ARTEMIS INTERNATIONAL SOLUTIONS CORP
Form 10-Q
May 21, 2002

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

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from _____________ to _________

Commission File number 000-29793

Artemis International Solutions Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware	13-4023714
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
4041 MacArthur Boulevard, Newport Beach, CA	92660
(Address of Principal Executive Offices)	(Zip Code)

949-660-7100
Registrant's Telephone Number, Including Area Code

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 30, 2002.

Common Stock	249,124,566
(Class)	(Outstanding Shares)

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Artemis International Solutions Corporation

Item 1. Financial Statements

Artemis International Solutions Corporation
Consolidated Balance Sheets

	March 31, 2002 (unaudited)	December 31
	(In thousands, except share amo	
Assets		
Current assets:		
Cash	$ 3,482	$ 5,
Trade accounts receivable, less allowance for doubtful accounts of $270 at March 31, 2002 and $223 at December 31, 2001	14,614	13,

Other accounts receivable	673	
Prepaid expenses	2,359	2,
Other current assets	234	
Total current assets	21,362	21,
Property and equipment, net of depreciation of $5,734 at March 31, 2002 and $5,194 at December 31, 2001	2,217	2,
Other intangible assets, net of amortization and writeoffs of $26,322 at March 31, 2002 and $25,286 at December 31, 2001	13,726	14,
Deferred taxes	16	-
Investment in affiliates and other assets	506	
Total assets	$ 37,827	$ 40,
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 4,849	$ 5,
Short-term line of credit	777	1,
Current portion of long-term debt	1,494	1,
Deferred revenue	9,187	7,
Accrued liabilities	5,822	5,
Accrued payroll and taxes	6,163	6,
Total current liabilities	28,292	27,
Deferred taxes	547	
Long-term debt, less current portion	731	1,
Accrued pension and other liabilities	669	
Total liabilities	30,239	30,
Stockholders' equity:		
Preferred shares, $0.001 par value, 25,000,000 shares authorized	--	-
Common stock, $0.001 par value, 500,000,000 shares authorized, 249,124,566 issued and outstanding	249	
Additional paid-in capital	79,948	79,
Accumulated deficit	(73,265)	(71,
Accumulated other comprehensive income	656	
Total stockholders' equity	7,588	9,
Total liabilities and stockholders' equity	$ 37,827	$ 40,

See accompanying notes to consolidated financial statements

Artemis International Solutions Corporation
Consolidated Statements of Operations
(in thousands except, per share amounts)

	For the Three Months Ended March 31,	
	2002	2001
	(unaudited)	(unaudited)
Revenue:		
Software	$ 3,152	$ 4,764
Support	3,973	4,274
Services	8,611	8,502
	15,736	17,540
Cost of revenue:		
Software	485	453
Support	1,677	1,928
Services	5,742	5,911
	7,904	8,292
Gross margin	7,832	9,248
Operating expenses		
Selling and marketing	2,712	4,441
Research and development	2,064	2,350
General and administrative	3,660	2,112
Amortization expense	1,036	4,161
Management fees	--	403
	9,472	13,467
Operating loss	(1,640)	(4,219)
Interest expense, net	26	127
Equity in loss of unconsolidated affiliates	25	106
Other expense	153	118
Foreign exchange loss	220	46
	424	397
Loss before income taxes	(2,064)	(4,616)
Income tax expense	49	184
Net loss	$ (2,113)	$ (4,800)
Basic and diluted net loss per share	$ (0.01)	$ (0.02)
Weighted average common shares used in computing basic and diluted net loss per share	249,125	199,424

See accompanying notes to consolidated financial statements

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Artemis International Solutions Corporation
Consolidated Statements of Cash Flows

