Company and received total consideration of \$250,000 payable over two years. At September 30, 2005, no balance remains outstanding to Mr. Jeffery under these severance arrangements compared to approximately \$31,000 at September 30, 2004. On April 11, 2005, Mr. Jeffery resigned as a member of our Board of Directors.

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.

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

### **FORWARD-LOOKING STATEMENTS**

This report contains certain forward-looking statements, including information about or related to our future results, 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," "expect" and similar expressions are intended to identify forward-looking statements. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any or all of the assumptions could prove inaccurate, and we may not realize the results contemplated by the forward-looking statements. 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, our planned effort to redeploy our assets and use our substantial cash and cash equivalent assets to enhance stockholder value following the sale of substantially all of our electronic commerce business, which represented substantially all of our revenue generating operations and related assets, and the risks and uncertainties set forth in the section headed "Factors That May Affect Our Future Results" of Part I of our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2004 and described below. The Company cannot guarantee its future performance.

### **OVERVIEW**

**A S PART OF OUR PREVIOUSLY ANNOUNCED STRATEGY TO LIMIT OPERATING LOSSES AND ENABLE THE COMPANY TO REDEPLOY ITS ASSETS AND USE ITS SUBSTANTIAL CASH AND CASH EQUIVALENT ASSETS TO ENHANCE STOCKHOLDER VALUE, ON DECEMBER 6, 2002, WE SOLD SUBSTANTIALLY ALL OF OUR ELECTRONIC COMMERCE BUSINESS, WHICH REPRESENTED SUBSTANTIALLY ALL OF OUR REVENUE-GENERATING OPERATIONS AND RELATED ASSETS. THE INFORMATION APPEARING BELOW, WHICH RELATES TO PRIOR PERIODS, IS THEREFORE NOT INDICATIVE OF THE RESULTS THAT MAY BE EXPECTED FOR ANY SUBSEQUENT PERIOD. THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2005 PRIMARILY REFLECTS, AND FUTURE PERIODS PRIOR TO A REDEPLOYMENT OF OUR ASSETS ARE EXPECTED TO PRIMARILY REFLECT, GENERAL AND ADMINISTRATIVE EXPENSES ASSOCIATED WITH THE CONTINUING ADMINISTRATION OF THE COMPANY AND ITS EFFORTS TO REDEPLOY ITS ASSETS.**

### **CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES**

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 condensed consolidated financial statements requires 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 consolidated 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 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 condensed consolidated financial statements.

The Company accounts for its marketable securities under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Pursuant to the provisions of SFAS No. 115, the Company has classified its marketable securities as available-for-sale. Available-for-sale securities have been recorded at fair value and related unrealized gains and losses have been excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized.

## **SOURCES OF REVENUE**

Prior to December 6, 2002 sale of substantially all of the Company's revenue generating operations and assets, the Company's revenue consisted of license fees and services fees. License fees were generated from the licensing of the Company's suite of software products.

Services fees were generated from consulting, implementation, training, content aggregation and maintenance support services. Following the sale of substantially all of the Company's remaining operating assets, the Company's revenue has consisted solely of the recognition of deferred service fees that are recognized ratably over the maintenance term. The remaining deferred revenue was fully recognized by September 2004. Prior to a redeployment of the Company's assets, the Company's income will consist of interest, dividend and other investment income from short-term investments, which is reported as interest income in the Company's consolidated statement of operations.

## **OPERATING EXPENSES**

General and administrative expenses consist primarily of personnel-related expenses for financial, administrative and management personnel, fees for professional services, occupancy charges, insurance and board of director fees. Occupancy charges include rent, utilities and maintenance services.

## **RESTRUCTURING AND RELATED COSTS**

See "Restructuring and Related Costs" Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements.

## **RESULTS OF OPERATIONS - COMPARISON OF THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**

On December 6, 2002, the Company completed the disposition of substantially all its operating assets, and the Company is now evaluating alternative ways to redeploy its assets into new businesses. The discussion below is therefore not meaningful to an understanding of future revenue, earnings, operations, business or prospects of the Company following such a redeployment of its assets.

