OPUS360 CORP
Form 10-Q/A
May 21, 2001

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

FORM 10-Q/A

(Mark One)
|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

OR

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

Commission File number 000-29793

Opus360 Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware 13-4023714	
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

39 West 13th Street, 3rd Fl. New York, NY 10011
(Address of Principal Executive Offices) (Zip Code)

212-687-6787
Registrant's Telephone Number, Including Area Code

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes |X| No |_|

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 30, 2001.

Common Stock	49,665,798
(Class)	(Outstanding Shares)

Opus360 Corporation
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The Company hereby amends Part I, Item I to correct the Consolidated Statements of Cash Flows for the three months ended March 31, 2001 and March 31, 2000, for a typographical error.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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Item 1. Financial Statements

Opus360 Corporation and Subsidiaries
Consolidated Balance Sheet
(in thousands)

	March 31, 2001 (unaudited)	D
Assets		
Cash and cash equivalents	$ 24,144	
Accounts receivable, net of allowances	1,126	
Prepaid expenses	4,746	
Other current assets	3,660	
Total current assets	33,676	
Property and equipment, net	8,411	
Goodwill, net of amortization	--	
Deferred costs and other assets	1,230	
Total assets	$ 43,317	
Liabilities and Stockholders' Equity		
Accounts payable	$ 2,284	
Accrued expenses	2,537	
Accrued wages	--	
Deferred revenue	2,002	
Line of credit	1,047	
Deferred cost and other current liabilities	226	
Total current liabilities	8,096	
Capital lease obligation	104	
Total liabilities	8,200	
Common stock, $0.001 par value, 150,000 shares authorized, 49,551 and 50,088 issued and outstanding, respectively	50	
Series A convertible preferred stock, $0.001 par value, 8,400 shares authorized, 0 and 0 shares issued and outstanding, respectively	--	
Series B convertible preferred stock, $0.001 par value, 8,700 shares authorized, 0 and 0 shares issued and outstanding, respectively	--	
Paid-in capital	187,125	
Stock subscription receivable	(215)	

Treasury stock	(166)
Deferred compensation	(5,897)
Accumulated deficit	(143,810)
Accumulated other comprehensive loss	(3)
Notes receivable for common stock issuances	(1,967)
Total stockholders' equity	35,117
Total liabilities and stockholders' equity	$ 43,317

See accompanying notes to consolidated financial statements

Opus360 Corporation and Subsidiaries
Consolidated Statement of Operations
(unaudited)

	Three Months End March 31,
	2001
License revenue	$ 15
Services, FreeAgent and other revenue	1,526
Total revenue	1,541
Cost of revenue	565
Gross profit	976
Sales and marketing, exclusive of $12 and $94 for the periods ended March 31, 2001 and 2000 respectively, reported below as amortization of equity-based compensation	3,691
Product development, exclusive of $146 and $602 for the periods ended March 31, 2001 and 2000 respectively, reported below as amortization of equity-based compensation	3,470
General and administrative, exclusive of $737 and $2,968 for the periods ended March 31, 2001 and 2000 respectively, reported below as amortization of equity-based compensation	2,149

Depreciation and amortization of goodwill	4,164
Amortization of equity-based compensation	895
Impairment charge	22,968
Loss on disposition	1,402
Total operating expenses	38,739
Loss from operations	(37,763)
Net interest income	421
Loss from operations before income taxes	(37,342)
Income tax expense	-
Net loss	$ (37,342)
Basic and diluted net loss per share	$ (0.75)
Weighted average common shares used in computing basic and diluted net loss per share	49,939
Pro forma basic and diluted net loss per share (Note 9)	
Weighted average common shares used in computing pro forma basic and diluted net loss per share (Note 9)	

See accompanying notes to consolidated financial statements

Opus360 Corporation
Consolidated Statement of Cash Flow
(unaudited)

	Three Months End March 31,	
	2001	
Cash flows from operating activities:		
Net Loss	$ (37,342)	$ (25

Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,164	2
Amortization of equity-based compensation	895	3
Other non-cash expenses associated with equity issuances	792	
Impairment charge	22,968	
Loss on disposition	991	
Changes in operating assets and liabilities: Accounts receivables	561	
Prepaid expenses and other current assets	756	
Other assets	(322)	
Accounts payable and accrued expenses	(2,795)	(1
Other liabilities	(559)	
Deferred Revenues	(482)	5
Total adjustments	26,969	11
Net cash used in operating activities	$ (10,373)	$ (13
Cash flows from investing activities:		
Purchase of property and equipment	(64)	(3
Capitalization of software costs	(1,044)	
Decrease in short term investments	-	26
Cash used in connection with acquisition of subsidiaries	-	
Cash used in acquisition of other assets	-	
Net cash (used in) provided by investing activities	$ (1,108)	$ 21
Cash flows from financing activities:		
Net proceeds from loans	-	1
Repayment of loans	(116)	
Net proceeds from issuance of common stock	41	1
Repurchase of treasury stock	(135)	
Net cash (used in) provided by financing activities	$ (210)	2

Net (decrease) increase in cash	$ (11,691)	$ 10
Cash:		
Beginning of period	$ 35,835	$ 1
End of period	$ 24,144	$ 11

See accompanying notes to consolidated financial statements

Opus360 Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
(Unaudited)
(all tabular amounts in thousands except per share amounts)

Note 1. Organization and Summary of Accounting Policies

(a) Organization and Description of Business

Opus360 Corporation ("Opus360" or the "Company") was incorporated on August 17, 1998, under the laws of the State of Delaware.

Opus360 provides internet-based enterprise software that enables businesses to procure and manage professional services, consultants and systems integration services. Using the Company's Workforce360 enterprise software - an end-to-end infrastructure of interoperable software solutions and hosted procurement services, -- businesses and service providers can efficiently source and deploy, increase utilization, and lower the cost of administering their project-based workforce. Opus360 also licensed Private Labeled Sites; a unique combination of a client's service marks with its proprietary FreeAgent.com universal resource locator for the purpose of bringing together buyers and sellers of contracted labor resources in a single efficient marketplace.

The Company's continued existence is dependent upon several factors including the Company's ability to sell and successfully implement its software solutions. The Company has experienced recurring net losses since it commenced operations on August 17, 1998. At March 31, 2001 the Company has an accumulated deficit of $143.8 million. The Company has not achieved profitability and expects to continue to incur net losses in the year ended December 31, 2001. The Company's business model is dependent on receipt of fees for its labor procurement and management software solutions. The Company's software products are delivered over the Internet and compete with traditional recruiting and project-based work search methods. The Company may not be able to achieve the level of sales growth required to generate enough cash to fund its operations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's near and long-term operating strategies focus on promoting its Workforce360 software and services to increase its revenue and cash flow while better positioning the Company to compete under current market conditions. The Company has also reorganized its sales and marketing

units in an effort to streamline its sales and marketing strategies and increase its sales efforts.

In the future, the Company may need to raise additional funds through public or private financings, or other arrangements to fund its operations and potential acquisitions, if any. The Company currently has no plans to effect any other offerings, the Company cannot guarantee that such financings or other arrangements will be available in amounts or on terms acceptable to the Company. The Company's inability to raise capital when needed could seriously harm the growth of the business and results of operations.

(b) Recent Developments

On April 11, 2001, the Company signed a definitive agreement with Proha PLC ("Proha"), a provider of project and resource collaboration solutions that is listed on the NM-list of the Helsinki Exchange. Under the terms of the definitive agreement, Artemis Management Systems Inc. ("Artemis"), the project management and collaboration subsidiary of Proha, will combine with Opus360, which is expected to be renamed Artemis International Corporation. In conjunction with the execution of the definitive agreement, the companies have entered into a bilateral distribution agreement effectively immediately, to sell their full lines of product and services. The proposed combination will result in the exchange of the stock of the Artemis subsidiary of Proha for 80% of the post-transaction issued and outstanding common stock of Opus360. The merger will be treated for accounting purposes as a reverse acquisition of Opus360.

