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WEBHIRE INC
Form 10-Q
February 14, 2002

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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: December 31, 2001

or

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

For the transition period from _____ to _____

Commission File Number: 0-20735

WEBHIRE, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-2935271
(IRS Employer Identification No.)

91 Hartwell Avenue
Lexington, MA
(Address of principal executive offices)

02421
(zip code)

(781) 869-5000
(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 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 No

Indicate the number of shares outstanding of each of the issuer's classes of
common stock as of the latest practicable date:

Title of each class

Common stock, \$.01 par value, shares outstanding at February 14, 2002:
4,517,079 shares.

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WEBHIRE, INC.

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PART I--FINANCIAL INFORMATION

Item 1. Financial Statements

WEBHIRE, INC.

CONSOLIDATED BALANCE SHEETS
 (in thousands, except share amounts)

	December 31, Se 2001
	----- (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents.....	\$ 3,460
Short-term investments.....	357
Restricted cash.....	1,500
Accounts and installments receivable, less allowance for doubtful accounts of \$484 at December 31, 2001 and September 30, 2001, respectively.....	1,237

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Other current assets.....	1,794

Total current assets.....	8,348

Long-term installments receivable, net.....	40
Property and equipment, net.....	1,927
Acquired technologies, net of accumulated amortization of \$19,327 and \$18,672 at December 31, 2001 and September 30, 2001, respectively.....	2,489
Intangible assets net of accumulated amortization of \$4,022 and \$3,928 at December 31, 2001 and September 30, 2001, respectively.....	1,323
Other assets.....	398

TOTAL ASSETS.....	\$ 14,525
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable.....	\$ 1,608
Accrued expenses.....	1,010
Notes payable--bank.....	1,500
Current portion of capital lease obligations.....	191
Deferred revenue.....	4,340

Total current liabilities.....	8,649

Other liabilities.....	145

Total liabilities.....	8,794

Commitments and contingencies.....	--
Stockholders' equity:	
Preferred stock, \$.01 par value--Authorized--5,000,000 shares, Issued and outstanding--none at December 31, 2001 and September 30, 2001.....	--
Common stock, \$.01 par value--Authorized--30,000,000 shares, Issued--4,654,459 and 4,648,055 shares at December 31, 2001 and September 30, 2001, respectively, Outstanding--4,517,079 and 4,510,675 shares at December 31, 2001 and September 30, 2001, respectively.....	46
Additional paid-in capital.....	70,208
Treasury stock, at cost--137,380 shares at December 31, 2001 and September 30, 2001, respectively.....	(831)
Accumulated deficit.....	(63,692)

Total stockholders' equity.....	5,731

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$ 14,525
	=====

The accompanying notes are an integral part of these consolidated financial statements (unaudited)

WEBHIRE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)
(Unaudited)

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	Three Months En December 31,	
	2001	2000
	-----	-----
Revenue:		
Services revenue--Internet.....	\$ 2,720	\$
Services revenue--Enterprise.....	1,350	
Product revenue.....	77	
	-----	-----
Total revenue.....	4,147	
	-----	-----
Cost of revenue:		
Services revenue--Internet.....	1,558	
Services revenue--Enterprise.....	335	
Product revenue.....	51	
Amortization of acquired technologies and capitalized internal-use software (relates to services revenue-internet).....	687	
	-----	-----
Total cost of revenue.....	2,631	
	-----	-----
Gross profit.....	1,516	
	-----	-----
Operating expenses:		
Research and development.....	706	
Sales and marketing.....	842	
General and administrative.....	913	
Amortization of intangible assets.....	62	
	-----	-----
Total operating expenses.....	2,523	
	-----	-----
Loss from operations.....	(1,007)	(
	-----	-----
Other (expense) income, net.....	(2)	
	-----	-----
Loss before income taxes.....	(1,009)	(
Benefit from income taxes.....	(176)	
	-----	-----
Net loss.....	\$ (833)	\$ (
	=====	=====
Basic and diluted net loss per common share.....	\$ (.18)	\$
	=====	=====
Basic and diluted weighted average number of common shares outstanding.....	4,517,009	4,29
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements (unaudited)

WEBHIRE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

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	Thru Ended
	----- 2001 -----
Cash Flows from Operating Activities:	
Net loss.....	\$ (833)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization.....	1,276
Provision for doubtful accounts.....	--
Loss on sale of property and equipment.....	15
Changes in assets and liabilities:	
Accounts and installments receivable.....	804
Other current assets.....	28
Long-term installments receivable.....	23
Accounts payable.....	(322)
Accrued expenses.....	(295)
Deferred revenue.....	(82)
Other liabilities.....	(7)

