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WEBHIRE INC
Form 10-Q
May 15, 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: March 31, 2002

or

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

For the transition period from _____ to _____

Commission File Number: 0-20735

WEBHIRE, INC.
(Exact name of Registrant as specified in its charter)

Delaware	04-2935271
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

91 Hartwell Avenue	02421
Lexington, MA	(zip code)
(Address of principal executive offices)	

(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

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Common stock, \$.01 par value, shares outstanding at May 15, 2002: 4,522,871 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)

ASSETS

Current assets:

Cash and cash equivalents.....
 Short-term investments.....
 Restricted cash.....
 Accounts and installments receivable, less allowance for doubtful accounts of \$650 and \$484 at March 31, 2002 and September 30, 2001, respectively.....
 Other current assets.....

Total current assets.....

Long-term installments receivable, net.....
 Property and equipment, net.....
 Acquired technologies, net of accumulated amortization of \$19,982 and \$18,672 at March 31, 2002 and September 30, 2001, respectively.....
 Intangible assets, net of accumulated amortization of \$4,135 and \$3,928 at March 31, 2002 and September 30, 2001, respectively.....
 Other assets.....

TOTAL ASSETS.....

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable.....
 Accrued expenses.....
 Notes payable.....
 Current portion of capital lease obligations.....
 Deferred revenue.....

Total current liabilities.....

Other liabilities.....

Total liabilities.....

Commitments and contingencies.....

Stockholders' equity:

Preferred stock, \$.01 par value--Authorized--5,000,000 shares, Issued and outstanding--none at March 31, 2002 and September 30, 2001.....
 Common stock, \$.01 par value--Authorized--30,000,000 shares, Issued--4,654,459 and 4,648,055 shares at March 31, 2002 and September 30, 2001, respectively, Outstanding--4,517,079 and 4,510,675 shares at March 31, 2002 and September 30, 2001, respectively....
 Additional paid-in capital.....
 Treasury stock, at cost--137,380 shares at March 31, 2002 and September 30, 2001, respectively.....
 Accumulated deficit.....

Total stockholders' equity.....

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....

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

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WEBHIRE, INC.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2001	2002	2001
Revenue:				
Services revenue--Internet.....	\$ 2,861	\$ 3,189	\$ 5,580	\$ 6,611
Services revenue--Enterprise.....	1,201	2,119	2,551	4,300
Product revenue.....	42	149	119	79
Total revenue.....	4,104	5,457	8,250	11,720
Cost of revenue:				
Services revenue--Internet.....	1,537	2,467	3,095	5,311
Services revenue --Enterprise.....	306	350	641	78
Product revenue.....	--	3	51	21
Amortization of acquired technologies and capitalized internal-use software (relates to services revenue-internet).....	707	438	1,393	2,151
Total cost of revenue.....	2,550	3,258	5,180	8,460
Gross profit.....	1,554	2,199	3,070	3,259
Operating expenses:				
Research and development.....	502	1,628	1,208	4,088
Sales and marketing.....	676	1,904	1,518	4,099
General and administrative.....	1,108	1,433	2,021	3,033
Amortization of intangible assets.....	62	545	124	1,099
Total operating expenses.....	2,348	5,510	4,871	12,319
Loss from operations.....	(794)	(3,311)	(1,801)	(9,040)
Other income (expense), net:				
Non-cash interest on warrants issued.....	--	(309)	--	(309)
Other income (expense), net.....	19	545	17	70
Total other income.....	19	236	17	39
Loss before income taxes.....	(775)	(3,075)	(1,784)	(8,650)
Provision for (benefit from) income taxes.....	5	--	(171)	--
Net loss.....	\$ (780)	\$ (3,075)	\$ (1,613)	\$ (8,650)
Basic and diluted net loss per common share.....	\$ (.17)	\$ (.68)	\$ (.36)	\$ (1.90)
Basic and diluted weighted average number of common shares outstanding.....	4,517,079	4,505,407	4,517,044	4,397,811

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

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WEBHIRE, INC.