(c) Basis of Presentation

The unaudited consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles and reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarters or for the entire year ending December 31, 2001. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted under the Securities and Exchange Commission's ("SEC") rules and regulations. These unaudited consolidated financial statements and notes included herein should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2000, included in the Company's Form 10-K Annual Report filed with the SEC on March 19, 2001.

The Company has reclassified a portion of its general and administrative expenses to allocate total costs for overhead and facilities to each of the functional areas that use the overhead and facilities services based on their headcount. These allocated charges include facility rent for the Company's offices, communication charges, equipment leases, and depreciation expense for office furniture and equipment. Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

During the quarter ended March 31, 2001, the Company disposed of a portion of its FreeAgent.com segment, the e.office business, by selling The Churchill Benefit Corporation ("Churchill"), the Company's subsidiary which conducted the e.office business, to an entity formed by its former management while retaining a 19.9% interest in such entity. The business

was disposed of in exchange for shares of the Company's common stock, with a fair market value of $0.1 million, the 19.9% interest and a note receivable of $0.5 million with an interest rate of prime plus 1%. Since this disposition did not represent the disposition of a full separate line of business and in accordance with APB Opinion No. 30, "Reporting the Results of Operations- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", the Company reported a loss on disposition of $1.4 million. The Company's consolidated balance sheet at March 31, 2001 does not include the assets, liabilities and stockholders' equity of Churchill. The transaction is described in greater detail in footnote 3.

(d) Use of Estimates

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

(e) Accounts Receivable and Accrued Wages Payable

Accounts receivable at December 31, 2000, includes the gross billings owed by contracting businesses using the services of the Company's e.office employees. Accrued wages at December 31, 2000, includes the gross billings that the Company collects for the services its e.office employees provide to these contracting businesses, less the initial sign up fee and the monthly fees owed to the Company by the e.office employees. For the year ended December 31, 2000, the gross billings owed to contracting businesses and included in accounts receivable was approximately $3.4 million, and the accrued wages was approximately $3.7 million. At March 31, 2001, neither the gross billings nor the accrued wages of e.office employees are included in the Company's consolidated balance sheet reflecting the disposition of that business.

(f) Impairment of Long-Lived Assets

The Company evaluates the carrying value of its long-lived assets under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 requires impairment losses to be recorded on long-lived assets used in operations, including goodwill, when indicators of impairment are present and the undiscounted future cash flows, estimated to be generated by those assets are less than the assets' carrying value. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair market value of the assets. Assets to be disposed of are reported at the lower of the carrying value or fair market value, less cost to sell. During the quarter ended March 31, 2001, the Company reported a charge for such impairment which is described in greater detail in footnote 7.

(g) Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of tangible and identifiable intangible net assets acquired in business combinations. Identifiable intangible assets primarily include intellectual property, trademarks, and core technology. The Company regularly performs reviews to determine if the carrying value of the goodwill and other intangible assets is impaired. The purpose for the

review is to identify any facts or circumstances, either internal or external, which indicate that the carrying value of the asset cannot be recovered. Goodwill and other intangible assets are stated net of accumulated amortization and are amortized on a straight-line basis over their expected useful lives of three years. As a result of the proposed merger, as described in footnote 1(b), the Company has reevaluated the recoverability of the goodwill based on the remaining projected cash flows through the acquisition date compared to the fair value of consideration to be received in connection with the acquisition. Based on this analysis the Company has determined that previously recorded goodwill is not recoverable and has recorded the impairment charge in the amount of $22.7 million further described in footnote 7.

(h) Segment Information

The Company discloses information regarding segments in accordance with SFAS No. 131 "Disclosure about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting of financial information about operating segments in annual financial statements and requires reporting selected information about operating segments in interim financial reports. With the December 31, 2000 decision to eliminate user fees for FreeAgent.com services and the March 31, 2001 sale of its e.office business, the Company's operations will be concentrated in a single segment; the development, marketing and support of its application software products in future periods.