## **GENERAL AND ADMINISTRATIVE**

General and administrative expenses increased to \$0.7 million during the quarter ended September 30, 2005, compared to \$0.4 million during the quarter ended September 30, 2004. General and administrative expenses increased to \$2.5 million during the nine-month period ended September 30, 2005 compared to \$2.3 million during the same period in 2004. This trend is consistent with management's stated strategy to maintain our expenditure rate, to the extent practicable, near the level of our investment income until the completion of an acquisition or merger in connection with our asset redeployment strategy. General and administrative expenses include salaries and employee benefits, franchise taxes, rent, insurance, legal, accounting and other professional fees as well as public company expenses such as transfer agent fees and expenses. The increase in general and administrative expense for the three and nine months ended September 30, 2005, compared to the same periods last year, primarily was attributable to the write off of marketing expenses in 2004 and the recognition of deferred compensation expense for the restricted stock issued to Warren B. Kandars in April of 2003.

## **TRANSACTION EXPENSES**

In the third quarter of 2004, the Company recognized \$1.5 million in transaction expenses arising out of negotiations relating to a previously announced acquisition that terminated in September 2004 without the consummation of the acquisition. Transaction expenses recognized in the quarter ended September 30, 2004 represent legal, accounting, appraisal and other related fees and expenses. There were no comparable expenses during the quarter ended September 30, 2005.

## **DEPRECIATION**

Depreciation decreased slightly to \$83,000 in the three months ended September 30, 2005, compared to \$86,000 in the same period ended September 30, 2004. Depreciation increased to \$249,000 in the nine months ended September 30, 2005, compared to \$100,000 in the same period ended September 30, 2004. The increase is primarily attributable to the Company initiating occupancy of its new corporate headquarters in June 2004 triggering the depreciation of the leasehold improvements.

## **OTHER INCOME**

For the quarter ended September 30, 2005, the Company recorded a gain of \$2,000 from foreign currency fluctuations compared to same period in 2004, when the Company had no gains or losses. During the nine months ended September 30, 2005, the Company recorded a net loss of less than \$200 from foreign currency fluctuations as compared to the nine months ended September 30, 2004 when the Company recorded a gain of \$17,000 from the sale of marketable securities.

## **INTEREST INCOME**

Interest income increased to \$668,000 in the quarter ended September 30, 2005 from \$313,000, in the same period of 2004. For the nine-month period ended September 30, 2005, interest income increased to \$1.7 million from \$0.8 million during the same period of 2004. The increase in interest income was due to an increase in interest rates received on our cash and cash equivalents and marketable securities.

## **INCOME TAXES**

As a result of the operating losses incurred since the Company's inception, no provision or benefit for income taxes was recorded during the quarters ended September 30, 2005 and 2004, respectively.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash used by operating activities was approximately \$1.4 million during the nine-month period ended September 30, 2005. This was primarily attributable to the Company's net loss, a decrease in accounts payable and accrued liabilities and accrued interest receivable, prepaid and other current assets, offset by an increase in deferred rent, and non-cash items. Cash used in operating activities was approximately \$0.7 million during the nine-month period ended September 30, 2004. This was primarily attributable to the Company's net loss, a decrease in deferred revenue, accrued interest receivable, prepaids and other current assets, offset by an increase in accounts payable and accrued liabilities, deferred rent and non-cash items.

Cash used by investing activities was approximately \$32.0 million during the nine-month period ended September 30, 2005. The cash was used primarily for the purchase of marketable securities partially offset from the maturity of marketable securities. Cash provided by investing activities was approximately \$31.9 million during the nine-month period ended September 30, 2004. The cash was provided primarily from the sale and maturity of marketable securities partially offset by the purchase of marketable securities, and an increase in construction costs associated with the leasehold improvements at our corporate headquarters in Stamford, Connecticut.

