forward

DIVINE, INC. ANNUAL REPORT 2000

divine™

moving forward

Forward.

That's the direction we're confidently moving as one of the most dynamic periods of economic history unfolds. It's a period that is deeply affecting the way people live, interact and conduct business. Internet applications are growing exponentially. Technology is transforming society. Information is the currency of today's and tomorrow's enterprise. Driven by these forces, a new, more dynamic economy – a digital economy – is evolving before our very eyes. At divine, we understand that this is no time to dwell in the past. Forward is the only direction that will lead to success.

Financial Highlights

Summary of Financial Results	2000	1999
(dollars in thousands)		
Total Revenues for the period	$ 44,079	$ 1,037
Total Operating Expenses for the period	346,621	10,465
Total Non-Cash Expenses for the period	296,639	2,092
Net Loss (ex preferred/deemed dividends) for the period	(470,319)	(9,407)
Cash and Cash Equivalents at December 31	252,533	162,841
Total Assets at December 31	420,181	238,872
Total Stockholders' Equity at December 31	367,883	205,234

Who We Are.

Chicago-based divine, inc. provides critical software infrastructure, web solutions and services for enterprises worldwide, as well as integration, training, and sales and marketing services to support those solutions. divine also holds interests in various companies that are principally involved in integrated solutions for e-commerce and vertical markets. divine commenced operations on June 30, 1999, and completed its IPO on July 12, 2000.

COMMENCED OPERATIONS
JUNE 1999

1ST ROUND FUNDING
AUGUST - SEPTEMBER 1999

2ND ROUND FUNDING
SEPTEMBER - DECEMBER 1999

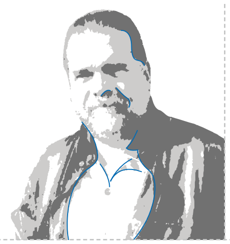
ACQUIRED/BUILT
ASSOCIATED COMPANIES
OCTOBER 1999 - MAY 2000

DIVINE IPO
JULY 2000

looking forward

The Future Is Here.

At divine, we are taking steps to continue our leading role in the digital marketplace. What began as a network of interrelated companies leveraging each others' offerings to create solutions and value has grown into a more focused, forward-thinking endeavor.



Dear Shareholder:

Since divine's inception in May 1999, we have consistently worked to develop innovative technology-based solutions that can permeate IT departments and are critical to the success of enterprises globally. Our mission over the last two years – driven by vision, teamwork, persistence and determination – has remained unchanged: **build value for shareholders.**

In this pursuit, we invested in a portfolio of associated companies and assembled the internal resources to help these companies grow and succeed. We formed strategic partnerships with top technology companies that provided us with competitive advantages that go well beyond discounts on their products and services. We established a world-class board of directors and a first-class advisory board. We attracted significant private investment, raised substantial additional funds from a group of blue-chip strategic investors, and completed an initial public offering (IPO) under extremely challenging market circumstances.

We did all these things because we are passionate about realizing our vision of building a dominant enterprise web solutions business. Enterprise software and services have always been at the core of divine's business model. And as market conditions have shifted, we have responded by mobilizing the consolidation aspect of our investment strategy, consistent with our belief that in the current business climate it is more cost effective to buy businesses rather than build them. Going forward, divine's growth will be fueled by prudent investment in new technologies and the acquisition of developed solutions that round out our platform.

One of divine's key advantages is its experienced management team led by software professionals who know how to run an enterprise software company and successfully complete and integrate mergers and acquisitions. These people include our CFO, Mike Cullinane, and our President and COO, Paul Humenansky. These former management team leaders at PLATINUM *technology* International, were integral in helping build that company into a $1 billion information technology management software and services provider that was acquired in June 1999 by Computer Associates International.

We believe, based on industry estimates, that the software segment of the web solutions sector could exceed $30 billion within five years. To better reflect our focus on this "sweet spot," we have changed the name of divine interVentures, inc. to simply "divine, inc.," and plan to organize those associated companies with an enterprise web solutions component to their business, most of which are wholly owned subsidiaries of divine, within a software operating arm. These include, to name a few, LightsEdge, LiveOnTheNet, mindwrap, Parlano and Xqsite.

In addition, although some of our associated companies could eventually qualify for IPOs, and two – Neoforma.com, Inc. and Sequoia Software – are already publicly traded, we do not believe that the current market warrants an aggressive plan to take any additional associated companies public. Instead, we plan to build long-term value for divine shareholders by identifying opportunities for each of these companies to contribute to the development of our enterprise web solutions platform wherever possible.

