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ARTEMIS INTERNATIONAL SOLUTIONS CORP

Form 10-Q

August 14, 2002

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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
(State or Other Jurisdiction of
Incorporation or Organization)

13-4023714
(I.R.S. Employer
Identification No.)

4041 MacArthur Boulevard
Suite 260, Newport Beach, CA
(Address of Principal Executive Offices)

92660
(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 ☒ No ☐

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

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

Artemis International Solutions Corporation

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PART I. FINANCIAL INFORMATION

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Artemis International Solutions Corporation

Item 1. Financial Statements

Consolidated Balance Sheets

	June 30, 2002 (unaudited)	December 31, 2001 (unaudited)
(In thousands, except share amounts)		
Assets		
Current assets:		
Cash	\$ 5,193	\$ 5,193
Trade accounts receivable, less allowance for doubtful accounts of \$345 at June 30, 2002 and \$223 at December 31, 2001	16,845	16,845
Other accounts receivable	806	806
Prepaid expenses	2,355	2,355
Other current assets	264	264
	-----	-----
Total current assets	25,463	25,463
Property and equipment, net of depreciation of \$6,398 at June 30,		

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2002 and \$5,194 at December 31, 2001	1,924	
Other intangible assets, net of amortization and writeoffs of \$2,059 at June 30, 2002 and \$25,286 at December 31, 2001	12,696	
Deferred taxes	18	
Investment in affiliates and other assets	424	
Total assets	\$ 40,525	\$
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 5,083	\$
Short-term line of credit	2,743	
Current portion of long-term debt	1,305	
Deferred revenue	9,923	
Accrued liabilities	5,865	
Accrued payroll and taxes	7,003	
Total current liabilities	31,922	
Deferred taxes	547	
Long-term debt, less current portion	729	
Accrued pension and other liabilities	727	
Total liabilities	33,925	
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	
Accumulated deficit	(73,868)	
Accumulated other comprehensive income	271	
Total stockholders' equity	6,600	
Total liabilities and stockholders' equity	\$ 40,525	\$

See accompanying notes to consolidated financial statements

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

	For the Three Months Ended June 30,		For the S Months Ended J
	2002	2001	2002
	(unaudited)	(unaudited)	(unaudited)
Revenue:			

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Software	\$ 3,157	\$ 3,263	\$ 6,309	\$
Support	4,119	3,590	8,092	
Services	10,316	10,069	18,927	
	-----	-----	-----	
	17,592	16,922	33,328	
	-----	-----	-----	
Cost of revenue:				
Software	440	423	925	
Support	1,518	1,772	3,195	
Services	6,253	6,470	11,995	
	-----	-----	-----	
	8,211	8,665	16,115	
	-----	-----	-----	
Gross margin	9,381	8,257	17,213	
Operating expenses				
Selling and marketing	3,012	4,112	5,724	
Research and development	1,978	2,652	4,042	
General and administrative	3,675	1,676	7,335	
Amortization expense	1,050	4,135	2,086	
Management fees	--	403	--	
	-----	-----	-----	
	9,715	12,978	19,187	
	-----	-----	-----	
Operating loss	(334)	(4,721)	(1,974)	
Interest expense, net	55	208	81	
Equity in loss of unconsolidated affiliate	46	--	71	
Other (income) expense	(10)	(175)	143	
Foreign exchange (gain) loss	(143)	--	77	
	-----	-----	-----	
	(52)	33	372	
	-----	-----	-----	
Loss before income taxes	(282)	(4,754)	(2,346)	
Income tax (benefit) expense	321	(33)	370	
	-----	-----	-----	
Loss before minority interest	(603)	(4,721)	(2,716)	
Minority interest in (earnings) losses of unconsolidated subsidiary	--	(95)	--	
	-----	-----	-----	
Net loss	\$ (603)	\$ (4,626)	\$ (2,716)	\$
	=====	=====	=====	
Basic and diluted net loss per share	\$ (0.00)	\$ (0.02)	\$ (0.01)	\$
	=====	=====	=====	
Weighted average common shares used in computing basic and diluted net loss per share	249,125	199,424	249,125	

See accompanying notes to consolidated financial statements

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	For The Six Months
	June 30, 2002