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

	Six Months Ended March 31, 2002
Cash Flows from Operating Activities:	
Net loss.....	\$(1,611)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization.....	2,521
Amortization of stock-based consideration.....	—
Provision for doubtful accounts.....	16
Loss on sale of property and equipment.....	1
Changes in operating assets and liabilities:	
Accounts and installments receivable.....	97
Other current assets.....	60
Long-term installments receivable.....	4
Accounts payable.....	(1,151)
Accrued expenses.....	(51)
Deferred revenue.....	48
Other liabilities.....	(1)
Net cash provided by (used in) operating activities.....	1,511
Cash Flows from Investing Activities:	
Purchases of acquired technologies and intangible assets.....	—
Additions to capitalized internal-use software.....	(81)
Purchases of property and equipment.....	—
Deposit of restricted cash.....	4
Proceeds from sale of property and equipment.....	—
Purchases of short-term investments.....	—
Proceeds from sale and maturities of short-term investments.....	69
Proceeds from returns of security deposits.....	8
Net cash provided by (used in) investing activities.....	—
Cash Flows from Financing Activities:	
Proceeds from line of credit.....	—
Proceeds from issuance of common stock in connection with private placement.....	—
Issuance costs in connection with private placement of common stock.....	—
Proceeds from employee stock purchase plan stock issuance.....	1
Payments of capital lease obligations.....	(10)
Net cash (used in) provided by financing activities.....	(9)
Net increase (decrease) in cash and cash equivalents.....	1,421

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Cash and cash equivalents, beginning of period.....	2,98

Cash and cash equivalents, end of period.....	\$ 4,41
	=====
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the period for	
Interest.....	\$ 3

Income taxes.....	\$

Supplemental Disclosure of Non-cash Financing Activities:	
Issuance of warrants in connection with financing commitment.....	\$ -

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

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WEBHIRE, INC.

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

MARCH 31, 2002

(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 March 31, 2002 and for the three and six-month periods ended March 31, 2002 and 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 March 31, 2002 and September 30, 2001, the Company had \$0 and \$695 available-for-sale investments, respectively. Realized and unrealized gains and losses for the periods presented were not material.

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(d) Recent Accounting Standards

In October 2001, 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. Had the Company applied this guidance during the reported periods, it would have had no impact on its financial statements.

(2) Net Loss Per Share

For the three and six-month periods ended March 31, 2002 and 2001, 778,827 and 536,424 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 from Human Resources Sites International, Inc. ("HR Sites"). HR Sites was the developer of an Internet job-posting platform that provided online job posting connections to more than 2,000 career sites and Internet news groups. This purchase was treated as a purchase of a collection of assets. The Company paid \$1,500 in cash plus issued two junior subordinated convertible promissory notes (the "Notes") with face amounts totaling \$3,425. The interest rate on the Notes was

WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

5.6% per annum. The first note had a principal amount of \$2,500 and matured on December 14, 2000. The second note, totaling \$925, had an original maturity date of March 14, 2001, which was subsequently restructured so that \$259 was repaid in cash on March 14, 2001, \$366 was repaid with cash on April 5, 2001, and \$300 was repaid with cash on July 5, 2001. The Notes were issued with below market value interest rates, and were issued with embedded beneficial conversion features. The Company determined the fair value of the Notes to be \$7,140, and as a result, the total acquisition consideration amounted to \$8,640. The purchase price was allocated to identifiable and unidentifiable assets as follows:

	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

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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 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 gross carrying amount and accumulated amortization of acquired technologies and intangible assets acquired from HR Sites as of March 31, 2002, and the estimated amortization expense for the remaining estimated useful lives:

As of March 31, 2002			
	Gross	Accumulated	Remaining
	Carrying Amount	Amortization	Balance

Amortized intangible assets			
Acquired Technologies.....	\$7,866	\$6,035	\$1,834
Customer list.....	151	109	42
Non-compete agreements.....	603	462	138
	-----	-----	-----
Total.....	\$8,620	\$6,606	\$2,014
	=====	=====	=====

Intangible assets totalled \$1,539 on the Company's balance sheet, which consisted of \$42 for the customer list, \$138 for the non-compete agreements, as well as \$1,359 in capitalized internal-use software.

Estimated Amortization Expense For year ended September 30,

2002 (remaining).....	\$1,304
2003.....	687
2004.....	18
2005.....	5

Total estimated amortization expense.....	\$2,014
	=====

Amortization expense was \$1,435 for the six months ended March 31, 2002. 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 and six-month periods ended March 31, 2002.