	For The Three Months Ended	
	March 31, 2002	March 31,
Cash flow from operating activities:		
Net loss	$(2,113)	$(4,80
Adjustments to reconcile net loss to net cash provided provided by operating activities:		
Depreciation and amortization	1,569	4,22
Minority interest	--	(9
Deferred income taxes and other	--	59
Changes in operating assets and liabilities		
(Increase) decrease in trade accounts receivable	(1,247)	66
(Increase) decrease in prepaid expenses and other assets	477	(61
Increase (decrease) in deferred revenues	1,716	(56
Increase (decrease) in accounts payable	(443)	(68
Increase (decrease) in accrued expense and other liabilities	(789)	11
Net cash provided by (used in) operating activities	(830)	(1,16
Cash flow from investing activities:		
Capital expenditures, net	(31)	--
Cash provided by former parent contribution of subsidiaries	--	84
Net cash provided by (used in) investing activities	(31)	84
Cash flow from financing activities:		
Funding from debt and lines of credit	--	70
Payments of debt and capital leases	(726)	(35
Net cash (used in) provided by financing activities	(787)	35
Effect of exchange rate changes on cash	(12)	(60
Net increase (decrease) in cash	(1,599)	(56
Cash at the beginning of the period	5,081	3,20
Cash at the end of the period	$ 3,482	$ 2,63

See accompanying notes to consolidated financial statements

Artemis International Solutions Corporation
Notes to the Consolidated Financial Statements
(Unaudited)
(all tabular amounts in thousands except per share amounts)

Note 1. Organization and Summary of Accounting Policies

(a) Organization and Description of Business

Opus360 Corporation was incorporated on August 17, 1998, under the laws of the State of Delaware and on November 20, 2001, changed its name to "Artemis International Solutions Corporation". In April 2001, Opus360 Corporation and Proha Plc ("Proha"), a Finnish corporation, entered into a Share Exchange Agreement (the "Share Exchange Agreement") pursuant to which, upon completion of the transactions contemplated under such agreement (the "Share Exchange Transactions"), Opus360 Corporation would exchange 80% of its post-transaction outstanding Common Stock for all of the capital stock of Artemis Acquisition Corporation ("Legacy Artemis"), a Delaware corporation, and 19.9% of two Finnish subsidiaries of Proha, Intellisoft OY and Accountor OY.

As used herein, "Opus360" refers to Opus360 Corporation prior to the closing of the Share Exchange Transactions, "Artemis International" or the "Company" refers to Opus360 Corporation after the closing of the Share Exchange Transactions and Legacy Artemis refers to Artemis Acquisition Corporation, the parent corporation of the Artemis business organization and the entity treated as the accounting acquiror in the Share Exchange Transactions as more fully described below.

Legacy Artemis is a developer and supplier of comprehensive, project and resource collaboration application software products and consulting services, with operations in 27 countries.

On August 24, 2000, Legacy Artemis was acquired by Proha PLC ("Proha"), a Finnish corporation.

Subsequent to December 31, 2000, Proha entered into one or more agreements to contribute its interests in the following entities to Legacy Artemis (the "Contributed Businesses"):

- Projektihallinto Proha Oy (now known as Artemis Finland Oy) ("Artemis Finland"), a wholly owned Finnish subsidiary of Proha. This interest was held by Proha on the date (August 24, 2000) that Legacy Artemis was acquired by Proha and accounted for under the purchase method of accounting.

- Minority interests of 19.9% in each of Accountor Oy and Intellisoft Oy, two other wholly owned Finnish subsidiaries of Proha. Proha held these interests on the date (August 24, 2000) that Legacy Artemis was acquired by Proha. These companies are included in the financial results of the Company under the equity method of accounting.

- Majority interests in Enterprise Management Systems Srl, Artemis International S.p.A., Solutions International SA, Artemis International GMBH and Artemis International Sarl. These majority interests were acquired by Proha as of December

1, 2000. Prior to December 1, 2000, Legacy Artemis held minority interests in each of these entities, and they were accounted for under the equity method. After the purchase of the majority interests on December 1, 2000, each of these entities was wholly owned through the combined

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ownership interest of Proha and Legacy Artemis, except for Artemis International GMBH, which continued to be owned 43.2% by entities outside of the parent company controlled group. The remaining 43.2% interest in Artemis International GMBH was contributed in January 2002. Each of the Contributed Businesses is reflected as having been contributed by Proha as of the later of the date Legacy Artemis was acquired by Proha or the date these interests were under the control of Proha, Legacy Artemis' parent.

