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WEBHIRE INC
Form 10-Q
May 14, 2001

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001
or

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

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

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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 /X/ 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 May 14, 2001: 22,553,411 shares.

WEBHIRE, INC.
INDEX

PART I--FINANCIAL INFORMATION

	PAGE

Item 1. Consolidated Financial Statements	
Consolidated Balance Sheets at March 31, 2001 (unaudited) and September 30, 2000.....	3
Consolidated Statements of Operations for the three and six months ended March 31, 2001 and March 31, 2000 (unaudited).....	4
Consolidated Statements of Cash Flows for the six months ended March 31, 2001 and March 31, 2000 (unaudited).....	5
Notes to Consolidated Financial Statements (unaudited).....	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10
Item 3. Quantitative and Qualitative Disclosure about Market Risk...	20
PART II--OTHER INFORMATION	
Item 1. Legal Proceedings.....	21
Item 2. Changes in Securities and Use of Proceeds.....	21
Item 3. Defaults upon Senior Securities.....	21
Item 4. Submission of Matters to a Vote of Security Holders.....	21
Item 5. Other Information.....	21
Item 6. Exhibits and Reports on Form 8-K.....	21
PART III--SIGNATURES.....	22

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2

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements

WEBHIRE, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	MARCH 31, ----- 2001 ----- (UNAUDITED)	SEPTEMBER 30, ----- 2000 -----
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 7,209	\$12,135
Short-term investments.....	1,111	2,410
Accounts and installments receivable, less allowance for doubtful accounts of \$1,480 and \$1,587 at March 31, 2001 and September 30, 2000, respectively.....	1,667	4,772
Other current assets.....	1,983	1,684
	-----	-----
Total current assets.....	11,970	21,001
Long-term installments receivable, net.....	109	153
Property and equipment, net.....	3,470	4,248
Acquired technologies, net of accumulated amortization of \$18,061 and \$15,909 at March 31, 2001 and September 30, 2000, respectively.....	1,437	3,589
Intangible assets and goodwill, net of accumulated amortization of \$2,838 and \$1,748 at March 31, 2001 and September 30, 2000, respectively.....	3,713	4,803
Other assets.....	400	509
	-----	-----
TOTAL ASSETS.....	\$21,099	\$34,303
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of capital lease obligations.....	\$ 254	\$ 254
Convertible notes payable.....	666	3,425
Notes payable--bank.....	1,500	--
Accounts payable.....	1,533	1,504
Accrued expenses.....	2,109	4,502
Deferred revenue.....	5,953	8,145
	-----	-----
Total current liabilities.....	12,015	17,830
	-----	-----
Other liabilities.....	166	176
	-----	-----
Stockholders' Equity:		
Preferred stock, \$.01 par value--Authorized--5,000,000 shares, Issued and outstanding--none at March 31, 2001 and September 30, 2000.....	--	--
Common stock, \$.01 par value--Authorized--30,000,000 shares, Issued--23,213,934 and 22,109,971 shares at		

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March 31, 2001 and September 30, 2000, respectively, Outstanding--22,527,034 and 21,423,071 shares at March 31, 2001 and September 30, 2000, respectively.....	232	221
Additional paid-in capital.....	70,028	68,763
Treasury stock, at cost--686,900 shares.....	(831)	(831)
Accumulated deficit.....	(60,511)	(51,856)
	-----	-----
Total stockholders' equity.....	8,918	16,297
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$21,099	\$34,303
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3