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WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(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 March 31, 2002:

	Internet and Transactions	Enterprise Software	Total Company
Revenue.....	\$2,861,000	\$1,243,000	\$4,104,000
Gross profit.....	617,000	937,000	1,554,000
Loss from operations.....			(794,000)
Other income (expense), net			19,000
Loss before income taxes...			\$ (775,000)

Three months ended March 31, 2001:

	Internet and Transactions	Enterprise Software	Total Company
Revenue.....	\$3,189,000	\$2,268,000	\$ 5,457,000
Gross profit.....	284,000	1,915,000	2,199,000
Loss from operations.....			(3,311,000)
Other income (expense), net			236,000
Loss before income taxes...			\$ (3,075,000)

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Six months ended March 31, 2002:			
	Internet and Transactions	Enterprise Software	Total Company
Revenue.....	\$5,580,000	\$2,670,000	\$ 8,250,000
Gross profit.....	1,092,000	1,978,000	3,070,000
Loss from operations.....			(1,801,000)
Other income (expense), net			17,000
Loss before income taxes...			\$(1,784,000)

Six months ended March 31, 2001:			
	Internet and Transactions	Enterprise Software	Total Company
Revenue.....	\$6,619,000	\$5,102,000	\$11,721,000
Gross (loss) profit.....	(845,000)	4,103,000	3,258,000
Loss from operations.....			(9,046,000)
Other income (expense), net			391,000
Loss before income taxes...			\$(8,655,000)

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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 AND SIX-MONTH PERIODS ENDED MARCH 31, 2002

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

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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 and six-month periods ended March 31, 2002 was \$4,104 and \$8,250 compared with \$5,457 and \$11,721 for the three and six-month periods ended March 31, 2001.

Services Revenue.

Services revenue--Internet decreased 10% to \$2,861 for the three months ended March 31, 2002 from \$3,189 for the three months ended March 31, 2001. For the six months ended March 31, 2002, services revenue--Internet decreased 16% to \$5,580 from \$6,619 for the comparable 2001 period. The decrease for both periods reflects the loss of customers due to the impact of adverse economic conditions on technology and other growth companies that were early users of the Company's products.

Services revenue--Enterprise decreased 43% to \$1,201 for the three months ended March 31, 2002 from \$2,119 for the three months ended March 31, 2001. For the six months ended March 31, 2002, services revenue--Enterprise decreased 41% to \$2,551 from \$4,307 for the six months ended March 31, 2001. The decreases from both the three and six-month periods 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 \$42 and \$119 for the three and six-month periods ended March 31, 2002 as compared with \$149 and \$795 for the three and six-month periods ended March 31, 2001. The 65% decrease for the comparable three month periods and the 81% decrease for the comparable six month periods are attributable to the Company's move from selling software licenses to selling Internet service products.

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Cost of Revenue

Cost of Services Revenue.

Cost of services revenue--Internet was \$1,537 and \$2,467 for the three months ended March 31, 2002 and March 31, 2001, respectively. For the six months ended March 31, 2002 and March 31, 2001, cost of services revenue--Internet was \$3,095 and \$5,312, respectively. The decrease in absolute dollars is principally attributable to a reduction in headcount, process improvements and cost efficiencies in resume processing and hardware hosting. Internet gross margins, excluding amortization of acquired technologies of \$707, improved to 46% for the second quarter of fiscal 2002 from 23% for the comparable fiscal 2001 period. For the six months ended March 31, 2002, Internet gross margins, excluding amortization of acquired technologies of \$1,393, were 45% as compared to 20% for the six months ended March 31, 2001. These increases in Internet gross margins are the result of the Company providing services at a lower incremental cost per customer.

Cost of services revenue--Enterprise was \$306 and \$350 for the three months ended March 31, 2002 and March 31, 2001, respectively. For the six months ended

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March 31, 2002 and March 31, 2001, cost of services revenue--Enterprise was \$641 and \$781, respectively. The decreases for both the three and six month periods is primarily 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.

Cost of Product Revenue. Cost of product revenue was \$0 and \$3 for the three months ended March 31, 2002 and March 31, 2001, respectively. For the six months ended March 31, 2002 and March 31, 2001, cost of product revenue was \$51 and \$218, respectively. 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 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 \$707 and \$438 for the three months ended March 31, 2002 and 2001, respectively. For the six-month periods ended March 31, 2002 and 2001, amortization of acquired technologies and capitalized internal-use software was \$1,393 and \$2,152, respectively. The increase for the comparable three-month periods is attributed to the amortization of internally developed internal-use software costs that occurred in the second quarter of fiscal 2002. The increase is also attributed to an increase in amortization based on the adoption of SFAS No. 142, Goodwill and Other Intangible Assets, which required the Company to reallocate the purchase price in excess of the identifiable intangible assets purchased from HR Sites to the acquired technologies and other identifiable intangible assets purchased, based on their relative fair values. The decrease for the comparable six-month periods is primarily attributed to the Company fully amortizing the assets purchased from Amazon.com and HireWorks, Inc. during fiscal 2001, offset by the adoption of SFAS No. 142 and the amortization of internally-developed internal-use software costs which are being amortized over a five-year estimated life.

