OPUS360 CORP
Form 10-K
March 20, 2001

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NUMBER 000-29793

Opus360 Corporation
(Exact name of registrant as specified in its charter)

DELAWARE	13-4023714
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
39 West 13th Street, 3rd Floor New York, NY	10011
(Address of principal executive offices)	(Zip Code)

(212) 687-1086
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Common Stock, $0.01 par value

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

As of February 28, 2001, there were 50,741,504 shares of the Registrant's Common Stock outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant (based on the closing price for the Common Stock on the NASDAQ National Market on February 28, 2001) was approximately $0.34.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III is incorporated by reference to specified portions of the Registrant's definitive Proxy Statement to be issued in conjunction with the Registrant's 2001 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant's fiscal year ended December 31, 2000.

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PART 1

ITEM 1. BUSINESS OVERVIEW

Opus360 Corporation (the "Company" or "Opus360") provides eBusiness software and services that enable companies to manage and acquire skilled professionals strategically. Opus360 sells its products and services to leading corporations, professional services and staffing firms. Opus360's software empowers businesses to get more work done with the people they have and reduce the cost of acquiring additional professionals.

In today's information economy, skilled talent is both the primary source of business value and the greatest cost of doing business. Businesses are working to improve their acquisition and utilization of the people they already have and find ways to reduce turnover. Companies are hiring more professionals through outside agencies, but need better information to manage their vendors and reduce the cost of acquiring talent this way. Businesses are also turning to independent professionals to win the War for Talent.

Opus360 enables businesses to take a 360-degree approach to getting work done. It offers solutions for better utilizing a company's workforce and reducing the cost of acquiring all types of skilled professionals whether they are full-time employees, contingent workers or independent professionals.

WORKFORCE360-TM- is a family of eBusiness software and services from Opus360 that helps companies better utilize their workforce of skilled professionals and reduce the cost of acquiring additional talent. It includes:

- OPUS360 WORKFORCE MANAGEMENT-TM- - resource management software that helps companies better utilize their workforce and reduce turnover.

- OPUS360 WORKFORCE PROCUREMENT-TM- - vendor management software that reduces the time, cost, and risk of hiring skilled professionals through outside agencies.

- FREEAGENT.COM - a web-based talent exchange where businesses can find independent professionals.

- E.OFFICE - a management service that reduces the cost, complexity and risk of using independent professionals.

WORKFORCE360 software and services can be used individually or as an end-to-end integrated solution for managing and acquiring skilled professionals. This enables businesses to solve their most pressing human capital management challenges immediately and expand into other solutions later.

OPUS360 PRODUCTS AND SERVICES

Opus360 Workforce Management-TM- is a resource management software that helps companies better utilize their workforce and reduce turnover. It enables businesses to track the work that needs to be done today and in the future. It also tracks the skills and preferences of people who are available to do the work. The software makes it easy to assign the right people to the right work. The ability to consider worker preferences when making assignments increases job satisfaction and reduces turnover.

The software's workforce planning features enable businesses to make sure they have the right workforce for future work, or to choose work that suits the skills available in their workforce. The software offers many features that help businesses keep their people fully utilized. Where there are gaps between the work that needs to be done and the people who are available, the software makes it easy to hire additional help from outside agencies through seamless integration with Opus360 Workforce Procurement.

Opus360 Workforce Procurement-TM- is vendor management software that reduces the time, cost, and risk of hiring skilled professionals through outside agencies. Managed services providers also use the software as a technology platform for delivering managed services to their customers. Opus360 Workforce Procurement automates requisition workflows between buyer and supplier, and captures vendor performance metrics at each step called TCQ(2) (Time, Cost, Quantity, Quality). Once workers are hired, they can be managed through Opus360 Workforce Management.

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FreeAgent.com is a web-based talent exchange where businesses can find independent professionals and independent professionals can find work. Businesses can post project requirements and get responses from the over 180,000 independent professionals registered on the site. Businesses can also search directly for independent professionals with specific skills. Free agents can create personalized electronic resumes called e.portfolios that describe their skills. They can also search for work from among the many projects posted on the site.

E.office is a management service that enables companies to expand their available skilled labor pool by reducing the cost, complexity and risk of using independent professionals. E.office reduces tax and regulatory risk to businesses by turning 1099 independents into W-2 employees of e.office. Replacing contracts and invoices for each independent professional with a single contract and monthly invoice for all the company's independents significantly decreases the cost to both the company and their contractors. E.office offers independent professionals benefits, services, and tax advantages, which are portable. These benefits include free life, disability and liability insurance; and optional health insurance plans, dental insurance and a 401(k) retirement plan. Invoicing, collections, tax payments, and HR administrative support services make independents more productive. E.office also enables independent professionals to retain the tax advantages of being independent by deducting business expenses from gross income.

STRATEGIC RELATIONSHIPS

Opus360 uses Product Alliance Partners, Certified Consulting Alliance Partners and Channel / Hosting Partners to strengthen its product, implementation, and channel offerings.

Product Alliance Partners include the premier names in the technology industry, providing applications and contents that are integrated with Opus360's solutions to offer unparalleled value and performance.

- Actuate Corporation - Opus360 has integrated the Actuate Report Server with Workforce360-TM-.

- BEA Systems - Opus360 has built Workforce360 on BEA Systems' WebLogic Application Server.

- Oracle Corporation - Opus360 has built Workforce360 on Oracle's Database Server.

- People Sciences, Inc. - Opus360 has integrated People Sciences' skills models, databases, and associated services into Workforce360.

- webMethods, Inc. - Opus360 uses webMethods to bring new B2B integrations to market rapidly.

- CollabNet Inc. - Opus360's FreeAgent.com is linked with CollabNet's sourceXchange, the premier marketplace for financing and managing open source software development over the Internet.

Certified Consulting Alliance Partners are world-class industry leaders that apply the necessary engagement resources and industry best practices to ensure that Opus360's clients successfully implement, integrate, deploy and use Opus360's solutions.

- CompuCom

- CTG (Computer Task Group)

- PricewaterhouseCoopers

Channel and Hosting Alliance Partners work with Opus360 to help our clients quickly and efficiently access Opus360's solutions and services. Those partners that have also been selected as authorized application service providers (ASPs) will help clients to minimize their up-front IT investment by deploying, hosting, managing and enhancing Opus360's software applications at a centrally managed facility, guaranteeing application availability, security, and performance.

- Great Plains - Opus360 can leverage Great Plains' marketing and communication programs to sell Opus360 solutions that are integrated with Great Plains solutions to and through their sales channels.

- Hire.com - Opus360 has entered into a co-marketing alliance with Hire.Com to make available Hire.com's "e-Recruiter" service to users of Workforce360.

Other strategic partners include members of Opus360 Customer Advisory Board, which was established to allow customers to help steer the strategic direction of Workforce360, and help market and promote Opus360 products. Members of the Opus360 Customer Advisory Board include:

- Lucent Corporation

- Sapient Corporation

CLIENTS

Opus360 Workforce Management clients include CompuCom, Computer Sciences Corporation, CyberSafe, Enherent, Lucent Technologies (Worldwide Services) and NetVendor.

Clients who have licensed Opus360 Workforce Procurement include CTG, Global Managed Services and TRS Staffing.

Many corporations, professional services firms, staffing firms and independent professionals access the over 180,000 independent professionals registered on FreeAgent.com.

Clients using Opus360's e.office service include Apple Solution Experts, a division of a Big 5 consulting firm, and many individual independent professionals.

TECHNOLOGY

Opus360 software has been designed from the ground up to excel in today's networked economy. Its state-of-the-art 100% pure Internet architecture, offers superior scalability, reliability and performance in comparison with other point solution web-enabled client/server or Java application-based architectures.

Some of the primary highlights and benefits of this advanced architecture include:

- 100% pure Internet architecture with no applets or plug-ins on the client or browser

- Standards-Based - Opus360 software is designed using open industry standards including:

  - Enterprise Java Beans (EJB) is the most efficient way to package enterprise level application functionality and processing. The use of EJB with our tight compliance to Java 2 Enterprise Edition (J2EE) standards enables Opus360 to deliver functionality in a shorter time-span than competing vendors using less advanced technologies.

  - XML is a highly versatile language enabling document information to be structured according to content.

  - Resource Definition Framework (RDF) enables the system to track and locate XML data for efficient delivery of content to an Internet browser.

- Scalable Performance - The software features an N-tier architecture and dynamic load balancing to ensure business-critical reliability to clients.

- Open Integration Platform - The software easily integrates with enterprise and Internet applications by transmitting relevant information to other systems via XML documents.

- Portable Architecture - Opus360 does not use any proprietary features within the web/application server making it portable to multiple platforms.

- Ease of Deployment - The platform has been designed to excel in a networked environment and is ideal for a hosted deployment model.

The native information architecture of Opus360 software is document-centric meaning that each request made by a user, and each response returned by the system is in the form of an XML document. XML is a highly versatile standard that enables information to be structured according to content. As XML documents are being transmitted throughout the system and changing dynamically, tracking the location of the data in the system is critical. This is easily accomplished using Resource Description Framework (RDF), a data-modeling language that abstracts data from Oracle and describes it in an XML format. The use of XML and RDF significantly reduces the complexity of creating intuitive applications that enable users to access information quickly and easily.

With XML, the structure and content of a document is kept separate from the presentation. This means that the same XML source document can be created and displayed in a variety of ways -- on a

computer monitor or within wireless devices such as a cellular phones and Personal Digital Assistants (PDA's). Opus360 has created an XML Bus that includes all the information to be exchanged with other applications enabling users of the software to access data sources virtually anywhere on the Internet. This unique system architecture is what enables Opus360 applications to exist anywhere on a network yet still connect to form seamless, private, semi-private, and public information networks and exchanges. These capabilities offer Opus360 clients a significant strategic advantage in deploying and integrating applications within today's network and exchange-based environments.

Built in four functional tiers (3 logical tiers), Opus360 software enables mission critical deployment in high volume, hosted environments. For example, the central tier, the Application Framework, utilizes an information bank consisting of the relational database (Oracle) as well as object storage for foreign document formats. Being fully J2EE compliant, the Application Framework is designed to live in an application server environment, can be horizontally scaled to N-degrees, and can feed any number of web servers communicating content to web browsers anywhere on the Internet. The platform employs Enterprise Java Beans (EJB) to process application business rules and logic, has been optimized for high volume XML traffic and is fully scalable within large hosted environments.