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,	
	2001	2000	2001	2000
Revenue:				
Services revenue--Internet.....	\$ 3,189	\$ 2,240	\$ 6,619	\$ 4,117
Services revenue--Enterprise.....	2,119	2,659	4,307	5,874
Product revenue.....	149	1,384	795	2,785
	-----	-----	-----	-----
Total revenue.....	5,457	6,283	11,721	12,776
	-----	-----	-----	-----
Cost of Revenue:				
Services revenue--Internet.....	2,467	2,455	5,312	4,560
Services revenue--Enterprise.....	350	1,045	781	2,196
Product revenue.....	3	337	218	515
Amortization of acquired technologies...	438	2,351	2,152	4,563
	-----	-----	-----	-----
Total cost of revenue.....	3,258	6,188	8,463	11,834
	-----	-----	-----	-----
Gross profit.....	2,199	95	3,258	942
	-----	-----	-----	-----
Operating Expenses:				
Research and development.....	1,628	3,396	4,084	6,343
Sales and marketing.....	1,904	3,356	4,097	6,986
General and administrative.....	1,433	1,593	3,033	3,412
Amortization of intangible assets.....	545	546	1,090	658
Amortization of stock-based consideration.....	--	749	--	1,733
	-----	-----	-----	-----
Total operating expenses.....	5,510	9,640	12,304	19,132
	-----	-----	-----	-----
Loss from operations.....	(3,311)	(9,545)	(9,046)	(18,190)

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Other Income (Expense):				
Non-cash interest on warrants issued....	(309)	--	(309)	--
Other income, net.....	545	114	700	378
Total other income.....	236	114	391	378
Net loss.....	\$ (3,075)	\$ (9,431)	\$ (8,655)	\$ (17,812)
Basic and diluted net loss per common share.....	\$ (.14)	\$ (.65)	\$ (.39)	\$ (1.23)
Basic and diluted weighted average number of common shares outstanding.....	22,527,034	14,565,390	21,989,078	14,504,350

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4

WEBHIRE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

(UNAUDITED)

	SIX MONTHS ENDED MARCH 31,	
	2001	2000
Cash Flows from Operating Activities:		
Net loss.....	\$ (8,655)	\$ (17,812)
Adjustments to reconcile net loss to net cash used in operating activities--		
Depreciation and amortization.....	4,498	6,555
Amortization of stock-based consideration.....	309	1,733
Provision for doubtful accounts.....	175	131
Gain on sale of assets.....	(120)	--
Changes in assets and liabilities--		
Accounts and installments receivable.....	2,930	(2,412)
Other current assets.....	(299)	(1,008)
Refundable income taxes.....	--	179
Long-term installments receivable.....	44	247
Accounts payable.....	29	109
Accrued expenses.....	(2,394)	113
Deferred revenue.....	(2,191)	1,787
Other liabilities.....	(11)	(43)
Net cash used in operating activities.....	(5,685)	(10,421)
Cash Flows from Investing Activities:		
Purchases of acquired technologies and intangible		

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assets.....	(2,759)	(1,570)
Purchases of property and equipment.....	(580)	(1,730)
Proceeds from sale of assets.....	223	--
Purchases of short- and long-term investments.....	(22,102)	(39,600)
Proceeds from sale and maturity of short- and long-term investments.....	23,402	35,540
Change in other assets.....	108	114
	-----	-----
Net cash used in investing activities.....	(1,708)	(7,246)
	-----	-----
Cash Flows from Financing Activities:		
Proceeds from line of credit.....	1,500	--
Proceeds from issuance of common stock in connection with private placement.....	1,000	--
Issuance costs in connection with private placement from common stock.....	(82)	(57)
Proceeds from employee stock purchase plan stock issuance.....	49	68
Proceeds from exercise of common stock options.....	--	760
Payments of capital lease obligations.....	--	(294)
	-----	-----
Net cash provided by financing activities.....	2,467	477
	-----	-----
Net decrease in Cash and Cash Equivalents.....	(4,926)	(17,190)
Cash and Cash Equivalents, beginning of period.....	12,135	20,126
	-----	-----
Cash and Cash Equivalents, end of period.....	\$ 7,209	\$ 2,936
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for		
Interest.....	\$ 208	\$ 70
	-----	-----
Income taxes.....	\$ 15	\$ 15
	-----	-----
Supplemental Disclosure of Noncash Financing Activities:		
Issuance of warrants and non-cash interest expense in connection with financing commitment.....	\$ 309	\$ --
	-----	-----

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5

WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

MARCH 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.