Net cash provided by (used in) operating activities.....	607

Cash Flows from Investing Activities:	
Purchases of acquired technologies and intangible assets.....	--
Additions to capitalized internal-use software.....	(489)
Purchases of property and equipment.....	--
Proceeds from sale of property and equipment.....	49
Purchases of short-term investments.....	--
Proceeds from sale and maturities of short-term investments.....	338
Proceeds from returns of security deposits.....	--

Net cash used in investing activities.....	(102)

Cash Flows from Financing Activities:	
Issuance costs in connection with private placement of common stock.....	--
Proceeds from employee stock purchase plan stock issuance.....	16
Payments of capital lease obligations.....	(43)

Net cash used in financing activities.....	(27)

Net increase (decrease) in cash and cash equivalents.....	478
Cash and cash equivalents, beginning of period.....	2,982

Cash and cash equivalents, end of period.....	\$3,460
	=====
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the period for	
Interest.....	\$ 22

Income taxes.....	\$ 7

The accompanying notes are an integral part of these consolidated financial statements (unaudited)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(unaudited)

DECEMBER 31, 2001

(1) Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Webhire, Inc. and its wholly owned subsidiaries (collectively, "the Company"). All significant intercompany transactions and balances have been eliminated in consolidation. Certain amounts in the prior period's financial statements have been reclassified to conform to the current period presentation.

(b) Preparation of Financial Statements

As permitted by the rules of the Securities Exchange Commission applicable to Quarterly Reports on Form 10-Q, these notes are condensed and do not contain all disclosures required by generally accepted accounting principles.

The consolidated interim financial statements as of December 31, 2001 and for the three-month period ended December 31, 2001 are unaudited; however, in the opinion of management, the interim data includes all adjustments, consisting only of normal, recurring adjustments, necessary for a fair statement of the results for the interim period. The results for the interim period are not necessarily indicative of the results for the entire year. The consolidated financial statements should be read in conjunction with the consolidated financial statements of Webhire, Inc. for the year ended September 30, 2001 ("fiscal 2001") included in its Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

(c) Short-Term Investments

The Company classifies its short-term investments as available-for-sale. At December 31, 2001 and September 30, 2001 the Company had \$357 and \$695 available-for-sale investments, respectively. Realized and unrealized gains and losses for the periods presented were not material.

(d) Recent Accounting Standards

In October 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standard (SFAS) No. 144, Accounting for the Impairment of Disposal of Long-Lived Assets. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively. The Company will adopt the provisions of SFAS No. 144 on October 1, 2002, the beginning of fiscal 2003.

In June 2001, the FASB issued SFAS No. 141, Business Combinations. SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method for which the date of acquisition is after June 30, 2001. The adoption of SFAS No. 141 did

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not have an impact on the Company's financial results of operations.

WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT--(Continued)

In June 2001, the FASB also issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires, among other things, the cessation of goodwill amortization. In addition, the standard includes provisions for the reclassification to goodwill of certain existing intangible assets, reassessment of the useful lives of existing intangible assets, reclassification of certain intangible assets out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairment of goodwill. The Company has adopted SFAS No. 142 effective with the commencement of fiscal year 2002 (see Note 3) and, as required by SFAS No. 142, has reclassified all unidentifiable intangible assets on the books as of the beginning of fiscal year 2002 to the various acquired technologies and other identified intangible assets.

(2) Net Loss per Share

For the three-month periods ended December 31, 2001 and 2000, 711,532 and 462,268 potential common shares from assumed exercise of stock options and warrants, respectively, were excluded from the net loss per share calculation, as their effect would have been anti-dilutive due to the Company's net loss in those periods.

(3) Acquired Technologies and Intangibles

On December 13, 1999, the Company acquired certain assets of Human Resources Sites International, Inc. ("HR Sites"). The total acquisition consideration amounted to \$8,640 and the purchase price was allocated to the following identifiable and unidentifiable assets with the following estimated lives:

	Amount	Estimated Life
	-----	-----
Acquired technology.....	\$2,069	3 years
Non-compete agreements.....	157	3 years
Customer base.....	24	5 years
Property and equipment.....	20	1 year
Excess purchase price over identifiable assets	6,370	3 years

	\$8,640	
	=====	

Beginning in fiscal 2002, the Company adopted SFAS No. 142 under which the Company was required to reallocate the excess purchase price over identifiable assets to the identifiable intangible assets, net of accumulated amortization, based on their relative fair values as of the date of reallocation. In accordance with the new pronouncement, the Company also reassessed the useful life of each intangible asset and evaluated the intangible assets for impairment. Based upon the forecasted use of the Company's intangible assets and their short useful lives no impairment of the carrying values was recorded upon adoption of SFAS No. 142. The following represents the values of acquired

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technology and intangible assets acquired from HR Sites as of December 31, 2001, and their remaining estimated useful lives:

	Amount	Remaining Estimated Life
	-----	-----
Acquired technology...	\$2,489	1 years
Non-compete agreements	188	1 years
Customer base.....	54	3 years

	\$2,731	
	=====	

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WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT--(Continued)

Had the provisions of SFAS No. 142 been applied to earlier periods, there would not have been a material change in amortization expense or the net loss reported for those periods or for the three months ended December 31, 2001.