We have organized certain associated companies within an investment management arm that will retain the divine interVentures name. These firms, primarily involved in integrated solutions for vertical markets, include Commerx, Farms.com, iFulfillment, Neoforma and NTE. Since these companies provide their customers with leading-edge marketplaces and technologies, we also believe they could help introduce divine's solutions to the vertical industries they serve.

SageMaker

In February 2001, we agreed to acquire SageMaker, Inc., which adds a component of our enterprise web solutions platform. With 450 global clients and more than 250,000 corporate users, SageMaker offers vertically oriented solutions to the financial services, insurance, oil and gas, pharmaceutical and biotechnology, power, and telecommunications industries.

Hundreds of well-known companies – ABN Amro, Alberta Energy, Dynegy, The Financial Times, Royal Dutch/Shell Group, IMF World Bank, The McGraw-Hill Companies, Reuters, Unocal, and Taylor Woodrow Construction, to name a few – depend on SageMaker to create and maintain more than 9,000 XML connectors to their content so they can deliver high-value, mission-critical business information to their clients.

SageMaker's relationships with these leading content providers will be integrated with divine's existing applications.

CA Jasmine *ii*

Also in February 2001, divine announced a strategic alliance with Computer Associates International, Inc. (CA), that will leverage their innovative Jasmine *ii* Portal technology and complement our SageMaker acquisition by capitalizing on that company's relationships with content providers. divine and CA will cooperate on technology development, support and sales efforts to jointly market our solutions. Discussions are also underway to extend this alliance to include additional CA technologies and identify other market opportunities.

Year 2000 Financial Results

divine completed its IPO on July 12, 2000, raising $119.6 million in net cash proceeds. Concurrent with our IPO, we raised an additional $258.9 million, including $218.6 million in cash, through private placements with a group of strategic investors including: 360networks, Aon Corporation, BancBoston Capital, CMGI, Compaq, Hewlett Packard, Level 3 Communications, marchFIRST and Microsoft.

As of December 31, 2000, on a consolidated basis, divine had cash and cash equivalents of $252.5 million, and available-for-sale securities valued at approximately $12.4 million – resources that management believes are sufficient to execute divine's business model for the foreseeable future.

For the year ended December 31, 2000, divine reported consolidated revenues of $44.1 million, of which approximately 84%, or $37.0 million, were software and services revenues. Net loss excluding preferred/deemed dividends for the year was $470.3 million or $(6.98) per common share, computed on 67.4 million weighted average shares outstanding. Included in the net loss were non-cash expenses of $296.6 million.

As of December 31, 2000, divine's portfolio consisted of 39 associated companies, 15 of which are in the enterprise web solutions space.

Moving Forward

The enterprise web solutions space represents an attractive market and therefore a competitive one, but divine is well positioned to take on this challenge and invest the capital and hard work necessary for success. Our strategy is focused and compelling. We expect to have sufficient cash to execute our strategy over the next year. Virtually all of our alliances and acquisitions will help round out our solutions offering. divine's strategic investors, including Computer Associates, Microsoft, Hewlett Packard, Dell, and Compaq, are fully supportive of our strategy, and we are currently working with all of them to maximize our alliances in the enterprise web solutions space.

In sum, the future looks promising. We plan to build an extremely valuable enterprise for our employees, customers, shareholders and community. At the same time, we realize that delivering results is management's foremost responsibility. You may rest assured that this is our ultimate objective and, on behalf of all divine stakeholders, we thank you for your support.

Best regards,

Andrew J. "Flip" Filipowski
Chairman and CEO

ENTERPRISE WEB SOFTWARE AND SERVICES

DIVINE GLOBAL SERVICES
DOTSPOT
LIGHTSEDGE
LIVEONTHENET.COM
MERCANTEC
MINDWRAP
NETUNLIMITED
OPINIONWARE
OUTTASK.COM
PARLANO
PERCEPTUAL ROBOTICS
SAGEMAKER
SEQUOIA SOFTWARE
TV HOUSE
XIPPIX

DIVINE INTERVENTURES

ALUMINIUM.COM
BID4REAL.COM
CLOSERLOOK
COMMERX
COMSCORE NETWORKS
DOLPHIN INTERVENTURES
EMICOM GROUP
ERELIABLE COMMERCE
FARMS.COM
FUELQUEST
IFULFILLMENT
IGIVE
I-STREET
LAUNCHWORKS
NEOFORMA.COM
NTE
PANTHERA PRODUCTIONS
UNITED PROCESS GROUP
VIACHANGE.COM
XQSITE

This list reflects our associated companies as of March 15, 2001.

going forward

We're Ready to Go.

