

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended September 30, 2001

or

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

-----  
15,560,049 shares outstanding as of October 31, 2001

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CLARUS CORPORATION

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PART I. FINANCIAL INFORMATION

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Item 1. Financial Statements

CLARUS CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except share and per share amounts)

<TABLE>

<CAPTION>

	September 30, 2001	December 31, 2000	
	<C>	<C>	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 78,303	\$ 118,303	
Marketable securities	47,235	50,209	
Accounts receivable, less allowance for doubtful accounts of \$2,433 and \$3,917 in 2001 and 2000, respectively		3,890	8,126
Deferred marketing expense, current		1,029	5,321
Prepays and other current assets	2,880	2,731	
Total current assets	133,337	184,690	
PROPERTY AND EQUIPMENT, NET		8,211	7,619
OTHER ASSETS:			
Deferred marketing expense, net of current portion		1,736	2,508
Investments	7,563	13,619	
Intangible assets, net of accumulated amortization of \$12,618 and \$6,146 in 2001 and 2000, respectively		49,561	58,214
Deposits and other long-term assets		713	254
Total other assets	59,573	74,595	
TOTAL ASSETS	\$ 201,121	\$ 266,904	

</TABLE>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

<TABLE>  
<CAPTION>

	September 30, 2001	December 31, 2000	
	-----	-----	
<S>	<C>	<C>	
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities		\$ 5,997	\$ 11,059
Deferred revenue	3,181	2,295	
	-----	-----	
Total current liabilities	9,178	13,354	
LONG-TERM LIABILITIES:			
Deferred revenue	264	881	
Long-term debt	5,000	5,000	
Other long-term liabilities	860	847	
	-----	-----	
Total liabilities	15,302	20,082	
STOCKHOLDERS' EQUITY:			
Preferred stock, \$.0001 par value; 5,000,000 shares authorized; none issued	-	-	
Common stock, \$.0001 par value; 100,000,000 shares authorized; 15,632,974 and 15,609,029 shares issued and 15,557,974 and 15,534,029 outstanding in 2001 and 2000, respectively		2	2
Additional paid-in capital	360,642	362,415	
Accumulated deficit	(175,214)	(114,769)	
Treasury stock, at cost	(2)		
	(2)		
Accumulated other comprehensive income/(loss)		391	(572)
Unearned stock compensation		-	(252)
	-----	-----	
Total stockholders' equity	185,819	246,822	
	-----	-----	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 201,121	\$ 266,904
	=====	=====	

</TABLE>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

<TABLE>  
<CAPTION>

	Three months ended September 30		Nine months ended September 30	
	-----	-----	-----	-----
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
REVENUES:				
License fees	\$ 713	\$ 10,262	\$ 6,624	\$ 23,903

Services fees	2,311	3,281	6,966	6,731
Total revenues	3,024	13,543	13,590	30,634
COST OF REVENUES:				
License fees	14	15	138	113
Services fees	2,561	3,970	9,210	7,900
Total cost of revenues	2,575	3,985	9,348	8,013
OPERATING EXPENSES:				
Research and development, exclusive of noncash expense	3,433	7,504	13,559	15,860
Noncash research and development	-	-	-	826
In-process research and development expense	-	-	-	8,300
Sales and marketing, exclusive of noncash expense	5,451	9,407	22,849	24,654
Noncash sales and marketing	1,688	2,018	5,064	5,846
General and administrative, exclusive of noncash expense	2,648	4,166	10,285	9,161
Noncash general and administrative	28	375	252	1,851
Depreciation and amortization	2,838	2,948	9,003	5,212
Total operating expenses	16,086	26,418	61,012	71,710
OPERATING LOSS	(15,637)	(16,860)	(56,770)	(49,089)
GAIN ON SALE OF ASSETS	10	-	4	547
LOSS ON IMPAIRMENT OF INVESTMENTS	-	(2,614)	-	(9,098)
REALIZED GAIN/(LOSS) ON SALE OF INVESTMENTS	-	11	(5)	22
AMORTIZATION OF DEBT DISCOUNT	-	-	-	(982)
INTEREST INCOME	1,390	3,307	5,574	7,869
INTEREST EXPENSE	(57)	(58)	(177)	(290)
NET LOSS	\$ (16,897)	\$ (13,616)	\$ (60,445)	\$ (41,950)

Loss per common share:

Basic	\$ (1.09)	\$ (0.89)	\$ (3.89)	\$ (2.98)
Diluted	\$ (1.09)	\$ (0.89)	\$ (3.89)	\$ (2.98)

Weighted average shares outstanding

Basic	15,547	15,371	15,521	14,057
Diluted	15,547	15,371	15,521	14,057

</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>

	Nine months ended September 30,	
	2001	2000
	<C>	<C>
<S>		
OPERATING ACTIVITIES:		
Net loss	\$ (60,445)	\$ (41,950)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization on property and equipment	2,531	1,935
Amortization of intangible assets	6,472	3,277
In-process research and development	-	8,300
Loss on impairment of investments	8,056	-
Loss on impairment of marketable securities	1,042	-
Gain on sale of marketable securities	(22)	-

Noncash interest expense associated with original issue discount on debt	-	982	
Provision for doubtful accounts	3,433	2,597	
Noncash research and development expense	-	826	
Noncash sales and marketing expense	5,064	5,846	
Noncash general and administrative expense	252	1,851	
Exchange of software for cost-method investments	-	(10,368)	
Gain on sale of assets	(4)	(547)	
Changes in operating assets and liabilities:			
Accounts receivable	803	(14,337)	
Prepaid and other current assets	(149)	(3,567)	
Deposits and other long-term assets	(459)	(83)	
Accounts payable and accrued liabilities	(5,062)	8,901	
Deferred revenue	269	1,498	
Other long-term liabilities	13	-	
NET CASH USED IN OPERATING ACTIVITIES	(38,206)	(34,839)	

INVESTING ACTIVITIES:

Purchase of marketable securities	(55,631)	(43,604)	
Proceeds from sale and maturity of marketable securities		58,456	-
Acquisitions, net of cash acquired	-	(33,535)	
Purchase of investments	(2,000)	(3,211)	
Proceeds from sale of assets	-	1,864	
Purchases of property and equipment	(3,119)	(4,562)	
NET CASH USED IN INVESTING ACTIVITIES	(2,294)	(83,048)	

FINANCING ACTIVITIES:

Proceeds from issuance of common stock	-	244,427	
Proceeds from long-term debt	-	5,000	
Repayment of long-term debt and capital lease obligations		-	(7,025)
Proceeds from the exercises of stock options	148	2,575	
Proceeds from issuance of common stock related to employee stock purchase plan	260	-	
NET CASH PROVIDED BY FINANCING ACTIVITIES	408	244,977	

Effect of exchange rate change on cash	92	39	
CHANGE IN CASH AND CASH EQUIVALENTS		(40,000)	127,129
CASH AND CASH EQUIVALENTS, beginning of period		118,303	14,127
CASH AND CASH EQUIVALENTS, end of period		\$ 78,303	\$ 141,256

SUPPLEMENTAL CASH FLOW DISCLOSURE:

Cash paid for interest	\$ 121	\$ 290	
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NONCASH TRANSACTIONS:

<TABLE>

<TABLE>

<CAPTION>

	<C>	<C>	
Issuance of warrants to purchase 50,000 shares of common stock in connection with marketing agreements	\$ -	\$ 986	
Issuance of 39,118 shares of common stock in connection with marketing agreements	\$ -	\$ 3,761	
Issuance of 1,148,000 shares of common stock in connection with SAI acquisition	\$ -	\$ 30,353	
Receipt of marketable securities in satisfaction of trade account receivable	\$ -	\$ 1,214	
Retirement of 82,500 shares of common stock pursuant to acquisition	\$ 2,181	\$ -	

</TABLE>

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 and nine months ended September 30, 2001, 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, 2001 are not necessarily indicative of the results to be obtained for the year ending December 31, 2001. These interim financial statements should be read in conjunction with the Company's audited consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2000, filed with the Securities and Exchange Commission.

## NOTE 2. EARNINGS PER SHARE

Basic and diluted net loss per share were computed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share", using the weighted average number of common shares outstanding. The diluted net loss per share for the three and nine months ended September 30, 2001 and 2000 does not include the effect of common stock equivalents, calculated using the treasury stock method, as their impact would be antidilutive. The potentially dilutive effect of excluded common stock equivalents are as follows (in thousands):

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Three months ended September 30,		Nine months ended September 30,		
	2001	2000	2001	2000	
	----	----	----	----	
	<C>	<C>	<C>	<C>	
Effect of shares issuable under stock options	307		1,271	282	1,346
Effect of shares issuable pursuant to warrants to purchase common stock	1		164	-	188
Total effect of common stock equivalents	308		1,435	282	1,534

&lt;/TABLE&gt;

## 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, if they so choose, to cancel outstanding stock options previously granted to them on or after November 1, 1999 in exchange for an equal number of new options to be granted at a future date. The exercise price of these new options will be equal to the fair market value of the Company's common stock on the date of grant, which the Company expects to be later than November 9, 2001. 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 will be exchanged with new options on February 9, 2002, with an exercise price equal to fair market value on that date. Employees who participated in the first exchange were not eligible for the second exchange. The exchange program has been designed to

comply with Financial Accounting Standards Board ("FASB") Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation" and is not expected to result in any additional compensation charges or variable plan accounting. Members of the Company's Board of Directors and its officers are not eligible to participate in the exchange program.