(4) Business Segment Information

The Company has two reportable segments: 1) Internet and transaction-based solutions and 2) Enterprise software solutions, the former of which began to emerge in fiscal 1997 with the offering of outsourced services (e.g., resume scanning, acknowledgement letters). The Internet and transaction-based solutions segment provides outsourced management of private candidate pools via Webhire Recruiter, subscription services to public resume pools and job-posting sites, resume scanning, reference checking and other fee-based staffing functions. The enterprise software solutions segment provides perpetual licenses to the Company's software products and the related maintenance, training, implementation and consulting services in support of such licenses.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K. Expenses such as depreciation, rent and utilities are allocated to the reportable segments based on relative headcount as a basis of relative usage. The Company has no intersegment sales and transfers, and does not allocate assets to the operating segments.

The Company's reportable segments are strategic business units that offer different solutions tailored to a customer's needs.

Three months ended December 31, 2001:

	Internet and Transactions	Enterprise Software	Total Company
	-----	-----	-----

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Revenue.....	\$2,720,000	\$1,427,000	\$ 4,147,000
Gross profit.....	475,000	1,041,000	1,516,000
Loss from operations....			(1,007,000)
Other income, net.....			(2,000)

Loss before income taxes			\$ (1,009,000)
			=====

Three months ended December 31, 2000:

	Internet and Transactions	Enterprise Software	Total Company
	-----	-----	-----
Revenue.....	\$ 3,430,000	\$2,834,000	\$ 6,264,000
Gross (loss) profit....	(1,128,000)	2,187,000	1,059,000
Loss from operations....			(5,735,000)

Other income, net.....			156,000

Loss before income taxes			\$ (5,579,000)
			=====

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

WEBHIRE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2001

This report contains forward-looking statements that involve risks and uncertainties. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. Forward-looking statements include, without limitation, statements containing the words "anticipates", "believes", "expects", "intends", "future", and words of similar import which express management's belief, expectations or intentions regarding the Company's future performance. All forward-looking statements included in this report are based on information available to the Company on the date hereof, and the Company has no obligation to update any such forward-looking statements. The Company's actual results could differ materially from its historical operating results and from those anticipated in these forward-looking statements as a result of certain factors, including, without limitation, those set forth below under "Factors Affecting Future Operating Results" and elsewhere in this report.

Consolidated Results of Operations (in thousands)

Revenue

Total revenue for the three-month period ended December 31, 2001 was \$4,147

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compared with \$6,264 for the three-month period ended December 31, 2000.

Services Revenue.

Services revenue--Internet decreased 21% to \$2,720 for the three months ended December 31, 2001 from \$3,430 for the three months ended December 31, 2000. The decrease reflects the impact of adverse economic conditions on technology and other growth companies that were early users of the Company's products.

Services revenue--Enterprise was \$1,350 for the three months ended December 31, 2001 compared with \$2,188 for the three months ended December 31, 2000. The 38% decrease is primarily attributable to a reduction in maintenance revenues as contracts expired relating to product licenses.

Product Revenue. Product revenue, which relates to the enterprise software solutions segment, was \$77 for the three months ended December 31, 2001 compared with \$646 for the three months ended December 31, 2000. The 88% decrease is primarily attributable to the Company's transition to the Internet product line.

Cost of Revenue

Cost of Services Revenue.

Cost of services revenue--Internet decreased 45% to \$1,558 for the three months ended December 31, 2001 from \$2,844 for the comparable fiscal 2001 period. The decrease in absolute dollars is principally attributable to a decrease in services purchased as well as cost efficiencies in resume processing and hardware hosting. Internet gross margins, excluding amortization of acquired technologies, improved to 43% for the first quarter of fiscal 2002 from 17% for the comparable fiscal 2001 period.

Cost of services revenue--Enterprise decreased 22% to \$335 for the period ended December 31, 2001 from \$432 for the comparable fiscal 2001 period. The decrease is due to a reduction in headcount assigned to this product line and a shift of the Company's resources towards an Internet and transaction-based solutions segment.