Considerable emphasis has been placed on developing an open integration platform to ensure Opus360 solutions will easily co-exist with other enterprise applications such as Enterprise Resource Planning (ERP) systems as well as Internet resources (job boards, exchanges, news sources, etc.).

SALES AND MARKETING

We sell our Workforce360 software and services primarily through a direct sales organization. The direct sales force is organized into technical pre-sales and sales professionals. Many of Opus360's customers are also channel partners who resell Opus360 solutions to their customers. Opus360 is expanding its sales operations. As of December 31, 2000, Opus360 had approximately 33 sales and marketing personnel. Opus360 markets its software and services using an integrated marketing approach that incorporates online marketing, advertising, public relations, events, and direct response efforts. We focus our efforts on educating our target markets and compiling and analyzing client and industry feedback. We have formalized this with a Customer Advisory Board, which uses feedback from strategic clients to design, develop and test enhancements to new versions of our products and services.

CUSTOMER SERVICE, TRAINING AND SUPPORT

These services enable Opus360 clients to start using Opus360 software quickly and efficiently. Offered services include business process analysis, configuration, data conversion, customization, integration, deployment, training and hosting. Business process analysis maps client business processes to Opus360 software processes. Configuration services prepare Opus360 software to meet client needs. Data conversion services transfer legacy data into Opus360 software. Customization services enable clients to add unique features to Opus360 software. Integration services enable external software to work with Opus360 software. Deployment services roll out Opus360 solutions for clients. Training services teach system administrators and end-users to use Opus360 software. Hosting services enable clients to use Opus360 software without installing it on their own systems. As of December 31, 2000, Opus360 had approximately 53 services and customer support personnel.

RESEARCH & DEVELOPMENT

We have incurred research and development expenses in excess of $38 million since our inception. Our New York and Los Angeles research locations have coordinated efforts to produce our integrated suite of products and services. As of December 31, 2000, Opus360 had approximately 54 research and development personnel.

RECENT ACQUISITIONS

On January 10, 2000, we acquired from Brainstorm Interactive, Inc. ("Brainstorm") all of the related assets and liabilities of Industryinsite.com, a website operated by Brainstorm, for an aggregate purchase price of $1.0 million. On January 20, 2000, we acquired Ithority Corporation an operator of a marketplace for intellectual capital that allows buyers and sellers to conduct business through a web-based electronic medium. On February 24, 2000, we acquired PeopleMover, Inc. ("PeopleMover"), a provider of

internet-centric software solutions for managing people. PeopleMover's internet-based solutions, PeopleMover/Staffing ("PSA") and PeopleMover/Service Automation enables organizations to assign people to jobs based on skills and enables organizations to complete projects efficiently and at the lowest possible cost. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview" and Note 3 of "Notes to Consolidated Financial Statements" for more detailed information.

EMPLOYEES

As of December 31, 2000, we had a total of 172 corporate employees, excluding our FreeAgent e.office employees who have purchased our FREEAGENT and E.OFFICE services. Of the 172 employees, 54 were in research and development, 33 were in sales, marketing and business development, 53 were in professional services and customer support, and 32 were in administration and finance. None of our employees are represented by a labor union or a collective bargaining agreement. We have not experienced any work stoppages and consider our relations with our employees to be good.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

THE OCCURRENCE OF ANY OF THE FOLLOWING RISKS COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION AND OPERATING RESULTS. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE AND YOU MIGHT LOSE ALL OR PART OF YOUR INVESTMENT.

OUR BUSINESS IS DIFFICULT TO EVALUATE DUE TO OUR LIMITED OPERATING HISTORY.

We were founded in August 1998. Until May 27, 1999, we focused on development of our strategy and services and the establishment of distribution, co-branding and other similar arrangements for our services. On May 27, 1999, we acquired Churchill and commenced formal operations of our FreeAgent.com web site. In addition, a significant portion of 2000 was devoted to development of our enterprise software, the Workforce360 product line. Given the changing climate in the Internet marketplace, we also took decisions in 2000 to significantly reduce the advertising commitment to the FreeAgent.com web site. As a result, it is difficult to anticipate what revenue may be generated from the FreeAgent.com segment of our business over the long term.

Our limited operating history will make it difficult to forecast our future operating results because, among other things, we have only recently begun sales of the Workforce360 products. You should evaluate our chances of financial and operational success in light of the risks, uncertainties, expenses, delays and difficulties associated with operating a new business. Our principal risks are that:

- we may not be able to increase usage of our services and derive revenue from these services;
- our marketing and sales efforts may not be successful;
- we may not be able to effectively respond to competitive developments;
- we may not be able to integrate the business, products, services and technology of our recent acquisitions and possible future acquisitions; and
- we may not be able to manage our anticipated growth.

The uncertainty of our future performance and the uncertainties of our operating in a new and expanding market increase the risk that the value of your investment in our common stock will decline.

DUE TO THE LOW TRADING PRICE OF OUR COMMON STOCK OVER RECENT PERIODS, OUR COMMON STOCK MAY BE DELISTED FROM THE NASDAQ NATIONAL MARKET.

On January 5, 2001, we received notice from NASDAQ that our Common Stock had failed to maintain a minimum bid price of $1.00 over a period of 30 consecutive trading days as required by NASDAQ's Marketplace Rule 4450(a)(5). As a result, we have 90 calendar days, or until April 4, 2001, to regain compliance with this requirement. If we are unable to demonstrate compliance with this

requirement on or before April 4, 2001, NASDAQ will provide us with notice that our Common Stock will be delisted. At that time, we may appeal such notice to a NASDAQ Listing Qualifications Panel.

If a delisting were to occur, our common stock would trade on the over the counter Bulletin Board, or in the pink sheets maintained by the National Quotation Bureau, Inc. Such markets are generally considered to be less efficient markets.

WE HAVE A HISTORY OF LOSSES AND WE ANTICIPATE LOSSES WILL CONTINUE.

As of December 31, 2000, we had an accumulated deficit of $106.4 million. We have not achieved profitability and expect to continue to incur net losses in 2001. We expect to continue to incur significant operating expenses and, as a result, will need to generate significant revenues to achieve profitability, which may not occur. Even if we do achieve profitability, we may be unable to sustain or increase profitability on a quarterly or annual basis in the future. Our history of net losses and negative cash flow from operations as well as projected additional losses raises substantial doubt about our ability to continue as a going concern.

We recently announced that we expect to become EBITDA-positive beginning in the fourth quarter of 2001, but we cannot guarantee that this will happen. EBITDA is a measure of earnings before interest, taxes, depreciation or amortization are taken into account. If we are unable to achieve EBITDA-positive results in the fourth quarter of 2001, the price of our common stock may decrease.

OUR OPERATING RESULTS MAY VARY FROM QUARTER TO QUARTER IN FUTURE PERIODS, WHICH MAY CAUSE OUR STOCK PRICE TO FLUCTUATE OR TO DECLINE.

Opus360 quarterly revenues may vary depending on a number of factors including:

- Demand for our products and services

- Actions taken by our competitors

- Technological changes in the market

- Our ability to develop, introduce and install existing or new and enhanced products

- Client order deferrals in anticipation of product enhancements or new products

Our operating results in any quarter will be harmed if our revenues for that quarter fall below our expectations, and we are not able to quickly reduce our operating expenses in response. Our operating expenses, which include sales and marketing, service and product development and general and administrative expenses, are based on our expectations of future revenues and are relatively fixed over a 30 to 45 day period. As a result, our ability to rapidly adjust these expenses is limited, which may increase the fluctuations in our quarterly operating results. In addition, we do not have a sufficiently long operating history to be able to determine whether seasonal factors affect our sales cycle. Therefore, seasonal fluctuations may also affect our operating results quarter over quarter. Such fluctuations could have an adverse impact on our stock price.

OUR BUSINESS MODEL IS UNPROVEN, AND WE MAY NOT BECOME PROFITABLE IF WE ARE UNABLE TO ADAPT IT TO CHANGES IN OUR MARKET.

If we are unable to anticipate changes in the market for labor procurement and management services, or if our business model is not successful, we may not be able to expand our business or successfully compete with other companies. Our current business model depends upon the Internet to enable us to build and deliver comprehensive labor procurement and management services. However, the market for these kinds of Internet-based services is at an early stage of development and we may be unable to implement our business plan fully or obtain broad acceptance of our products and services either by organizations or by free agents. Our revenue model and profit potential are also unproven. We may be required to further adapt our business model in response to additional changes in the market for these services, or if our current business model is not successful.

IF WE ARE UNABLE TO OBTAIN ADDITIONAL FINANCING, WE MAY NOT BE ABLE TO CONTINUE OR EXPAND OUR OPERATIONS.

Since our inception, our operating activities have used more cash than they have generated. Although we expect to become EBITDA-positive in the fourth quarter of 2001, fluctuations in our revenue and expenses may require us in the future to raise additional funds. Such funds may be required in order to fund more aggressive brand promotion or more rapid expansion, to develop new or enhanced products or services, to respond to competitive pressures or to acquire complementary businesses, products or technologies. We cannot be certain that additional financing will be available on terms favorable to us, if at all. If adequate funds are not available on acceptable terms or not available at all, we may be unable to successfully promote our products and services, fund our expansion, develop or enhance our products or services, respond to competitive pressures or take advantage of acquisition opportunities.

YOU WILL EXPERIENCE DILUTION IF WE RAISE ADDITIONAL FUNDS THROUGH THE ISSUANCE OF ADDITIONAL EQUITY OR CONVERTIBLE DEBT SECURITIES.

If we raise additional funds through the issuance of equity securities or convertible debt securities, you will experience dilution of your percentage ownership of our company. This dilution may be substantial. In addition, these securities may have powers, preferences and rights that are preferential to the holders of our common stock and may limit our ability to pay dividends on our common stock.