Cash flow from operating activities:	
Net loss	\$ (2,716)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	3,262
Minority interest	--
Deferred income taxes and other	--
Changes in operating assets and liabilities	
(Increase) decrease in trade accounts receivable	(3,611)
(Increase) decrease in prepaid expenses and other assets	531
Increase (decrease) in deferred revenues	2,449
Increase (decrease) in accounts payable	(209)
Increase (decrease) in accrued expense and other liabilities	(423)

Net cash provided by (used in) operating activities	(717)

Cash flow from investing activities:	
Capital expenditures, net	(402)
Cash provided by former parent contribution of subsidiaries	--

Net cash provided by (used in) investing activities	(402)

Cash flow from financing activities:	
Funding from debt and lines of credit	1,741
Payments of debt and capital leases	(692)

Net cash (used in) provided by financing activities	1,049

Effect of exchange rate changes on cash	182

Net increase (decrease) in cash	112
Cash at the beginning of the period	5,081

Cash at the end of the period	\$ 5,193
	=====
Interest paid	\$ 123
Taxes paid	\$ 378

See accompanying notes to consolidated financial statements

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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

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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 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

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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. As of January 1, 2002, these companies were merged into Artemis International Solutions Corporation.

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 June 30, 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. Amounts previously "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

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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

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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 22.5 million and 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 first quarter ended March 31, 2002, the Company granted 14,742,550 options with an exercise price of \$0.06 per share and during the second quarter ended June 30, 2002, the Company granted an additional 5,329,650 options with an exercise price of \$0.05 per share. The exercise prices were equal to the fair market values on the date of the 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.

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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 June 30, 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 June 30,	
	2002	2001
	-----	-----
Reported Net Loss:		
Reported net loss	\$ (603)	\$ (4,626)
Less: goodwill amortization	--	2,134
	-----	-----
Adjusted net loss	\$ (603)	\$ (2,492)
Basic and diluted loss per share:		
Reported net loss	\$ (0.00)	\$ (0.02)
Goodwill amortization	--	0.01
	-----	-----
Adjusted net loss per share	\$ (0.00)	\$ (0.01)
	-----	-----

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	Six months ended June 30,	
	2002	2001
	-----	-----
Reported Net Loss:		
Reported net loss	\$ (2,716)	\$ (9,426)
Less: goodwill amortization	--	4,294
	-----	-----
Adjusted net loss	\$ (2,716)	\$ (5,132)
Basic and diluted loss per share:		
Reported net loss	\$ (0.01)	\$ (0.05)
Goodwill amortization	--	0.02
	-----	-----
Adjusted net loss per share	\$ (0.01)	\$ (0.03)
	-----	-----

At June 30, 2002, the Company had net intangible customer base and technology assets of \$7.8 million and \$4.9 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 commencing January 1, 2002, and it did not have a material effect on the financial position or results of operations.

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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 June 30,		Six months ended June 30,	
2002	2001	2002	2001

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Numerator:					
Net loss	\$	(603)	\$	(4,626)	\$ (2,716) \$
Denominator:					
Weighted average shares		249,125		199,424	249,125
Basic and diluted net loss per share		\$	(0.00)	\$	(0.02) \$ (0.01) \$

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 and the six months ended June 30, 2002 and 2001 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Net loss	\$ (603)	\$ (4,626)	\$ (2,716)	\$ (5,342)
Translation adjustment	(385)	(670)	(266)	(511)
Comprehensive net loss	\$ (988)	\$ (5,296)	\$ (2,982)	\$ (5,853)

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Note 4. Segment and Geographic Information

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

Three Months Ended June 30, 2002		US	UK	Japan	France	Germany	Italy	Finland

Revenue								
Software	\$	823	\$ 605	\$ 417	\$ 476	\$ 143	\$ 555	\$ 453
Support		1,453	890	427	768	334	206	244
Services		5,704	777	738	675	319	907	936

Total Revenue	\$	7,980	\$ 2,272	\$ 1,582	\$ 1,919	\$ 796	\$ 1,668	\$ 1,633
Cost of revenue:								

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Software	\$ 114	\$ 19	\$ 93	\$ 73	\$ 5	\$ 6	\$ 129
Support	441	265	364	87	63	205	75
Services	3,054	395	493	502	267	661	722
Total cost of revenue	\$ 3,609	\$ 679	\$ 950	\$ 662	\$ 335	\$ 872	\$ 926
Gross margin	\$ 4,371	\$ 1,593	\$ 632	\$ 1,257	\$ 461	\$ 796	\$ 707
Total operating expense	5,081	1,561	507	973	434	307	731
Operating income (loss)	\$ (710)	\$ 32	\$ 125	\$ 284	\$ 27	\$ 489	\$ (24)