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Cost of Product Revenue. Cost of product revenue decreased 76% to \$51 for the three months ended December 31, 2001 from \$215 for the three months ended December 31, 2000. The decrease in cost of product revenue is due primarily to the Company's transition towards an Internet and transaction-based solutions segment as well as the further decrease in the Company's royalty payments.

Amortization of Acquired Technologies and Capitalized Internal-Use Software. Amortization of acquired technologies and capitalized internal-use software was \$687 and \$1,714 for the three months ended December 31, 2001 and 2000, respectively. The decrease between the two periods is primarily attributed to the Company fully amortizing the assets purchased from Amazon.com and HireWorks, Inc. during fiscal 2001. This decrease is offset by an increase in amortization based on the adoption of SFAS No. 142. Under SFAS No. 142 the Company was required to reallocate the value of unidentifiable intangible assets purchased from HR Sites to the acquired technologies and other identifiable intangible assets purchased, based on their relative fair values. This decrease is also offset by the amortization of internally-developed internal-use software costs which are being amortized over a five-year estimated life.

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Operating Expenses

Research and Development. Research and development expenses were \$706 or 17% of total revenue for the three months ended December 31, 2001 as compared with \$2,456 or 39% of total revenue for the comparable fiscal 2001 period. The decrease is primarily due to a reduction in headcount and consulting expenses upon management's decision to halt development on certain products in early fiscal 2001, as well as ongoing resource management.

Sales and Marketing. Sales and marketing expenses were \$842 or 20% of total revenue for the three months ended December 31, 2001 as compared with \$2,193 or 35% of total revenue for the comparable fiscal 2001 period. The decrease in absolute dollars and as a percentage of revenue is primarily due to reduced spending on marketing and sales programs. The Company expects that sales and marketing expenses may vary from quarter to quarter as a percentage of total revenue.

General and Administrative. General and administrative expenses were \$913 or 22% of total revenue for the three months ended December 31, 2001 as compared with \$1,600 or 26% of total revenue for the comparable three-month period of fiscal 2001. The decreases for the three-month period of fiscal 2002 as compared with fiscal 2001 is primarily the result of reduced headcount in the Human Resources, Finance and Accounting and Corporate IT organizations.

Amortization of Intangible Assets. Amortization of intangible assets decreased 89% to \$62 for the three months ended December 31, 2001 as compared with \$545 for the three months ended December 31, 2000. The decrease is a result of the Company adopting SFAS No. 142, Goodwill and Other Intangible Assets. The \$62 for the three months ended December 31, 2001 represents the accounting under SFAS No. 142, and will remain consistent in future quarters until all remaining intangible assets are fully amortized.

Other Income, Net

Other income, net decreased to an expense of \$2 for the three-month period ended December 31, 2001 from income of \$156 for the comparable fiscal 2001 period. Other income consists primarily of interest earned on investments offset by interest paid on the bank line of credit, and for the period ended December 31, 2001, a loss of \$15 on the sale of excess computer equipment.

Benefit from Income Taxes

Benefit from income taxes increased to \$176 for the three-month period ended December 31, 2001 from \$0 for the comparable fiscal 2001 period. This increase is principally the result of a refund received of federal income taxes paid from a prior period.

Recent Accounting Pronouncements

In October 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standard (SFAS) No. 144, Accounting for the Impairment of Disposal of Long-Lived Assets. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 is effective for financial statements

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issued for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively. The Company will adopt the provisions of SFAS No. 144 on October 1, 2002, the beginning of fiscal 2003.

In June 2001, the FASB issued SFAS No. 141, Business Combinations. SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001 and for all business combinations accounted for by the purchase method for which the date of acquisition is after June 30, 2001. The implementation of SFAS No. 141 did not have an impact on the Company's financial results of operations.

In June 2001, the FASB also issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires, among other things, the cessation of goodwill amortization. In addition, the standard includes provisions for the reclassification to goodwill of certain existing intangible assets, reassessment of the useful lives of existing intangible assets, reclassification of certain intangible assets out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairment of goodwill. The Company has adopted SFAS No. 142 effective with the commencement of fiscal year 2002 and has reclassified unidentifiable intangible assets to the acquired technologies and intangible assets.

Liquidity and Capital Resources (in thousands)

At December 31, 2001, the Company had cash, cash equivalents and short-term investments of \$3,817, an increase of \$140 from \$3,677 at September 30, 2001.

Cash provided by operating activities was \$607 during the three-month period ended December 31, 2001. Cash provided by operating activities consisted primarily of the net loss for the three-month period of \$833, offset by the effects of depreciation and amortization of \$1,276.