(B) PREPARATION OF FINANCIAL STATEMENTS

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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, 2001 and 2000 and for the three and six-month periods ended March 31, 2001 and 2000 are unaudited; however, in the opinion of the Company's management, the interim data include all adjustments, consisting only of 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, 2000 ("Fiscal 2000") included in its Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

(C) RECENT ACCOUNTING STANDARDS

Advancing its long-term objective of measuring all financial assets and financial liabilities at fair value, the Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. The culmination of a six-year process, Statement 133 replaces existing pronouncements and practices with a single, integrated accounting framework for derivatives and hedging activities. The FASB expects the Statement will give top management, directors, investors, creditors, and regulators a clearer picture of the uses and effects of derivatives. The Company has adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. 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.

(2) NET LOSS PER SHARE

As a net loss is presented for the three and six-month periods ended March 31, 2001 and 2000, the loss per share was based only on the weighted average number of common shares outstanding.

For the three and six-month periods ended March 31, 2001 and 2000, all 2,682,126 and 2,442,272 potential common shares, respectively, were excluded from the above calculation, as their effect would have been anti-dilutive due to the Company's net loss in those periods.

6

WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

MARCH 31, 2001

(3) PRIVATE PLACEMENT OF COMMON STOCK

On December 29, 2000, the Company entered into an agreement with @viso Limited ("@viso"), pursuant to which @viso agreed to purchase 1,087,500 shares of common stock for issuance to @viso or its designated investors, at a price per share of \$0.92, for an aggregate purchase price of approximately

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\$1 million. The purchase price of \$0.92 per share represents the average closing price of the common stock for the twenty days ending with the agreement date of the transactions contemplated by this agreement.

(4) YAHOO! INVESTMENT AND SERVICE AGREEMENT

In connection with the service agreement between Yahoo! and the Company, the Company granted to Yahoo! warrants to purchase 199,218 shares of common stock at \$4.95 per share. The warrants were accounted for under the variable method of accounting. The warrants fully vested on June 3, 2000. The Company recognized the expense related to the warrants over the vesting period. For the three and six-month periods ended March 31, 2000, the Company recorded a charge of \$749,000 and \$1,733,000, respectively.

(5) ACQUIRED TECHNOLOGIES AND INTANGIBLES

On December 13, 1999, the Company acquired certain assets and goodwill of Human Resources Sites International, Inc. ("HR Sites") in exchange for \$1.5 million in cash plus junior subordinated convertible promissory notes (the "Notes") with a face amount totaling \$3.425 million. These assets and intangible assets are being amortized over a period of three to five years. The assets are recorded under Acquired technologies on the balance sheet and are equal to \$1,171 for the period ended March 31, 2001. Goodwill and non-compete agreements are recorded on the balance sheet under Intangible assets and are equal to \$3,713 for the period ended March 31, 2001. 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. The Notes contain a beneficial conversion feature enabling the holder to convert the principal and any accrued interest into the Company's common stock one day prior to the scheduled maturities, or one day prior to redemption by the Company, at a price of \$9.68 per share. The Company may redeem the Notes at any time on or after January 1, 2000 at its sole discretion. The Notes are also convertible upon a change in control of the Company. The Company's common stock price on December 13, 1999, the date the Notes were executed, was \$17.75. The conversion price is subject to adjustment upon certain anti-dilution events. The Notes contain the same terms other than differing maturities. The interest rate on both Notes is 5.6% per annum. The Notes consist of principal amounts of \$2.5 million, which was repaid on December 14, 2000, and \$0.925 million that was to mature on March 14, 2001. This Note was subsequently restructured so that \$0.259 million was repaid on March 14, 2001, \$0.366 million matured and was paid on April 5, 2001 and \$0.300 million matures on July 5, 2001.