WE HAVE A CONTINGENT LIABILITY OF UP TO $0.1 MILLION, PLUS INTEREST, AS A RESULT OF OUR ISSUING OPTIONS TO FREEAGENT E.OFFICE EMPLOYEES UNDER CIRCUMSTANCES THAT MAY HAVE VIOLATED THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, AND WE INTEND TO MAKE A RESCISSION OFFER TO THESE EMPLOYEES AS A RESULT OF THIS VIOLATION.

Prior to our initial public offering, we granted options to purchase approximately 178,500 shares of our common stock to our FREEAGENT E.OFFICE employees. Because of the monthly fees paid by our FREEAGENT E.OFFICE employees, the grant of these options and the issuance of any shares of our common stock upon exercise of these options may not qualify as a grant or issuance under a written compensatory benefit plan. As a result, the grant of these options and the issuance of shares of our common stock upon exercise of these options may not comply with the requirements of Rule 701 under the Securities Act, or any other available exemptions from the registration requirements of the Securities Act, and may not have qualified for any exemption from qualification under applicable state securities laws.

OUR REVENUES WILL NOT GROW IF THE INTERNET DOES NOT BECOME A PROVEN PROCUREMENT AND PROJECT SEARCH MEDIUM.

If we are unable to compete with traditional methods for procuring free agent talent and searching for and securing project assignments, our revenues will not increase. The future of our business is dependent on the acceptance of the Internet by professionals and buyers requiring individuals with specific professional skills as an effective means to procure labor and to search for and transact project-based work assignments. Currently, only a small percentage of U.S. businesses, less than one-half of one percent, engage in any recruiting activities online. The online recruitment and project-based work search market is new and is rapidly evolving, and we do not yet know how effective online recruiting and project searching will be compared to traditional recruitment and project search methods. The adoption of online recruiting and project searching, particularly among organizations and professionals who have historically relied upon traditional recruiting and project searching methods, requires the acceptance of a new way of conducting business, exchanging information, advertising and searching for project-based work. Many potential buyers requiring individuals with specific professional skills have little or no experience using the Internet for recruiting, and only a limited number of professionals who are currently searching for project assignments have experience using the Internet in connection with their searches. As a result, we may not be able to effectively compete with traditional recruiting and project-based work search methods.

WE WILL NOT BE ABLE TO EXPAND OUR BUSINESS IF USE OF THE INTERNET DOES NOT CONTINUE TO GROW.

If use of the Internet does not continue to grow, we may not be able to meet our business objectives or expand our operations. Use of the Internet may be inhibited by any of the following factors:

- the Internet infrastructure may be unable to support the demands placed on it, or its performance and reliability may decline as usage grows;

- websites may be unable to provide adequate security and authentication of confidential information contained in transmissions over the Internet; or

- the Internet industry may be unable to adequately respond to privacy concerns of potential users.

OUR REVENUES WILL NOT INCREASE IF WE DO NOT SUCCESSFULLY DEVELOP AWARENESS OF OUR BRAND NAMES.

If we fail to successfully promote and maintain our Workforce360 or FreeAgent.com brand names, fail to generate a corresponding increase in revenues as a result of our branding efforts, or encounter legal obstacles in connection with our continued use of our brand names, our revenues will not increase and our prospects for growth will be diminished. We believe that continuing to build awareness of each of our brand names is critical to achieving widespread acceptance of our services. We believe that brand recognition will become a key differentiating factor among providers of project-based professional procurement and management services as competition in the market for these services increases. We will be unable to maintain and build brand awareness if we do not succeed in our marketing efforts, provide high quality services and increase the number of professionals and buyers requiring individuals with specific professional skills to fulfill project needs.

OUR WORKFORCE360 SOFTWARE AND SERVICES MAY NOT BE ACCEPTED BY CUSTOMERS.

Before making any commitment to use our Workforce360 software and services, potential users will likely consider a wide range of issues, including service benefits, integration with legacy systems, potential capacity, functionality and reliability. Prospective users will generally need to change established professional management and procurement practices and operate their businesses in new ways. Because our WORKFORCE360 service represents a new, Internet-based approach for most organizations to manage and allocate their professional resources, those persons responsible for the use or approval of our WORKFORCE360 service within these organizations will be addressing these issues for the first time. If our WORKFORCE360 service is not attractive to potential customers, our revenues from this service will not increase. In addition, if systems integrators fail to adopt and support WORKFORCE360 as a resource management tool, our ability to reach our target customers in this market may be diminished.

OUR SALES CYCLES FOR WORKFORCE360 WILL BE LENGTHY, WHICH COULD DELAY THE GROWTH OF OUR REVENUES AND INCREASE OUR EXPENDITURES.

Our Workforce360 software and services are new and commercially untried services that have only recently been released commercially. We may face significant delays in their acceptance. We will not be able to recognize any revenues during the period in which a potential customer evaluates whether or not to use them, and we expect that this period will be substantial, ranging between six and 12 months. The decision of a customer to use any of our services may be expensive, time consuming and complex and may require an organization to make a significant commitment of resources. As a result, we will have to expend valuable time and resources to educate interested persons at all levels in these organizations on their use and benefits. Our expenditure of substantial time and resources to persuade customers to use our services or an unexpectedly long sales and implementation cycle for them will have a negative impact on the timing of our revenues. Since we are in the early stages of selling the Workforce360 software and services, we cannot predict how long the average sales and implementation cycle will be, and we may be unable to adapt our business to shorten the average sales cycle.

IF WE ARE UNABLE TO HIRE AND RETAIN HIGHLY SKILLED PERSONNEL, WE WILL NOT BE ABLE TO GROW AND TO COMPETE EFFECTIVELY.

Our future success will depend to a significant extent on our ability to attract and retain senior management, experienced sales and marketing personnel, software developers, qualified engineers and other highly skilled personnel. Competition for these highly skilled employees is intense, particularly in the Internet industry. We may experience difficulty from time to time in hiring the personnel necessary to support the growth of our business.

IF WE ARE UNABLE TO SUCCESSFULLY INTRODUCE NEW OR ENHANCED SERVICES, PRODUCTS OR FEATURES, OUR SALES MAY DECLINE.

We may not be able to increase our sales if we are unable to develop and introduce new or enhanced services or products, or if these services or products do not achieve market acceptance. In addition, in order to remain competitive, we believe that we must continually improve on a timely basis the responsiveness, functionality and features of our existing services and products. However, we may not succeed in developing or introducing features, functions, services or products that buyers requiring individuals with specific professional skills or free agents find attractive. We expect to introduce enhanced services, products and features in order to respond to:

- rapidly changing technology in online professional procurement and management;
- evolving industry standards, including both formal and de facto standards, relating to online labor procurement and management;
- developments and changes relating to the Internet;
- competing services and products that offer increased functionality; and
- changes in the requirements of buyers requiring individuals with specific professional skills and free agents.

If any new or enhanced service, product or feature that we introduce is not favorably received, the public's perception and the reputation of our brands could suffer irreparable damage.

IF WE CANNOT COMPETE SUCCESSFULLY, OUR REVENUES WILL DECREASE, AND WE MAY NEVER BECOME PROFITABLE.

Due to competition, we may experience reduced use of our services and lower margins on our services and products.

The market for labor procurement and management services is intensely competitive and highly fragmented. Our services compete with a combination of online and offline companies that provide competing services, including traditional companies providing benefits and services to independent professionals, traditional and online recruiting and job-posting services, and developers of enterprise resource planning services. Some of our competitors may offer their services at no cost or at prices that are less than the ones that we currently offer or intend to offer.

Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources and larger customer bases than we do. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships to expand their businesses or to offer more comprehensive services. We believe that the companies in our target market compete primarily on the basis of the number of features their services provide to end users, and the extent of their relationships with both organizations that procure project-based professionals and individuals who are available for projects. We believe that we compete effectively by offering services that addresses the procurement and management of project-based professionals. However, the rapid pace at which the market is evolving, both in terms of technological innovation, increased functionality and service offerings, will require us to continually improve our infrastructure and our services, as well as the range of services we offer. We may not be able to respond adequately to these competitive challenges.

IF WE FAIL TO MANAGE OUR GROWTH, OUR REVENUES MAY NOT INCREASE, AND WE MAY INCUR ADDITIONAL LOSSES.

Since we have only been in business a short time, our expansion has placed, and will continue to place, significant strains on our infrastructure, management, internal controls and financial systems. Our personnel, systems, procedures and controls may be inadequate to support our future operations. In order to accommodate the growth of our business, we will need to hire, train and retain appropriate personnel to manage our operations. We will also need to improve our financial and management controls, reporting systems and operating systems. We may encounter difficulties in developing and implementing these new systems. Our management has limited experience managing a business of our size or experience managing

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a public company. If we are unable to manage our growth effectively and maintain the quality of our products and services, our business may suffer.

ANY ACQUISITIONS OF TECHNOLOGIES, PRODUCTS OR BUSINESSES THAT WE MAKE MAY NOT BE SUCCESSFUL, MAY CAUSE US TO INCUR SUBSTANTIAL ADDITIONAL COSTS, AND MAY REQUIRE US TO INCUR INDEBTEDNESS OR TO ISSUE DEBT OR EQUITY SECURITIES ON TERMS THAT MAY NOT BE ATTRACTIVE.

As part of our business strategy, we have in the recent past acquired or invested in technologies, products or businesses that were expected to be complementary to our business and may do so in the future. The process of integrating any future acquisitions could involve substantial risks for us, including:

- unforeseen operating difficulties and expenditures;

- difficulties in assimilation of acquired personnel, operations, technologies and products;

- the need to manage a significantly larger and more geographically-dispersed business;

- amortization of large amounts of goodwill and other intangible assets, such as the approximately $33.2 million of goodwill and other intangible assets relating to our acquisition of PeopleMover which will be amortized over the three year period commencing with such acquisition;

- the diversion of management's attention away from ongoing development of our business or other business concerns;

- the risks of loss of employees of an acquired business, including employees who may have been instrumental to the success or growth of that business; and

- the use of substantial amount of our available cash, including in the case of any future acquisitions, the proceeds of this offering, to consummate the acquisition.