The Company used \$102 in investing activities during the first quarter of fiscal 2002, principally for the additions to capitalized internal-use software of \$489 partially offset by the sales and maturities of short-term investments of \$338.

Net cash used in financing activities for the three-month period ended December 31, 2001 was \$27, which consisted of proceeds from the Company's employee stock purchase plan offset by payments on its capital lease obligations.

The Company has a \$3,000 line of credit from Citizens Bank of Massachusetts ("the bank"). The Company is required to maintain deposits with the bank in an amount at least sufficient to satisfy its obligations under this line of credit. As of December 31, 2001, \$1,500 was pledged under this arrangement and has been reflected as restricted cash.

To date, the Company has not invested in derivative securities or any other financial instruments that involve a high level of complexity or risk. Cash has been, and the Company contemplates that it will continue to be, invested in interest-bearing, investment grade securities.

From time to time, the Company may evaluate potential acquisitions of products, businesses and technologies that may complement or expand the Company's business. Any such transactions consummated may use a portion of the Company's working capital and/or require the issuance of equity or debt.

The Company believes that its current cash, cash equivalent and short-term investment balances in conjunction with its forecast of operating cash flows will be sufficient to meet its liquidity expenditure requirements through fiscal 2002.

Factors Affecting Future Operating Results

An investment in our common stock involves various risks. Before investing in our common stock, you should carefully consider the following risk factors. These risk factors are not exhaustive and should be read together with the other reports and documents that we file with the Securities and Exchange Commission, which may include additional or more current information that should be considered in making an investment in us.

If we are unable to obtain additional capital as needed in the future, our business may be adversely affected.

We currently anticipate that our available cash and cash equivalents will be sufficient to meet our anticipated working capital and capital expenditure requirements through the near term. We may need to raise additional capital in the long term to fund more rapid expansion, to develop new services, to enhance existing services in response to competitive pressures, and to acquire complementary services, businesses or technologies. In the event our operations are not profitable or do not generate sufficient cash to fund the business, or if we fail to receive money to meet our obligations, we may have to substantially cut back our level of operations. These reductions could, in turn, affect our relationships with our strategic partners and customers and threaten our ability to continue as an ongoing concern. If we raise additional funds through issuances of equity or convertible debt securities, the percentage of ownership of our current stockholders will be reduced and such securities may have rights, preferences and privileges senior to those of our current stockholders. In addition, we may not be able to obtain such financing on terms favorable to us, if at all. If adequate funds are not available or are not available on terms favorable to us, our business, financial condition and results of operations could be materially and adversely affected.

To compete effectively, we must adapt quickly to advances in technology and changes in customer requirements.

The market for automated recruiting products and services is undergoing rapid changes, including continuing advances in technology and changes in customer requirements and preferences. Our future success will depend in significant part on our ability to continually improve the performance, features and reliability of our software and services in response to the evolving demands of the marketplace and competitive product offerings. Any failure on our part to quickly develop products and services that address changes in technology or customer demands will likely result in loss of market share to a competitor.

Our business model is not yet fully proven.

In fiscal 1998 we expanded our technology into products and services that could be offered over the Internet to foster long-term growth. Since that time, revenue from Internet-based transactions has grown in relation to revenue from our software licensing and maintenance business, becoming a majority of our total revenue for the first time in the first quarter of fiscal 2001. We expect our reliance on Internet-based transactions for revenues to continue to increase in the future, and we expect product revenue from software license

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sales and maintenance to continue to become a smaller component of our revenue over time. Our long-term business model and profit potential are not yet fully proven. To be successful, we must develop and market online recruitment offerings that achieve broad market acceptance by employers, job seekers and interactive media companies. It is possible that we will be required to further adapt our business model in response to additional changes in the online recruitment market or if our current business model is not successful. If we are not able to anticipate changes in the online recruitment market or if our business model is not successful, our business, financial condition and results of operations will be materially and adversely affected.

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We may be unable to continue to build customer awareness.

We believe that continuing to build brand recognition is critical to achieving widespread acceptance of our online recruitment offerings. Brand recognition is a key differentiating factor among providers of online recruitment offerings and we believe it could become more important as competition in the online recruitment market increases. We may find it necessary to accelerate expenditures on our sales and marketing efforts or otherwise increase our financial commitment to creating and maintaining brand awareness among potential customers. If we fail to successfully promote and maintain our brand or incur significant expenses in promoting our brand, our business, financial condition and results of operations could be materially and adversely affected.

The demand for automated recruiting software and services may fail to grow and generate business.