#### NOTE 4. STOCK OPTIONS

On August 15, 2001, the Company granted options to purchase 150,000 shares of common stock to a senior executive with an exercise price equal to the fair market value at the date of grant. These options are designated as nonqualified options and will expire if not exercised in full before August 14, 2011.

Twenty-five percent of the shares subject to the option shall vest on the first anniversary of the date of grant and the remaining portion of the option shall vest in equal monthly installments for 36 months beginning on August 15, 2001.

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#### NOTE 5. MARKETABLE SECURITIES

During the second quarter of 2001, the Company recognized a charge of \$1.0 million for other than temporary losses from equity investments in a publicly traded company. The Company had recorded unrealized losses on this investment of \$1.0 million through March 31, 2001. The securities were originally acquired as settlement of a trade accounts receivable.

#### NOTE 6. 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 the third quarter of 2001, the second quarter of 2001, the first quarter of 2001 and the fourth quarter of 2000, the Company recorded charges of \$2.6 million, \$2.4 million, \$3.1 million and \$4.1 million, respectively, for other than temporary losses on these investments. These companies are primarily early-stage companies and are subject to significant risk due to their limited operating history and current economic and capital market conditions. The Company has not recognized any material revenue from these companies during 2001. During the year ended December 31, 2000, the Company recognized \$17.2 million in total revenue from these companies. In the third quarter of 2000, the Company made additional equity investments of \$2.8 million in two privately held companies and new investments of \$5.2 million in three privately held companies and recognized \$8.1 million in total revenue from these privately held companies. For the nine months ended September 30, 2000, the Company made equity investments of \$13.6 million and recognized \$12.2 million in total revenue from eight privately held companies.

#### NOTE 7. ACQUISITIONS

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

The acquisition was treated as a purchase for accounting purposes, and accordingly, the assets and liabilities were recorded based on their preliminary fair value at the date of acquisition. The Company evaluated the developed technologies and the in-process research and development to determine their stage of development, their expected income generating ability, as well as risk factors associated with achieving technological feasibility. The Company expensed approximately \$8.3 million to in-process research and development in the second quarter of 2000. The goodwill, \$48.2 million, and the developed technologies, \$4.1 million, are being amortized over eight years. The assembled

workforce, \$450,000, and the customer base, \$100,000, are being amortized over seven and four years, respectively. The goodwill balance was reduced in the first quarter of 2001 by \$1.5 million as a result of 55,000 shares issued as part of the original purchase consideration being cancelled when a related employment agreement was terminated prior to the first anniversary of the acquisition date. The goodwill balance was further reduced in the second quarter of 2001 by \$727,000 as a result of 27,500 shares issued as part of the original purchase consideration being cancelled when a related employment agreement was terminated prior to the second anniversary of the acquisition date.

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

NOTE 8. 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 and nine months ended September 30, 2001 and 2000 were as follows (in thousands):

<TABLE>  
<CAPTION>

	Three months ended		Nine months ended	
	September 30, 2001	2000	September 30, 2001	2000
<S>	<C>	<C>	<C>	<C>
Net loss	\$ (16,897)	\$ (13,616)	\$ (60,445)	\$ (41,950)
Unrealized gain on marketable securities		162	3	871
Foreign currency translation adjustments		9	31	92
Comprehensive loss	\$ (16,726)	\$ (13,582)	(59,482)	(41,615)

</TABLE>

NOTE 9. CREDIT AND CUSTOMER CONCENTRATIONS

The Company's accounts receivable potentially subject the Company to credit risk, as collateral is generally not required. As of September 30, 2001, two customers accounted for more than 10% each, totaling \$3.2 million or 51.4% of the gross accounts receivable balance on that date. The percentage by customer was 21.1% and 30.3%, respectively, at September 30, 2001. As of December 31, 2000, four customers accounted for more than 10% each, totaling \$6.7 million or 56.0% of the gross accounts receivable balance on that date. The percentage by customer was 10.4%, 11.2%, 14.5%, and 19.9%, respectively, at December 31, 2000.

During the quarter ended September 30, 2001, one customer accounted for more than 10% of total revenue, totaling \$490,000 or 16.2%. During the quarter ended September 30, 2000, five customers accounted for more than 10% each, totaling \$9.3 million or 68.5% of total revenue. The percentage by customer was 10.0%, 11.7%, 12.9%, 15.5% and 18.4% respectively, for the quarter ended September 30, 2000. During the nine months ended September 30, 2001, four customers accounted for more than 10% each, totaling \$7.3 million or 53.5%, of total revenue. The percentage by customer was 11.8%, 12.7%, 13.7% and 15.3%, respectively, for the nine months ended September 30, 2001. During the nine months ended September 30, 2000, no customers accounted for more than 10% of total revenue.

NOTE 10. 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, or financial condition.

Following its public announcement on October 25, 2000, of its financial results for the third quarter of 2000, 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. On June 29, 2001, the Company filed a motion to dismiss the consolidated case. The plaintiffs responded to the Company's motion to dismiss on August 6, 2001. The Company replied with a rebuttal to the plaintiffs' response on August 27, 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 class. 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 11. COMMITMENTS

In March 2001, the Company terminated a services agreement with a development partner. As a result, the Company paid termination fees of \$300,000 in the second quarter of 2001 and \$300,000 in the third quarter of 2001. The \$600,000 expense, recorded in the quarter ended March 31, 2001, is included in research and development expense in the accompanying condensed consolidated statement of operations for the nine months ended September 30, 2001.

#### NOTE 12. NEW ACCOUNTING PRONOUNCEMENTS

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 is required to adopt SFAS 144 effective January 1, 2002. The adoption of SFAS 144 is not expected to 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 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. SFAS 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values.

The Company is required to adopt the provisions of SFAS 141 immediately and SFAS 142 effective January 1, 2002. Goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS 142 is adopted in full will not be amortized, but will continue to be evaluated for impairment in accordance with the accounting literature in effect prior to the issuance of SFAS 142. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS 142.

At September 30, 2001, the Company's unamortized goodwill and intangibles totaled \$49.6 million. Amortization expense related to goodwill was \$4.7 million and \$5.8 million for the year ended December 31, 2000 and the nine months ended September 30, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

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 13. 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

### Overview

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

### Forward-Looking Statements

This report contains certain forward-looking statements related to our future prospects or results, including certain projections and business trends. Assumptions relating to forward-looking statements involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. When

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

These and other statements, which are not historical facts, are based largely upon our current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by such forward-looking statements. These risks and uncertainties include, among others, the risks and uncertainties described in the "Risk Factors" section of this discussion beginning on page 20 herein.

#### Sources of Revenue

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

#### Revenue Recognition

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

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

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.

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

#### Limited Operating History

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

#### Results of Operations

##### Revenues

In the second half of 2000, the Company expanded its business model to include ratable revenue recognition. Total revenues for the three and nine months ended September 30, 2001 were impacted by the use of programs that result in revenues recognized ratably. The Company includes in its definition of ratable programs contracts which do not result in all license revenue being recognized at the time the contract is executed. Examples of ratable programs include but are not limited to: traditional, perpetual license contracts with extended payment terms, subscriptions and milestone arrangements. For the three months ended September 30, 2001, the Company recognized 24.6% of license revenue from ratable programs. For the nine months ended September 30, 2001, the Company recognized 44.2% of license revenue from ratable programs. Although lowering reported total revenue and license revenue for the three and nine months ended September 30, 2001, the Company believes that the benefits achieved over time of the ratable model are a more linear revenue pattern as well as increased visibility and predictability of financial results.

**Total Revenues.** Total revenues for the quarter ended September 30, 2001 decreased 77.7% to \$3.0 million from \$13.5 million during the same period in 2000. Total revenues for the nine months ended September 30, 2001 decreased 55.6% to \$13.6 million from \$30.6 million during the same period in 2000. The decrease in total revenues resulted from the softening demand for business-to-business software and related services and the information technology market generally. During the quarter ended September 30, 2001, one customer accounted for more than 10%, totaling \$490,000 or 16.2%, of total revenue. During the quarter ended September 30, 2000, five customers accounted for more than 10% each, totaling \$9.3 million or 68.5% of total revenue. The percentage by customer was 10.0%, 11.7%, 12.9%, 15.5% and 18.4%, respectively, for the quarter ended September 30, 2000. During the nine months ended September 30, 2001, four customers accounted for more than 10% each, totaling \$7.3 million or 53.5%, of total revenue. The percentage by customer was 11.8%, 12.7%, 13.7% and 15.3%, respectively, for the nine months ended September 30, 2001. During the nine months ended September 30, 2000, no customer accounted for more than 10% of total revenue.