Note 2. Acquisitions

2000

Ithority Corporation

On January 20, 2000, the Company acquired 100% of the outstanding equity of Ithority Corporation ("Ithority") in exchange for approximately 243,474 shares of the Company's common stock valued at $2.0 million, or $8.21 per share, plus cash payments of $0.25 million paid on closing and $0.25 million paid in the second quarter of 2000.

The former shareholders of Ithority were also entitled to up to 177,661 shares of common stock of the Company, which were placed in escrow (the "Ithority Escrow Shares"), plus $4.0 million of the Company's common stock to be issued one year after the date of closing based upon the then fair market value of the Company's common stock (the "Ithority Additional Shares"). On January 10, 2001 as part of the $4 million issuance, the Company issued 196,865 shares of common stock valued at $0.1 million, or $0.55 per share, to certain of the former stockholders of Ithority Corporation and paid $0.07 million, or $0.1 per share, for the repurchase of approximately 7,254,000 shares of common stock representing the Ithority Escrow Shares and approximately 7,076,000 Ithority Additional Shares valued at approximately $3.9 million, or $0.55 per share, that were to be issued to certain of the former shareholders.

The Ithority Escrow Shares and approximately 97% of the Ithority Additional Shares to be issued to the selling shareholders were subject to three-year vesting agreements under which the Company has the right but not the obligation to repurchase these shares for $0.01 per share in the event these shareholders party to such agreements were no longer employed by the Company.
The Company had recorded deferred compensation expense of $5.3 million for the fair market value of the Ithority Escrow Shares, which were subject to these continued employment arrangements, and was amortizing such amount over the vesting period. By the end of the fourth quarter of 2000, all of

the affected selling shareholders had terminated their employment with the Company. In January 2001, the date of repurchase of these shares, the Company eliminated $3.7 million of unamortized deferred compensation that it had previously recorded for the Ithority Escrow Shares.

The Company has included the vested portion of the restricted shares for purposes of calculating basic earnings per share. The Company has not included the unvested portion of the restricted shares for purposes of calculating diluted earnings per share since such amounts are anti-dilutive.

The Company accounted for the acquisition of Ithority using the purchase method and, accordingly, the results of operations of Ithority are included in the Company's consolidated financial statements from the date of acquisition. The purchase price has been allocated to Ithority's historical assets and liabilities based on the fair values of the assets acquired and liabilities assumed.

PeopleMover, Inc.:

On February 24, 2000, the Company acquired all of the outstanding equity of PeopleMover, Inc. ("PeopleMover") for approximately 2,634,000 shares of Opus360 common stock. Additionally, the Company exchanged options to purchase approximately 1,189,000 shares of its common stock for outstanding stock options to purchase PeopleMover common stock.

The purchase price of PeopleMover consisted of 2,634,000 shares of Opus360 common stock valued at approximately $24.0 million, or $9.11 per share, plus the assumption by Opus360 of options to purchase shares of PeopleMover common stock, exchanged for options to purchase approximately 1,189,000 shares of Opus360 common stock. The options were valued at approximately $7.9 million using the Black-Scholes pricing model. Such shares have an aggregate exercise price of approximately $5.2 million. The Company also incurred acquisition costs of approximately $0.66 million related to the merger.

Approximately 342,000 shares issued to certain PeopleMover shareholders are subject to a three-year restricted stock vesting agreement, whereby the Company has the right but not the obligation to repurchase these shares for $0.01 per share in the event the shareholder is terminated for cause by the Company. The Company has included the vested portion of the restricted shares for purposes of calculating basic earnings per share. The Company has not included the unvested portion of the restricted shares for purposes of calculating diluted earnings per share since such amounts are anti-dilutive.