Operating Expenses

Research and Development. Research and development expenses were \$502 or 12% of total revenue for the three months ended March 31, 2002 as compared with \$1,628 or 30% of total revenue for the comparable fiscal 2001 period. For the six months ended March 31, 2002, research and development expenses were \$1,208 or 15% of total revenue as compared to \$4,084 or 35% for the comparable fiscal 2001 period. These decreases are primarily due to reductions in software development consulting expenses as well as other program reductions that began in the first quarter of fiscal 2002.

Sales and Marketing. Sales and marketing expenses were \$676 or 16% of total revenue for the three months ended March 31, 2002 as compared with \$1,904 or 35% of total revenue for the comparable fiscal 2001 period. For the six months ended March 31, 2002, sales and marketing expenses were \$1,518 or 18% of total revenue as compared to \$4,097 or 35% for the comparable fiscal 2001 period. The decreases in absolute dollars and as a percentage of revenue are the result of a reduction in headcount, lower developmental consulting fees, and certain costs in fiscal 2002 that qualified as capitalized internal-use software.

General and Administrative. General and administrative expenses were \$1,108 or 27% of total revenue for the three months ended March 31, 2002 as compared with \$1,433 or 26% of total revenue for the comparable three-month period of fiscal 2001. For the six months ended March 31, 2002, general and administrative expenses were \$2,021 or 24% of total revenue as compared to \$3,033 or 26% for the comparable fiscal 2001 period. The decreases in absolute

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dollars for the three and six-month periods of fiscal 2002 as compared with fiscal 2001 and the decrease as a percentage of revenue for the six-month period is primarily the result of reduced headcount in the Human Resources, Finance and Accounting and Corporate IT organizations. The increase in percentage of revenue for the three-month period ended March 31, 2002 is the result of a \$166 increase to the Company's bad debt allowance.

Amortization of Intangible Assets. Amortization of intangible assets decreased 89% to \$62 and \$124 for the three and six months ended March 31, 2002 as compared with \$545 and \$1,090 for the three and six months ended March 31, 2001. The decrease is a result of the Company adopting SFAS No. 142, Goodwill and Other Intangible Assets. The \$62 for the three months ended March 31, 2002 is expected to remain consistent in future quarters until all remaining intangible assets are fully amortized, which is expected to occur during fiscal 2003.

Other Income (Expense), net

Other income (expense), net decreased to \$19 and \$17 for the three and six-month periods ended March 31, 2002 from \$236 and \$391 for the comparable fiscal 2001 periods. Other income consists primarily of interest earned on investments offset by interest paid on the outstanding note under the bank line of credit. For the three and six-month periods ended March 31, 2001, other income, net consisted of \$309 in non-cash expense for warrants issued during the second quarter of Fiscal 2001 in consideration of a written commitment by a related party to support the Company's cash liquidity requirements. For the three and six-month periods ended March 31, 2001, other income, net also consisted of a gain of \$120 on a sale of assets and technology as well as a gain of \$300 from the settlement of a joint venture agreement.

Provision for (Benefit from) Income Taxes

For the three-month period ended March 31, 2002, a provision for income taxes of \$5 was recorded compared with \$0 for the comparable fiscal 2001 period. This increase was the result of minimum state income tax payments made to various states in which the Company does business. For the six-month period ended March 31, 2002, a benefit from income taxes of \$171 was recorded compared with \$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.

Liquidity and Capital Resources (in thousands)

At March 31, 2002, the Company had cash, cash equivalents and short-term investments of \$4,410, an increase of \$733 from \$3,677 at September 30, 2001.

Cash provided by operating activities was \$1,512 during the six-month period ended March 31, 2002. Operating activities generated cash primarily through a reduction of net loss. The cash effects and changes in working capital sheet accounts primarily offset each other.

Cash provided by investing activities was \$6 during the six-month period ended March 31, 2002, which consisted primarily of proceeds received from the sale and maturities of short-term investments of \$695 and proceeds from the return of security deposits of \$80 offset by the payments for capitalized internal-use software of \$818.

Net cash used in financing activities for the six-month period ended March 31, 2002 was \$90, which consisted of payments on the Company's capital lease obligations offset by proceeds from its employee stock purchase plan.