The strategy, the infrastructure, the communications capabilities, the partnerships, the progressive leadership – although they will all grow naturally with us as we develop – most are already in place. And not only do we have a strong sense of our role in the digital economy, we're confident of our path to success as we strive to become the leading provider of a complete enterprise web solution.

aluminium.com www.aluminium.com

This B2B e-commerce solution for the aluminum and non-ferrous metals industry enables participants – from raw material suppliers and processors to end-users – an efficient online marketplace to buy and sell primary, secondary and scrap metal products.

bid4real.com www.bid4real.com

This online real estate auction marketplace provides a venue for owners and/or their agents to auction commercial, industrial and residential property directly to interested bidders.

Closerlook www.closerlook.com

This new economy firm helps client organizations plan and implement digital business solutions that blend strategy, user experience and technology to extend brands through digital channels.

Commerx www.commerx.com

Commerx serves as a host for manufacturing companies and their trading partners to optimize their supply chains, driving optimization through its integrated suite of e-procurement and supply chain management solutions, especially in the plastics industry.

comScore Networks www.comscore.com

comScore provides infrastructure services and solutions to e-commerce clients with its next-generation Customer Knowledge Platform that delivers a 360-degree view of customer behavior and preferences across the entire Internet.

divine Global Services dGS

A full-service Internet service provider, dGS helps clients implement interactive marketing, website design and functionality, and ISO9000 development to create business solutions that extend brands through digital channels.

Dolphin Interventures www.dolphininterventures.com

Dolphin Interventures, an interdisciplinary venture capital firm with a technology focus and growth capital, is pioneering Latin America's transformation from a traditional industrial economy to an information economy.

dotspot www.dotspot.com

dotspot is a "plug-and-play," instant-office solution that provides clients with space, technology, infrastructure, and expanded business services – custom designed for specific needs or from a network of existing environments.

Emicom Group www.emicomgroup.com

Utilizing its "Start-Up Accelerator Model," this technology holding company provides capital and advisory services to early-stage telecommunications, cellular, Internet infrastructure, and enterprise software companies in Israel.

eReliable Commerce > www.ereliable.com >

eReliable's XML-enabled suite of network services allows clients to complete secure transactions through the Internet, including authentication, online negotiation, electronic contract generation, payment processing, escrow, insurance, and shipment tracking.

Farms.com > www.farms.com >

This online, B2B agricultural marketplace provides livestock and feed producers and processors with content, community, and transaction services, including valuable risk management and decision support tools.

FuelQuest > www.fuelquest.com >

Combining innovative online technologies and vast industry experience, FuelQuest gives suppliers, marketers and users of refined petroleum products and services hosted service platforms, application centers, and data-integration services.

iFulfillment > www.ifulfillment.com >

Designed and built specifically for e-commerce, iFulfillment manages inventory and fills customer orders via state-of-the-art fulfillment centers and 99.9% accurate, web-enabled fulfillment services.

iGive > www.igive.com >

This e-philanthropy pioneer and originator of the online charity shopping mall enables shoppers to direct up to 33 percent of purchases from hundreds of well-known merchants to a favorite cause or charity.

i-Street > www.i-street.com >

This B2B media company and news portal focuses on Internet and technology communities in Chicago and elsewhere in the Midwest.

Launchworks > www.launchworks.com >

This Canadian technology company contributes financial, operational, and intellectual capital to help partner companies accelerate growth and profitability through integration and knowledge and resource networking.

LightsEdge > www.lightsedge.com >

LightsEdge increases collaboration and communication among client co-workers, partners, and customers by providing a suite of applications and services to capture, store, manage, and disseminate a wide range of intellectual assets, content, and data.

LiveOnTheNet.com > www.liveonthenet.com >

LiveOnTheNet provides highly scalable platforms for the aggregation, distribution and valuation of live video events, offering visitors top notch entertainment and high quality video and audio over the Internet.

Mercantec www.mercantec.com
Distributed to online merchants through ISPs, telecom firms, hardware vendors, and financial services firms, Mercantec's e-commerce software solutions enable small and mid-sized businesses to integrate comprehensive commerce capabilities into their websites.

mindwrap www.mindwrap.com
Mindwrap licenses, installs, maintains, and provides training for its software, developed for rapid development and deployment of web-enabled applications to harness paper-based, legacy, and digital information.

Neoforma.com www.neoforma.com
A reliable technology platform and customized, online solutions are the basis of the scalable Internet marketplaces Neoforma creates to help healthcare providers and suppliers effectively manage supply chains and reduce inefficiencies.