**License Fees.** License fees decreased 93.1% to \$713,000, or 23.6% of total revenues, for the quarter ended September 30, 2001 from \$10.3 million, or 75.8% of total revenues, for the same period in 2000. License fees decreased 72.3% to \$6.6 million, or 48.7% of total revenues, for the nine months ended September 30, 2001 from \$23.9 million, or 78.0% of total revenues, for the same period in 2000. 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 29.6% to \$2.3 million, for the quarter ended September 30, 2001, from \$3.3 million for the same period in 2000. However, services fees increased as a percentage of total revenues to 76.4%, for the quarter ended September 30, 2001, from 24.2% for the same period in 2000. Services fees increased 3.5% to \$7.0 million, for the nine months ended September 30, 2001, from \$6.7 million for the same period in 2000, and also increased as a percentage of total revenues to 51.3%, for the nine months ended September 30, 2001, from 22.0% for the same period in 2000. The decrease in service revenues from the third quarter 2000 to the third quarter 2001 is primarily due to reduced implementation revenue as a result of the reduction in new customers licensing the Company's products. The year over year increase in services fees is primarily due to an increase in new license customers signed during 2000 partially offset by the softening demand for business-to-business software and related services and the information technology market generally.

#### Cost of Revenues

**Total Cost of Revenues.** Cost of revenues decreased 35.4% to \$2.6 million, or 85.2% of total revenue, during the quarter ended September 30, 2001 from \$4.0 million, or 29.4% of total revenue, during the same period in 2000. Cost of revenues increased 16.7% to \$9.3 million, or 68.8% of total revenue, during the nine months ended September 30, 2001 from \$8.0 million, or 26.2% of total revenue, during the same period in 2000. The decrease in cost of revenues from the third quarter 2000 to the third quarter 2001 is primarily a result of a decrease in the cost of services fees due to lower personnel related costs. During the three months ended September 30, 2001, the Company had an average of 31.0% fewer employees in services compared to the same period in 2000. The reduced personnel related costs are a result of Company instituted cost control measures completed in the first and third quarters of 2001. The year to year increase in cost of revenues is primarily due to an increase in cost of services fees due to higher personnel related costs. During the nine months ended September 30, 2001, the Company had an average of 14.5% more employees in services compared to the same period in 2000. Severance expenses, related to 18 employees of approximately \$247,000, also negatively impacted the cost of revenues for the nine months ended September 30, 2001.

**Cost of License Fees.** Cost of license fees decreased 6.7% to \$14,000 in the third quarter of 2001 from \$15,000 in the third quarter of 2000. Cost of license fees increased 22.1% to \$138,000 for the nine months ended September 30, 2001 from \$113,000 in the same period of 2000. Cost of license fees may vary from period to period depending on the product mix licensed, but are expected to remain a small percentage of license fees.

**Cost of Services Fees.** Cost of services fees decreased 35.5% to \$2.6 million, or 110.8% of total services fees revenues, during the quarter ended September 30, 2001 compared to \$4.0 million, or 121.0% of total services fees revenues, during the same period in 2000. Cost of services fees increased 16.6% to \$9.2 million,

or 132.2% of total services fees revenues, during the nine months ended September 30, 2001 compared to \$7.9 million, or 117.4% of total services fees revenues, during the same period in 2000. As discussed above, the decrease in the cost of services fees for the three months ended September 30, 2001 was primarily attributable to lower personnel related costs in both the services implementation and customer support areas. The increase in the cost of services fees for the nine months ended September 30, 2001 was primarily attributable to higher personnel related costs and severance as discussed above. The Company has incurred cost of services fees in excess of services revenues due primarily to the hiring and training of personnel in anticipation of future growth. As a result of slower than anticipated growth, the Company instituted cost control actions in the first and third quarters of 2001, including the reduction in personnel discussed above, to more closely align the cost structure with the anticipated growth. The Company anticipates that services fees will exceed costs by late 2001.

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

Research and development expenses decreased 54.3% to approximately \$3.4 million, or 113.5% of total revenues, during the quarter ended September 30, 2001 from \$7.5 million, or 55.4% of total revenues, during the same period in 2000.

Research and development expenses decreased 14.5% to approximately \$13.6 million, or 99.8% of total revenues, during the nine months ended September 30, 2001 from \$15.9 million, or 51.8% of total revenues, during the same period in 2000. Research and development expenses decreased in the quarter ended September 30, 2001 compared to the quarter ended September 30, 2000 as a result of a reduction of consulting fees incurred to develop the Company's products.

Consulting fees were \$562,000 in the third quarter of 2001 compared to \$4.3 million in the third quarter of 2000. Research and development expenses decreased for the nine months ended September 30, 2001 compared to the nine months ended September 30, 2000 primarily due to a decrease in consulting fees partially offset by increased personnel related expenses incurred to develop the Company's products and the acquisition of the SAI/Redeo companies. Consulting fees were \$3.3 million for the nine months ended September 30, 2001 compared to \$8.8 million for the same period of 2000. During the nine months ended September 30, 2001, the Company had an average of 20.7% more employees in the research and development area compared to the same period of 2000. The results for the nine months ended September 30, 2001 were also negatively impacted by \$600,000 as a result of terminating a services agreement with a development partner. The Company plans to utilize in-house research and development personnel in the future, but expects to incur consulting fees for certain specialized development projects.

#### Noncash Research and Development Expense

Noncash research and development expenses of approximately \$826,000 were recognized during the first quarter of 2000. The expenses resulted from the Company's agreement with a third party to develop certain software that the Company intends to sell in the future. The agreement required the third party to reach certain milestones related to the software development in order to receive warrants to purchase 50,000 shares of the Company's common stock with an exercise price of \$56.78. The third party completed two of the three scheduled milestones in the first quarter of 2000 and they were granted warrants to purchase 33,334 shares of common stock. The third milestone was not reached by the scheduled due date, and as a result the warrants to purchase the remaining 16,666 shares of common stock were forfeited. The warrants to purchase 33,334 shares remain outstanding at September 30, 2001 and expire in the first quarter of 2003. At the end of the first quarter of 2000, the value of the warrants earned approximated \$826,000 and was computed using the Black-Scholes option pricing model.

#### In-Process Research and Development Expense

In-process research and development expense was approximately \$8.3 million for the nine months ended September 30, 2000. The Company recorded this expense in the second quarter of 2000 related to its acquisition of the SAI/Rodeo companies on May 31, 2000 (the "Valuation Date").

At the Valuation Date, the SAI/Redeo companies had technology under development

that had not yet reached technological feasibility and had no alternative future use in the event that the proposed products did not prove to be feasible. The product under development was a settlement portal that completes the B2B commerce chain cycle for the buy side, sell side, and net marketmakers. The Company's goal is to complete the procurement cycle from order fulfillment to settlement automatically and at the lowest possible cost. The initial development and commercial release of the Company's Settlement product was completed during the third quarter of 2000. The Company is continuing to invest in further development and enhancements of the Settlement product. During the nine months ended September 30, 2001, 24.9% of the Company's license revenue was derived from licensing the Settlement product. During the nine months ended September 30, 2000, 6.9% of the Company's license revenue was derived from licensing the Company's Settlement product.

The value of the in-process research and development ("IPR&D") was determined using a discounted cash flow model, focusing on the income-producing capabilities of the in-process technologies and taking into consideration (i) the analysis of the stage of completion of each project and (ii) the exclusion of value related to research and development yet-to-be completed as part of the on-going IPR&D projects. Under this approach, the value is determined by estimating the revenue contribution generated by each of the identified products classified within the classification segments. Revenue estimates were based on (i) individual product revenues, (ii) anticipated growth rates, (iii) anticipated product development and introduction schedules, (iv) product sales cycles, and (v) the estimated life of a product's underlying technology.

Based upon the revenue estimates, operating expense projections, including cost of sales, general and administrative, selling and marketing, income taxes and a use charge for contributory assets, were deducted to arrive at operating income. Revenue growth rates were estimated by management for each product with consideration to relevant market sizes and growth factors, expected industry trends, the anticipated nature and timing of new product introductions by the Company as well as competitors, individual product sales cycles, and the estimated life of each product's underlying technology. Operating expense estimates reflect the Company's historical expense ratios. Additionally, these projects will require continued research and development after they have

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reached a state of technological and commercial feasibility. The resulting operating income stream was discounted to reflect its present value at the date of the acquisition.

The rate used to discount the net cash flows from the purchased IPR&D was 28%. This rate is equal to the weighted average cost of capital of the Company, taking into account (i) the required rates of return from investments in various areas of the enterprise, (ii) reflecting the inherent uncertainties in future revenue estimates from technology investments including the uncertainty surrounding the successful development of the acquired IPR&D, (iii) the useful life of such technology, (iv) the profitability levels of such technology, if any, and (v) the uncertainty of technological advances, all of which were unknown at the time.

To date, actual revenues attributable to the IPR&D have been lower than the original projections. No assurance can be given that future revenues and operating profit attributable to the purchased IPR&D will not deviate from the projections used to value such technology. Ongoing operations and financial results for acquired businesses, and the Company as a whole, are subject to a variety of factors which may not have been known or estimable at the Valuation Date. To date, actual costs of completing the project and the timing thereof have been consistent with the estimates used in developing the valuation of the purchased IPR&D.