The value of the 342,000 shares, which are subject to the vesting agreement, is approximately $3.1 million, which was recorded to deferred compensation expense and is being amortized over the term of the vesting agreement. As of March 31, 2001 the accumulated amortization was $1.1 million.
In the fourth quarter of 2000, the selling shareholders terminated their employment with the Company resulting in the forfeiture of approximately one-third of the shares subject to the vesting agreement. As of February 2001, on the escrow release date, the Company may release and cancel the escrowed shares that did not vest in accordance with the vesting agreement. During the quarter ended March 31, 2001 the Company eliminated $0.8 million of unamortized deferred compensation recorded for those escrowed shares that will no longer vest as a result of the selling shareholders terminating their employment with the Company.

The Company accounted for the acquisition of PeopleMover using the

purchase method and, accordingly, the results of operations of PeopleMover are included in the Company's consolidated financial statements from the date of acquisition. The purchase price was allocated to PeopleMover's historical assets and liabilities based on the fair values of the assets acquired and liabilities assumed.

Note 3. Loss on disposition

During the quarter ended March 31, 2001, the Company disposed of a portion of its FreeAgent.com segment, the e.office business, by selling The Churchill Benefit Corporation ("Churchill"), the Company's subsidiary which conducted the e.office business, to an entity formed by its former management while retaining a 19.9% interest in such entity. The business was disposed of in exchange for shares of the Company's common stock, with a fair market value of $0.1 million, the 19.9% interest and a note receivable of $0.5 million with an interest rate of prime plus 1%. Since this disposition did not represent the disposition of a full separate line of business and in accordance with APB Opinion No. 30, "Reporting the Results of Operations- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", the Company reported a loss on disposition of $1.4 million. The Company's consolidated balance sheet at March 31, 2001 does not include the assets, liabilities and stockholders' equity of Churchill.

Included in loss from operations are the operating results of the disposed e.office business operations for the periods ending March 31, 2001 and March 31, 2000, respectively.

	March 31, 2001	March 31, 2000
Revenues	$ 404	$ 208
Cost Of revenue	64	5
Gross profit	340	203
Operating expenses	390	316
Loss before income taxes	(40)	(113)
Income taxes	--	--
Net loss	$ (40)	$ (113)

Assets and liabilities of the disposed e.office business operations, in which the Company has retained a 19.1% interest, are as of March 31, 2001, prior to the disposition, and as of December 31, 2000, respectively.

	March 31, 2001	December 31, 2000
Assets:		
Cash	$ 1,081	$ 593
Trade receivables	3,822	3,911
Prepaid expenses	8	--
Property and equipment, net	27	30
Goodwill, net	822	--
Other assets	--	8
Total assets	5,761	4,542

Liabilities:		
Accrued wages	(3,937)	(3,721)
Other current liabilities	(73)	46
Other liabilities	(102)	(8,848)
Total liabilities	($ 4,112)	($12,615)
Net assets	$ 1,649	($ 8,073)

Note 4. Accounts Receivable, net:

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

	March 31, 2001	December 31, 2000
Billed receivables	$ 873	$ 4,646
Unbilled receivables	532	1,192
	1,405	5,838
Less allowance for doubtful receivables	(279)	(328)
Total	$ 1,126	$ 5,510

Changes in the allowance for doubtful receivables were as follows:

	March 31, 2001	December 31, 2000
Beginning balance	$ (328)	$ 0
Provision for doubtful receivables	(153)	(328)
Write-offs	202	0
Ending balance	$ (279)	$ (328)

Note 5. Lines of Credit

In February 2000 and June 2000, the Company borrowed $1.1 million and $0.7 million, respectively, as part of a $1.8 million equipment line of credit (the "Facility") with a bank. The annual interest rate on the Facility is equal to the bank prime rate plus 1.25%. The Company is in compliance with the covenants under the Facility and it's current outstanding balance under the Facility line at March 31, 2001 is $1.0 million with an interest rate of 10.75% per annum.