We may never achieve the benefits that we expect from the acquisitions of PeopleMover, Ithority and INDUSTRYINSITE.COM or that we might anticipate from any future acquisition. If we make future acquisitions, we may issue shares of our capital stock, that dilute other stockholders, incur debt, assume significant liabilities or create additional expenses related to amortizing goodwill and other intangible assets, any of which might reduce our reported earnings and cause our stock price to decline. Any financing that we might need for future acquisitions may only be available to us on terms that materially dilute existing shareholders, restrict our business or impose on us costs that would reduce our net income or increase our net losses.

IF WE EXPAND OUR OPERATIONS INTO INTERNATIONAL MARKETS, WE WILL FACE NEW CHALLENGES THAT WE HAVE NOT PREVIOUSLY FACED.

As part of our expansion, we may begin to conduct a portion of our operations outside the United States. We currently have minimal experience operating in foreign markets. If we expand our operations into foreign markets, we will face new challenges that we have not previously faced while conducting our operations in the United States. Countries in which we are currently considering conducting operations include Canada, Japan and the United Kingdom. These challenges include:

- currency exchange rate fluctuations, particularly if we sell our products and services in foreign currencies;

- trade barriers including tariffs and export controls;

- difficulties in collecting accounts receivable in foreign countries;

- the burdens of complying with a wide variety of foreign laws, particularly complex labor and privacy regulations;

- reduced protection for intellectual property rights in some countries, particularly in Asia; and

- the need to tailor our products and services for foreign markets.

In addition, if we conduct any of our foreign operations through joint ventures with third parties, we may have limited ability to control the operation of these entities.

WE MAY EXPERIENCE REDUCED VISITOR TRAFFIC, REDUCED REVENUE AND HARM TO OUR REPUTATION IF ANY SYSTEM FAILURES RESULT IN UNEXPECTED NETWORK INTERRUPTIONS.

Any system failure that we may experience, including network, software or hardware failures, that causes an interruption in the delivery of our products and services or a decrease in responsiveness of our services could result in reduced use of our services and damage to our reputation and brands. Our servers and software must be able to accommodate a high volume of traffic by organizations and free agents to Opus360 software and services. There can be no assurance, however, that our systems will be able to accommodate our growth. We rely on third-party Internet service providers to provide our clients with access to our services. We have experienced on two occasions service interruptions as a result of systems failures by these Internet service providers, which have lasted between four to eight hours. We believe that these interruptions will occur from time to time in the future. In addition, from time to time the speed of our system has been reduced as a result of increased traffic through our Internet service provider. We may not be able to expand and adapt our network infrastructure at a pace that will be commensurate with the additional traffic increases that we anticipate will occur. We do not currently maintain business interruption insurance and our other insurance may not adequately compensate us for any losses that may occur due to any failures in our system or interruptions in our service.

OUR SERVICES MAY CONTAIN DEFECTS OR ERRORS THAT COULD DAMAGE OUR REPUTATION.

The services that we have developed and that we currently plan to introduce are complex and must meet the stringent technical requirements of our customers. We must develop our services quickly to keep pace with the rapidly changing industry in which we operate. However, the services we provide may contain undetected errors or defects, especially when first introduced or when new versions are released. In addition, our services may not properly operate when integrated with the systems of our customers.

While we continually test our services for errors and work with customers through our customer support services to identify and correct bugs, errors in our services may be found in the future. Testing for errors is complicated in part because it is difficult to simulate or anticipate the computing environments in which our customers use our services. Our services may not be free from errors or defects even after they have been tested, which could result in the rejection of our services and damage to our reputation, as well as lost revenue, diverted development resources, and increased support costs.

BREACHES OF OUR NETWORK SECURITY COULD INCREASE OUR COSTS AND DAMAGE OUR REPUTATION.

Our FREEAGENT.COM and e.office services, contains data for many of the free agents in our FREEAGENT.COM community. In addition, our hosted Opus360 Workforce Management and Procurement Services contain resource and project information for our clients. As a result, we may become liable to any of those free agents or organizations that experience losses due to any security failures in our services. Unauthorized persons that penetrate our network security could misappropriate proprietary information or cause interruptions in our services. Misappropriation of proprietary information or interruptions of our services could result in reduced traffic to our websites and reduce demand for our services. As a result, we may be required to expend capital and resources to protect against or to alleviate security breaches, which could reduce our profitability.

COMPUTER VIRUSES COULD DISRUPT OUR SYSTEMS, WHICH COULD REDUCE DEMAND FOR OUR SERVICES AND DAMAGE OUR REPUTATION.

Computer viruses may cause disruptions of our services and the loss of information saved on our servers by free agents and organizations that seek individuals with specific professional skills to fulfill project needs. These viruses could reduce demand for our services, and damage our reputation in the

markets in which we compete. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability for any damages incurred by third parties.

WE MAY BECOME SUBJECT TO BURDENSOME GOVERNMENT REGULATIONS AND LEGAL UNCERTAINTIES AFFECTING THE INTERNET, WHICH COULD INCREASE OUR EXPENSES OR LIMIT THE SCOPE OF OUR OPERATIONS.

Legal uncertainties and new regulations relating to the use of the Internet could increase our costs of doing business, prevent us from delivering our products and services over the Internet or slow the growth of our business. To date, governmental regulations have not materially restricted use of the Internet in our markets. However, the legal and regulatory environment relating to the Internet is uncertain and may change. In addition to new laws and regulations being adopted, existing laws may be applied to the Internet. New and existing laws may cover issues, which include:

- user privacy;
- civil rights and employment claims;
- consumer protection;
- libel and defamation;
- copyright, trademark and patent infringement;
- pricing controls;
- characteristics and quality of products and services;
- sales and other taxes; and
- other claims based on the nature and content of Internet materials.

In addition, any imposition of state sales and use taxes imposed on the products and services sold over the Internet may decrease demand for products and services that we, or others sell over the Internet. The U.S. Congress has passed legislation, which limits until October 21, 2001 the ability of states to impose any new taxes on Internet-based transactions. If Congress does not renew this legislation, any subsequent imposition of state taxes on Internet-based transactions could limit the demand for our services or increase our expenses.

DEFENDING AGAINST INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS COULD BE TIME CONSUMING AND EXPENSIVE, AND ANY LIABILITIES IMPOSED ON US FOR INFRINGING ON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS COULD REQUIRE US TO PAY SIGNIFICANT DAMAGES OR DISRUPT OUR BUSINESS.

Successful intellectual property infringement claims against us could result in monetary liability or a material disruption in our operations. We cannot be certain that our services, products, content, technology and brand names do not or will not infringe upon valid patents, copyrights or other intellectual property rights held by others. We expect that the number of infringement claims will increase as more participants enter our markets. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. We may incur substantial expenses in defending against these third party infringement claims, regardless of their merit. In the event of a successful infringement suit against us, we could be liable for substantial damages and be required to pay substantial royalties for our use of third party intellectual property or be prohibited from using third party intellectual property in our products or services. Any of these outcomes could reduce our revenues and prospects for growth.

WE MAY BE UNABLE TO OBTAIN U.S. TRADEMARK REGISTRATION FOR OUR BRANDS OR TO PROTECT OUR OTHER PROPRIETARY INTELLECTUAL PROPERTY RIGHTS.

If we fail to obtain federal trademark or service mark registrations for our marks and any related derivative marks, our promotion of these marks as our brands could be disrupted. If we are unable to secure the rights to use these marks and related derivative marks, a key element of our strategy of promoting these

marks as brands in our target markets could be disrupted. To date, we have filed intent to use applications for several of our service marks, including OPUS360, WORKFORCE360, OPUS FREEAGENT, FREEAGENT.COM, FREEAGENT, OPUS XCHANGE, FREEAGENT XCHANGE, OPUSRM, FREEAGENT E.OFFICE and E.PORTFOLIO. However, in connection with the settlement of the claims raised by the San Jose Mercury News, we have withdrawn all applications using the FreeAgent mark. Adverse outcomes to our applications for these or any other marks, any failure to register our marks, or any related litigation, should it occur, could result in our being limited or prohibited from using our marks and related derivative marks in the future.

IF WE FAIL TO PROTECT OUR PATENTS, COPYRIGHTS OR OTHER INTELLECTUAL PROPERTY RIGHTS, OTHER PARTIES COULD APPROPRIATE OUR PROPRIETARY PROPERTIES, INCLUDING OUR TECHNOLOGY.

The technology and software we have developed which underlies our Workforce360 products and services is important to us. We do not have any patents relating to our technology and software, although we do have a U.S. patent application pending for the "Opus360 Knowledge Worker Network" which describes the processes and technology involved in implementing an Internet-based supply chain solution for matching people and projects. This patent may not be granted and, if granted, the patent and any other patents we apply for in the future may be successfully challenged.

In general, to protect our proprietary technology and software, we rely on a combination of contractual provisions, confidentiality procedures and trade secrets. The unauthorized reproduction or other misappropriation of our intellectual property, including the technology on which our Workforce360 products and services are based, could enable third parties to benefit from our intellectual property without paying us. If this were to occur, our revenues would be reduced, and our competitors may be able to compete with us more effectively. The steps we have taken to protect our proprietary rights in our intellectual property may not be adequate to deter misappropriation of their use. We may not be able to detect unauthorized use of our intellectual property or take appropriate steps to enforce our intellectual property rights. In addition, the validity, enforceability and scope of protection of intellectual property in Internet-related industries, is uncertain and still evolving. If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive.

WE MAY NOT BE ABLE TO ACCESS THIRD PARTY TECHNOLOGY, WHICH WE DEPEND UPON TO CONDUCT OUR BUSINESS AND AS A RESULT WE COULD EXPERIENCE DELAYS IN THE DEVELOPMENT AND INTRODUCTION OF NEW SERVICES OR ENHANCEMENTS OF EXISTING SERVICES.

If we lose the ability to access third party technology which we use, are unable to gain access to additional products or are unable to integrate new technology with our existing systems, we could experience delays in our development and introduction of new services and related products or enhancements until equivalent or replacement technology can be accessed, if available, or developed internally, if feasible. If we experience these delays, our revenues could be substantially reduced. We license technology that is incorporated into our services and related products from third parties for database technology. In light of the rapidly evolving nature of Internet technology, we may increasingly need to rely on technology licensed to us by other vendors, including providers of development tools that will enable us to quickly adapt our technology to new services. Technology from our current or other vendors may not continue to be available to us on commercially reasonable terms, or at all.