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

Sales and marketing expenses decreased 42.0% to \$5.5 million, or 180.3% of total revenues, during the quarter ended September 30, 2001 from \$9.4 million, or 69.5% of total revenues, during the same period in 2000. Sales and marketing expenses decreased 7.3% to \$22.8 million, or 168.1% of total revenues, during the nine months ended September 30, 2001 from \$24.7 million, or 80.5% of total revenues, during the same period in 2000. The decrease was primarily

attributable to a decrease in variable compensation as a result of lower license revenue during the periods and a decrease in sales and marketing personnel. The Company had an average of 8.9% fewer employees during the third quarter of 2001 in the sales, marketing and business development areas compared to the third quarter of 2000. The Company had an average of 9.8% fewer employees during the nine months ended September 30, 2001 in the sales, marketing and business development areas compared to the same period of 2000.

#### Noncash Sales and Marketing Expense

During the quarters ended September 30, 2001 and 2000, noncash sales and marketing expenses of approximately \$1.7 million and \$2.0 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. During the nine months ended September 30, 2001 and 2000, noncash sales and marketing expenses of approximately \$5.1 million and \$5.8 million, respectively, were recognized in connection with these agreements. In connection with these agreements, the Company issued warrants and shares of common stock to certain strategic partners, all of whom are also customers, in exchange for their participation in the Company's sales and marketing efforts. The Company recorded the value of these warrants and common stock as deferred sales and marketing expenses, which are being amortized over the life of the agreements which range from nine months to five years.

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

General and administrative expenses decreased 36.4% to \$2.6 million during the quarter ended September 30, 2001, or 87.6% of total revenue from \$4.2 million, or 30.8% of total revenues, during the same period in 2000. General and administrative expenses increased 12.3% to \$10.3 million during the nine months ended September 30, 2001, or 75.7% of total revenue from \$9.2 million, or 29.9% of total revenues, during the same period in 2000. The decrease in general and administrative expense for the three months ended September 30, 2001 was primarily attributable to a decrease in the provision for doubtful accounts and reduced headcount. The increase in general and administrative expense for the nine months ended September 30, 2001 was primarily attributable to an increase in the provision for doubtful accounts and the acquisition of the SAI/Redeo companies in May, 2000. The Company recorded a provision for doubtful accounts of \$823,000 and \$3.4 million for the three and nine months ended September 30, 2001, respectively. The Company recorded a provision for doubtful accounts of \$2.1 million and \$2.6 million for the three and nine months ended September 30, 2000, respectively.

#### Noncash General and Administrative Expense

Noncash general and administrative expenses decreased to approximately \$28,000, or 0.9% of total revenues, during the third quarter of 2001, from \$375,000, or 2.8% of total revenues, during the same period in 2000. Noncash general and administrative expenses decreased to approximately \$252,000, or 1.9% of total revenues, during the nine months ended September 30, 2001, from \$1.9 million, or 6.0% of total revenues, during the same period in 2000. The decrease in the three and nine months periods ended September 30, 2001 was primarily attributable to the termination in the fourth quarter of 2000 of an arrangement where the Company granted 160,000 options to a senior executive during the first quarter of 2000 at an exercise price below the fair market

value at the date of grant. Fifteen percent of these options vested immediately and the remainder vested over four years. In the first quarter of 2000, the Company immediately expensed \$814,500 associated with the intrinsic value of the vested options and recorded the intrinsic value of the unvested options, \$4.6 million, as deferred compensation to be amortized evenly over the four-year vesting period. Approximately \$864,000 was expensed in the first nine months of 2000 related to the unvested options. As a result of the termination, all options except those that were vested on the original grant date were forfeited and the Company reversed in the fourth quarter of 2000 approximately \$864,000 of compensation expense related to the forfeited, unvested options. In the third quarter of 2000, the Company granted 18,750 options to a new board member at a price below the fair market value at the date of grant. Deferred compensation of approximately \$266,000 was recorded related to this grant. The amount expensed



during 2001 relates primarily to these options.

#### Depreciation and Amortization

Depreciation and amortization decreased to \$2.8 million in the quarter ended September 30, 2001 from \$2.9 million in the same period of 2000. Depreciation and amortization increased to \$9.0 million in the nine months ended September 30, 2001 from \$5.2 million in the same period of 2000. The year to year increase is primarily the result of the Company's amortization of its intangible assets associated with the acquisitions of iSold.com and the SAI/Redeo companies completed in the second quarter of 2000.

#### Gain on Sale of Assets

For the three and nine month periods ended September 30, 2001, the Company recorded a gain on the sale property and equipment of \$10,000 and \$4,000, respectively. For the nine month period ended September 30, 2000, the Company recorded a gain on the sale of its human resources and financial software business to Geac Computer Systems, Inc., and Geac Canada Limited of \$547,000. The gain was recorded following an escrow settlement from the original sale in October, 1999.

#### Loss on Impairment of Investments

During the three and nine months ended September 30, 2001, the Company recorded a loss on impairment of investments of approximately \$2.6 million and \$9.1 million, respectively. The losses were necessitated by other than temporary losses to the value of investments the Company has made in privately held companies and marketable securities of one publicly traded company. The privately held 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 \$1.4 million in the third quarter of 2001, or 46.0% of total revenues from \$3.3 million, or 24.4% of total revenues, in the same period of 2000. Interest income decreased to \$5.6 million for the nine months ended September 30, 2001, or 41.0% of total revenues from \$7.9 million, or 25.7% of total revenues, in the same period of 2000. 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 and Amortization of Debt Discount

Interest expense decreased 1.7% to \$57,000 in the third quarter of 2001 from \$58,000 in the same period of 2000. Interest expense decreased 39.0% to \$177,000 for the nine months ended September 30, 2001 from \$290,000 in the same period of 2000. This decrease in interest expense is primarily due to higher levels of debt in the first quarter of 2000 as compared to 2001. 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 2001 is primarily related to this agreement.

In 1999, the Company entered into financing agreements for \$7.0 million. In connection with the financing, the Company issued warrants valued at approximately \$982,000 using the Black-Scholes option pricing model as debt discount to be amortized over the life of the financing agreement. The entire \$7.0 million plus interest was paid prior to the end of the first quarter of 2000. As a result, the entire value of the warrants was amortized as a debt discount in the quarter ended March 31, 2000.

#### Income Taxes

As a result of the operating losses incurred since the Company's inception, no provision or benefit for income taxes was recorded during the three and nine months ended September 30, 2001 and 2000, respectively.

## Liquidity and Capital Resources

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

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

On August 15, 2001, the Company granted options to purchase 150,000 shares of common stock to a senior executive with an exercise price equal to the fair market value at the date of grant. These options are designated as nonqualified options and will expire if not exercised in full before August 14, 2011. Twenty-five percent of the shares subject to the option shall vest on the first anniversary of the date of grant and the remaining portion of the option shall vest in equal monthly installments for 36 months beginning on August 15, 2001.

Cash used in operating activities was approximately \$38.2 million during the nine months ended September 30, 2001. The cash used was primarily attributable to the Company's net loss, an increase in current and long-term assets, and a decrease in accounts payable and accrued liabilities partially offset by noncash items, a decrease in accounts receivable and an increase in deferred revenue. Cash used in operating activities was approximately \$34.8 million during the nine months ended September 30, 2000. This was primarily attributable to the Company's net loss, and an increase in accounts receivable and other current assets, partially offset by noncash items, an increase in accounts payable and accrued liabilities and an increase in deferred revenue.

Cash used by investing activities was approximately \$2.3 million during the nine months ended September 30, 2001. The cash used by investing activities was primarily attributable to the purchase of marketable securities, the purchase of property and equipment and an investment in a strategic partner partially offset by proceeds received from the sale and maturity of marketable securities. Cash used by investing activities was approximately \$83.0 million during the nine months ended September 30, 2000. The cash used by investing activities was primarily attributable to the acquisitions of the SAI/Redeo companies and iSold.com, Inc., the purchase of marketable securities, the purchase of property and equipment and investments in strategic partners partially offset by proceeds received from the sale of assets of \$1.9 million.

Cash provided by financing activities was approximately \$408,000 during the nine months ended September 30, 2001. The cash provided by financing activities was primarily attributable to proceeds from shares issued under the employee stock purchase plan and stock option exercises. Cash provided by financing activities was approximately \$245.0 million during the nine months ended September 30, 2000. The cash provided by financing activities during the nine months ended September 30, 2000 was primarily attributable to the proceeds from the sale of 2,243,000 shares of common stock for approximately \$244.4 million, the issuance of long-term debt of \$5.0 million, and the proceeds from stock option exercises, partially offset by the repayment of \$7.0 million in interim funding provided by Transamerica Business Credit Corp., Silicon Valley Bank and Sand Hill Capital II, L.P.

The Company's accounts receivable potentially subject the Company to credit risk, as collateral is generally not required. As of September 30, 2001, two

customers accounted for more than 10% each, totaling \$3.2 million or 51.4% of the gross accounts receivable balance on that date. The percentage by customer was 21.1% and 30.3%, respectively, at September 30, 2001. As of December 31, 2000, four customers accounted for more than 10% each, totaling \$6.7 million or 56.0% of the gross accounts receivable balance on that date. The percentage by customer was 10.4%, 11.2%, 14.5%, and 19.9%, respectively, at December 31, 2000.