(b) Acquisitions

In April 2001, Opus360 and Proha Plc ("Proha"), a Finnish corporation, entered into a Share Exchange Agreement ("Agreement") pursuant to which, upon completion of the transactions contemplated under the agreement, Opus360 would exchange 80% of its authorized common stock for all the capital stock of Artemis Acquisition Corporation ("Legacy Artemis"), a Delaware corporation and 19.9% of two Finnish subsidiaries of Proha, Intellisoft OY and Accountor OY.

The transaction was structured in two steps since the number of authorized Opus360 shares needed to be increased to allow for the issuance of a total amount of 199 million new shares to Proha in satisfaction of the 80% requirement. Despite its two step structure, the transaction was accounted for upon the consummation of the first closing because Proha gained a majority controlling interest and the voting agreements discussed below effectively "locked in" the second step.

In connection with the Share Exchange Agreement, Proha entered into two voting agreements, one with Ari Horowitz and one with Opus360. Pursuant to these agreements, Ari Horowitz agreed among other things to cause all of his 3,333,351 shares of Opus360 common stock to be cast in favor of the second closing. Also, Proha has agreed among other things to cause all its 73,938,702 shares of Opus360's common stock to be cast in favor of the second closing.

As a result of the agreements, there were commitments to vote in favor of the second closing representing approximately 62.44% of the outstanding common stock. Accordingly, the transaction was not treated as a step acquisition since Proha obtained a majority controlling and voting interest upon consummation of the first closing.

On July 31, 2001, Opus360 consummated the first phase of the transaction contemplated by the Share Exchange Agreement. In connection with this Agreement, the OPUS360 acquired all of the capital stock of Legacy Artemis, a wholly owned subsidiary of Proha, in exchange for approximately 74 million shares of Opus360's common stock. As a result of this exchange, Proha obtained a controlling ownership and management interest in Opus360. Accordingly, the transaction was accounted for as a reverse acquisition with Legacy Artemis treated as the accounting acquirer and accounted for under the purchase method of accounting in accordance with the provisions of SFAS 141. The second closing was completed November 20, 2001 by Opus360's filing of a Definitive Proxy Statement with the SEC containing the required disclosures and financial

information of the combined and consolidated companies. At the second closing, Opus360 delivered approximately 125 million additional shares of the Opus360's common stock in return for the delivery by Proha of 19.9% of the outstanding shares of the two Proha subsidiaries. Upon completion of the second closing, Proha owns approximately 80% of the post-transaction outstanding common stock of the Company.

(c) Basis of Presentation

Accounting principles generally accepted in the United States require in certain circumstances that a company whose shareholders retain the majority voting interest, governing body and senior management in the combined business to be treated as the acquiror for financial reporting purposes. As a result of the Share Exchange Transactions, Proha, the former shareholder of Legacy Artemis, will hold a majority interest in the Company, the board of directors and senior management of the combined company. Accordingly, for accounting purposes the transaction has been treated as a reverse acquisition in which Legacy Artemis is deemed to have purchased Opus360, although Opus360 (which changed its name to Artemis International Solutions Corporation on November 20, 2001) remains the legal parent entity and the registrant for Securities and Exchange Commission ("SEC") reporting purposes.

The consolidated financial statements included herein represent the historical financial statements of Legacy Artemis, as the accounting acquiror, and the acquisition of Opus360 has been accounted for under the purchase method of accounting. The accounts of Legacy Artemis include its wholly owned subsidiaries: Artemis Acquisition Corporation, Artemis Holdings, Inc., Artemis International Corporation, Software Productivity Research, Inc., and Artemis International Corporation Systems Limited for all periods presented.

The Company's independent public accountants have included a "going concern" explanatory paragraph in their audit report accompanying the 2001 consolidated financial statements which have been prepared assuming that the Company will continue as a going concern. The Company has incurred substantial recurring losses from operations since inception, and at March 31, 2002, the Company's current liabilities exceeded current assets by $6.5 million. These factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

All material intercompany transactions and balances have been eliminated in consolidation.

(d) Reclassifications and restatements

Certain prior period information has been reclassified to conform to the current period presentation. "Accounts payable-parent" totals have been incorporated in "accounts payable", and "other accrued liabilities" have been combined with "accrued payroll and taxes."