WE MAY BE LIABLE FOR SUBSTANTIAL PAYMENTS AS A RESULT OF INFORMATION RETRIEVED FROM OR TRANSMITTED OVER THE INTERNET.

We may be sued for defamation, civil rights infringement, negligence, copyright or trademark infringement, personal injury, product liability or other legal claims relating to information that is published or made available on FREEAGENT.COM and the other sites linked to it. These types of claims have been brought, sometimes successfully, against other online services in the past. We could also be sued for the content that is accessible from FREEAGENT.COM and through links to other Internet sites or through content and materials that may be posted by members in chat rooms or on bulletin boards. Our acquisition of Ithority, an online marketplace where people in need of expert advice can be connected with providers of expert advice on a variety of subjects, creates the possibility that we will be subject to potential claims that, among others, the professional advice obtained through the service was inappropriate, incorrect, or negligently or recklessly provided. We also offer e-mail services, which may subject us to potential risks, such as liabilities or claims resulting from unsolicited email or spamming, lost or misdirected messages, security breaches, illegal or fraudulent use of email or interruptions or delays in email service. Our

insurance does not specifically provide for coverage of these types of claims and therefore may not adequately protect us if we are required to make these types of payments. In addition, we could incur significant costs in investigating and defending these types of claims, even if we ultimately are not liable.

WE MAY BE SUBJECT TO THE UNFAVORABLE INTERPRETATION OF GOVERNMENT REGULATIONS.

As an employer, we are subject to all federal, state and local statutes and regulations governing our relationships with our employees and affecting businesses generally. In addition, by entering into employment agreements with free agents, FREEAGENT.COM and e.office are affected by specifically applicable licensing and other regulatory requirements as well as by uncertainty in the application of numerous federal and state laws relating to labor, tax, employment matters and wage payments. These laws include the U.S. Family Medical Leave Act, the Fair Labor Standards Act and the Americans With Disabilities Act, as well as state laws relating to workers compensation, unemployment benefits, minimum wages and medical and pregnancy issues. Many of these laws do not specifically address the obligations and responsibilities of non-traditional employers such as us. Because we expect to be subject to some or all of these laws in each state in which we have employees, our expenses to comply with these laws may be substantial, and we may become liable for the payment of wages to our FREEAGENT or E.OFFICE employees, whether or not the FREEAGENT or E.OFFICE employee has obtained an assignment, or we have received payment from the organizations contracting with us for the services performed by these employee. Interpretive issues concerning these types of relationships have arisen and remain unsettled.

WE EXPECT TO INCUR SUBSTANTIAL EXPENSES IN ORDER TO COMPLY WITH STATE EMPLOYEE LEASING, EMPLOYMENT AGENCY OR TEMPORARY EMPLOYMENT LAWS.

Uncertainties arising under state law include the compliance requirements to which FREEAGENT.COM and e.office are subject under state employee leasing, employment agency or temporary employment laws, as well as under other state laws. We expect to incur substantial expenses in order to comply with these laws and could be subject to substantial penalties for failing to comply with these laws. FREEAGENT.COM and e.office have attributes that could be seen as potentially triggering compliance requirements under some of these laws. Some states regulate employee leasing companies, employment agencies and temporary staffing companies, while most states focus on only one or two of these types of businesses. State statutory and regulatory definitions and requirements concerning these types of businesses are occasionally similar, but generally all of them differ in several important respects. If we are governed by any of these statutes or regulations, we may be subject to licensing requirements and financial oversight. The length of time for us to obtain any regulatory approval required to begin or continue operations could vary from state to state. There can be no assurance that we will be able to satisfy the licensing requirements or other applicable regulations of any particular state in which we have already begun to operate or intend to operate, that we will be able to provide the full range of FREEAGENT or E.OFFICE services currently offered or that we will be able to operate profitably within the regulatory environment of any state in which we do decide to obtain regulatory approval.

THERE ARE CONSIDERABLE UNCERTAINTIES IN THE APPLICATION OF FEDERAL TAX AND EMPLOYEE BENEFITS LAWS TO OUR BUSINESS THAT COULD LIMIT OUR ABILITY TO PROVIDE BENEFITS THAT WILL ATTRACT FREE AGENTS.

Uncertainties arising under the Internal Revenue Code of 1986, as amended, and ERISA include the qualified tax status and favorable tax status of some of the benefit plans that we provide. For example, the IRS could determine that free agents who purchase our FREEAGENT or E.OFFICE services are not our employees under the provisions of the Code and ERISA relating to employee benefit plans such as the 401(k) plan we offer. If the IRS made such a determination, neither free agents who pay for our FREEAGENT and E.OFFICE services nor we would be permitted to make tax deferred contributions to our 401(k) plan. Similarly, the IRS or other taxing authorities could determine that free agents who purchase our FREEAGENT and E.OFFICE services are not our employees under federal, state or local laws and regulations providing for the favorable tax treatment of payments made for group health, disability and life insurance benefits provided as part of our FREEAGENT E.OFFICE services or, with respect to the stock options granted to these employees, whether these options qualify as incentive stock options. If an adverse determination was made as to the employee status of free agents under one or more of these federal, state or local laws and regulations, our FREEAGENT and E.OFFICE services would become less attractive to our registered free agents since we would no longer be able to provide those valuable corporate-style benefits. As a result, it is likely that our revenues would be adversely affected and our ability to attract free agents would be reduced.

OUR METHOD OF REPORTING NET FEES RECEIVED FROM OUR FREEAGENT AND E.OFFICE SERVICES FOR ACCOUNTING PURPOSES AND GROSS FOR TAX PURPOSES MAY BE CHALLENGED.

In contrast to our method of reporting under generally accepted accounting principles as revenues, the fees received from free agents who purchase our FREEAGENT and E.OFFICE services, for tax purposes we will report as revenues the gross billings we receive from organizations for the services rendered by these free agents. Following the receipt of the gross billings from these organizations, we pay or reimburse the free agents' project-related expenses, pay the premiums for the free agents' health, disability and life insurance, make the free agents' desired 401(k) contributions and withhold any required federal, state and local taxes. Thereafter, we remit the remaining funds to the free agent as wages and salaries, treating the free agents' project-related expenses, the premiums for health, disability and life insurance and 401(k) contributions as deductible expenses for tax purposes.

In the event free agents who purchase our FREEAGENT and E.OFFICE services are held not to be our employees under applicable laws and regulations as described above, we could be liable to the IRS or other taxing authorities for improper reporting of their wages and salaries. In addition, whether or not the free agent is treated as our employee, we could also be liable to the IRS or other taxing authorities if amounts treated as deductible project-related reimbursable expenses are not properly deductible for tax purposes. Furthermore, in the event the free agents who purchase our FREEAGENT E.OFFICE services are held to be employees of an organization using their services, the qualified plans of these organizations may be adversely affected. While we believe that we have a reasonable basis for concluding that free agents who purchase our FREEAGENT E.OFFICE services are our employees under applicable laws and regulations, the application of these laws and regulations to our business is uncertain and there can be no assurance as to the ultimate resolution of these issues.

WE MAY BE SUBJECT TO CLAIMS RELATING TO OUR FREEAGENT AND E.OFFICE EMPLOYEES OR THE ORGANIZATIONS THAT USE THEIR SERVICES.

We may be subject to claims relating to the actions of free agents who purchase our FREEAGENT and E.OFFICE services, including possible claims of discrimination and harassment, violations of non-competition agreements, theft of property from organizations for whom projects are performed, misuse of proprietary information from organizations and other criminal actions or torts and other claims. These claims may allege that we do not adequately supervise these free agents in a manner sufficient to ensure that these types of events do not occur. In addition, we may be subject to claims from organizations for whom FREEAGENT and E.OFFICE employees perform work based upon the negligence or gross negligence in their performance of projects and the failure of the work produced by these employees to conform to required specifications. Although these employees typically indemnify us with respect to these liabilities, we may not recover from them sufficient amounts to satisfy these claims. The conduct and performance of our FREEAGENT and E.OFFICE employees may result in negative publicity, injunctive relief and the payment by us of money damages or fines.

As the employer of the free agents who purchase our FREEAGENT and E.OFFICE services, we may be subject to a wide variety of employment-related claims, such as claims for injuries, wrongful death, harassment, discrimination, wage and hour violations and other matters. In addition, a number of legal issues remain unresolved with respect to arrangements among businesses of the type such as ours that provide services to free agents and the buyers of professional talent, including questions concerning ultimate liability for violations of employment and discrimination laws. As a result of our status as an employer, we may be subject to liability under various governmental regulations for violations of these regulations even if we do not participate in the violations. We carry liability insurance, but there can be no assurance that any of our insurance policies will be sufficient to cover any judgments, settlements or costs relating to any claims, suits or complaints or that sufficient insurance will be available to us in the future on satisfactory terms, if at all. If insurance is not sufficient to cover any judgments, settlements or costs relating to any present or future claims, suits or complaints, we may incur substantial losses.

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ITEM 2. PROPERTIES

Our principal sales, marketing, research, development, and administrative offices occupy leased space at 39 West 13th Street, New York, NY 10011 with a lease term expiring in 2009. We also lease space in Manhattan Beach, California under a lease that expires in 2002 and in Delray Beach, Florida under a lease expiring in 2001. We believe that these properties and some sales suites are sufficient to meet our present needs and we do not anticipate any difficulty in securing additional space, as needed, on acceptable terms.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is at times subject to pending and threatened legal actions and proceedings. After reviewing pending and threatened actions and proceedings with counsel, except as provided below, management believes that the outcome of such actions or proceedings is not expected to have a material adverse effect on the financial position or results of operations of the Company.