(6) NOTES PAYABLE--BANK

On March 27, 2001, the Company secured a \$3.0 million line of credit from Citizens Bank of Massachusetts, which expires on March 27, 2003. This line of credit is collateralized by all assets of the Company. Interest under this line of credit is to be charged at a fluctuating rate that is the daily equivalent to a rate equal to the Bank's prime rate, or at such other rate agreed on from time to time

7

WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

MARCH 31, 2001

by the Company and Citizens Bank. The borrowing base of this line of credit will

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initially be equal to 100% of the Company's pledged cash not to exceed \$3.0 million. This line of credit has a conversion feature which, once all evidence is given to the bank's conditions of lending, will increase the borrowing base to the sum of 100% of the Company's pledged cash plus 70% of qualified accounts receivable accounts plus the lesser of \$1.0 million or 50% of the Company's deferred amount qualified accounts. At March 31, 2001 \$1.5 million was outstanding under this line of credit, with \$1.5 million still available.

(7) RELATED PARTY TRANSACTION

On January 11, 2001, a major investor in the Company, which is a related party, provided the Company with a written commitment to support the Company's cash liquidity requirements through September 2001, up to a maximum of \$5 million, if necessary. In consideration of such commitment, the Company issued warrants to the investor to purchase 500,000 shares of the Company's common stock at a price of \$1.25 per share. The warrants fully vested immediately on January 11, 2001. For the three and six months ended March 31, 2001 the Company recorded a one-time charge of \$309,000.

(8) BUSINESS SEGMENT INFORMATION

The Company has two reportable segments: 1) Internet and transaction-based solutions and 2) enterprise software solutions, the former of which started 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.

8

WEBHIRE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

MARCH 31, 2001

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

	THREE MONTHS ENDED MARCH 31, 2001:		
	INTERNET AND TRANSACTIONS	ENTERPRISE SOFTWARE	TOTAL COMPANY
Revenue.....	\$3,189,000	\$2,268,000	\$ 5,457,000

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Gross profit.....	284,000	1,915,000	2,199,000
Loss from operations.....			(3,620,000)
Other income, net.....			545,000
Loss before income taxes.....			<u>\$ (3,075,000)</u>

THREE MONTHS ENDED MARCH 31, 2000:

	INTERNET AND TRANSACTIONS	ENTERPRISE SOFTWARE	TOTAL COMPANY
Revenue.....	\$ 2,240,000	\$4,043,000	\$ 6,283,000
Gross (loss) profit.....	(2,566,000)	2,661,000	95,000
Loss from operations.....			(9,545,000)
Other income, net.....			114,000
Loss before income taxes.....			<u>\$ (9,431,000)</u>

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.....			(9,355,000)
Other income, net.....			700,000
Loss before income taxes.....			<u>\$ (8,655,000)</u>

SIX MONTHS ENDED MARCH 31, 2000:

	INTERNET AND TRANSACTIONS	ENTERPRISE SOFTWARE	TOTAL COMPANY
Revenue.....	\$ 4,117,000	\$8,659,000	\$ 12,776,000
Gross (loss) profit.....	(5,006,000)	5,948,000	942,000
Loss from operations.....			(18,190,000)
Other income, net.....			378,000
Loss before income taxes.....			<u>\$ (17,812,000)</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX-MONTH PERIODS ENDED MARCH 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 MEANING 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".

CONSOLIDATED RESULTS OF OPERATIONS (IN THOUSANDS)

REVENUE

Total revenue for the three and six-month periods ended March 31, 2001 was \$5,457 and \$11,721 compared to \$6,283 and \$12,776 for the three and six-month periods ended March 31, 2000.

SERVICES REVENUE.

Services revenue--Internet increased 42% to \$3,189 for the three months ended March 31, 2001 from \$2,240 for the three months ended March 31, 2000. For the six months ended March 31, 2001, services revenue--Internet increased 61% to \$6,619 from \$4,117 for the comparable 2000 period. The increase for both periods was attributable to the continued growth of the WEBHIRE RECRUITER customer base and an increase in average selling price. The increase was also attributable to the growth in the OUTSOURCED WEBHIRE ENTERPRISE customer base.

Services revenue--Enterprise was \$2,119 for the three months ended March 31, 2001 as compared to \$2,659 for the three months ended March 31, 2000. For the six months ended March 31, 2001, services revenue--Enterprise decreased to \$4,307 from \$5,874 for the comparable 2000 period. The decrease is attributable to a decline in maintenance revenues as the Company's customer base continues to shift towards an Internet solution.