(e) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions regarding revenue recognition, and the recoverability of goodwill and intangible assets that affect the reported amounts of assets and

liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(f) Impairment of Long-Lived Assets

During the fourth quarter of 2001, the Company evaluated the carrying values of its goodwill and intangible assets. An impairment charge of $43.4 million was recorded in the year ending December 31, 2001. Specifically, the significant decline in business activity generally and software license revenue following the terrorist attacks on New York City and Washington, DC, as well as the Company's fourth quarter period operating and cash flow losses, required an adjustment to the carrying value of the Company's long-lived assets. Using discounted cash flow projections of expected returns from these assets, the Company determined that the carrying value of its goodwill and intangible assets should be reduced to approximately $14.8 million.

(g) Stock Options

The following description of the Company's stock option plans reflects the stock option plans of former Opus 360, which are still issued and outstanding. In March 2000, the Company adopted the (1) 2000 Stock Option

Plan (the "2000 Plan"), which provides for the granting of non-qualified and incentive stock options to employees, board members and advisors (2) the 2000 Non-Employee Directors' Plan (the "Non-Employee Directors Plan"), which provides for automatic, non-discretionary grants, of non-qualified stock options to non-employee board members, as defined, and (3) the 2000 Employee Stock Purchase Plan (the "ESPP"), which permits eligible employees to acquire, through payroll deductions, shares of the Company's common stock. The 2000 Plan and the Non-Employee Directors Plan authorize the granting of up to 10.0 million and up to 1.1 million options, respectively, and provide for option terms not to exceed ten years. The ESPP authorizes the issuance of up to 2.8 million shares to participating employees. The Company's 1998 Stock Option Plan authorized the granting of up to 6.2 million options and provided for option terms not to exceed ten years. During the quarter ended March 31, 2002 the Company granted 14,735,050 options with exercise prices of $0.06. The exercise price was equal to the fair market value on the date of grant.

(h) Basic and Diluted Net Loss per Share

The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards ("Statement") No. 128, Computation of Earnings Per Share. Accordingly, basic net loss per share excludes dilution for potentially dilutive securities and is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding for the period.

(i) Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. Statement No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled

workforce may not be accounted for separately. Statement No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. Statement No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement No. 144, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

The Company adopted Statement No. 141 for the July 31, 2001 combination of Opus360 and Legacy Artemis. Statement No. 141 requires that the purchase method of accounting be used and prohibits the use of the pooling-of-interests method of accounting for business combinations completed on or after July 1, 2001. Statement No. 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain specified criteria. Statement No. 142 requires that the Company identify reporting units for purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets and cease amortization of intangible assets with an indefinite useful life.

The Company's business combinations were accounted for using the purchase method of accounting. In connection with the reverse acquisition of Opus360, the adoption of Statement No. 141 resulted in the allocation of negative goodwill in the amount of approximately $10.5 million as a direct reduction of the acquired Opus360 non-current assets.

At December 31, 2001, the Company had recorded an impairment charge under Statement No. 121 which resulted in the complete write-off of goodwill and a partial write-off of its other identifiable intangible assets. As a result of the complete write off of the goodwill at December 31, 2001, the adoption of Statement No. 142 had no impact on the amortization expense during the quarter ended March 31, 2002. The Company has re-evaluated and determined that the classification and useful lives utilized for its other intangible assets, "customer base" and "current technologies", are consistent with management's best estimate. Had the Company been accounting for its goodwill under Statement No. 142 for all periods presented, the Company's net loss and net loss per basic and diluted share would have been as follows:

	Three months ended March 31,	
	2002	2001
Reported net loss:	$ (2,113)	$(4,800)
Less: goodwill amortization		2,086
Adjusted net loss	$ (2,113)	$(2,714)
Basic and diluted loss per share:		
Reported net loss	$ (.01)	$ (.02)
Goodwill amortization		.01
Adjusted net loss per share	$ (.01)	$ (.01)

At March 31, 2002, the Company had gross intangible customer base and technology assets of $27.1 million and $7.6 million, net of accumulated

amortization of $18.5 million and $2.4 million, respectively. The estimated annual amortization for each of fiscal years 2002, 2003 and 2004 is $4.0 million and $2.7 million in fiscal year 2005.