Three Months Ended June 30, 2001							
	US	UK	Japan	France	Germany	Italy	Finland
Revenue							
Software	\$ 832	\$ 889	\$ 426	\$ 267	\$ 278	\$ 314	\$ 383
Support	1,505	781	476	550	327	193	67
Services	4,807	631	844	992	219	996	1,264
Total Revenue	\$ 7,144	\$ 2,301	\$ 1,746	\$ 1,809	\$ 824	\$ 1,503	\$ 1,714
Cost of revenue:							
Software	\$ 102	\$ 76	\$ 82	\$ 25	\$ 3	\$ 4	\$ 117
Support	588	291	395	170	80	142	59
Services	2,908	312	579	795	216	682	761
Total cost of revenue	\$ 3,598	\$ 679	\$ 1,056	\$ 990	\$ 299	\$ 828	\$ 937
Gross margin	\$ 3,546	\$ 1,622	\$ 690	\$ 819	\$ 525	\$ 675	\$ 777
Total operating exp	7,407	1,658	816	641	444	308	1,444
Operating income (loss)	\$ (3,861)	\$ (36)	\$ (126)	\$ 178	\$ 81	\$ 367	\$ (667)

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Six Months Ended June 30, 2002

	US	UK	Japan	France	Germany	Italy	Finland
Revenue							
Software	\$ 1,536	\$ 1,345	\$ 807	\$ 744	\$ 525	\$ 611	\$ 1,193
Support	2,912	1,516	846	1,418	650	385	740
Services	10,140	1,377	1,520	1,430	607	1,646	1,743
Total Revenue	\$14,588	\$ 4,238	\$ 3,173	\$ 3,592	\$ 1,782	\$ 2,642	\$ 3,676
Cost of revenue:							
Software	\$ 206	\$ 65	\$ 181	\$ 146	\$ 5	\$ 11	\$ 310

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Support	919	527	754	251	132	454	155
Services	5,936	832	1,047	1,079	523	1,136	1,420
Total cost of revenue	\$ 7,061	\$ 1,424	\$ 1,982	\$ 1,476	\$ 660	\$ 1,601	\$ 1,885
Gross margin	\$ 7,527	\$ 2,814	\$ 1,191	\$ 2,116	\$ 1,122	\$ 1,041	\$ 1,791
Total operating expense	9,872	3,101	1,030	1,771	838	587	1,427
Operating income (loss)	\$(2,345)	\$ (287)	\$ 161	\$ 345	\$ 284	\$ 454	\$ 364

Six Months Ended June 30, 2001

	US	UK	Japan	France	Germany	Italy	Finland
Revenue							
Software	\$ 2,574	\$ 1,988	\$ 687	\$ 1,095	\$ 358	\$ 848	\$ 895
Support	2,914	1,519	1,014	1,058	637	366	802
Services	8,304	1,557	1,723	1,875	424	2,175	1,868
Total Revenue	\$13,792	\$ 5,064	\$ 3,424	\$ 4,028	\$ 1,419	\$ 3,389	\$ 3,565
Cost of revenue:							
Software	\$ 106	\$ 184	\$ 130	\$ 68	\$ 20	\$ 24	\$ 294
Support	1,172	588	784	449	161	303	148
Services	4,957	865	1,123	1,647	424	1,496	1,428
Total cost of revenue	\$ 6,235	\$ 1,637	\$ 2,037	\$ 2,164	\$ 605	\$ 1,823	\$ 1,870
Gross margin	\$ 7,557	\$ 3,427	\$ 1,387	\$ 1,864	\$ 814	\$ 1,566	\$ 1,695
Total operating exp	15,294	3,403	1,511	1,314	898	656	2,833
Operating income (loss)	\$(7,737)	\$ 24	\$ (124)	\$ 550	\$ (84)	\$ 910	\$(1,138)

	June 30, 2002	December 31, 2001
Identifiable Assets		
USA	\$ 23,534	\$ 29,955
United Kingdom	2,781	2,473
Japan	2,272	2,892
France	3,426	3,243
Other	8,512	8,108
Eliminations	-	(6,478)
Consolidated	\$ 40,525	\$ 40,193

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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 June 30, 2002 and 2001

Revenue

For the quarter ended June 30, 2002, total revenue was \$17.6 million, an increase of \$0.7 million or 4% from total revenue of \$16.9 million for the quarter ended June 30, 2001. This increase was due to increases in support and services revenues of \$0.5 and \$0.3, respectively, only partially offset by a \$0.1 decrease in total software license revenue.