PRODUCT REVENUE. Product revenue, which relates to the enterprise software solutions segment, was \$149 for the three months ended March 31, 2001 compared to \$1,384 for the three months ended March 31, 2000. For the six months ended March 31, 2001, product revenue was \$795 compared to \$2,785 for the comparable 2000 period. This decrease is attributable to the Company's transition towards an Internet/intranet product line.

COST OF REVENUE

COST OF SERVICES REVENUE.

Cost of services revenue--Internet was \$2,467 and \$2,455 for the three months ended March 31, 2001 and March 31, 2000, respectively. For the six months ended March 31, 2001 and March 31, 2000, cost of services revenue--Internet was \$5,312 and \$4,560, respectively. Internet gross margins, excluding amortization

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of acquired technologies, improved to 23% compared to negative 10% for the three

10

months ended March 31, 2001 and March 31, 2000, respectively, and improved to 20% compared to negative 11% for the six months ended March 31, 2001 and March 31, 2000, respectively. The improved margins were mainly attributable to an increase in average selling price as well as a concerted effort on the Company's behalf to contain costs.

Cost of services revenue--Enterprise decreased 67% to \$350 for the three months ended March 31, 2001 from \$1,045 for the three months ended March 31, 2000. For the six months ended March 31, 2001, cost of services revenue--Enterprise of \$781 decreased 64% from \$2,196 for the comparable 2000 period. The decrease for both periods is due to a reduction in headcount and a reorganization of the Company's resources towards an Internet and transaction-based solution segment.

COST OF PRODUCT REVENUE. Cost of product revenue was \$3 and \$218 for the three and six months ended March 31, 2001, respectively, as compared to \$337 and \$515 for the three and six months ended March 31, 2000, respectively. The decrease in cost of product revenue is due primarily to the Company's transition from an enterprise software to an Internet/intranet solution.

AMORTIZATION OF ACQUIRED TECHNOLOGIES. Amortization of acquired technologies was \$438 and \$2,152 for the three and six months ended March 31, 2001, respectively, as compared to \$2,351 and \$4,563 for the comparable Fiscal 2000 periods. The decrease is a result of the completion at the end of the first quarter of Fiscal 2001 of the amortization of an asset originally purchased from Amazon.com, Inc.

OPERATING EXPENSES

RESEARCH AND DEVELOPMENT. Research and development expenses were \$1,628 or 30% of total revenue for the three months ended March 31, 2001 as compared to \$3,396 or 54% of total revenue for the comparable Fiscal 2000 period. For the six-month period ended March 31, 2001, research and development expenses were \$4,084 or 35% of total revenue as compared to \$6,343 or 50% of total revenue for the comparable Fiscal 2000 period. This decrease is primarily due to reductions in both personnel and consulting expenses related to the convergence of two research and development projects that led to substantial savings.

SALES AND MARKETING. Sales and marketing expenses were \$1,904 or 35% of total revenue and \$4,097 or 35% of total revenue for the three and six month periods ended March 31, 2001, respectively, as compared to \$3,356 or 53% of total revenue and \$6,986 or 55% of total revenue for the comparable Fiscal 2000 periods. This decrease is due primarily to reduction in headcount and postponement of certain marketing and sales programs.

GENERAL AND ADMINISTRATIVE. General and administrative expenses were \$1,433 or 26% of total revenue and \$3,033 or 26% of total revenue for the three and six month periods ended March 31, 2001, respectively, as compared to \$1,593 or 25% of total revenue and \$3,412 or 27% of total revenue for the comparable Fiscal 2000 periods. The absolute dollar decrease for the three-month period of Fiscal 2001 as compared to Fiscal 2000 is the result of a reduction in personnel expenses. The absolute dollar decrease for the six-month period of Fiscal 2001 as compared to Fiscal 2000 is the result of the reduction in personnel expenses as well as a one-time early cancellation fee of a sales office lease recorded during the first quarter of Fiscal 2000.