In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. Statement No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets, and supersedes Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). Statement No. 144 also amends ARB No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of Statement No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The Company adopted Statement No. 144 in the current quarter, and it did not have a material effect on the financial positions and results of operations.

Note 2. Basic and Diluted Net Loss Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended March 31, 2002	2001
Numerator:		
Net loss	$ (2,113)	$(4,800)
Denominator:		
Basic and diluted loss per share weighted average shares	249,125	199,424
Basic and diluted net loss per share	$ (.01)	$ (.02)

Note 3. Other Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income or loss, adjusted for other increases or decreases affecting stockholders' equity that are excluded in the determination of net income (loss). The calculation of comprehensive income (loss) for the three months ended March 31, 2002 and 2001 are as follows:

	Three months ended March 31, 2002	2001
Net loss	$ (2,113)	$ (4,800)
Cumulative translation adjustment	119	(601)

Comprehensive net loss	$ (1,994)	$ (5,401)

Note 4. Segment and Geographic Information

The following table presents information about the Company's operations by geographic area:

Three Months Ended March 31, 2002

	US	UK	Japan	France	Germany	Italy	Finland
Revenue							
Software	$ 713	$ 740	$ 390	$ 268	$ 382	$ 56	$ 740
Support	1,459	626	419	650	316	179	496
Services	4,436	600	782	755	288	739	807
Total Revenue	$ 6,608	$ 1,966	$ 1,591	$ 1,673	$ 986	$ 974	$ 2,043
Cost of revenue:							
Software	$ 92	$ 46	$ 88	$ 73	$ -	$ 5	$ 181
Support	442	262	390	164	69	249	80
Services	2,564	437	554	577	256	475	698
Total cost of revenue	$ 3,098	$ 745	$ 1,032	$ 814	$ 325	$ 729	$ 959
Gross margin	$ 3,510	$ 1,221	$ 559	$ 859	$ 661	$ 245	$ 1,084
Total operating expense	5,145	1,540	523	798	404	280	696
Operating income (loss)	$(1,635)	$ (319)	$ 36	$ 61	$ 257	$ (35)	$ 388

Three Months Ended March 31, 2001

	US	UK	Japan	France	Germany	Italy	Finland
Revenue							
Software	$ 1,729	$ 1,099	$ 261	$ 828	$ 80	$ 534	$ 512
Support	1,401	738	538	508	310	173	735
Services	3,462	926	879	883	205	1,179	636
Total Revenue	$ 6,592	$ 2,763	$ 1,678	$ 2,219	$ 595	$ 1,886	$ 1,883

Cost of revenue:							
Software	$ 77	$ 108	$ 48	$ 43	$ 17	$ 20	$ 104
Support	525	297	389	279	81	161	148
Services	2,202	553	544	852	208	814	514
Total cost of revenue	$ 2,804	$ 958	$ 981	$ 1,174	$ 306	$ 995	$ 766
Gross margin	$ 3,788	$ 1,805	$ 697	$ 1,045	$ 289	$ 891	$ 1,117
Total operating expense	7,742	1,745	695	673	454	348	1,534
Operating income (loss)	$(3,954)	$ 60	$ 2	$ 372	$ (165)	$ 543	$ (417)

	March 31, 2002	December 31, 2001
Identifiable Assets		
USA	$ 40,512	$ 47,271
United Kingdom	4,842	5,458
Japan	2,526	2,892
France	3,262	3,246
Other	8,260	8,779
Eliminations	(21,575)	(27,453)
Consolidated	$ 37,827	$ 40,193

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. For example, words such as "may", "will", "should", "estimates", "predicts", "potential", "continue", "strategy", "believes", "expects", "anticipates", "plans", "intends", and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Important factors that could cause actual results to differ materially from those expressed or implied by these

forward-looking statements are detailed in the documents filed by the Company with the Securities and Exchange Commission including but not limited to those discussed under the caption "Risk Factors" in the Company's Annual Report on Form 10-K filed with the SEC on April 16, 2002.