On July 6, 2000, Knowledge Transfer International ("KTI") filed a complaint against the Company in the Supreme Court of the State of New York in the County of New York. KTI's claims arose out of a letter signed by KTI and by the Company on June 16, 1999. KTI asserted a claim that the Company breached that alleged agreement and also asserted additional claims for an accounting, breach of fiduciary duty, quantum merit and unjust enrichment relating to this alleged joint venture. KTI sought damages in an amount to be determined at the time of the trial, but claimed that its damages were believed to be in excess of $20 million. On January 18, 2001, the Company and KTI settled the above-described action. Without admitting any liability, the Company agreed to pay KTI $0.09 million, $0.08 million of which was paid on January 18, 2001 and the balance of which is to be paid within six months, and the parties exchanged mutual releases.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock was listed on the NASDAQ National Market ("NASDAQ") under the symbol "OPUS" commencing with our April 4, 2000 initial public offering. At February 28, 2001 the number of stockholders of record was approximately 764. The following table sets forth the quarterly high and low sales prices per share as reported by the NASDAQ for the year ended December 31, 2000.

	HIGH	LOW

First Quarter	n/a	n/a
Second Quarter	$15.7812	$ 2.8750
Third Quarter	$ 5.2500	$ 2.2500
Fourth Quarter	$ 2.4375	$ 0.2188

On February 28, 2001, the last sale price of our Common Stock on the NASDAQ was $0.34 per share.

On January 5, 2001, we received notice from the NASDAQ that our Common Stock had failed to maintain a minimum bid price of $1.00 over a period of 30 consecutive trading days as required by NASDAQ's Marketplace Rule 4450(a)(5). As a result, we have 90 calendar days, or until April 4, 2001, to regain compliance with this requirement. If we are unable to demonstrate compliance with this requirement on or before April 4, 2001, NASDAQ will provide us with notice that our Common Stock will be delisted. At that time, we may appeal such notice to a NASDAQ Listing Qualifications Panel.

If a delisting were to occur, our common stock would trade on the over the counter Bulletin Board, or in the pink sheets maintained by the National Quotation Bureau, Inc. Such markets are generally considered to be less efficient markets.

DIVIDEND POLICY

We have never declared or paid any dividends on our common stock. We do not anticipate paying any cash dividend in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, operating results, capital requirements, general business conditions, restrictions imposed by financing arrangements, if any, legal and regulatory restrictions on the payment of dividends and other factors that our board of directors deems relevant.

RECENT SALES OF UNREGISTERED SECURITIES

The former shareholders of Ithority were also entitled to up to approximately 182,599 shares, which have been placed in escrow (the "Ithority Escrow Shares"), plus $4.0 million of the Company's common stock payable one year from the date of closing based upon the then fair market value of the Company's common stock (the "Ithority Additional Shares"). On January 10, 2001 as part of the $4 million issuance the Company issued 196,865 shares of common stock valued at $0.1 million, or $0.55 per share, to certain of the former stockholders of Ithority Corporation and paid $0.07 million, or $0.1 per share, for the combined shares of approximately 7,254,240 representing the Ithority escrow shares of 178,240 and shares of approximately 7,076,000 valued at $3.9 million, or $0.55 per share, that would have been issued to the former shareholders.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this report. The consolidated statement of operations data for each of the years ended December 31, 2000 and 1999 and the period from August 17, 1998 (inception) to December 31, 1998, and the consolidated balance sheet data as of the years and period then ended are derived from our audited consolidated financial statements which have been prepared assuming that the Company will continue as a going concern. As disclosed in Note 1 to the financial statements, the Company has incurred substantial recurring losses from operations and expects to incur substantial losses in the near future. These and other factors as described in Note 1 raise substantial doubts about its ability to continue as a going concern. Managements' plans in regards to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. .

(IN THOUSANDS, EXCEPT PER SHA

	Year ended December 31, 2000	Year ended December 31, 1999	D
CONSOLIDATED STATEMENT OF OPERATIONS DATA:			
Licenses	$ 6,565	$ -	
Services, FreeAgent & Other	4,717	419	
Total Revenue	11,282	419	
Cost of Revenue	2,105	261	
Gross profit (loss)	9,177	158	
Sales & Marketing, exclusive of $376, $187, and $0 for the years and period ended, respectively, reported below as amortization of equity-based compensation	28,160	11,841	
Product Development, exclusive of $970, $844, and $0 for the years and period ended, respectively, reported below as amortization of equity-based compensation	26,817	10,492	
General & Administrative, exclusive of $6,632, $1,417, and $0 for the years and period ended, respectively, reported below as amortization of equity-based compensation	10,189	4,883	
Depreciation and amortization of goodwill	14,867	629	
Amortization of equity-based compensation	7,978	2,448	
Total operating expenses	88,011	30,293	
Loss from operations	(78,834)	(30,135)	
Net interest income	2,917	745	
Loss before income taxes	(75,917)	(29,390)	
Income tax expense	-	-	
Net loss	$(75,917)	$(29,390)	

Net loss per share - basic and diluted	$ (1.89)	$ (2.91)
Weighted average shares used in computing basic and diluted net loss per share	40,084	10,083

	Year ended December 31, 2000	Year ended December 31, 1999	Period fr August 1 1998 (inceptio December 1998
		(IN THOUSANDS)	
CONSOLIDATED BALANCE SHEET DATA:			
Cash, cash equivalents and investments	$35,835	$28,463	$
Working Capital	34,876	21,638	
Total assets	87,632	40,716	
Line of credit	1,163	-	
Accumulated deficit	(106,386)	(30,425)	(
Total stockholders' equity	71,775	27,727	

See Note 1 of Notes to Consolidated Financial Statements for an explanation of the determination of the number of shares used to compute basic and diluted net loss per share.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

THE FOLLOWING DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF OPUS360 CORPORATION, ("OPUS360") SHOULD BE READ IN CONJUNCTION WITH "SELECTED CONSOLIDATED FINANCIAL DATA" AND OPUS360'S CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES APPEARING ELSEWHERE IN THIS REPORT. THIS DISCUSSION AND ANALYSIS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS, UNCERTAINTIES AND ASSUMPTIONS. THE ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING BUT NOT LIMITED TO, THOSE SET FORTH UNDER "RISK FACTORS" AND ELSEWHERE IN THIS REPORT.

OVERVIEW

Opus360 provides eBusiness software and services that enable companies to manage and acquire skilled professionals strategically. Opus360 sells its products and services to leading corporations, professional services and staffing firms. Opus360's software enables businesses to get more work done with the people they have and reduce the cost of acquiring additional skilled professionals.

Opus360 enables businesses to take a 360-degree approach to getting work done. It offers solutions for better utilizing a company's workforce and reducing the cost of acquiring all types of skilled professionals whether they are full-time employees, contingent workers or independent professionals.

WORKFORCE360-TM- is the family of eBusiness software and services from Opus360 that helps companies better utilize their workforce of skilled professionals and reduce the cost of acquiring additional talent. It includes:

- OPUS360 WORKFORCE MANAGEMENT-TM- - Opus360 Workforce Management-TM- is a resource management software that helps companies better utilize their workforce and reduce turnover. It enables businesses to track the work that needs to be done today and in the future. It also tracks skills and preferences of people who are available to do work. The software makes it easy to assign the right people to the right work. The ability to consider worker preferences when making assignments increases job satisfaction and reduces turnover. The software's workforce planning features enable businesses to make sure they have the right workforce for future work, or to choose work that suits the skills available in their workforce. The software offers many features that help businesses keep their people fully utilized. Where there are gaps between the work that needs to be done and the people who are available, the software makes it easy to hire additional help from outside agencies through seamless integration with Opus360 Workforce Procurement resource management software that helps companies better utilize their workforce and reduce turnover.

- OPUS360 WORKFORCE PROCUREMENT-TM- - Opus360 Workforce Procurement-TM- is a vendor management software that reduces the time, cost, and risk of hiring skilled professionals through outside agencies. Managed services providers also use the software as a technology platform for delivering managed services to their customers. Opus360 Workforce Procurement automates requisition workflows between buyer and supplier, and captures vendor performance metrics at each step called TCQ2 (Time, Cost, Quantity, Quality).

- FREEAGENT.COM - FreeAgent.com is a web-based talent exchange where businesses can find independent professionals and independent professionals can find work. Businesses can post project requirements and get responses from the over 180,000 independent professionals registered on the site. Businesses can also search directly for independent professionals with specific skills. Free agents can create personalized electronic resumes called e.portfolios that describe their skills. They can also search for work from among the many projects posted on the site.

- E.OFFICE - a management service that enables companies to expand their available skilled labor pool by reducing the cost, complexity and risk of using independent professionals. E.office

reduces tax and regulatory risk by turning 1099 independents into W-2 employees of e.office. E.office reduces administrative complexity by replacing contracts and invoices for each independent professional with a single contract and monthly invoice for all the company's independents. E.office also costs less than many other management services.

E.office increases retention of independent professionals by offering them benefits, services, and tax advantages. The corporate-style benefits offered by e.office are portable between jobs. These include free life, disability and liability insurance; and optional health insurance plans, dental insurance and a 401(k) retirement plan. Invoicing, collections, tax payments, and HR administrative support services make independents more productive. E.office also enables independent professionals to retain the tax advantages of being independent by deducting business expenses from gross income.

WORKFORCE360 software and services can be used individually or as an end-to-end integrated solution for managing and acquiring skilled professionals. This enables businesses to solve their most pressing human capital management challenges immediately and expand into other solutions later.

In May 1999 we acquired Churchill and launched our FreeAgent e.office services with the launch of the FreeAgent.com website in July 1999. In January 2000, we acquired all of the related assets and liabilities of Industryinsite.com and Ithority Corporation ("Ithority"), and in February 2000, we acquired PeopleMover, Inc. ("PeopleMover"). We accounted for these acquisitions as purchase business combinations. Accordingly, the results of operations of Churchill, IndustryInsite.com, Ithority and PeopleMover are included in our combined results from the date of the acquisitions. Please see Note 3 of Notes to Consolidated Financial Statements for more detailed information.

Through December 31, 2000, our revenues have been principally derived from licenses of our software solutions, from the delivery of implementation and training services, and from maintenance and support contracts. Customers who license our Workforce360 Platform modules, Opus360 Workforce Management and Opus360 Workforce Procurement, also generally purchase maintenance and support contracts which provide software upgrades and technical support over a stated term, which is usually a twelve-month period. Our customers may also purchase implementation services from us, which may be provided by us directly or by third-party consulting organizations. We have also recognized revenue from the sale of licenses for our PeopleMover subsidiary's products, and from software contracts that require significant modification or customization of the software, on a percentage of completion basis based on costs incurred.