Cost of Revenue

Cost of revenue for the quarter ended June 30, 2002, decreased to \$8.2 million, a decrease of \$0.4 million or 5% from the \$8.6 million for the quarter ended June 30, 2001. The change was primarily a function of the lower direct support and services costs resulting from increased productivity on the part of the Company's internal support organization and services consultants.

Gross Profit

Total gross profit for the quarter ended June 30, 2002 was \$9.4 million, an increase of \$1.1 million, or 13%, from the \$8.3 million for the quarter ended June 30, 2001. Gross profit margin for the 2002 period also increased approximately 4.3 percentage points, to 53% from 49% for the three months in 2001, reflecting the aforementioned revenue increases and cost of revenue efficiencies.

Operating Expenses

Operating expenses for the quarter ended June 30, 2002, were \$9.7 million, a decrease of \$3.3 million or 25% from the \$13.0 million for the quarter ending June 30, 2001. Operating expenses for the quarter ended June

30, 2001 included amortization of goodwill and intangible assets of \$4.1 million, 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 carrying value of the remaining intangible assets.

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Selling and marketing: Selling and marketing expenses for the quarter ended June 30, 2002, were \$3.0 million, a decrease of \$1.1 million or 27% from the \$4.1 million for the quarter ended June 30, 2001. This decrease was the result of managements' concentrated efforts to reduce discretionary expenses in a challenging economy.

Research and development: Research and development expenses for the quarter ended June 30, 2002 decreased \$0.7 million to \$2.0 million, from the \$2.7 million for the quarter ended June 30, 2001, largely due to increased efficiency and reduction/reallocation of personnel.

General and administrative: General and administrative expenses for the quarter ended June 30, 2002, were \$3.7 million, an increase of \$2.0 million or 118% from the \$1.7 million for the quarter ended June 30, 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. This increase is mitigated somewhat by the absence in the most recent quarter of any separately identified management fees; \$0.4 million in the quarter ended June 30, 2001.

Operating Loss

Operating loss for the quarter ended June 30, 2002 was \$0.3 million, a decrease of \$4.4 million from the loss of \$4.7 million for the same period in 2001. The improvement is almost entirely a result of the lower amortization costs, aided by the combined effect of higher revenues and improved gross margins. (See Note 1(i)).

Non-operating (Income)/Expenses

Non-operating (income)/expenses, consisting primarily of net interest expense and other non-operating expenses, were less than \$0.1 million in both the quarters ended June 30, 2002 and 2001.

Six Months Ended June 30, 2002 and 2001

Revenue

For the six months ended June 30, 2002, total revenue was \$33.3 million, a decrease of 3% from total revenue of \$34.5 million for the period ended June 30, 2001. This decrease is due to the \$1.7 million decrease in software license revenues in the current period, partially offset by minor increases in support and services revenues. 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 six months ended June 30, 2001, the company recorded one such transaction in excess of \$1.0 million that was not replicated in the period ended June 30, 2002. Support Revenues increased slightly, \$0.2 million, to

\$8.1 million. Services Revenues for the six months ended June 30, 2002, also increased slightly to \$18.9 million from \$18.6 million in the June 30, 2001 period.

Cost of Revenue

Cost of revenue for the period ended June 30, 2002, decreased to \$16.1 million, a decrease of \$0.8 million or 5% from \$16.9 million in the period ended

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June 30, 2001. The change was primarily a function of increased productivity on the part of the Company's internal support organization and services consultants.

Gross Profit

Total gross profit for the period ended June 30, 2002 was \$17.2 million, an absolute decrease of \$0.3 million, or 2%, from the \$17.5 million for the period ended June 30, 2001. However, the gross profit margin for the 2002 period increased one percentage point, to 52%, from 51% for the 2001 six month' period, due primarily to the proportionately greater reduction in the costs of revenues.

Operating Expenses

Operating expenses for the period ended June 30, 2002, were \$19.2 million, a decrease of \$7.3 million or 27% from the \$26.5 million for the six months ending June 30, 2001. Operating expenses for the period ended June 30, 2001 included amortization of goodwill and intangible assets of \$8.3, as well as management fees to Legacy Artemis' former parent of approximately \$0.8 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 elimination of the management fee payable to Proha.