Results of Operations

Three Months Ended March 31, 2002 and 2001

Revenue

For the quarter ended March 31, 2002, total revenue was $15.7 million, a decrease of 10% from total revenue of $17.5 million for the quarter ended March 31, 2001. This decrease is almost entirely due to the $1.6 million decrease in software license revenues in the current period. The quarter ended March 31, 2001, was the last quarter of the Company's former fiscal year. The final quarter is typically the period when many of the larger licensing transactions that have been developed during the year are signed, the products shipped and the revenue recorded. In the quarter ended March 31, 2001, the company recorded one such transaction in excess of $1.0 million that was not replicated in the quarter ended March 31, 2002. Support Revenues also decreased slightly, $0.3 million, to $4.0 million, but continued to constitute 25% of total revenue. Services Revenues for the quarter ending March 31, 2002, increased slightly to $8.6 million from $8.5 million in the quarter ending March 31, 2001.

Cost of Revenue

Cost of revenue for the quarter ended March 31, 2002, decreased to $7.9 million, a decrease of $0.4 million or 5% from the $8.3 million for the

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quarter ended March 31, 2001. The change was primarily a function of the lower direct support and services costs resulting from, in the first instance, lower revenues, and in the second, increased productivity on the part of the Company's internal consultants.

Gross Profit

Total gross profit for the quarter ended March 31, 2002 was $7.8 million, a decrease of $1.4 million, or 15%, from the $9.2 million for the quarter ended March 31, 2001. Gross profit margin for the 2002 period declined three percentage points, to 50% from 53%, for the three months in 2001 due to the reduction in higher margin software revenues.

Operating Expenses

Operating expenses for the quarter ended March 31, 2002, were $9.5 million, a decrease of $4.0 million or 30% from the $13.5 million for the quarter ending March 31, 2001. Operating expenses for the quarter ended March 31, 2001 included amortization of goodwill and intangible assets of $4.2, as well as management fees to Legacy Artemis' former parent of approximately $0.4 million. The reevaluation in December 2001 of goodwill and intangible assets arising from the pushdown accounting of Proha's August 2000 acquisition of Legacy Artemis resulted in the write off of all goodwill and significantly reduced the carry value of the remaining intangible assets.

Selling and marketing: Selling and marketing expenses for the quarter

ended March 31, 2002, were $2.7 million, a decrease of $1.7 million or 39% from the $4.4 million for the quarter ended March 31, 2001. This decrease was the result of managements' conscious efforts to reduce discretionary expenses in a challenging selling environment.

Research and development: Research and development expenses for the quarter ended March 31, 2002 decreased slightly to $2.1 million, from the $2.4 million for the quarter ended March 31, 2001, largely due to increased efficiency and reduction/reallocation of personnel.

General and administrative: General and administrative expenses for the quarter ended March 31, 2002, were $3.7 million, an increase of $1.6 million or 73% from the $2.1 million for the quarter ended March 31, 2001. The increase in general and administrative expenses reflects the combination and continuation of Legacy Artemis and Opus360 costs, as well as the additional legal and auditing expenses incurred as a more diversified public company.

Operating Loss

Operating loss for the quarter ended March 31, 2002 was $1.6 million, a decrease of $2.6 million from the loss of $4.2 million for the same period in 2001. The improvement is almost entirely a result of the lower amortization costs, offset by the combined effect of lower revenues and other costs (see Note 1(i)).

Non-operating Expenses

Non-operating expenses, consisting primarily of net interest expense and other non-operating expenses, were $0.4 million in both the quarters ended March 31, 2002 and 2001. Higher foreign exchange losses in the Company's non-US operations during the March 31, 2002 quarter were balanced by lower average borrowings and average interest rates for the same period.

Liquidity and Capital Resources

Legacy Artemis has historically funded operations through internal cash flow and loans from Computer Sciences Corporation, the shareholders of Legacy Artemis, the shareholders of Software Productivity Research and Foothill Capital Corporation ("Foothill").

For the three months ended March 31, 2002 and 2001, net cash used in operations was $0.8 million and $1.2 million, respectively.

For the three months ended March 31, 2002, the $0.8 million cash used in operations was primarily due to the net loss of $2.1 million adjusted for non-cash amortization of goodwill and depreciation of $1.6 million, and a $(0.3) net change in operating assets and liabilities. For the three months ended March 31, 2001, the Company's net loss was $4.8 million, which was reduced by non-cash expenses and tax benefits of $4.7 million and a net change in operating assets and liabilities of $(1.1) million, or net cash used in operations of $1.2 million.