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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 March 31, 2002, \$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 and cash equivalent balances in conjunction with its forecast of operating cash flows will be sufficient to meet its liquidity expenditure requirements through fiscal 2002.

Critical Accounting Policies and Judgments

We have identified the policies and judgments below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies and judgments on our business operations is discussed throughout this section where such policies affect our reported and expected financial results. For a detailed discussion on the application of all accounting policies, see Note 2 in the Notes to the Consolidated Financial Statements included in our Annual Report filed on Form 10-K. Note that our preparation of our Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ significantly from those estimates.

The accounting policies and judgments most important to the portrayal of our financial condition and results, and those that require the highest degree of management judgment, relate to revenue recognition, accounts receivable, the allowance for doubtful accounts, software development costs, internal-use software and intangible assets, and deferred income taxes.

(a) Revenue recognition, accounts receivable and allowance for doubtful accounts

The Company recognizes revenue under arrangements when the arrangement fee is fixed or determinable and collection of the amounts is reasonable assured. At the time of the transaction, we assess whether the fee associated with our revenue transaction is fixed or determinable based principally on the terms of the transaction. If a significant portion of a fee is due after our normal payment terms, which are 30 to 60 days from invoice date, we account for the fee as not being fixed or determinable. In these cases, we recognize revenue as the fee becomes due. Revenue from resellers of the Company's services is recognized in the same manner as revenue generated from direct customers, since the Company does not give resellers a right of return or refund for services or products purchased. The Company makes judgments concerning collectability of accounts that impact the recognition of revenue and the net realizable value of accounts receivable. The Company calculates the allowance for doubtful accounts based on historical collection experience, credit policy and the evaluation of

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aging categories. Collection history is evaluated based on write-off experience and based on current accounts that have been specifically identified as being in dispute, referred to a collection agency or in bankruptcy. The Company uses the same information to determine whether payments on revenue derived from a particular customer or class of customer is reasonably assured. If the Company notes a high level of write-offs for a particular customer or class of customer, or where there is no collection history for a particular customer, the Company defers recognition of revenue until payment is reasonably assured. Had the Company estimated collectability of its accounts receivable using different judgments, the revenue and accounts receivable recorded would have been different at each year-end. If the Company used a more conservative interpretation of when payment is reasonably assured, less revenue would have been recognized upon shipment, or upon performance of services. If the Company used a less conservative definition of reasonable assurance of payment, more revenue would have been recognized on the date of shipment or execution of a service contract.

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(b) Software development costs

Research and software development costs are generally charged to operations as incurred. Statement of Financial Accounting Standards (SFAS) No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed, requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Judgment is used in determining when technological feasibility is reached for software licenses to be sold. Based on our product development process, technological feasibility is established upon completion of a working model. We have determined costs incurred by the Company between the completion of the working model and the point at which the product is ready for general release to be immaterial. A different judgment about when technological feasibility is reached could result in more software development costs being capitalized.

(c) Internal-use software and intangible assets

The Company also capitalizes certain software development costs in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position 98-1 ("SOP 98-1"), Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Judgment is used to determine the useful lives and impairment of capitalized software and intangible assets. Capitalized internal-use software costs are being amortized over a period of five years commencing in the period in which the software is placed into use. The Company assigned a useful life of five years to capitalized software based on the Company's planned use of that software and historical experience of technological obsolescence. Use of a shorter life for capitalized software would result in more amortization expense being recognized each year, resulting in higher costs of revenues. Use of a longer life for capitalized software would result in less amortization expense being recorded during each year, resulting in lower costs of revenues.

Intangible assets include principally acquired technologies purchased from HR Sites. Acquired technologies are being amortized over three years from the date of purchase, which management determined to be the remaining useful life of the technology on the date of purchase. The Company intends to use the acquired technology through at least its remaining useful life.

The Company is required to evaluate each long-lived asset for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the Company's judgment, there have been

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no such events or changes in circumstances that would require an evaluation of impairment, since the acquired technologies and capitalized software continue to be used for the provision of Internet service offerings, the Company continues to derive revenue from the customers included in the customer list and the non-compete agreement continues to be enforceable. If the Company had determined that there was a significant event or change in circumstances indicating that there may be impairment to the long-lived assets, the Company would have performed an analysis of impairment and as a result may have reduced the carrying value of those assets or reduced their estimated useful lives.