During the 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 the third quarter of 2001, the second quarter of 2001, the first quarter of 2001 and the fourth quarter of 2000, the Company recorded a charge of \$2.6 million, \$2.4 million, \$3.1 million and \$4.1 million, respectively, for other than temporary

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losses on these investments. These companies are primarily early-stage companies and are subject to significant risk due to their limited operating history and current economic conditions.

At September 30, 2001, the Company had net operating loss carryforwards, research and experimentation credit, and alternative minimum tax credit carryforwards for U.S. federal income tax purposes which expire in varying amounts beginning in the year 2009. The Company's ability to benefit from certain net operating loss carryforwards is limited under section 382 of the Internal Revenue Code as the Company is deemed to have had an ownership change of greater than 50%. Accordingly, certain net operating losses may not be realizable in future years due to this limitation.

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

On May 31, 2000, the Company acquired the SAI/Redeo companies. As part of the acquisition, two former executives of the SAI/Redeo companies signed employment agreements. As a result of the voluntary termination of one agreement prior to the first anniversary of the acquisition date, the executive was required to return to the Company for cancellation 55,000 shares of common stock issued in connection with the agreement. During the first quarter of 2001, the Company recorded the fair value of these shares as of the acquisition date, approximately \$1.5 million, as a reduction to the intangible balance associated with the SAI/Redeo acquisition. As a result of the voluntary termination of the second agreement prior to the second anniversary of the acquisition date, the executive was required to return to the Company for cancellation 27,500 shares of common stock issued in connection with the agreement. During the second quarter of 2001, the Company recorded the fair value of these shares as of the acquisition date, approximately \$727,000, as a reduction to the intangible balance associated with the SAI/Redeo acquisition.

#### New Accounting Pronouncements

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 is required to adopt SFAS 144 effective January 1, 2002. The adoption of SFAS 144 is not expected to 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 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. SFAS 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values.

The Company is required to adopt the provisions of SFAS 141 immediately and SFAS 142 effective January 1, 2002. Goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS 142 is adopted in full will not be amortized, but will continue to be evaluated for impairment in accordance with the accounting literature in effect prior to the issuance of SFAS 142. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS 142.

At September 30, 2001, the Company's unamortized goodwill and intangibles totaled \$49.6 million. Amortization expense related to goodwill was \$4.7 million and \$5.8 million for the year ended December 31, 2000 and the nine months ended September 30, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

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 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, 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, financial condition, and stock price.

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

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

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

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:

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- o changes in the demand for our products;
- o the timing, composition and size of orders from our customers;
- o customer spending patterns and budgetary resources;
- o our success in generating new customers;
- o the timing of introductions of or enhancements to our products;
- o changes in our pricing policies or those of our competitors;
- o our ability to anticipate and adapt effectively to developing markets and rapidly changing technologies;
- o our ability to attract, retain and motivate qualified personnel,

particularly within our sales and marketing and research and development organizations;

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

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

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

We 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:

- o Variations in our quarterly operating results;
- o Announcements that our revenue or income are below analysts' expectations;
- o Changes in analysts' estimates of our performance or industry performance;
- o Changes in market valuations of similar companies;

- o Sales of large blocks of our common stock;
- o Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- o Loss of a major customer or failure to complete significant license transactions;
- o Additions or departures of key personnel; and
- o Fluctuations in stock market price and volume, which are particularly common among highly volatile securities of software and Internet-based companies.

We may not effectively implement our business strategy.

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

We may 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:

- o transactions that include both currently available software products and products that are under development or other undeliverable elements;
- o transactions where the customers demands services that include significant modifications or customizations that could delay product delivery or acceptance;
- o transactions that involve acceptance criteria that may preclude revenue recognition or if there are identified product-related issues, such as performance issues; and
- o 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 substantial additional revenues necessary to become profitable and we anticipate that we will continue to incur losses.

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

If our ratable business model is unsuccessful, 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 develop and support our ratable business model, the market may adopt our products at a slower rate than anticipated, and our business may suffer materially.

We expect to evolve to our ratable business model over time. The adoption rate of our flexible business model may, from quarter to quarter, fluctuate or be rejected by the market altogether. As we continue this evolution, we may find that the majority of our revenues continue to come from traditional revenue recognition license arrangements that result in revenues being taken up front. If our ratable business model results fluctuate due to uneven adoption rates or if our business model is rejected entirely, our business, results of operations, 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 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.

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

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

While we expect the large to mid-size enterprise (LME) market to begin the adoption of business-to-business software, we may not be the supplier of choice



for this market. The mid-size market may prefer to purchase their business-to-business software from their ERP vendors. Should this market not be receptive to independent software vendors (ISV), such as us, for their software our business could be seriously harmed.

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

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

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

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 referencability in the future.

We may not realize the entire value of our sales and marketing agreements with certain customers.

During the fourth quarter of 1999 and the first quarter of 2000, we issued warrants and shares of common stock to certain strategic partners, all of whom are also customers, in exchange for their participation in our sales and marketing efforts. We recorded the value of these warrants and common stock as deferred sales and marketing expenses, which are being amortized over the life of the agreements which range from nine months to five years. If these strategic partners discontinue being referenceable customers we will be required to write-off the remaining balance of deferred sales and marketing expense.

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

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

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

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

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 expect to rely on a number of third-party application service providers to host our solutions. If we are unable to establish and maintain effective, long-term relationships with our application service providers, or if these providers do not meet our customers' needs or expectations, our business could be seriously harmed. In addition, we lose a significant amount of control over our solution when we engage application service providers, and we cannot adequately control the level and quality of their service. By relying on third-party application service providers, we are wholly reliant on their information technology infrastructure, including the maintenance of their computers and communication equipment. An unexpected natural disaster or failure or disruption of an application service provider's infrastructure could have a material adverse effect on our business.

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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 an effective, long-term relationship 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 continues to increase, we will need to develop relationships with additional third-party service providers to provide these types of services. Our competitors have or may develop relationships with these third parties and, as a result, these third parties may be more likely to recommend competitors' products and services rather than ours.

Many of our strategic partners have multiple strategic relationships, and they may not regard us as important to their businesses. In addition, our strategic partners may terminate their relationships with us, pursue other partnerships or relationships or attempt to develop or acquire products or services that compete with our solutions. Further, our existing strategic relationships may interfere with our ability to enter into other desirable strategic relationships. A significant number of our Clarus eProcurement and Clarus eMarket customers have been 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 companies have made significant revenue commitments to us as part of these relationships. While we do not reflect these commitments in our financial statements, this information is included in "backlog" information we share with market analysts and investors. Some of these strategic selling partners may not have the ability to meet their financial commitments to us if they are not able to generate a sufficient level of sales to meet these commitments.

Much of our sales growth and future success is expected to come from our channel partners. While we expect to invest significantly in these relationships including sales training, product integration and joint selling, we cannot predict the channels 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

relationship prove unproductive or take longer to deliver results our financial results and path to profitability could suffer serious adverse consequences.

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

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

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

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

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

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

- o currency exchange rate fluctuations;
  - o seasonal fluctuations in purchasing patterns;
  - o unexpected changes in regulatory requirements;
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- o tariffs, export controls and other trade barriers;
  - o longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
  - o difficulties in managing and staffing international operations;
  - o potentially adverse tax consequences, including restrictions on the repatriation of earnings;
  - o increased transactions costs related to sales transactions conducted outside the U.S.;
  - o reduced protection of intellectual property rights and increased risk of piracy;
  - o challenges of retaining and maintaining strategic relationships with customers and business alliances in international markets;
  - o foreign laws and courts may govern many of the agreements with customers and resellers;
  - o difficulties in maintaining knowledgeable sales representatives in countries outside the U.S.;
  - o adequacy of local infrastructures outside the U.S.;
  - o differing technology standards, translations, and localization

- standards;
- o uncertain demand for electronic commerce;
- o linguistic and cultural differences;
- o the burdens of complying with a wide variety of foreign laws; and
- o 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 and operations. We opened our first international sales office in the United Kingdom during the first quarter of 2000 and acquired the SAI/Redeo companies, which have significant operations in Ireland, in the second quarter of 2000. We have limited experience in managing geographically dispersed operations and in operating in Ireland and the United Kingdom.

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 No. 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. Although we have not incurred any impairment charges to date, we can give no assurance that 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 not achieve anticipated benefits of prior acquisitions.

The accounting treatment for our acquisition of the SAI/Redeo companies negatively impacted our results of operations in the second quarter of 2000. We recognized a write-off of acquired in-process research and development and amortization expense related to this acquisition. Amortization of this acquisition will adversely affect our results of operations through 2008. The amounts allocated under purchase accounting to developed technology and in-process research and development in the acquisition involved valuation estimations of future revenues, expenses, operating profit, and cash flows. The actual revenues, expenses, operating profits, and cash flows from the acquired technology recognized in the future may vary materially from such estimates. If we do not continue to develop and enhance the acquired technology, if the market for this technology changes, or if actual revenues are lower than estimated the net realizable value of our intangibles may be less than the carrying value requiring us to incur an impairment charge to appropriately reflect the value of

the intangibles.