Note 6. Commitments

Asset Purchase Agreement

On March 16, 2001, the Company entered into an Asset Purchase Agreement pursuant to which it agreed to purchase certain assets and assume certain liabilities of Mirronex Technologies Inc. The obligation to purchase was contingent upon satisfaction of certain conditions, including approval by the United States Bankruptcy Court of the purchase agreement in Mirronex's Chapter 11 bankruptcy proceeding, no higher bid by any other party and the delivery of the identified assets. Bankruptcy Court approval was received on May 7, 2001. The cash purchase price of $2.0 million will

be reduced by a $0.9 million secured loan made to Mirronex in December 2000 and during the quarter ended March 31, 2001, and by the liabilities assumed and certain other deductions. The transaction is expected to close in the first half of calendar year 2001 and will be accounted for as a purchase.

Registration Rights:

Beginning 180 days after the effective date of the Company's IPO, certain holders of the Company's common stock and warrants will be entitled to have their shares registered under the Securities Act of 1933 upon written demand in certain circumstances. The Company will be responsible for all expenses in connection with the registration rights.

Advertising Agreements:

In December 1999 and during the first and second quarter of 2000, the Company entered into several agreements with various media companies and their affiliated Internet sites pursuant to which the parties agreed to promote their respective content, products and services, jointly develop various co-branded websites and feature the Company's services within those co-branded sites. The Company agreed to spend in the aggregate a minimum of $0.2 million in development costs, approximately $12.4 million in advertising through March 2005, and an additional $2.0 million in integration fees. In addition the terms of the agreements allowed the Company to share in the revenue generated on some co-branded sites.

In October 2000, the Company restructured several of its co-branding and advertising agreements. Under the revised agreements, the Company has agreed to purchase an aggregate of $6.3 million in advertising from various media companies and their affiliated Internet sites through September 2002.
Approximately $3.6 million of the advertising commitment is contingent on the delivery of a specified number of monthly impressions, which if not delivered can result in a termination of the commitment. As of March 31, 2001, the Company has purchased and expensed $2.9 million of the $6.3 million advertising commitment. The Company will expense the remaining advertising commitment of $3.4 million upon the delivery of the required amount of advertising impressions.

Note 7. Impairment Charge

On April 11, 2001, the Company executed a definitive agreement with Proha PLC ("Proha") pursuant to which the Company has agreed to merge with Proha's wholly owned subsidiary, Artemis Management Systems ("Artemis") in return for issuance to Proha of 80% of the Company's post-transaction outstanding common stock, after which the Company is expected to be renamed Artemis International Corporation. The merger would result in a reverse acquisition for accounting purposes, and Artemis would be treated as the acquiror. As a result of the proposed merger, as described in footnote 1(b), the Company has reevaluated the recoverability of the goodwill based on the remaining projected cash flows through the acquisition date including the fair value of consideration to be received in connection with the acquisition. Based on this analysis the Company has determined that goodwill is not recoverable and has recorded an impairment charge in the amount of $22.7 million. In addition a charge of $0.3 million was recorded to reduce the net current valuation of the Company's personal and corporate computer equipment.

Note 8. Income Taxes

The Company has not recorded a provision for income tax expenses, as it has incurred net operating loss for each period since inception.

Note 9. Basic and Diluted Net Loss Per Share

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

	Three months ended March 31, 2001	2000
Numerator:		
Net loss	$ (37,342)	$(25,018)
Denominator:		
Basic and diluted loss per share weighted average shares	49,939	13,438
Basic and diluted net loss per share	$ (0.75)	$ (1.86)

For the three months ended March 31, 2001 and March 31, 2000 basic and diluted net loss per share excludes the effect of 405,631 escrowed shares and $850,000 of contingently issuable shares of common stock in connection with the acquisition of Churchill. These shares were cancelled during the quarter ended March 31, 2001. Diluted net loss for the three months ended March 31, 2001 and March 31, 2000 does not include the effect of options and warrants to purchase 16,406,442 and 11,457,000 shares of common stock, respectively, or 260,870 and 510,160, respectively, unvested escrowed shares of common stock issued to former shareholders of PeopleMover and Ithority. Diluted net loss per share for the three months ended March 31, 2000 does not include 25,441,000 shares of common stock issuable upon the conversion for Series A and B preferred stock on an "as-if converted" basis, as the effect of their inclusion is anti-dilutive for that period.