Our future success substantially depends on broader recognition of the potential benefits of automated recruiting software and services and the growth in demand for these products and services. It is difficult to assess the size of the market that will develop and the rate at which it will develop. If the market does not develop as we anticipate, or if it develops more slowly than we expect, our business, financial condition and results of operations will be materially and adversely affected.

Our business is dependent on the continued development and maintenance of the Internet infrastructure.

Our success will depend, in large part, upon the continued development and maintenance of the Internet infrastructure as a reliable network backbone with the necessary speed, data capacity and security, and timely development of enabling products, such as high-speed modems, for providing reliable Internet access and services. We cannot assure you that the Internet infrastructure will continue to effectively support the demands placed on it as the Internet continues to experience increased numbers of users, greater frequency of use or increased bandwidth requirements of users. Even if the necessary infrastructure or technologies are developed, we may have to spend considerable resources to adapt our offerings accordingly. Furthermore, in the past, the Internet has experienced a variety of outages and other delays. Any future outages or delays could affect the Internet sites on which our customers' job advertisements are posted and the willingness of employers and job seekers to use our online recruitment offerings. If any of these events occur, our business, financial condition and results of operations could be materially and adversely affected.

Our business is dependent on the continued development of the Internet as a recruiting medium.

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Our future is highly dependent on the continuing increase in the use of the Internet as a recruiting medium. The online recruitment market is rapidly evolving, and we cannot yet gauge its effectiveness as compared to traditional recruiting methods. As a result, demand and market acceptance of online recruitment offerings are uncertain. The adoption of online recruiting, particularly by those entities that have historically relied upon traditional methods of recruiting, requires the acceptance of a new way of conducting business, exchanging information and advertising for jobs. We cannot assure you that the online recruitment market will continue to emerge or become sustainable. If the online recruitment market develops more slowly than we expect, our business, financial condition and results of operations will be materially and adversely affected.

Our computer systems could fail or overload.

The success of our online recruitment offerings depends highly on the efficient and uninterrupted operation of our computer and communications systems. Power loss, telecommunications failures, computer viruses, electronic break-ins or other similar disruptive problems could damage or cause interruptions in these systems. If our systems are affected by any of these occurrences, our business, financial condition and results of operations could be materially and adversely affected. Our insurance policies may not cover, or if covered, may not adequately compensate us for, any losses that may occur due to any failures or interruptions in our systems. We currently have a redundant system capability to deal with a service emergency, but we do not presently have a formal rollover disaster recovery plan.

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In addition, we must accommodate a high volume of traffic and deliver frequently updated information. Our web sites have in the past and may in the future experience slower response times or decreased traffic for a variety of reasons. In addition, our users depend on Internet service providers and other Internet site operators for access to our web sites. Many of the Internet service providers have experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems.

If we experience any of these problems, our business, financial condition and results of operations could be materially and adversely affected.

Our new product and service introductions may have defects which could result in adverse publicity or have other negative effects.

As the marketplace for recruiting solutions continues to evolve, we plan to develop and introduce new products and services to enable us to effectively meet the changing needs of the market. Products as complex as the ones that we offer may contain undetected errors when first introduced or when new versions are released. In the past, despite prior testing, we have discovered software errors in some of our products after their introduction. Defects in product and services may result in adverse publicity, loss of or delay in market acceptance, injury to our reputation and brand awareness, or claims against us, any one of which could have a material adverse effect on our business, financial condition and results of operations.

We have significant competition from a variety of sources.

The market for recruitment solutions is intensely competitive and highly fragmented. There are a large number of job boards, search firms, and Internet

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portal sites that are vying for a share of companies' corporate recruiting budgets. We expect to face additional competition as other established and emerging companies including print media companies and employee recruiting agencies with established brands, enter the online recruitment market.

Many of our current and potential competitors have significantly greater financial, technical, marketing and other resources than we do. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships to expand their offerings and to offer more comprehensive solutions.

We believe that there will be rapid business consolidation in the online recruitment industry. Accordingly, new competitors may emerge and rapidly acquire significant market share. In addition, new technologies will likely increase the competitive pressures that we face. The development of competing technologies by market participants or the emergence of new industry standards may adversely affect our competitive position. An increase in competition could result in price reductions, limitations of access to key content on the Internet, render our existing software and services obsolete or unmarketable and/or result in loss of market share.

The successful operation of our business depends in large part on our relationships with third parties.

A key element of our business strategy is to develop relationships with leading industry organizations in order to increase our market presence, expand distribution channels and broaden our product line. We believe that our continued success depends in large part on our ability to maintain such relationships and cultivate additional relationships. There can be no assurance that our existing strategic partners will not discontinue their relationships with us, or that we will be able to successfully develop additional strategic relationships.