Cash provided by financing activities was approximately \$0.8 million during the nine-month period ended September 30, 2005, compared to \$51,000 during the same period of 2004. The cash provided by financing activities during the nine-month period ended September 30, 2005 and 2004, respectively, was attributable to proceeds from the exercise of stock options.

At September 30, 2005, the Company has net operating loss, capital loss, research and experimentation credit and alternative minimum tax credit carry-forwards for U.S. federal income tax purposes of approximately \$227.9 million, \$15.2 million, \$1.3 million and \$53,000, respectively, which expire in varying amounts beginning in the year 2009. The Company's ability to benefit from certain net operating loss carry-forwards is limited under section 382 of the Internal Revenue Code due to a prior ownership change of greater than 50%. Accordingly, approximately \$218.3 million of the \$227.9 million U.S. net operating loss carryforward is available currently to offset taxable income that the Company may recognize in the future.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We do not hold derivative financial investments, derivative commodity investments, engage in foreign currency hedging or other transactions that expose us to material market risk.

## **ITEM 4. PROCEDURES AND CONTROLS**

### **Evaluation of Disclosure Controls and Procedures**

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Chief Administrative Officer and Controller, its principal executive officer and principal financial officer, respectively, of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15 (e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of September 30, 2005, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Chief Administrative Officer and Controller, concluded that the Company's disclosure controls and procedures as of September 30, 2005 are effective.

### **Changes in Internal Control over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting that have come to management's attention during the quarter ended September 30, 2005 evaluation that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 6. EXHIBITS**

Exhibit

Number Exhibit

- |      |   |
|------|---|
| 10.1 | Form of Clarus 2005 Stock Incentive Plan Stock Option Agreement.  |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**SIGNATURES**

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: November 3, 2005

By: */s/ Nigel P. Ekern,*

\_\_\_\_\_  
*Nigel P. Ekern,  
Chief Administrative Officer  
(Principal Executive Officer)*

*/s/ Susan Luckfield,*

\_\_\_\_\_  
*Susan Luckfield,  
Controller  
(Principal Financial Officer)*



## EXHIBIT INDEX

Number Exhibit

- 10.1 Form of Clarus 2005 Stock Incentive Plan Stock Option Agreement.
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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- 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**CLARUS CORPORATION  
2005 STOCK INCENTIVE PLAN  
STOCK OPTION AGREEMENT**

STOCK OPTION AGREEMENT (the "Agreement") made as of this «numberdate» day of «month», «year», by and between Clarus Corporation, a Delaware corporation, having its principal office at One Landmark Square, 22nd Floor, Stamford, Connecticut 06901 (the "Company"), and «FirstName» «LastName», an individual residing in «citystate» (the "Optionee"). Capitalized terms not defined herein shall have the meanings ascribed to them in the Company's 2005 Stock Incentive Plan.

**WHEREAS**, the Company has heretofore adopted the Clarus Corporation 2005 Stock Incentive Plan (the "Plan") for the benefit of certain employees, officers, directors, consultants, independent contractors and advisors of the Company or Subsidiaries of the Company, which Plan has been approved by the Company's stockholders; and

**WHEREAS**, the Optionee is a valued and trusted [employee] [director] [consultant] of the Company and/or one of its subsidiaries and the Company believes it to be in the best interests of the Company to secure the future services of the Optionee by providing the Optionee with an inducement to remain an [employee/director of] [consultant to] the Company and/or one of its Subsidiaries through the grant of an option to acquire an ownership interest in the Company.

**NOW, THEREFORE**, the parties agree as follows:

**1. Option Grant.** Subject to the provisions hereinafter set forth and the terms and conditions of the Plan, the Company hereby grants to the Optionee, as of «grantdate» (the "Grant Date"), the right, privilege and option (the "Option") to purchase all or any part of an aggregate of «amountofoptions» shares (the "Shares") of common stock of the Company, par value \$0.0001 per share (the "Common Stock"), such number being subject to adjustment as provided in the Plan. To the extent applicable, this Option is intended to qualify as an "incentive stock option" ("ISO") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), to the extent permitted under Section 422 of the Code.