Pro forma basic and diluted loss per share is computed by assuming the conversion of all convertible preferred stock into common stock as if such shares were outstanding from their respective dates of issuance. The basic and diluted loss per share at March 31, 2001 includes the conversion of the convertible preferred stock, which occurred on the Company's initial public offering date of April 7, 2000. The following table sets forth the computation of the Company's pro forma basic and diluted loss per share (in thousands, except per share amounts):

	Three months ended March 31, 2001	2000
Numerator:		
Net loss	$(37,342)	$(25,018)
Denominator:		
Weighted average shares	49,939	13,438
Assumed conversion of preferred stock		
Series A	0	12,426
Series B	0	13,015
	49,939	38,879

Basic and diluted net loss per share	$ (0.75)	
Pro forma basic and diluted net loss per share		$ (0.64)

Note 10. Stockholders' Equity

Stock Options:

In March 2000, the Company adopted the (1) 2000 Stock Option Plan (the "2000 Plan"), which provides for the granting of non-qualified and incentive stock options to employees, board members and advisors (2) the 2000 Non-Employee Directors' Plan (the "Non-Employee Director Plan"), which provides for automatic, non-discretionary grants, of non-qualified stock options to non-employee board members, as defined, and (3) the 2000 Employee Stock Purchase Plan (the "ESPP"), which permits eligible employees to acquire, through payroll deductions, shares of the Company's common stock. The 2000 Plan and the Non-Employee Director Plan authorize the granting of up to 7.5 million and up to 1.13 million options, respectively, and provide for option terms not to exceed ten years. The ESPP authorizes the issuance of up to 2.25 million shares to participating employees. The Company's 1998 Stock Option Plan authorized the granting of up to 6.2 million options and provided for option terms not to exceed ten years. During the quarter ended March 31, 2000 the Company granted approximately 1,444,000 options with exercise prices ranging from $0.13 to $1.00.

During the first quarter of 2000, the Company recorded deferred compensation of $8.3 million, primarily related to options granted to its new President, Executive Vice President Software & Technology, and in connection with granting options to employees and board members. During the quarter ended March 31, 2001 the Company reduced the amount of the deferred compensation it had previously recorded, by approximately $0.8 million, representing the unamortized deferred compensation for employees who were issued stock options and are no longer employed by the Company.

The Company expects to amortize unamortized deferred compensation expense of approximately $4.3 million at March 31, 2001, as follows (in thousands):

For the nine months ending December 31, 2001	$ 1,688
For the year ending December 31, 2002	$ 2,251
For the year ending December 31, 2003	$ 348

In connection with the granting of approximately 32,250 stock options in the first quarter of 2000 to non-employees, the Company recorded deferred compensation expense of approximately $29,000 for the quarter ended March 31, 2000. These options have been issued under the 1998 Stock Option Plan and generally vest over three to four years. The Company will amortize deferred compensation for those options issued to non-employees in accordance with EITF 96-18, and will record expense for the fair market value of the options at each interim reporting date over which the options vest. Fair market value at each date of grant and interim reporting period is calculated using the Black-Scholes pricing model. During the quarter ended March 31, 2001 the Company has not recorded any additional deferred compensation as all grants made during the quarter were made to employees at fair market value.

Note 11. Segment Information

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company's reportable segments are

business units that offer different products and services throughout the United States. With the December 31, 2000 decision to eliminate user fees for FreeAgent.com services and the March 31, 2001 sale of its e.office business, the Company's operations will be concentrated in a single segment; the development, marketing and support of its application software products in future periods.

The Company's accounting policies for these segments are the same as those described in Note 1 - Organization and Summary of Accounting Policies, above.