We have adopted Statement of Position, or SOP, 97-2, SOFTWARE REVENUE RECOGNITION, which supersedes SOP 91-1, SOFTWARE REVENUE RECOGNITION and Statement of Position, or SOP, 98-9, MODIFICATION OF SOP 97-2, SOFTWARE REVENUE RECOGNITION, WITH RESPECT TO CERTAIN TRANSACTIONS, which amends SOP 97-2 and supercedes SOP 98-4. SOP 97-2 SOFTWARE REVENUE RECOGNITION, as amended, generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair market values of each of the elements. The fair value of an element must be based on vendor-specific objective evidence ("VSOE") of fair value. Software license revenue allocated to a software product generally is recognized upon delivery of the product or deferred and recognized in future periods to the extent that an arrangement includes one or more elements that are to be delivered at a future date and for which VSOE has not been established. Services revenue is recognized as the service is performed assuming that sufficient evidence exist to determine the fair value of the services. Maintenance and support revenue is recognized ratably over the maintenance term. If evidence of fair value does not exist for all elements of a license agreement and future maintenance and support or Postcontract Customer Support ("PCS") is the only undelivered element, then all revenue for the license arrangement is recognized ratably over the term of the agreement as license revenue. If evidence of fair value of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue.

We allocate the total costs for overhead and facilities to each of the functional areas that use the overhead and facilities services based on their headcount. These allocated overhead and facilities charges include facility rent for our corporate offices, communication and web hosting charges, offices expenses

including postage, freight and leases for office equipment and computers, and depreciation expense for office furniture and equipment.

Included in our operating expenses are various non-cash expenses for equity issued to various strategic business partners. Also included in our operating expenses is the non-cash amortization of goodwill. These expenses are for the amortization of goodwill resulting from our acquisitions of Churchill, IndustryInsite.com, Ithority and PeopleMover. See Note 3 of Notes to Consolidated Financial Statements for more detailed information.

Although revenues have consistently increased from quarter to quarter, we have incurred significant costs to develop our technology and products, to recruit and train personnel for our sales, marketing, professional services and administration departments, and for the amortization of our goodwill and other intangible assets. As a result, we have incurred significant losses since inception, and as of December 31, 2000, had an accumulated deficit of $106.4 million. We believe our success is contingent on increasing our customer base while continuing to develop our products and services.

Our limited operating history makes the prediction of future operating results very difficult. We believe that period-to-period comparisons of operating results should not be relied upon as predictive of future performance. Our operating results are expected to vary significantly from quarter to quarter and are difficult or impossible to predict. Our prospects must be considered in light of the risks, expenses and difficulties encountered by companies at an early stage of development, particularly companies in new and rapidly evolving markets, including risks associated with our recent acquisitions. We may not be successful in addressing such risks and difficulties. Although we have experienced significant percentage growth in revenues in recent periods, we do not believe that prior growth rates are sustainable or indicative of future operating results. Please refer to the "Risk Factors" section for additional information.

Recent Acquisitions

PeopleMover, Inc.

On February 24, 2000, we acquired PeopleMover, Inc. ("PeopleMover"), a provider of internet-centric software solutions for managing people. PeopleMover's internet-based solutions, PeopleMover/Staffing ("PSA") and PeopleMover/Service Automation enables organizations to assign people to jobs based on skills and enables organizations to complete projects efficiently and at the lowest possible cost. The acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the acquisition dates.

The total purchase price of approximately $33.2 million consisted of an exchange of 2,292,000 shares of our common stock with a fair value of $20.9 million, assumed stock options with a fair value of approximately $7.9 million, negative net assets assumed of approximately $3.8 million and other acquisition related expenses of approximately $0.6 million consisting primarily of payments for professional fees. The entire purchase price was allocated to goodwill. We also recorded a deferred compensation expense, which is being amortized over three years, of $3.1 million for approximately 342,000 shares subject to a three-year restricted stock vesting agreement. PeopleMover's products and employees have been integrated with the Company's Workforce360 software and operations, and PeopleMover is no longer a separate operating entity.

Ithority Corporation

On January 20, 2000, we acquired Ithority Corporation ("Ithority"), an operator of an online knowledge marketplace, which links buyers and sellers of knowledge products. Ithority's marketplace is backed by a reputation system, which enables buyers and sellers to qualify each other, a virtual escrow system, which reduces the risks of buyers and sellers doing business together, and a payment processing system. The acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the acquisition dates.

The total purchase price of approximately $2.9 million consisted of an exchange of 243,500 shares of our common stock with a fair value of $2.2 million, cash payments aggregating $0.5 million, negative

net assets assumed of approximately $0.1 million and other acquisition related expenses of approximately $0.1 million consisting primarily of payments for professional fees. The entire purchase price was allocated to goodwill. We also recorded a deferred compensation expense, which is being amortized over three years, of $5.3 million for approximately 178,000 shares subject to a three-year restricted stock vesting agreement. Ithority's products have been integrated with the Company's FreeAgent.com website and operations, and Ithority is no longer a separate operating entity.

IndustryInsite.com

In January 2000, we acquired from Brainstorm Interactive, Inc. ("Brainstorm") all of the related assets and liabilities of Industryinsite.com, a website operated by Brainstorm, for an aggregate cash purchase price of $1.0 million. The acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the acquisition dates.

The purchase price of $1.0 million consisted of cash of $0.65 million paid on closing and cash of $0.35 million paid in April 2000. The entire purchase price was allocated to goodwill.

The Churchill Benefit Corporation

On May 27, 1999, we acquired The Churchill Benefit Corporation ("Churchill"), a provider of back office services to independent professionals. Churchill's contracts, invoices and collects from the customers of its information technology professionals, who sign up for its services. Churchill provides these services in exchange for a monthly fee.

The total purchase price of approximately $2.1 million consisted of an exchange of 946,000 shares of our common stock with a fair value of $1.7 million, negative net assets assumed of approximately $0.1 million and other acquisition related expenses of approximately $0.3 million consisting primarily of payments for professional fees. The entire purchase price was allocated to goodwill.

Results of Operations

We intend to continue to devote resources to advertising and brand-marketing programs designed to promote our Workforce360 enterprise software. We anticipate that we will incur additional salaries and sales commissions as a result of increased sales personnel and increased sales. Our marketing and branding programs for our enterprise software will result in an expanded marketing program for trade shows and customer advisory board meetings. We believe that these expenses will continue to increase in absolute dollars in future periods. The increase in sales and marketing costs is expected to be offset by a decrease in our product development and general and administrative expenses as we focus on increasing our operating efficiencies while cutting costs. We expect to incur losses from operations for the foreseeable future but these losses are expected to decrease significantly as a percentage of revenue. To the extent these decreases in our operating expenses are not followed by commensurate increases in our revenue, or if we are unable to adjust operating expense levels as anticipated, our operating losses may exceed our expectations for those periods. We cannot be certain that we will ever achieve or sustain profitability.

Years Ended December 31, 2000 and 1999

Revenue

For the year ended December 31, 2000 our revenue was $11.3 million of which $9.2 million was derived from Application and Procurement Services ("APS") which consisted of integration services revenue of $2.6 million and $6.6 million from the sale of software licenses, including an accelerated license fee of $0.5 million in mitigation of a licensee's decision to cease implementation of our product and license fees of $0.7 million for our Private Labeled Sites; a unique combination of client's service marks with its proprietary FreeAgent.com universal resource locator for the purpose of bringing together buyers and sellers of contracted labor resources in a single efficient marketplace. $2.1 million was derived from our FreeAgent Services consisting of initial sign-up fees and monthly fees paid by our FreeAgent e.office employees as well as sales of advertising sponsorships on the FreeAgent.com website. For the year ended December 31, 1999 we had revenue of $0.4 million, which was primarily derived from our FreeAgent e.office services.

Cost of Revenue

Cost of revenue for the year ended December 31, 2000, was $2.1 million, an increase of 707% over cost of revenue for the year ended December 31, 1999. This increase resulted from additional salaries and wages paid to employees that provide implementation and integration services to customers who were deploying our Workforce360 enterprise software during the year, salaries paid to staff who administer our FreeAgent e.office services, and costs associated with operating the FreeAgent.com website including certain technical personnel and telecommunications charges. As we continue to increase the sale and implementation of our enterprise software solution, we expect that cost of revenue will continue to increase both in absolute dollars and percentage terms in future periods. Cost of revenue for the year ended December 31, 1999, was $0.3 million and consisted primarily of salaries paid to staff who administered our FreeAgent e.office services, costs associated with operating the FreeAgent.com website including certain technical personnel and telecommunications charges.

Operating Expenses

Sales and Marketing. Sales and marketing expenses for the year ended December 31, 2000 were $28.2 million, excluding $0.4 million reflected as equity based compensation, an increase of 138% over sales and marketing expenses of $11.8 million for the year ended December 31, 1999, excluding $0.2 million reflected as equity based compensation. This increase was primarily attributable to incremental marketing and advertising expenses for our Workforce360 enterprise software, FreeAgent.com website, as well as salaries and benefits paid to an expanded sales and marketing staff. As we build a brand awareness for our enterprise software solutions, and we continue to reallocate our resources internally in an attempt to capture market share and create new marketing opportunities, we expect that sales and marketing expenses will increase in absolute dollars in future periods.

Product Development. Product development expenses for the year ended December 31, 2000 were $26.8 million, excluding $1.7 million of software development cost capitalized and $1.0 million reflected as equity based compensation, an increase of 156% over product development expenses of $10.5 million for the year ended December 31, 1999, excluding $0.8 million reflected as equity based compensation. The increase was primarily attributable to additional personnel developing our Workforce360 enterprise software and enhancements to our FreeAgent.com services, including salaries and benefits and fees paid to our third party consultants. During the year ended December 31, 2000, we capitalized approximately $1.7 million of software development costs and are amortizing the cost over a three-year period. With the second-generation release of our Workforce360 enterprise software, we will focus our development efforts on increasing features and functionality for our software solutions.