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

In a number of lawsuits filed against us in the fourth quarter of 2000, our company and several of our officers have been named as defendants in a number of securities class action lawsuits filed in the United States District Court for the Northern District of Georgia. The plaintiffs purport to represent a class of all persons who purchased or otherwise acquired our common stock in certain periods beginning on October 20, 1999 and through October 25, 2000. The consolidated complaint alleges, among other things, that 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 made in public filings made with the Securities and Exchange Commission and certain press releases and other public statements. The plaintiffs seek unspecified damages and costs. This lawsuit diverts the time and attention of management and an adverse judgment could cause our financial condition or operating results to suffer.

We expect to depend on our Clarus eProcurement and Clarus eMarket products for a significant portion of our revenues for the foreseeable future.

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

Our products may perform inadequately in a high volume environment.

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

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

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

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

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

Our products operate with, or are based on, Microsoft's proprietary products. If businesses do not continue to adopt these technologies as anticipated, or if they adopt alternative technologies that we do not support, we may incur significant costs in

redesigning our products or lose market share. Our customers may be unable to use our products if they experience significant problems with Microsoft technologies that are not corrected.

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

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

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

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

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

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

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

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

- o pay licensing fees or royalties to continue selling the product;
- o 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
- o 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.

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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 and operating results. Clarus eProcurement and Clarus eMarket rely on encryption technology to provide the security and authentication necessary to protect the exchange of valuable and confidential information. Advances in computer capabilities, discoveries in the field of cryptography or other events or developments may result in a compromise of the encryption methods we employ in Clarus eProcurement and Clarus eMarket to protect transaction data.

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

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

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

Failure to expand Internet infrastructure could limit our growth.

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

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

We are not subject to direct regulation by any government agency, other than under regulations applicable to businesses generally, and few laws or

regulations specifically address commerce on the Internet. In view of the increasing use and growth of the Internet, however, the federal government or state governments may adopt laws and regulations covering issues such as user privacy, property ownership, libel, pricing and characteristics and quality of products and services. We could incur substantial costs in complying with these laws and regulations, and the potential exposure to statutory liability for information carried on or disseminated through our application systems could force us to discontinue some, or all of our services. These eventualities could adversely affect our business operating results and financial condition. The adoption of any laws or regulations covering these issues also could slow the growth of e-commerce generally, which would also adversely affect our business, operating results or financial condition.

Several states have also proposed legislation that require online services to establish privacy policies. In 1998, the European Union enacted the European Data Privacy Directive relating to the protection and processing of personal data. When fully implemented, this directive may have significant impact on the manner in which we handle the personal data of the citizens of the European Union and transfers of such information outside of member nations of 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. Changes to existing laws or other passage of new laws intended to address these issues, including some recently proposed changes, 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 and financial condition. In addition, because our services are accessible worldwide, and we facilitate sales of goods to users worldwide, other jurisdictions

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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 and financial condition.

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

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

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. However, this legislation, known as the Internet Tax Freedom Act, imposed only a three-year moratorium, which expired on October 21, 2001. This tax moratorium has not been renewed. As a result, states are currently allowed to impose taxes on Internet-based commerce. There is legislation currently pending that may renew the tax moratorium for a period of time. There is no assurance that this pending legislation will be enacted. The imposition of such taxes, if the moratorium is not renewed, 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

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

#### Interest Rate Risk

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

#### Investments

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 the third quarter of 2001, the second quarter of 2001, the first quarter of 2001 and the fourth quarter of 2000, the Company recorded a charge of \$2.6 million, \$2.4 million, \$3.1 million and \$4.1 million, respectively, for other than temporary losses on these investments. These companies are primarily early-stage companies and are subject to significant risk due to their limited operating history and current economic conditions. The Company has not recognized any material revenue from these companies during 2001. During the year ended December 31, 2000, the Company recognized \$17.2 million in total revenue from these companies. In the third quarter of 2000, the Company made additional equity investments of \$2.8 million in two privately held companies and new investments of \$5.2 million in three privately held companies and recognized \$8.1 million in total revenue from these privately held companies. For the nine months ended September 30, 2000, the Company made equity investments of \$13.6 million and recognized \$12.2 million in total revenue from eight privately held companies.

## 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, or financial condition.

Following its public announcement on October 25, 2000, of its financial results for the third quarter of 2000, 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. On June 29, 2001, the Company filed a motion to dismiss the consolidated case. The plaintiffs responded to the Company's motion to dismiss on August 6, 2001. The Company replied with a rebuttal to the plaintiffs' response on August 27, 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.

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

#### (a) Exhibits

10.1 Employment Agreement between the Company and Sean Feeney

#### (b) Reports on Form 8-K

None

## SIGNATURE

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

## CLARUS CORPORATION

Date: November 14, 2001 /s/ James J. McDevitt

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James J. McDevitt,  
Chief Financial Officer



EXHIBIT 10.1

EMPLOYMENT AGREEMENT  
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THIS EMPLOYMENT AGREEMENT ("Agreement") is made effective as of the 15th day of August, 2001, by and between Clarus Corporation, a Delaware corporation (the "Company") and Sean E. Feeney, a Georgia resident, ("Employee").

WHEREAS, the Company desires to employ the Employee, and Employee desires to accept such employment with the Company; and

WHEREAS, the Company and Employee desire to set forth in writing all of the covenants, terms and conditions of their agreement and understanding as to such employment.

NOW THEREFORE, in consideration of the foregoing, the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. Employment and Duties. The Company hereby employs Employee, and  
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Employee hereby accepts employment, as its Chief Operating Officer. Employee agrees to serve in such capacity and to faithfully and diligently perform such duties, responsibilities and services that are incidental thereto, as well as such other duties, responsibilities and services as may be prescribed or requested by the Chief Executive Officer of the Company from time to time. Employee shall devote his full time, attention and best efforts to the performance of his duties, responsibilities and services to the Company in a lawful manner and in accordance with all policies of and instructions from the Company.

2. Term. The term of this Agreement will commence on the date set forth  
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above and will terminate one (1) year thereafter, unless said Agreement is terminated at an earlier date as provided herein. The Agreement shall automatically renew for identical and successive one (1) year term(s) unless either party notifies the other of its intention not to renew the Agreement at least 30 days prior to the expiration of the one year term then in effect; provided, however, that all post-termination obligations under Sections 5, 6 and 7 shall survive termination or expiration of this Agreement as provided herein.

3. Compensation and Employee Benefits.  
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(a) Compensation. Employee shall receive an annualized salary (the "Base Salary") of Two Hundred Thousand Dollars (\$200,000.00), which shall be paid in accordance with the Company's regular payroll practices and subject to any and all withholdings pursuant to applicable law.

Employee is also eligible to receive additional annualized incentive compensation of up to \$100,000 per year if the Company meets the revenue, expense and profitability targets and the Employee attains specified management business objectives as determined by the

Company's Chief Executive Officer and which shall be attached as Exhibit "A,"  
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hereto. The Employee's right to receive incentive compensation hereunder will be measured on a quarterly basis and, if earned, will be payable quarterly.

(b) Employee/Fringe Benefits. Employee shall be eligible to participate in all employee benefit programs and fringe benefits (including, but not limited to, medical, dental, vision, life, accidental death and dismemberment, travel, accident and short-term/long-term disability insurance plans or programs, paid time-off, paid holidays, etc.) generally made available to executive employees of the Company, subject to any and all terms, conditions, and eligibility requirements for said programs and benefits, as may from time to time be

prescribed by the Company. The Company may alter, modify, add to or delete its employee benefit plans at any time as it determines in its sole discretion.

(c) Other Business Expenses. The Company shall reimburse Employee for his actual out-of-pocket, business expenses that are incurred by Employee and are reasonable and necessary in relation to and in furtherance of Employee's performance of his duties to the Company. Such reimbursement shall be subject to compliance with the Company's reimbursement policies and the provision of substantiating documents of said expenses as may be reasonably requested by the Company.

(d) Vacation. Employee shall be entitled to twenty-four (24) days Paid Time Off (PTO) per year (which includes vacation, illness and other personal time away from work) as well as seven (7) days of paid holiday in accordance with the Company's normal policies; provided, that vacation shall be taken at such times as shall not unreasonably interfere with the Employee's responsibilities hereunder. Up to five (5) days of unused PTO may be carried forward from one year into the next.

4. Termination. This Agreement may be terminated prior to the expiration  
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of the term as follows:

(a) Death or Disability. The Employee's employment hereunder shall terminate automatically upon Employee's death. In such event, Employee's estate shall be entitled to receive any earned and unpaid Base Salary, prorated through the date of death. If the Employee is prevented from performing his material duties hereunder as a result of physical or mental illness, injury or incapacity for either (i) a period of ninety (90) consecutive days or (ii) more than one hundred-eighty (180) days in the aggregate in any twelve (12) month period, then the Company may terminate the Employee's employment upon written notice to Employee. While receiving disability income payments under the Company's disability income plan, the Employee shall not be entitled to receive any Base Salary hereunder, but shall continue to participate in the Company's benefit plans, to the extent permitted by such plans, until the termination of his employment.