No cash was provided by investment activities for the three months ended March 31, 2002. The $0.8 million cash provided by investing activities for the three months ended March 31, 2001 resulted from cash provided by entities that were contributed by Proha, the former parent of Legacy Artemis. Capital expenditures in both periods were less than $0.1 million.

Net cash used in financing activities was $0.7 million for the three months ended March 31, 2002 compared to cash provided by financing activities of $0.4 million for the three months ended March 31, 2001. During the three months ended March 31, 2002, the Company repaid $0.7 million of debt, to Foothill and other lenders. During the three months ended March 31, 2001, the Company received financing of $0.7 million and repaid $0.3 million of debt.

The Company utilizes lines of credit to fund temporary operating cash requirements and certain financial obligations. The Company's outstanding balance under its lines of credit at March 31, 2002 was $0.8 million. The Company's Foothill lending agreement includes various financial covenants with which the Company has periodically been in non-compliance. Foothill has waived the compliance with these covenants at December 31, 2001. The Company is in default at March 31, 2002, but has requested a continuation of this waiver.

Interest paid under all borrowings was less than $0.1 million for the three months ended March 31, 2002 and $0.1 million for the three months ended March 31, 2001.

The Company's near and long-term operating strategies focus on promoting its new and existing software and services to increase its revenue and cash flow while better positioning the Company to compete under current market conditions. The Company has also tasked its operating units to achieve a five percent year over year reduction in operating expenses. In addition, in the fourth quarter of fiscal year 2001, the Company took a number of actions to reduce on-going costs, including deferring development, marketing and sales support for its Workforce Procurement and Workforce Management product lines. Additionally, all operations were tasked to achieve a five percent year-over-year reduction in operating expenses. Worldwide staffing levels were reduced approximately 7 percent in support of this effort. At March 31, 2002, the Company had unused credit lines of up to $2.7 subject to maintaining certain receivables' aging and levels. At March 31, 2002, the Company's capacity based on these measures was approximately $1.2 million. Management feels that they have sufficient flexibility in fixed, semi-fixed and variable costs to fund its operations for the foreseeable future with the aforementioned sources of funds to continue as a going concern.

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The Company's consolidated financial statements has been prepared assuming that the Company will continue as a going concern based upon management's plans discussed above. Accordingly, the consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

A summary of our future contractual obligations and commercial commitments as of March 31, 2002 is as follows:

	Total	Less than 1 year	2 - 3 years
Long-term debt	$ 2,225	$ 1,494	$ 731
Operating leases	6,989	3,886	2,930
Total contractual cash obligations	$ 9,214	$ 5,350	$ 3,661

Related Party Transactions

At March 31, 2002 and December 31, 2001, the Company had other receivables and payables of $.1 and $.4 million and $.2 and $.4 million, respectively, to Proha, who holds approximately 80% of the Company's outstanding Common Stock.

At March 31, 2002 and December 31 2001, the Company maintained the equity holdings in joint ventures, which are accounted for under the equity method, with the exception of Metier Scandinavia AS(Norway), Metier Plancom BV(Netherlands) and DA Management Solutions(Finland) which are accounted for under the cost method. The Company records its equity interest in losses first to the investment balance, then against loans or advances.

Item 3. Qualitative and Quantitative Disclosure About Market Risk

At March 31, 2002, the majority of the Company's cash balances were held primarily in the form of short-term highly liquid investment grade money market securities. As a result, the Company's interest income may be sensitive to changes in the general level of interest rates. However, due to the short-term nature of its investments, the Company believes that it is not vulnerable to any material interest or market rate risks.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

There has been no changes from those described in the Company's Annual Report on Form 10-K filed with the SEC on April 16, 2002.

Item 2. Change in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K.

a. Exhibits. The following documents are filed as part of this report:

10.44 Employment Agreement dated January 25, 2002 between the Company and Michael Rusert

10.45 Employment Agreement dated March 1, 2002 between the Company and Charles Savoni

b. Reports on Form 8-K

None.

SIGNATURES

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

Date: May 21, 2002

Artemis International Solutions Corporation
(Registrant)

/s/ Peter Schwartz

Executive Vice President and
Chief Financial Officer
(Signature)