Selling and marketing: Selling and marketing expenses for the period ended June 30, 2002, were \$5.7 million, a decrease of \$2.8 million or 33% from the \$8.5 million for the period ended June 30, 2001. This decrease was the result of managements' conscious efforts to reduce discretionary expenses in the face of a depressed economy.

Research and development: Research and development expenses for the six months ended June 30, 2002 decreased to \$4.0 million, from the \$5.0 million for the period ended June 30, 2001, largely due to increased development efficiencies and reduction/reallocation of personnel.

General and administrative: General and administrative expenses for the period ended June 30, 2002, were \$7.3 million, an increase of \$3.5 million or 92% from the \$3.8 million for the comparable June 30, 2001 period. 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 period ended June 30, 2002 was \$2.0 million, a decrease of \$7.0 million from the loss of \$9.0 million for the same period of 2001. The improvement is almost entirely a result of the lower amortization and

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management costs, offset by the combined effect of lower revenues and cost of revenues (See Note 1(i)).

Non-operating Expenses

Non-operating expenses, consisting of net interest expense and other non-operating expenses, were \$0.1 million lower in current half year, primarily as a result of lower average borrowings and average interest rates for the same period.

Liquidity and Capital Resources

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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 six months ended June 30, 2002 and 2001, net cash used in operations was \$0.7 million and \$3.8 million, respectively.

For the six months ended June 30, 2002, the \$0.7 million cash used in operations was primarily due to the net loss of \$2.7 million adjusted for non-cash depreciation of tangible and intangible assets of \$3.3 million, and a \$(1.3) net change, primarily increased levels of accounts receivable, in operating assets and liabilities. For the six months ended June 30, 2001, the Company's net loss was \$9.4 million, which was reduced by non-cash depreciation and amortization expenses of \$8.4 million and a net change in operating assets and liabilities of \$(2.7) million.

Capital expenditures in the six months ended June 30, 2002 used \$0.4 million of cash flows. The \$0.8 million cash provided by investing activities for the six months ended June 30, 2001 resulted from cash provided by entities that were contributed by Proha, the former parent of Legacy Artemis.

Net cash provided by financing activities was \$1.0 million for the six months ended June 30, 2002 compared to net cash provided by financing activities of \$1.8 million for the six months ended June 30, 2001. During the six months ended June 30, 2002, the Company drew \$1.7 million and repaid \$0.7 million of debt to Foothill and other lenders. During the six months ended June 30, 2001, the Company had drawings, primarily against the Foothill revolving credit facility, of \$2.2 million and repaid \$0.4 million of debt.

The Company uses lines of credit to fund temporary operating cash requirements and certain financial obligations. The Company's outstanding balance under its lines of credit at June 30, 2002 was \$2.7 million. Long term debt, including the current portion, totaled \$2.0 million at June 30, 2002. The Company's Foothill lending agreement includes various financial covenants with which the Company has periodically been in non-compliance. Foothill has waived compliance with these covenants at March 31, 2001. The Company is in default at June 30, 2002, but has requested a continuation of this waiver.

Interest paid under all borrowings was approximately \$0.1 million for the six months ended June 30, 2002 and \$0.4 million for the six months ended June 30, 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. Worldwide staffing levels were reduced approximately 7 percent in support of this effort. 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.

The Company's consolidated financial statements has been prepared assuming

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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 June 30, 2002 is as follows:

	Total	Less than 1 year	2 - 3 years	4 - 5 years
Long-term debt	\$ 2,034	\$ 1,163	\$ 707	\$ 41
Operating leases	6,347	3,793	2,409	145
Total contractual cash obligations	\$ 8,381	\$ 4,956	\$ 3,116	\$ 186

Related Party Transactions

At June 30, 2002 and December 31, 2001, the Company had other receivables and payables of \$0.0 and \$.4 million and \$.2 and \$.4 million, respectively, to Proha, who holds approximately 80% of the Company's outstanding Common Stock.

At June 30, 2002 and December 31 2001, the Company maintained 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 June 30, 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.

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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

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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.

Exhibit No. -----	Exhibit Description -----
EX-99.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
EX-99.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b. Reports on Form 8-K

None.

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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: August 14, 2002

Artemis International Solutions Corporation
(Registrant)

/s/ Peter Schwartz

Executive Vice President and
Chief Financial Officer
(Signature)

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