**2. Exercise Price.** Subject to adjustment as provided in the Plan, the purchase price per Share of Common Stock as to which this Option is exercised (the "Exercise Price") shall be «shareprice», the Fair Market Value of such Shares on the Grant Date.

**3. Exercise of Option.** The term of the Option shall be for a period of ten (10) years from the Grant Date and shall expire without further action being taken at 5:00 p.m., «expirationdate», subject to earlier termination as provided in Section 5 hereof (the "Expiration Date"). The Option may be exercised at any time, or from time to time, prior to the Expiration Date (or such additional period as may be permitted under the Plan) as to any part or all of the Shares covered by the Option, pursuant to the vesting schedule contained in Section 4.1 hereof; provided, however, that the Option may not be exercised as to less than one hundred (100) shares, unless it is exercised as to all Shares as to which this Option is then exercisable.

**One Landmark Square, 22nd Floor, Stamford, Connecticut 06901 Tel: (203) 428-2000 Fax: 203-428-2024**

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**4. Vesting and Lockup Release Schedule.**

4.1 Vesting Date. The Shares into which this Option is exercisable shall vest in accordance with the following schedule:

<b>Vesting Date</b>	<b>Number of ISOs</b>	<b>Number of Non-Qualified</b>	<b>Total Number of Shares</b>
<b>&lt;&lt;Insert Date&gt;&gt;</b>	<b>«Total_ISO»</b>	<b>«Total_NQSO»</b>	<b>«amountofoptions»</b>

The allocation of options granted between ISOs and NQSOs indicated above is a result of the Limitations on ISO as outlined in the 2005 Stock Incentive Plan and reproduced below.

**5.7 Limitations on ISO.** *The aggregate Fair Market Value (determined as of the date of grant) of Shares with respect to which ISO's are exercisable for the first time by a Participant during any calendar year (under this Plan or under any other incentive stock option plan of the Company or any Subsidiary of the Company) will not exceed \$100,000 or such other amount as may be required by the Code. If the Fair Market Value of Shares on the date of grant with respect to which ISO's are exercisable for the first time by a Participant during any calendar year exceeds \$100,000, then the Options for the first \$100,000 worth of Shares to become exercisable in such calendar year will be ISO's and the Options for the amount in excess of \$100,000 that become exercisable in that calendar year will be NQSO's. In the event that the Code or the regulations promulgated thereunder are amended after the Effective Date of this Plan to provide for a different limit on the Fair Market Value of Shares permitted to be subject to ISO's, such different limit will be automatically incorporated herein and will apply to any Options granted after the effective date of such amendment.*

4.2 Shares that are vested pursuant to the schedule set forth in Section 4.1 hereof are "Vested Shares."

**5. Termination.**

5.1 Termination for Any Reason Except Death, Disability or Cause. If Optionee is Terminated by the Company for any reason (including if the Optionee voluntarily terminates [employment by] [service for] the Company) except Optionee's death, Disability or Cause, then this Option, to the extent (and only to the extent) that it is vested in accordance with the schedule set forth in Section 4.1 hereof on the Termination Date, may be exercised by Optionee no later than three (3) months after the Termination Date, (or such longer time period not exceeding five (5) years as may be determined by the Committee, with any exercise beyond three (3) months after the Termination Date deemed to be a NQSO), but in any event no later than the Expiration Date.

5.2 Termination Because of Death or Disability. If Optionee is Terminated because of death or Disability of Optionee, then this Option, to the extent that it is vested in accordance with the schedule set forth in Section 4.1 hereof on the Termination Date, may be exercised by Optionee (or Optionee's legal representative or authorized assignee) no later than twelve (12) months after the Termination Date (or such longer time period not exceeding five (5) years as may be determined by the Committee, with any such exercise beyond twelve (12) months after the Termination Date when the Termination is for Participant's death or Disability, deemed to be a NQSO), but in any event no later than the Expiration Date. Any exercise after three months after the Termination Date when the Termination is for any reason other than Optionee's disability, within the meaning of Section 22(e)(3) of the Code, shall be deemed to be the exercise of a nonqualified stock option.