The table below presents information about segments used by the chief operating decision-maker of Opus360 for the three months ended March 31, 2001 and March 31, 2000 (in thousands):

	Application and Procurement Services	FreeAgent Services	Total
March 31, 2001:			
Revenue	$ 1,113	$ 428	$ 1,541
Gross (loss) profit	422	143	565
Net loss before equity-based Compensation charges	(35,130)	(1,317)	(36,447)
Total assets	$ 37,556	$ 5,761	$ 43,317
March 31, 2000:			
Revenue	$ 679	$ 298	$ 977
Gross (loss) profit	32	200	232
Net loss before equity-based Compensation charges	(9,160)	(12,194)	(21,354)
Total assets	$ 65,076	$ 3,251	$ 68,327

For the three months ended March 31, 2001 and March 31, 2000, the reconciliation between segment net loss and net loss from operations is as follows (in thousands):

March 31, 2001	
Segment net operating loss	$(36,447)
Equity-based compensation	(895)
Enterprise net operating loss	$(37,342)
March 31, 2000	
Segment net operating loss	$(21,354)
Equity-based compensation	(3,664)
Enterprise net operating loss	$(25,018)

Note 12. Subsequent Events

On April 6, 2001, the Company was named as a defendant in a class action complaint, filed in United States District Court for the Southern District of New York (the "Court"), alleging violation of federal securities laws. Subsequent to that date, several other complaints have been filed in the Court alleging substantially the same claims. The Company believes the claims described in the various complaints are without merit and intends to vigorously defend against all such claims.

On April 11, 2001, the Company signed a definitive agreement with Proha PLC ("Proha"), a provider of project and resource collaboration solutions that is listed on the NM-list of the Helsinki Exchange. Under the terms of the definitive agreement, Artemis Management Systems Inc. ("Artemis"), the project management and collaboration subsidiary of Proha, will combine with Opus360, which is expected to be renamed Artemis International Corporation. In conjunction with the execution of the definitive agreement, the companies have entered into a bilateral distribution agreement effectively immediately, to sell their full lines of product and services. The proposed combination will result in the exchange of the stock of the Artemis subsidiary of Proha for 80% of the post-transaction issued and outstanding common stock of Opus360. The merger will be treated for accounting purposes as a reverse acquisition of Opus360.

Note 13. Contingencies

Rescission Offer:

As of March 31, 2001, the Company has granted options to purchase approximately 97,125 shares of its common stock to its former FreeAgent e.office employees, which may not have complied with certain federal and state securities laws.

As disclosed in the Company's Prospectus dated April 7, 2000, the Company intends to make a rescission offer to all the FreeAgent e.office employees. The Company intends to file a registration statement with respect to the rescission offer under applicable federal and state securities laws. In the rescission offer, the Company will offer to repurchase from the FreeAgent e.office employees all of the shares issued upon exercise of options by these employees before the expiration of the rescission offer registration statement, at the exercise price paid for these shares, plus interest at the rate of 10% per year from the date of issuance until the rescission offer expires. The Company will also offer to repurchase all of the unexercised options issued to these FreeAgent e.office employees at 20% of the option exercise price multiplied by the number of shares subject to such options, plus interest at the rate of 10% per year from the date of issuance until the rescission offer expires. The rescission offer will expire approximately 30 days after the effectiveness of the rescission offer registration statement.

Based on the number of options outstanding as of March 31, 2001, the Company could be required to pay to these FreeAgent e.office employees up to approximately $0.1 million, including interest, in connection with the rescission offer. The applicable securities laws do not expressly provide that a rescission offer will terminate a purchaser's right to rescind a sale of stock, which was not registered as required. Accordingly, if any FreeAgent e.office employees reject the rescission offer, the Company may continue to be contingently liable for the purchase price of these shares and options, which were not issued in compliance with applicable securities laws. Amounts related to this contingent liability are not reflected in the accompanying financial statements.

SIGNATURES

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

Date May 21, 2001 Opus360 Corporation

/s/ Peter Schwartz

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer
and Principal Accounting Officer)