In addition, certain technology incorporated in our software is licensed from third parties on a nonexclusive basis. The termination of any of these licenses, or the failure of the third-party licensors to adequately maintain or update their products, could result in a delay in our ability to ship certain of our products while we seek to implement technology offered by alternative sources. In addition, any required replacement licenses could prove more costly than our current license relationships and might not provide technology as powerful and functional

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as the third-party technology we currently license. Also, any such delay, to the extent it becomes extended or occurs at or near the end of a fiscal quarter, could have a material adverse effect on our results of operations for that quarter. While it may be necessary or desirable in the future to obtain other licenses relating to one or more of our products or relating to current or future technologies, we may not be able to do so on commercially reasonable terms or at all.

Our operating results may be subject to significant quarterly fluctuations.

Our results of operations have been, and may in the future be, subject to significant quarterly fluctuations. Such fluctuations could be due to a variety of factors, including the following:

- . the introduction of new products by us or our competitors;

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- . the spending patterns of our customers;
- . our sales incentive strategy which is based in part on annual sales targets;
- . the fact that a substantial portion of our revenue often occurs during the last few weeks of each quarter and, as a result, any delays in orders are more likely to result in revenue not being recognized until the following quarter; and
- . our current expense levels are based in part on our expectations of future revenue and, as a result, net income for a given period could be disproportionately affected by any reduction in revenue.

To the extent our level of revenue in the future decreases from past levels or in some future quarter our revenue or operating results are below the expectations of stock market securities analysts and investors, our profitability and the price of our common stock is likely to be materially and adversely affected.

Our business may continue to experience negative effects from a slowdown in the U.S. and/or global economies.

Over the past year the U.S. economy has experienced a significant slowdown. As a result of this decline, our business was adversely affected. A continuation of this economic trend could have a material adverse effect on our business, financial condition, results of operations or prospects.

Affiliates of SOFTBANK Corp. beneficially own approximately 34% of our outstanding stock, are represented on our Board of Directors and have rights to participate in certain of our transactions. SOFTBANK's interests could conflict with other stockholders' interests and significant sales of stock held by it could have a negative effect on our stock price.

Affiliates of SOFTBANK Corp. currently beneficially own approximately 34% of our outstanding common stock. As a result of their stock ownership, SOFTBANK and its affiliates have significant control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, and their interests could conflict with those of other stockholders. Such concentration of ownership may also have the effect of delaying or preventing a change in control of our Company. In addition, sales of significant amounts of shares held by these entities, or the prospect of these sales, could adversely affect the market price of our common stock.

SOFTBANK has the right to nominate two members of our Board of Directors, which currently consists of six members (one of whom is a SOFTBANK representative), and for so long as SOFTBANK or its affiliates continues to hold at least 10% of our outstanding common stock, it is entitled to nominate one director each time a class of directors in which one of its representatives serves is subject to election. Further, one of SOFTBANK's directors is entitled to serve as a member of the audit committee and compensation committee of the Board of Directors. As a result, SOFTBANK has significant influence on all matters requiring the approval of the Board of Directors.

In addition, in the event we propose to enter into a joint venture for operations in the United Kingdom, continental Europe or Japan or a business transaction with any competitor of SOFTBANK's affiliate ZDNet, we are required

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by the terms of the stock purchase agreement pursuant to which SOFTBANK acquired our common stock to offer SOFTBANK or one of its affiliates the opportunity to participate in the transaction on terms and conditions mutually acceptable to us and them. As a result of these contractual obligations, third parties may be reluctant to negotiate joint ventures or business transactions with us because they know SOFTBANK and its affiliates will be given the opportunity to participate in such transactions.

Korn/Ferry beneficially owns approximately 15% of our outstanding stock, is represented on our Board of Directors and has rights with respect to certain of our transactions. Korn/Ferry's interests could conflict with other stockholders' interests and significant sales of stock held by it could have a negative effect on our stock price.

Korn/Ferry International currently beneficially owns approximately 15% of our outstanding common stock. As a result of its stock ownership, Korn/Ferry has significant control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, and its interests could conflict with those of our other stockholders. In addition, under the terms of the stock purchase agreement pursuant to which Korn/Ferry acquired our common stock, for so long as Korn Ferry continues to hold at least 5% of our common stock, we are required to first negotiate with Korn/Ferry in the event of a potential sale or acquisition of our Company or a substantial stock issuance by us. Such concentration of ownership and such contractual obligation may also have the effect of delaying or preventing a change in control of our Company. In addition, sales of significant amounts of shares held by Korn/Ferry, or the prospect of these sales, could adversely affect the market price of our common stock.