5.3 Termination for Cause. If an Optionee is terminated for Cause, neither the Optionee, the Optionee's estate nor such other person who may then hold the Option shall be entitled to exercise any Option with respect to any Shares whatsoever, after termination of service, whether or not after termination of service the Optionee may receive payment from the Company or Subsidiary for vacation pay, for services rendered prior to termination, for services rendered for the day on which termination occurs, for salary in lieu of notice, or for any other benefits. In making such determination, the Committee shall give the Optionee an opportunity to present to the Committee evidence on his behalf. For the purpose of this paragraph, termination of service shall be deemed to occur on the date when the Company dispatches notice or advice to the Optionee that Optionee's service is terminated.

For purposes of this Agreement, Termination for Cause means that the Company has cause to terminate an Optionee's employment or service under any existing employment, consulting or any other agreement between the Optionee and the Company or, if such an agreement does not exist, upon finding that (i) the Optionee has ceased to perform his duties (other than as a result of his incapacity due to physical or mental illness or injury), which constitutes an intentional or extended neglect of his/her duties, (ii) the Optionee has engaged or is about to engage in conduct materially injurious to the Company or (iii) the Optionee has been convicted of a felony.

5.4 No Obligation to Employ. Nothing in the Plan or this Agreement shall confer on Optionee any right to continue in the employ of, or other relationship with, the Company, a Subsidiary or an Affiliate, or limit in any way the right of the Company or any Affiliate or Subsidiary of the Company to terminate Optionee's employment or other relationship at any time, with or without Cause. This Agreement does not constitute an employment or other service contract. This Agreement does not guarantee employment or other service for the length of time of the Vesting Schedule or for any portion thereof.

## **6. Manner of Exercise.**

6.1 Stock Option Exercise Procedures. To exercise this Option, Optionee (or in the case of exercise after Optionee's death, Optionee's executor, administrator, heir or legatee, as the case may be) must follow such exercise procedures as may be established by the Committee from time to time in its sole discretion. Such procedures may include requiring that the Optionee provide certain information including, inter alia, Optionee's election to exercise this Option, the number of Shares being purchased, any restrictions imposed on the Shares and any representations, warranties and agreements regarding Optionee's investment intent and access to information as may be required by the Company to comply with applicable securities laws. If someone other than Optionee exercises this Option, then such person may be required to submit documentation reasonably acceptable to the Company that such person has the right to exercise this Option.

6.2 Limitations on Exercise. This Option may not be exercised unless such exercise is in compliance with all applicable federal and state securities laws, as they are in effect on the date of exercise.

6.3 Payment. An exercise of this Option shall be accompanied by full payment of the aggregate Exercise Price for the Shares being purchased (a) in cash (by check), or (b) provided that a public market for the Company's stock exists: (1) through a "same day sale" commitment from Optionee and a broker-dealer that is a member of the National Association of Securities Dealers (an "NASD Dealer") whereby Optionee irrevocably elects to

exercise this Option and to sell a portion of the Shares so purchased to pay for the aggregate Exercise Price and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the aggregate Exercise Price directly to the Company; or (2) through a “margin” commitment from Optionee and an NASD Dealer whereby Optionee irrevocably elects to exercise this Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the aggregate Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the aggregate Exercise Price directly to the Company. Notwithstanding the foregoing, the Board of Directors or the Committee, in their sole discretion, may allow for the full payment of the aggregate Exercise Price for the Shares being purchased to be made by any other method which is in accordance with the provisions of the Plan.

6.4 Tax Withholding. Prior to the issuance of the Shares upon exercise of this Option, Optionee must pay or provide for any applicable federal or state withholding obligations of the Company. If the Committee permits, Optionee may provide for payment of withholding taxes upon exercise of this Option by requesting that the Company retain Shares with a Fair Market Value equal to the minimum amount of taxes required to be withheld determined on the date that the amount of tax to be withheld is to be determined. In such case, the Company shall issue the net number of Shares to the Optionee by deducting the Shares retained from the Shares issuable upon exercise.