(b) For Cause. The Company may terminate the Employee's employment hereunder for Cause at any time upon notice to the Employee setting forth in reasonable detail the nature of such Cause. In the event that the Company terminates Employee's employment for Cause (or Employee resigns from his employment with the Company), the Company shall not be

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obligated to pay any salary or other compensation to Employee after the effective date of termination, other than accrued and unpaid Base Salary earned through the date of termination.

(c) Without Cause. In the event the Company terminates this Agreement without Cause, then Employee shall be entitled to (i) severance pay in the form of continuation of his annualized Base Salary until the earlier of the expiration of the remainder of the one year term then in effect, or a period of six months from the date of such termination, or Employee's earlier commencement of employment with any other entity. Any such severance pay shall be paid in accordance with the Company's regular payroll practices and subject to any and all withholdings pursuant to applicable law, and (ii) a pro rata portion of his incentive bonus, if any, contemplated by Section 3(a) for the quarter in which his employment terminated based upon the number of days in the quarter elapsed prior to such termination. In addition, the Company shall continue to provide, through COBRA or otherwise, medical insurance coverage contemplated by Section 3(c) until the earlier of the expiration of the remainder of the one year term then in effect, or a period of six months following the date of Employee's termination without Cause, or Employee's earlier commencement of employment with any other entity. Payment of the severance benefits set forth herein shall be subject to Employee's continued compliance with the provisions of Section 5 hereof. Notwithstanding anything to the contrary herein, the Company's obligations to under this Section 4(c) shall terminate on the date on which Employee commences new employment. For purposes hereof, the commencement of a full-time position, whether as an employee, consultant or independent contractor shall be deemed to be commencement of "new employment".

(d) Change of Control. The Employee may terminate his employment hereunder at any time during the three (3) month period beginning three (3) months after a Change of Control has occurred by written notice given to the Company. In the event of such termination:

(i) The Company shall continue to pay to the Employee his Base Salary as of the date of the Change of Control for a period of six (6) months from the date of termination or such earlier date on which Employee commences new employment.

(ii) The Company shall pay to the Employee a pro rata portion of his incentive bonus, if any, contemplated by Section 3(a) for the quarter in which his employment terminated based upon the number of days in the quarter elapsed prior to termination.

(iii) The Company shall continue to provide Employee with the medical insurance coverage contemplated by Section 3(c), through COBRA or otherwise, for a period equal to the earlier of (x) six (6) months from the date of termination or (y) Employee's commencement of employment with any other entity.

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5. Protective Covenants. Employee is, and will become during the course

of employment, intimately familiar with Confidential Information, Trade Secrets, products and services, and other property of the Company. The protection of the Company requires that all such property and information must remain the sole and private property of the Company to be used only for the Company's benefit, not to be disclosed to any other party nor used by Employee against the Company or for the benefit of any other person. Employee shall, upon request of the Company, and without request promptly on termination of employment, deliver all Company Property in Employee's possession or control to the Company. Employee acknowledges and agrees that title to all Company Property is vested in the Company. In addition, Employee warrants, represents, covenants and agrees, during the term of his employment and for the periods described below, as follows:

(a) Covenant Not to Compete in Certain Ways. By virtue of his position with the Company, Employee shall be given an opportunity to, and shall have an obligation to, participate in strategic planning with respect to competitors of the Company and shall be made privy to the Company's marketing strategy, product development, pricing, timing and other matters specifically designed to address market competition. Employee further acknowledges that the use and/or disclosure by him of such secret information and knowledge would be inevitable in the event Employee were to become engaged by such a competitor in a capacity similar to the capacity in which Employee is employed by the Company. Employee therefore agrees that, for a period of one (1) year following termination of his employment with the Company, he shall not directly or indirectly, within the State of Georgia or within a 100-mile radius of the addresses of the competitors of the Company expressly listed on Exhibit "B"

hereto (the "Named Competitors"), become engaged or employed by any Named Competitor in a capacity substantially identical to the functions and duties Employee performs on behalf of the Company. Employee acknowledges that the Named Competitors designated on Exhibit "B" are the key competitors of the Company as

of the date hereof. Employee acknowledges and agrees that there are many other entities with whom Employee can profitably use his skills and abilities, including other competitors of the Company, and that it is entirely proper and reasonable for him to agree not to work for the Named Competitors in the prescribed capacity for the prescribed times and within the prescribed locations. The parties agree that Exhibit "B" may be updated and amended from

time to time by substituting therefor a modified Exhibit "B" that has been

signed by both the Company and Employee, and that the Named Competitors shall thereafter refer to the companies listed on such amended Exhibit "B."

(b) Covenant Not to Solicit Business from Certain Customers. The Employee acknowledges that during the course of his employment by the Company, Employee shall have a duty to, and shall be given an opportunity to, make

contact with and strengthen ties with Customers and potential Customers of the Company. The Employee shall not, for a period of two (2) years after termination of his employment with the Company, directly or indirectly, for himself or any other person or entity, solicit any Customer for the purchase or license by such Customer of any product or service competitive with any of the products and services which are offered by the Company within the one-year period preceding termination of Employee's employment.

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(c) Covenant Not to Solicit Employees. For a period of two (2) years following the date of termination of his employment with the Company, Employee shall not, directly or indirectly, for himself or any other person or entity, employ, solicit or recommend the employment of any employee of the Company for the purpose of causing such employee to take employment with Employee or any other person or entity until such employee or former employee has ceased to be employed by the Company for a period of six (6) months.

(d) Covenant Not to Disclose Confidential Information or Trade Secrets. Employee shall not disclose to any person whatsoever or use any Trade Secrets or Confidential Information of the Company, other than as necessary in the fulfillment of his duties to the Company in the course of employment. This paragraph shall be effective during the term of this Agreement and for a period of two (2) years after termination of employment with respect to all Confidential Information, and shall remain in effect with respect to all Trade Secrets so long as such information remains a trade secret under applicable law.

#### 6. Work Product; Inventions.

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(a) Ownership by the Company. The Company shall own all right, title and interest in and to all work product developed by Employee in Employee's provision of services to the Company, including without limitation, all preliminary designs and drafts, all other works of authorship, all derivative works and patentable and unpatentable inventions and improvements, all copies of such works in whatever medium such copies are fixed or embodied, and all worldwide copyrights, trademarks, patents or other intellectual property rights in and to such works (collectively the "Work Product"). All copyrightable materials of the Work Product shall be deemed a "work made for hire" for the purposes of U.S. Copyright Act, 17 U.S.C. (S) 101 et seq., as amended.

(b) Assignment and Transfer. In the event any right, title or interest in and to any of the Work Product (including without limitation all worldwide copyrights, trademarks, patents or other intellectual property rights therein) does and shall not vest automatically in and with the Company, Employee agrees to and hereby does irrevocably assign, convey and otherwise transfer to the Company, and the Company's respective successors and assigns, all such right, title and interest in and to the Work Product with no requirement of further consideration from or action by Employee or the Company.

(c) Registration Rights. The Company shall have the exclusive worldwide right to register, in all cases as "claimant" and when applicable as "author," all copyrights in and to any copyrightable element of the Work Product, and file any and all applicable renewals and extensions of such copyright registrations. The Company shall also have the exclusive worldwide right to file applications for and obtain (i) patents on and for any of the Work Product in Employee's name and (ii) assignments for the transfer of the ownership of any such patents to the Company.

(d) Additional Documents. Employee agrees to execute and deliver all documents requested by the Company regarding or related to the ownership and/or other intellectual property rights and registrations specified herein. Employee hereby further

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irrevocably designates and appoints the Company as Employee's agent and attorney-in-fact to act for and on Employee's behalf and stead to execute, register and file any such assignments, applications, registrations, renewals and extensions and to do all other lawfully permitted acts to further the registration, prosecution and issuance of patents, copyright or similar

protections with the same legal force and effect as if executed by Employee.

7. Employee's Obligations Upon Termination. Upon the termination of  
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Employee's employment hereunder for whatever reason, Employee automatically tenders Employee's resignation from any office Employee may hold with the Company, and Employee shall not at any time thereafter represent himself to be connected or to have any connection with the Company or its related entities.

8. Assignment. Due to the personal service nature of Employee's  
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obligations, Employee may not assign this Agreement. Subject to the restrictions in this Section, this Agreement shall be binding upon and benefit the parties hereto, and their respective heirs, successors or assigns.

9. Legality and Severability. The parties covenant and agree that the  
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provisions contained herein are reasonable and are not known or believed to be in violation of any federal, state, or local law, rule or regulation. In the event a court of competent jurisdiction finds any provision herein (or subpart thereof) to be illegal or unenforceable, the parties agree that the court shall modify said provision(s) (or subpart(s) thereof) to make said provision(s) (or subpart(s) thereof) and this Agreement valid and enforceable. Any illegal or unenforceable provision (or subpart thereof), or any modification by any court, shall not affect the remainder of this Agreement, which shall continue at all times to be valid and enforceable.