AMORTIZATION OF INTANGIBLE ASSETS

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In connection with the acquisition of HR Sites during Fiscal 2000 the Company recorded intangible assets totaling \$6,551 including non-compete agreements, a customer base and excess purchase price over identifiable assets which are being amortized over estimated lives of between three to five years.

11

OTHER INCOME

NON-CASH INTEREST ON WARRANTS ISSUED. Amortization of stock-based consideration was \$309 for the three and six-month periods ended March 31, 2001. In consideration of a written commitment by a related party to support the Company's cash liquidity requirements, the Company issued warrants to purchase 500,000 shares of the Company's common stock at a price of \$1.25 per share. In connection with this warrant, the Company recorded a one-time charge during the second quarter of Fiscal 2001 of \$309.

OTHER INCOME, NET. Other income, net increased to \$545 and \$700 for the three and six-month periods ended March 31, 2001 from \$114 and \$378 for the comparable Fiscal 2000 periods. This increase is due primarily to a gain on a sale of assets and technology and a settlement from the discontinuation of a joint venture agreement.

RECENT ACCOUNTING PRONOUNCEMENTS

Advancing its long-term objective of measuring all financial assets and financial liabilities at fair value, the Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. The culmination of a six-year process, Statement 133 replaces existing pronouncements and practices with a single, integrated accounting framework for derivatives and hedging activities. The FASB expects the Statement will give top management, directors, investors, creditors, and regulators a clearer picture of the uses and effects of derivatives. The Company has adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. 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.

LIQUIDITY AND CAPITAL RESOURCES (IN THOUSANDS)

At March 31, 2001, the Company had cash and cash equivalents and short-term investments of \$8,320, an increase of \$849 from \$7,471 at December 31, 2000 and a decrease of \$6,225 from \$14,545 at September 30, 2000.

Cash used in operating activities was \$5,685 during the six-month period ended March 31, 2001. Use of cash in operating activities consisted mainly of the net loss for the six-month period of \$8,655, the offsetting effects of depreciation and amortization of \$4,498 and amortization of stock-based consideration of \$309 and fluctuations in certain assets and liabilities.

The Company used \$1,708 in investing activities during the first half of Fiscal 2001, principally for the payment of notes payable of \$2,759 in connection with previously acquired technologies and intangible assets partially offset by the net maturities of short-term investments of \$1,300.

Net cash provided by financing activities for the six-month period ended March 31, 2001 was \$2,467, consisting primarily of \$1,500 from proceeds on a

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line of credit and \$918 from the issuance of common stock in connection with a private placement.

The Company has adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. 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.

12

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 balance will be sufficient to meet its working capital and capital expenditure requirements through Fiscal 2001.

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 will be sufficient to meet our anticipated working capital and capital expenditure requirements through the near term. However, we may need to raise additional capital to meet our current needs and also, in the longer 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. These market dynamics have been amplified by the emergence of the Internet as a tool for recruiting solutions. 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

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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 Webhire's 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

13

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 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

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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 GROWTH 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

14

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 do not presently have any secondary "off-site" systems or a formal 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.

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

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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. Although few companies directly compete with us, there are a large number of job boards, search firms, and Internet portal sites that are vying for their share of the overall corporate recruiting budget. 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,

15

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.

WE MUST MANAGE OUR GROWTH IN ORDER TO ACHIEVE DESIRED RESULTS.

The evolution of our business and the expansion of our customer base has resulted in substantial growth in the scope of our operations over the last few years. Our future results of operations will depend in part on the ability of our officers and other key employees to continue to implement our operational, customer support, and financial control systems and to expand, train, and manage our employee base.

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 delay in our ability to ship certain of

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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 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 fact that our software license revenue (as opposed to Internet based service revenue) consists of a relatively small number of large dollar transactions and, as a result, may fluctuate significantly from one quarter to another if the number of transactions completed varies slightly;
- the introduction of new products by us or our competitors;
- the capital 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 product revenue often occurs during the last few weeks of each quarter and, as a result, any delays in orders or shipments 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.