Korn/Ferry has the right to nominate one member of our Board of Directors, which currently consists of six members (one of whom is a Korn/Ferry representative), and for so long as Korn/Ferry continues to hold at least 5% of our outstanding common stock, it is entitled to nominate one director each time the class of directors in which its representative serves is subject to election. As a result, Korn/Ferry has significant influence on all matters requiring the approval of the Board of Directors.

We depend on key personnel who may not continue to work for us.

Our future success depends to a significant extent on our senior management and other key employees, many of whom have acquired specialized knowledge and skills with respect to our operations. As a result, if any of these individuals were to leave our Company, we could face substantial difficulty in hiring qualified successors and could experience a loss of productivity while any such successor obtains the necessary training and experience. We also believe that our future success will depend in large part on our ability to attract and retain additional key employees. Competition for qualified personnel in the high tech industry is intense. If we do not succeed in attracting new personnel, or retaining and motivating existing personnel, our business will be adversely affected.

Our stock price may experience extreme price and volume fluctuations and our stockholders may not be able to resell their shares at or above their purchase price.

We cannot predict the extent to which investors' interest in us will lead to a stable trading market or how liquid the market might become. The stock market in general and the market prices of shares in technology companies, particularly those such as ours that offer Internet-based products and services, have been extremely volatile and have experienced fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. The market price of our common stock could be highly volatile

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and subject to wide fluctuations in response to many factors, including the following:

- . quarterly variations in our results of operations;
- . adverse business developments that have an impact on our business;

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- . changes in financial estimates by securities analysts;
- . investor perception of our Company and online recruitment services in general;
- . announcements by our competitors of new products and services; and
- . fluctuations in our common stock price, which may affect our visibility and credibility in the online recruitment market.

In the event of broad fluctuations in the market price of our common stock, purchasers of our common stock may be unable to resell their shares at or above their purchase price.

It is difficult to protect our intellectual property rights.

We regard our intellectual property rights as critical to our success and rely on a combination of copyright and trade secret laws, employee and third-party non-disclosure agreements and other methods to protect these rights. We cannot be assured that the measures we have taken to protect our proprietary rights will be adequate to prevent misappropriation of our technology or independent development by others of similar technology. Our inability to protect our proprietary rights would have a material adverse effect on our business, results of operations and financial condition.

We may be subject to costly intellectual property infringement claims.

As the number of products and services in our industry increases and as recruiting solutions further overlap, the likelihood that our current or future products may become subject to intellectual property infringement claims increases. Although we are not currently the subject of any intellectual property litigation, there has been substantial litigation in our industry regarding copyright, patent and other intellectual property rights involving computer software companies. Any claims or litigation, with or without merit, could be costly and could divert management's attention, which could have a material adverse effect on our business, financial condition and results of operations. Adverse determinations in such claims or litigation may require us to obtain a license and/or pay damages, which could also have a material adverse effect on our business, financial condition and results of operations.

We may be subject to product liability claims.

Although we have not experienced any product and service liability claims to date, the sale and support of our products and the incorporation of products from other companies may entail the risk of product liability claims. Our license agreements with our customers typically contain provisions intended to limit our exposure to such claims. There can be no guarantee, however, that such provisions will be effective in limiting our exposure. A successful product liability action brought against us could adversely affect our business, financial condition and results of operations.

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Anti-takeover provisions could make it more difficult for a third party to acquire us.

Our Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of the Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock. We have no present plans to issue shares of preferred stock. Further, certain provisions of our charter documents, including provisions providing for a staggered board of directors and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of the Company, which could have an adverse effect on the market price of our common stock.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no significant changes in the Company's market risks since the year ended September 30, 2001. For more information please read the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2001.

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WEBHIRE, INC.

PART II--OTHER INFORMATION:

Item 1. Legal Proceedings

The Company is not involved in any pending legal proceedings other than those arising in the ordinary course of the Company's business. Management believes that the resolution of these matters will not materially affect the Company's business or the financial condition of the Company.

Item 2. Changes in Securities and Use or Proceeds

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

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Item 6. Exhibits and Reports on Form 8-K

Exhibit No.	Description
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(a) None

(b) No reports on Form 8-K were filed by the Company during the quarter ended December 31, 2001.

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WEBHIRE, INC.

PART III--SIGNATURES

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

WEBHIRE, INC.

By: /s/ MARTIN J. FAHEY

Martin J. Fahey
Chief Executive Officer

By: /s/ STEPHEN D. ALLISON

Stephen D. Allison
Chief Financial Officer

Date: February 14, 2002

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