6.5 Issuance of Shares. Provided that both the exercise procedures established by the Committee and payment are in manner, form and substance satisfactory to the Company, and upon the Company’s request to counsel for the Company, the Company shall issue the Shares registered in the name of Optionee, Optionee’s authorized assignee, or Optionee’s legal representative, and shall deliver certificates representing the Shares with the appropriate legends affixed thereto.

7. Notice of Disqualifying Disposition of ISO Shares. To the extent this Option is an ISO, if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (a) the date two (2) years after the Date of Grant, and (b) the date one (1) year after transfer of such Shares to Optionee upon exercise of this Option, then Optionee shall immediately notify the Company in writing of such disposition.

8. Compliance With Laws and Regulations. The exercise of this Option and the issuance and transfer of Shares to the Optionee shall be subject to compliance by the Company and Optionee with (i) all applicable requirements of federal and state securities laws, (ii) all applicable requirements of any stock exchange on which the Company’s Common Stock may be listed and (iii) any applicable policy of the Company regarding the trading of securities of the Company, each at the time of such issuance and transfer. Optionee understands that the Company is under no obligation to register or qualify the Shares with the SEC, any state securities commission or any stock exchange to effect such compliance.

9. Nontransferability of Option. This Option may not be transferred in any manner other than transfers by will or by the laws of descent and distribution or to members of the Optionee’s immediate family, to trusts solely for the benefit of such immediate family members and to partnerships or limited liability companies in which such family members and/or trusts are the only partners or members, as the case may be. For this purpose, “immediate family” means the Optionee’s spouse, parents, children, stepchildren, grandchildren and legal dependants. Any transfer of Options made under this provision will not be effective until notice of such transfer is delivered to the Company. The terms of this Option shall be binding upon the executors, administrators, successors and assigns of Optionee.

**10. Privileges of Stock Ownership.** Optionee shall not have any of the rights of a stockholder with respect to any Shares until the Shares are issued to Optionee.

**11. Interpretation.** Any dispute regarding the interpretation of this Agreement shall be submitted by Optionee or the Company to the Committee for review. The resolution of such a dispute by the Committee shall be final and binding on the Company and Optionee.

**12. Entire Agreement.** The Plan is incorporated herein by reference. This Agreement and the Plan and any exercise procedures as may be established by the Committee constitute the entire agreement and understanding of the parties hereto with respect to the subject matter hereof and supersede all prior understandings and agreements with respect to such subject matter.

**13. Notices.** Any notice required to be given or delivered to the Company under the terms of this Agreement shall be in writing and addressed to the Corporate Secretary of the Company at its principal corporate offices. Any notice required to be given or delivered to Optionee shall be in writing and addressed to Optionee at the address indicated above or to such other address as such party may designate in writing from time to time to the Company. All notices shall be deemed to have been given or delivered upon: personal delivery; three (3) days after deposit in the United States mail by certified or registered mail (return receipt requested); one (1) business day after deposit with any return receipt express courier (prepaid); or one (1) business day after transmission by facsimile.

**14. Successors and Assigns.** The Company may assign any of its rights under this Agreement. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, this Agreement shall be binding upon Optionee and Optionee's heirs, executors, administrators, legal representatives, successors and assigns.

**15. Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, applicable to agreements made and to be performed entirely within such state, other than conflict of laws principles thereof directing the application of any law other than that of Delaware.

**16. Acceptance.** Optionee hereby acknowledges receipt of a copy of the Plan and this Agreement. Optionee has read and understands the terms and provisions of the Plan, and accepts this Option subject to all the terms and conditions of the Plan and this Agreement. This Option is subject to, and the Company and the Optionee agree to be bound by, all of the terms and conditions of the Plan under which this Option was granted, as the same shall have been amended, restated or otherwise modified from time to time in accordance with the terms thereof. Pursuant to said Plan, the Board of Directors of the Company, or the Committee is vested with final authority to interpret and construe the Plan and this Option, and its present form is available for inspection during the business hours by the Optionee or other persons entitled to exercise this Option at the Company's principal office. Optionee acknowledges that there may be adverse tax consequences upon exercise of this Option or disposition of the Shares and that the Company has advised Optionee to consult a tax advisor prior to such exercise or disposition.