16

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 EXPERIENCE NEGATIVE EFFECTS FROM A SLOWDOWN IN THE U.S. AND/OR GLOBAL ECONOMIES.

In recent months, a downward trend in leading economic indicators points to a slowing of the U.S. economy. Customer demand in the markets in which our Company does business could experience the negative effects of a slowdown in the U.S. and/or global economies. As a result, downturns in the U.S. and/or global economies could have a material adverse effect on our Company's business, financial condition, results of operations or prospects.

AFFILIATES OF SOFTBANK CORP. BENEFICIALLY OWN APPROXIMATELY 35% 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 YOUR INTERESTS AND SIGNIFICANT SALES OF STOCK HELD BY IT COULD HAVE A NEGATIVE EFFECT ON OUR STOCK PRICE.

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Affiliates of SOFTBANK Corp. currently beneficially own approximately 35% of our outstanding common stock, which includes approximately 1% of our common stock that is owned by Yahoo! Inc., a SOFTBANK affiliate in which SOFTBANK is a major investor. 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 Webhire. 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, potential 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.

17

KORN/FERRY BENEFICIALLY OWNS APPROXIMATELY 15% OF OUR OUTSTANDING STOCK, IS REPRESENTED ON OUR BOARD OF DIRECTORS AND HAS RIGHTS WITH RESPECT TO CERTAIN WEBHIRE TRANSACTIONS. KORN/FERRY'S INTERESTS COULD CONFLICT WITH YOUR 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 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 Webhire 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 Webhire. 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

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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 Webhire, 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 Webhire;
- changes in financial estimates by securities analysts;
- investor perception of Webhire 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.

18

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.

OUR STOCK MAY NOT CONTINUE TO MEET APPLICABLE REQUIREMENTS FOR LISTING ON THE NASDAQ NATIONAL MARKET.

The closing bid price for our common stock has been less than \$1.00 for more than 30 consecutive trading days, and we are thus not in compliance with the requirements for continued listing on the Nasdaq National Market. We have been in communication with the staff of the Nasdaq Stock Market regarding this matter, and have been advised that our securities may be subject to delisting unless we achieve compliance with the \$1.00 minimum bid price requirement for at least 10 consecutive trading days.

If our common stock is no longer listed on the Nasdaq National Market, it would likely be traded either on the OTC Bulletin Board or "pink sheets," and

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the liquidity of the market for our shares would be adversely affected. A number of companies in similar situations have effected reverse stock splits in order to cause their share prices to exceed \$1.00. This approach is presently under active consideration by our board of directors.

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 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 Webhire 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

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preventing changes in control or management of Webhire, 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, 2000. 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, 2000.

20

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 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 28, 2001: At the annual meeting of the Company's stockholders, 18,713,728 shares, representing 83% of the Company's outstanding common stock as of the record date of February 16, 2001, voted on the following matters;

1 The election of Martin J. Fahey and Peter L. Dunn as Class II Directors to serve until the Annual Meeting of Stockholders following the close of the Company's fiscal year ended September 30, 2003 and until their successors are duly elected and qualified. Shares were voted as follows:

NOMINEE -----	FOR -----	WITHHELD -----
Martin J. Fahey.....	17,434,667	1,279,061
Peter L. Dunn.....	17,436,857	1,276,871

The following directors' respective terms of office continued after the annual meeting: Lars D. Perkins, J. Paul Costello, Russell J. Campanello and Charles R. Lax.

2 The approval of an amendment to the Company's certificate of incorporation deleting a provision that prohibited stockholders from taking action by written consent in lieu of a meeting. Shares were voted as follows: for 12,978,345; against 1,294,560; abstain 6,747; broker non-vote 4,434,076.

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Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits furnished as Exhibits hereto:

EXHIBIT NO. -----	DESCRIPTION -----
10.32.....	Line of Credit Agreement dated March 27, 2001, between the Company and Citizens Bank of Massachusetts.

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

21

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 14, 2001

22