General and Administrative. General and administrative expenses for the year ended December 31, 2000 were $10.2 million, excluding $6.6 million reflected as equity based compensation, an increase of 108% over general and administrative expenses of $4.9 million for the year ended December 31, 1999, excluding $1.4 million reflected as equity based compensation. The increase was primarily attributable to an increased number of employees and associated salaries and benefits, general office expenses, rent and utilities, recruiting fees and professional fees. Salaries and benefits increased as we added to our executive management team. Our rent and utilities also increased as a result of new leasehold facilities and the addition of additional office locations as a result of our acquisitions. We expect that general and administrative cost will decrease in absolute dollars in future periods as we implement cost cutting measures.

Depreciation and Amortization. Depreciation and amortization expense for the year ended December 31, 2000 was $14.9 million, consisting primarily of amortization of goodwill of $12.1 million associated with our acquisitions. Depreciation and amortization expense was $0.6 million for the year ended December 31, 1999.

Amortization of Equity-based Compensation. The amortization of equity-based compensation for the year ended December 31, 2000 was $8.0 million and consisted of deferred compensation expense for options to purchase common stock granted to employees, directors, and non-employees having exercise prices below the fair market value of our common stock at the date of grant as well as amortization of deferred compensation expense for the Ithority and PeopleMover Escrow shares. Amortization of equity-based compensation was $2.4 million for the year ended December 31, 1999. We will continue to amortize our equity-based compensation over the vesting period, which is generally three to four years.

Other Income. Net interest income for the year ended December 31, 2000 was $2.9 million due to higher average cash balances. Interest income was $0.7 million for the year ended December 31, 1999.

Income Tax Expense. We have not recorded a provision for income tax expense as we have incurred substantial losses in every fiscal period since our inception.

Liquidity and Capital Resources

We have funded our operations from inception primarily by the sale of our equity securities, with net proceeds of approximately $132.6 million through December 31, 2000. In April 2000, we completed our initial public offering and a concurrent private placement to Dell USA L.P., raising approximately $75.1 million net of offering costs.

Cash used in operating activities for the year ended December 31, 2000 was $58.9 million, primarily due to our net loss of $75.9 million, adjusted for various non-cash charges including non-cash compensation and depreciation and amortization, and changes in operating assets and liabilities, including changes in our accounts receivable, accounts payable and accrued expenses. Cash used in operating activities for the year ended December 31, 1999 totaled $20.8 million. We expect to significantly decrease our working capital needs quarter to quarter through more targeted marketing and advertising, better workforce management and a reduction in general and administrative expenses.

Cash provided by investment activities for the year ended December 31, 2000 totaled $14.6 million. We used $9.8 million during the year ended December 31, 2000 to acquire property and equipment and fund software development. Cash used in connection with acquisition of subsidiaries' assets and other assets were $2.6 million. Cash from the liquidation of short-term investments was $27.1 million. Cash used in investing activities for the year ended December 31, 1999 was $30.7 million. We used $27.1 million to acquire short-term investments, $3.2 million to acquire property and equipment, and $0.4 million for various acquisitions.

Net cash provided by financing activities for the year ended December 31, 2000 was $78.8 million. The majority of this amount was from the net proceeds of $75.1 million from our April 7, 2000 initial public offering and concurrent private placement. The remaining $3.7 million was realized from exercises of issued and outstanding options, and warrants and a loan. Cash flow provided by financing activities for the year ended December 31, 1999 was $47.0 million of which $39.8 million resulted from the issuance of Series B Convertible Preferred Stock, $4.6 million resulted from the issuance of Series A Convertible Preferred Stock, and $2.7 million from the issuance of common stock upon warrant and stock option exercises.

At December 31, 2000, the Company had cash balances of $35.8 million and unused credit lines of $0.8 million. Since inception the Company has incurred cumulative negative operating cash from operations flows of $80 million and an accumulative deficit at December 31, 2000 of $106.4 million.

The accompanying financial statements have been prepared assuming that Opus360 will continue as a going concern. Our history of net losses and negative cash flows from operations as well as projected additional losses raises substantial doubt about our ability to continue as a going concern. In the future, we may need to raise additional funds through public or private financings, or other arrangements to fund our operations and potential acquisitions, if any. We currently have no plans to affect any other offerings. We cannot assure you that any financings or other arrangements will be available in amounts or on terms acceptable to us or at all and any new financings or other arrangements could place operating or other restrictions on us. Our inability to raise capital when needed could seriously harm the growth of our business and results of operations. If additional funds are raised through the issuance of equity securities, the percentage ownership of our stockholders would be reduced. Furthermore, these equity securities could have rights, preferences or privileges senior to our common stock.

As a result of our issuing options to FreeAgent and e.office employees under circumstances that may have violated the registration requirements of the Securities Act, we intend to make a rescission offer to these employees, and we may have a contingent liability of up to $0.1 million.

Recent Accounting Pronouncements

On March 31, 2000 the Financial Accounting Standards Board issued FASB interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation - an interpretation of APB Opinion No. 25 (FIN 44). FIN 44 generally applies prospectively to new awards, exchanges of awards in a business combination, modifications to outstanding awards, and changes in grantee status that occur on or after July 1, 2000, except for the provision related to repricings and the definition of an employee which apply to awards issued after December 15, 1998. To the extent that events covered by FIN 44 occur after the applicable date but prior to July 1, 2000, the effects of applying FIN 44 shall be recognized on a prospective basis. Accordingly, no adjustments shall be made upon initial application of FIN 44 to financial statements for periods prior to July 1, 2000. The Company has determined that the adoption of FIN 44 did not have a material effect on the Company's operating results.

Qualitative and Quantitive Disclosure About Market Risk

At December 31, 2000, the majority of our cash balances were held primarily in the form of short- term highly liquid investment grade corporate and government securities. As a result, our interest income may be sensitive to changes in the general level of U.S. interest rates. However, due to the short-term nature of our investments and the fact that we generally hold these investments until their maturity dates, we believe that we are not subject to any material interest or market rate risks.

The Company utilizes lines of credit to purchase equipment and to back certain financial obligations. The Company's outstanding balance under its lines of credit at December 31, 2000 was $1.2 million. The weighted average interest rate for the Company's lines of credit during 2000 was 10.19%. The Company will pay an aggregate amount of $1.3 million, including interest, for its two lines of credit, which matures on February 2003 and June 2003, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements, and the related notes thereto, of Opus360 and the Report of Independent Auditors are filed as a part of this Form 10-K.

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Stockholders
of Opus360 Corporation:

We have audited the accompanying consolidated balance sheets of Opus360 Corporation as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2000 and 1999 and the period from August 17, 1998 (inception) to December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Opus360 Corporation as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years ended December 31, 2000 and 1999, and the period from August 17, 1998 (inception) to December 31, 1998 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in Note 1 to the financial statements, the Company has incurred substantial recurring losses from operations and expects to incur substantial losses in the near future. These and other factors as described in Note 1 raise substantial doubts about its ability to continue as a going concern. Managements' plans in regards to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

New York, New York
February 17, 2000

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Opus360 Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands)

	December 31, 2000	December 1999
ASSETS		
Cash and cash equivalents	$35,835	$1,3
Accounts receivable, net of allowances	5,510	2,3
Short-term investments	-	27,1
Prepaid expenses	6,742	3,6
Other current assets	2,506	1
Total current assets	50,593	34,6
Property and equipment, net	9,513	2,9
Goodwill, net	26,801	1,7
Due from PeopleMover		5
Deferred costs and other assets	725	8
Total assets	$87,632	$40,7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$5,189	$5,4
Accrued expenses	2,643	4,8

Accrued wages	3,721	2,6
Deferred revenues	2,484	
Line of credit	1,163	
Deferred costs and other current liabilities	517	
Total current liabilities	15,717	12,9
Capital lease obligation	140	
Total Liabilities	15,857	12,9
Common stock, $0.001 par value, 150,000 shares authorized, 50,088 and 10,880 issued and outstanding, respectively	50	
Series A convertible preferred stock, $0.001 par value, 8,400 shares authorized, 0 and 8,284 shares issued and outstanding, respectively	-	
Series B convertible preferred stock, $0.001 par value, 8,700 shares authorized, 0 and 8,677 shares issued and outstanding, respectively	-	
Paid-in capital	192,310	63,8
Stock subscription receivable	(215)	(2
Treasury stock	(31)	
Deferred compensation	(12,017)	(5,4
Accumulated deficit	(106,386)	(30,4
Accumulated other comprehensive loss	(3)	
Note receivable from key executive for common stock issuance	(1,933)	
Total stockholders' equity	71,775	27,7
Total liabilities and stockholders' equity	$87,632	$40,7

See accompanying notes to consolidated financial statements

Opus360 Corporation
Consolidated Statements of Operations
(in thousands, except per share amount)

	Year ended December 31, 2000	Year ended December 31, 1999	Au (
License Revenue	$ 6,565	$ -	
Services, FreeAgent & Other Revenue	4,717	419	
Total Revenue	11,282	419	
Cost of Revenue	2,105	261	
Gross profit	9,177	158	

Sales & Marketing, exclusive of $376 and $187, and $0 for the years and period ended December 31, 2000, 1999, and 1998, respectively, reported below as amortization of equity-based compensation	28,160	11,841
Product Development, exclusive of $970, $844, and $0 for the years and period ended December 31, 2000, 1999, and 1998, respectively, reported below as amortization of equity-based compensation	26,817	10,492
General & Administrative, exclusive of $6,632, $1,417, and $0 for the years and period ended December 31, 2000, 1999, and 1998, respectively, reported below as amortization of equity-based compensation	10,189	4,883
Depreciation and amortization of goodwill	14,867	629
Amortization of equity-based compensation	7,978	2,448
Total operating expenses	88,011	30,293
Loss from operations	(78,834)	(30,135)
Net Interest Income	2,917	745
Loss before income taxes	(75,917)	(29,390)
Income tax expense	-	-
Net loss	$(75,917)	$(29,390)
Basic and diluted net loss per share	$ (1.89)	$ (2.91)
Weighted average common shares used in computing basic and diluted net loss per share	40,084	10,083