**17. Covenants of the Optionee**

The Optionee agrees (and for any heir, executor, administrator, legal representative, successor, or assignee hereby agrees), as a condition upon exercise of the Option granted hereunder:

(a) Upon the request of the Committee, to execute and deliver a certificate, in form satisfactory to the Committee, certifying that the Shares being acquired upon exercise of the Option are for such person's own account for investment only and not with any view to or present intention to resell or distribute the same. The Optionee hereby agrees that the Company shall have no obligation to deliver the Shares issuable upon exercise of the Option unless and until such certificate shall be executed and delivered to the Company by the Optionee or any successor.

(b) Upon the request of the Committee, to execute and deliver a certificate, in form satisfactory to the Committee, certifying that any subsequent resale or distribution of the Shares by the Optionee shall be made only pursuant to either (i) a Registration Statement on an appropriate form under the Securities Act of 1933, as amended (the "Securities Act"), which Registration Statement has become effective and is current with regard to the Shares being sold, or (ii) a specific exemption from the registration requirements of the Securities Act, but in claiming such exemption the Optionee shall, prior to any offer of sale or sale of such Shares, obtain a prior favorable written opinion of counsel, in form and substance satisfactory to counsel for the Company, as to the application of such exemption thereto. The foregoing restriction contained in this subparagraph (b) shall not apply to (i) issuances by the Company so long as the Shares being issued are registered under the Securities Act and a prospectus in respect thereof is current, or (ii) re-offerings of Shares by Affiliates of the Company (as defined in Rule 405 or any successor rule or regulation promulgated under the Securities Act) if the Shares being re-offered are registered under the Securities Act and a prospectus in respect thereof is current.

(c) That certificates evidencing Shares purchased upon exercise of the Option shall bear a legend, in form satisfactory to counsel for the Company, manifesting the investment intent and resale restrictions of the Optionee described in this Section.

(d) That upon exercise of the Option granted hereby, or upon sale of the Shares purchased upon exercise of the Option, as the case may be, the Company shall have the right to require the Optionee to remit to the Company, or in lieu thereof, the Company may deduct, an amount of shares or cash sufficient to satisfy federal, state or local withholding tax requirements, if any, prior to the delivery of any certificate for such Shares or thereafter, as appropriate.

## **18. Obligations of the Company**

18.1 Upon the exercise of this Option in whole or in part, the Company shall cause the purchased Shares to be issued only when it shall have received the full payment of the aggregate Exercise Price in accordance with the terms of this Agreement.

18.2 The Company shall cause certificates for the Shares as to which the Option shall have been exercised to be registered in the name of the person or persons exercising the Option, which certificates shall be delivered by the Company to the Optionee only against payment of the full Exercise Price in accordance with the terms of this Agreement for the portion of the Option exercised.

18.3 In the event that the Optionee shall exercise this Option with respect to less than all of the Shares of Common Stock that may be purchased under the terms hereof, the Company shall issue to the Optionee a new Option, duly executed by the Company and the Optionee, in form and substance identical to this Option, for the balance of Shares of Common Stock then issuable pursuant to the terms of this Option.

18.4 Notwithstanding anything to the contrary contained herein, neither the Company nor its transfer agent shall be required to issue any fraction of a Share of Common Stock in connection with the exercise of this Option, and the Company shall, upon exercise of this Option in whole or in part, issue the largest number of whole Shares of Common Stock to which this Option is entitled upon such full or partial exercise and shall return to the Optionee the amount of the aggregate Exercise Price paid by the Optionee in respect of any fractional Share.