10. Entire Agreement; Modification; Governing Law. This Agreement  
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constitutes the entire understanding between the parties regarding the subject matters addressed herein and supersedes any prior oral or written agreements between the parties. This Agreement can only be modified by a writing signed by both parties, and shall be interpreted in accordance with and governed by the laws of the State of Georgia without regard to the choice of law provisions thereof. Notwithstanding the foregoing, the protective provisions contained in Paragraph 5 hereof shall be governed and enforced in accordance with the laws of the state in which enforcement of such provisions is sought.

11. Negotiated Agreement. Employee and the Company agree that this  
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Agreement shall be construed as drafted by both of them, as parties of equivalent bargaining power, and not for or against either of them as drafter.

12. Review and Voluntariness of Agreement. Employee acknowledges  
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Employee has had an opportunity to read, review, and consider the provisions of this Agreement, that Employee has in fact read and does understand such provisions, and that Employee has voluntarily entered into this Agreement.

13. Non-Waiver. The failure of the Company to insist upon or enforce  
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strict performance of any provision of this Agreement or to exercise any rights or remedies thereunder

will not be construed as a waiver by the Company to assert or rely upon any such provision, right or remedy in that or any other instance.

14. No Conflicting Obligations. Employee hereby acknowledges and  
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represents that Employee's execution of this Agreement and performance of employment-related obligations and duties for the Company as set forth hereunder will not cause any breach, default or violation of any other employment, non-disclosure, confidentiality, non-competition or other agreement to which Employee may be a party or otherwise bound. Employee hereby agrees that he will not use in the performance of his duties for the Company (or otherwise disclose to the Company) any trade secrets or confidential information of any prior employer or other person or entity if and to the extent that such use or disclosure may cause a breach or violation of any obligation or duty owed to such employer, person, or entity under any agreement or applicable law.



15. Forum; Enforcement. In the event of litigation arising from this

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Agreement, Employee hereby expressly consents to jurisdiction and venue in any State or Federal Court sitting in Fulton County, State of Georgia, and waives any objections to such jurisdiction and venue. Employee further agrees that if Employee were to breach the provisions of Section 5 or 6 hereof, the Company would be irreparably harmed and therefore, in addition to any other remedies available at law, the Company shall be entitled to equitable relief, including without limitation, specific performance and preliminary and permanent injunction, against any breach or threatened breach of said Sections 5 and 6, without having to post bond.

16. Notices. Any notice or other communications under this Agreement

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shall be in writing, signed by the party making the same, and shall be delivered personally or sent by certified or registered mail, postage prepaid, addressed as follows:

If to Employee:        Sean E. Feeney  
                              8195 High Hampton Chase  
                              Alpharetta, Georgia 30022

If to the Company:    Clarus Corporation  
                              3970 Johns Creek Court  
                              Suwanee, Georgia 30024  
                              Attention: President

or to such other address as may hereafter be designated by either party hereto. All such notices shall be deemed given on the date received.

17. Definitions. As used in this Agreement, the following terms shall

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have the following meanings:

(a) "Cause."

(i) The Employee's repeated failure to perform (other than by reason of disability), or gross negligence in the performance of, his material duties and responsibilities hereunder and the continuance of such failure or negligence for a period of thirty (30) days after notice to the Employee;

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(ii) Material breach by the Employee of any provision of this Agreement or any other written agreement between the Employee and the Company or any of its affiliates; and

(iii) Other conduct by the Employee that involves a material violation of law or breach of fiduciary obligation on the part of the Employee or is otherwise materially harmful to the business, interests, reputation or prospects of the Company or any of its affiliates.

(b) "Change of Control" For the purposes herein, a "Change of Control" shall be deemed to have occurred on the earliest of the following dates:

(i) The date any entity or person shall have become the beneficial owner of, or shall have obtained voting control over, (X) fifty-one percent (51%) or more of the outstanding Common Stock of the Company if the Company's stock is not then registered with the SEC and publicly traded or (Y) forty percent (40%) or more of the outstanding Common Stock of the Company if the Company has consummated its initial public offering;

(ii) The date the stockholders of the Company approve a definitive agreement (A) to merge or consolidate the Company with or into another corporation, in which the Company is not the continuing or surviving corporation or pursuant to which any shares of Common Stock of the Company would be converted into cash, securities or other property of another corporation, other than (X) a merger or

consolidation of the Company in which holders of Common Stock immediately prior to the merger or consolidation have the same proportionate ownership of Common Stock of the surviving corporation immediately after the merger as immediately before and (Y) a merger or consolidation of the Company in which holders of Common Stock immediately prior to the merger or consolidation continue to own at least a majority of the combined voting securities of the Company (or the surviving entity) outstanding immediately after such merger or consolidation, or (B) to sell or otherwise dispose of all or substantially all the assets of the Company; or

(iii) The date there shall have been a change in a majority of the Board of Directors of the Company within a 12-month period unless the nomination for election by the Company's stockholders of each new director was approved by the vote of two-thirds of the directors then still in office who were in office at the beginning of the 12-month period.

(c) "Company Property." All property, including, without limitation, real,

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personal, tangible or intangible, including all computer programs, electronic data, educational or instructional materials, inventions, Confidential Information, Trade Secrets, facilities, trade names, logos, patents, copyrights and all tangible materials and supplies (whether originals or duplicates and including, but not in any way limited to, computer diskettes, brochures, materials,

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sample products, video tape cassettes, film, catalogs, books, records, manuals, sales presentation literature, training materials, calling or business cards, customer records, customer files, customer names, addresses and phone numbers, directives, correspondence, documents, contracts, orders, messages, memoranda, notes, circulars, agreements, bulletins, invoices and receipts), which in any way pertain to the Company's business, whether furnished to Employee by the Company or prepared, compiled or acquired by Employee while employed by the Company, all being the sole property of the Company.

(d) "Confidential Information." All information or material regarding the Company's business that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, or information which if disclosed without authorization could be detrimental to the business of the Company, including, but not limited to, its business plans, marketing plans, methods of operation, products, software programs, documentation of computer programs, programming procedures, algorithms, formulas, equipment, techniques, existing and contemplated services, inventions, systems, devices (whether or not patentable), financial information and practices, plans, pricing, selling and marketing techniques, proposals or bids for actual or potential customers, names, addresses and phone numbers of the Company's customers, credit information and financial data of the Company and the Company's customers, particular business requirements of the Company's customers, and special methods and processes involved in designing, producing and selling the Company's products and services, all shall be deemed Confidential Information and the Company's exclusive property; provided, however, that Confidential Information shall not include information that has entered the public domain other than through the actions of Employee. Confidential Information shall also include the foregoing types of information with respect to all affiliates of the Company.

(e) "Customer." Customer means any customer or prospective customer of the Company with whom Employee had Material Contact during the twelve (12) months immediately preceding the termination of the Employee's employment with the Company.

(f) "Material Contact." Material Contact means interaction between the Employee and the customer or potential customer which takes place in an effort to further the business relationship, and shall be deemed to exist between the Employee and each customer or potential customer of the Company with whom the Employee dealt; whose dealings with the Company were coordinated or supervised by the Employee; or about whom the Employee obtained and used confidential information in the ordinary course of business as a result of such Employee's association with the Company.

(g) "Trade Secrets." All information, including, but not limited to, technical or non-technical data, formulas, patterns, programs, devices, methods, processes, financial data, product plans or a list of actual or potential customers or suppliers, which derives economic value from not being generally known and which is the subject of reasonable efforts by the Company to maintain its secrecy.

[EXECUTION SET FORTH ON FOLLOWING PAGE]

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IN WITNESS WHEREOF, the parties hereto have hereunto affixed their hands and seals as of the date first above written.

THE COMPANY:

CLARUS CORPORATION

By: /s/ Stephen P. Jeffery

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Stephen P. Jeffery, Chief Executive Officer

EMPLOYEE:

/s/ Sean E. Feeney

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Sean E. Feeney

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EXHIBIT "A"

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INCENTIVE COMPENSATION

[NONE]

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EXHIBIT "B"

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List of Competitors Pursuant to Section 5 of Agreement

Name:

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Address:

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1. Ariba Corporation                    1565 Charleston Road  
Mountain View, CA 94043

600 Northpark Town Center  
1200 Abernathy Road  
Atlanta, GA 30328

and

Jamboree Center  
One Plaza Park  
Suite 600

Irvine, CA 92614

2. Commerce One CarrAmerica Corporate Center  
Buildings #1 & #4  
4440 Rosewood Drive  
Pleasanton, CA 94588

And

999 Peachtree Street, Suite 140  
Atlanta, GA 30309  
U.S.A.

3. Purchase Pro 3291 North Buffalo Drive  
Las Vegas, Nevada 89129

4. Metiom, Inc. One Liberty Plaza - 22nd Floor  
New York, NY 10006

and

555 North Point Center East  
Alpharetta, GA 30022

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Printed Name of Employee:

Sean E. Feeney

/s/ Sean E. Feeney

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Signature of Employee

Effective Date: August 15, 2001

CLARUS CORPORATION

By: /s/ Stephen P. Jeffery

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Stephen P. Jeffery, Chief Executive Officer

Effective Date: August 15, 2001

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