(d) Deferred income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting For Income Taxes. Under SFAS No. 109, a deferred tax asset or liability is measured by the currently enacted tax rates applied to the differences between the financial statement and tax bases of assets and liabilities. Under SFAS 109, we are required to evaluate the likelihood that benefits will be realized from deferred tax assets and record a valuation allowance against the deferred tax asset if it is more likely than not that the Company will not recognize the benefits of those deferred tax assets. As a result of our evaluation of deferred tax assets, we concluded that it is more likely than not that the Company will not realize the benefit of the deferred tax assets, and as a result, we have provided a valuation allowance for the full amount of those deferred tax assets. Our evaluation took into consideration the Company's recurring losses from operations and current temporary differences that are expected to reverse.

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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 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

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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 revenue to continue to increase in the future, and we expect product revenue from software license 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.

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

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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

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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.

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.

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.

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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 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

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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 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.

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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;
- . 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 influence 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

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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 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.

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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 influence 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

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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 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;
- . 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;
- . fluctuations in our common stock price, which may affect our visibility and credibility in the online recruitment market; and
- . the transfer of the listing of the Company's securities from The Nasdaq National Market to The Nasdaq SmallCap Market, which is anticipated to occur at the end of May 2002.

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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.

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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.

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.

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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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 of Proceeds

None

Item 3. Defaults upon Senior Securities

None

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

Annual Stockholders' Meeting on March 20, 2002: At the annual meeting of the Company's stockholders, 3,505,982 shares, representing 77% of the Company's outstanding common stock as of the record date of January 23, 2002, voted on the following matters:

1. The election of Lars D. Perkins and J. Paul Costello as Class III Directors to serve until the Annual Meeting of Stockholders following the close of the Company's fiscal year ended September 30, 2004 and until their successors are duly elected and qualified. Shares were voted as follows:

Nominee	For	Withheld
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Lars D. Perkins	3,366,096	139,886
J. Paul Costello	3,366,096	139,886

The following directors' respective terms of office continued after the annual meeting: Russell J. Campanello, Charles R. Lax, Martin J. Fahey and Peter L. Dunn.

2. The approval of an amendment and restatement of the Company's 1996 Stock Option and Grant Plan to increase the number of shares of the Company's common stock, par value \$.01 per share, issuable thereunder from 700,000 to 950,000 shares. Shares were voted as follows: for 2,553,348; against 163,935; abstain 4,178; broker non-vote 784,521.

Item 5. Other Information

NASDAQ Marketplace Rule 4350(d)(2)(A) generally requires that an audit committee be composed of at least three directors, all of whom are "independent" as defined in Marketplace Rule 4200(a)(14). NASDAQ Marketplace Rule 4350(d)(2)(B) allows an audit committee to have one director who is not independent if the Board of Directors determines, in exceptional and limited circumstances, that such director's membership on the audit committee is required by the best interests of the Company and its shareholders.

On April 18, 2002, the Company's Board of Directors adopted a resolution determining that the continued membership of director Charles R. Lax on the Audit Committee of the Board of Directors is required by the best interests of the Company and its shareholders. This determination was made notwithstanding the fact that Mr. Lax is not "independent," as defined by NASDAQ Marketplace Rule 4200, by virtue of his being a general partner of SOFTBANK Capital

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Partners LLP ("SOFTBANK") which, together with its affiliates, owns approximately 34% of the Company's outstanding capital stock. The reasons for such determination were that Mr. Lax, who has been appointed under a contractual arrangement with SOFTBANK as SOFTBANK's representative on the Board of Directors and Audit Committee, is experienced and very knowledgeable with respect to financial matters, and his input is greatly valued. It is believed, moreover, that SOFTBANK's significant ownership position in the Company does not create a conflict of interest between SOFTBANK and the other shareholders, but rather creates an identity of interest which makes Mr. Lax an appropriate representative for the Company's shareholders in general.

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NASDAQ Marketplace Rule 4450(a)(2) requires that for continued listing on the NASDAQ National Market, a company maintain a minimum market value of its publicly held shares (shares held by persons other than directors, officers and major stockholders) of at least \$5,000,000. The Company is not in compliance with that requirement. Accordingly, the Company has filed an application requesting the transfer of the listing of its securities from the NASDAQ National Market to the NASDAQ SmallCap Market. The Company meets the requirements for continued listing on the NASDAQ SmallCap Market (including the requirement that the market value of its publicly held shares be at least \$1,000,000), and anticipates that its application will be approved.

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 March 31, 2002.

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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.

/s/ MARTIN J. FAHEY

Martin J. Fahey
Chief Executive Officer

/s/ STEPHEN D. ALLISON

Stephen D. Allison
Chief Financial Officer

Date: May 15, 2002

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