18.5 The Company may endorse such legend or legends upon the certificates for Shares issued to the Optionee pursuant to the Plan and may issue such “stop transfer” instructions to its transfer agent in respect of such Shares as, in its discretion, it determines to be necessary or appropriate to: (i) prevent a violation of, or to perfect an exemption from, the registration requirements of the Securities Act; (ii) implement the provisions of the Plan and any agreement between the Company and the Optionee with respect to such Shares; or (iii) permit the Company to determine the occurrence of a disqualifying disposition, as described in Section 421(b) of the Code, of Shares transferred upon exercise of an incentive stock option granted pursuant to this Agreement and under the Plan.

18.6 The Company shall pay all issue or transfer taxes with respect to the issuance or transfer of Shares to the Optionee, as well as all fees and expenses necessarily incurred by the Company in connection with such issuance or transfer, except fees and expenses which may be necessitated by the filing or amending of a Registration Statement under the Securities Act, which fees and expenses shall be borne by the Optionee, unless such Registration Statement under the Securities Act has been filed by the Company for its own corporate purposes (and the Company so states) in which event the Optionee shall bear only such fees and expenses as are attributable solely to the inclusion of the Shares he or she receives in the Registration Statement.

18.7 All Shares issued following exercise of the Option and the payment of the Exercise Price in accordance with the terms of this Agreement therefore shall be fully paid and non-assessable to the extent permitted by law.

## **19. Miscellaneous**

19.1 If the Optionee loses this Agreement representing the Option granted hereunder, or if this Agreement is stolen or destroyed, the Company shall, subject to such reasonable terms as to indemnity as the Committee, in its sole discretion shall require, enter into a new option agreement pursuant to which the Company shall issue a new Option, in form and substance identical to this Option, and in substitution for, the Option so lost, stolen or destroyed, and in the event this Agreement representing the Option shall be mutilated, the Company shall, upon the surrender hereof, enter into a new option agreement pursuant to which the Company shall issue a new Option, in form and substance identical to this Option, and in substitution for, the Option so mutilated.

19.2 This Agreement cannot be amended, supplemented or changed, and no provision hereof can be waived, except by a written instrument making specific reference to this Agreement and signed by the party against whom enforcement of any such amendment, supplement, modification or waiver is sought. A waiver of any right derived hereunder by the Optionee shall not be deemed a waiver of any other right derived hereunder.

19.3 This Agreement may be executed in any number of counterparts, but all counterparts will together constitute but one agreement.

19.4 In the event of a conflict between the terms and conditions of this Agreement and the Plan, the terms and conditions of the Plan shall govern.

19.5 Any dispute regarding the interpretation of this Agreement shall be submitted by Optionee or the Company to the Committee for review. The resolution of such a dispute by the Committee shall be final and binding on the Company and Optionee.



**IN WITNESS WHEREOF**, the Company has caused this Agreement to be executed in duplicate by its duly authorized representative and Optionee has executed this Agreement in duplicate as of the Date of Grant.

CLARUS CORPORATION

By:

\_\_\_\_\_

Name:

Title:

OPTIONEE:

\_\_\_\_\_  
«FirstName» «LastName»

## CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Nigel P. Ekern, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Clarus Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2005

By: */s/ Nigel P. Ekern*

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Name: Nigel P. Ekern  
Title: Chief Administrative Officer

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## CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Susan Luckfield certify that:

1. I have reviewed this quarterly report on Form 10-Q of Clarus Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2005

By: */s/ Susan Luckfield*

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Name: Susan Luckfield  
Title: Controller

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Nigel P. Ekern, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Clarus Corporation on Form 10-Q for the quarter ended September 30, 2005, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Clarus Corporation.

*Date: November 3, 2005*

*By: /s/ Nigel P. Ekern*

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*Name: Nigel P. Ekern  
Title: Chief Administrative Officer  
(Principal Executive Officer)*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Susan Luckfield, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Clarus Corporation on Form 10-Q for the quarter ended September 30, 2005, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Clarus Corporation.

*Date: November 3, 2005*

*By: /s/ Susan Luckfield*

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*Name: Susan Luckfield*

*Title: Controller*

*(Principal Financial Officer)*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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