NetUnlimited www.netunlimited.com
NetUnlimited is the only single-source Integrated Solutions Provider specializing in Broadband Internet, e-Hosting, Computer Network Solutions and Network Infrastructure.

NTE www.nte.com
The National Transportation Exchange provides U.S. shippers and carriers with real-time procurement services and information management tools to help streamline ground transportation processes, decrease costs, improve load utilization, and increase service.

OpinionWare www.opinionware.com
OpinionWare provides the tools to help e-marketers build opinion-based online communities, monitor and improve customer satisfaction, create applications and decisions, and develop targeted marketing programs based on known interests and demographics.

Outtask www.outtask.com
Outtask provides rapid growth and new economy companies with integrated, affordable IT marketing and web-based business infrastructure applications, training, and support.

Panthera Productions www.pantheraproductions.com
Focused on the conservation of animals throughout Africa, Panthera films, produces and distributes wildlife films and television documentaries, in addition to selling stock footage and photographs.

Parlano > www.parlano.com >

Parlano provides real-time business collaboration and data messaging, allowing entire organizations to exchange information, expertise and support with employees, customers and suppliers on a variety of text-based channels.

Perceptual Robotics (PRI) > www.perceptualrobotics.com >

A pioneer in telepresence technology for e-businesses, PRI allows clients to transmit live, high-definition images directly to their customers' computers from on-premise telerobotic web cameras in seconds.

SageMaker > www.sagemaker.com >

SageMaker Enterprise Information Platform (EIP) seamlessly integrates previously unorganized business applications and information into a single, universal platform to provide instantly usable information and applications for better decisions in less time.

Sequoia Software > www.sequoiasoftware.com >

This provider of XML-pure portal software allows users to facilitate outsourcing and information exchange among suppliers, distributors, partners, and customers through streamlined processes within and outside the enterprise.

TV House > www.tvhouse.com >

Using proprietary methods for turning static content into streaming video for the Internet and other media, TV House helps companies become Internet broadcasters and allows portals to add fresher content for broadband consumers.

United Process Group > www.unitedprocessgroup.com >

United Process Group aims to be the leading supply-side configuration engine for complex industrial products, offering value-added services to manufacturers and distributors including complex product decision support and product design collaboration.

ViaChange.com > www.viachange.com >

This B2B e-finance infrastructure and platform ASP provides clients with real-time transaction and trading solutions through a commercial application of unique proprietary technologies.

Xippix > www.xippix.com >

Xippix's proprietary Image Lifecycle Solutions offer customers a flexible application suite to efficiently manage all four phases of the image lifecycle – acquisition, management, production and deployment – over a standard Internet browser.

Xqsite > www.xqsite.com >

This fully-integrated provider of eBusiness solutions helps clients design, enable and implement their business models, technical architecture and interfaces via Internet-compatible devices and networked systems.

What We've Accomplished.

Although most will recall 2000 as the end of the millennium, and many will remember it as the beginning of the tech sector market correction, for us, it was also the year of divine's IPO. Looking back, the challenges we addressed provided more than a lesson in perseverance – this experience enabled us to become even more adept at assessing which technological ideals are the most valuable, where the digital economy is heading, and ultimately, divine's place in it as we move forward.

looking back

FINANCIAL TABLE OF CONTENTS

SELECTED FINANCIAL DATA

The following selected financial data has been derived from our audited consolidated financial statements for the year ended December 31, 2000 and the period from May 7, 1999 (inception) through December 31, 1999. You should read this information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and related notes included elsewhere in this Annual Report.

Consolidated Statement of Operations Data	Year Ended December 31, 2000	Period from May 7, 1999 (inception) through December 31, 1999
	(in thousands, except share and per share data)	
Revenues	$ 44,079	$ 1,037
Total operating expenses	346,621	10,465
Net loss applicable to common stockholders	(528,182)	(12,927)
Basic and diluted net loss per share applicable to common stockholders	$ (7.84)	$ (4.59)
Shares used in computing basic and diluted net loss per share	67,390,746	2,816,074

Consolidated Balance Sheet Data	December 31, 2000	1999
Cash and cash equivalents	$ 252,533	$ 162,841
Working capital	254,228	138,280
Total assets	420,181	238,872
Long-term obligations	7,777	281
Total stockholders' equity	$ 367,883	$ 205,234

For an explanation of the determination of the number of shares used in computing basic and diluted net loss per share, see Note 1 of the notes to our consolidated financial statements.

General

We are an enterprise web solutions company that provides critical infrastructure software and technology solutions for enterprises worldwide, as well as integration, training, and sales and marketing services to support those solutions. We provide these services directly and through certain members of our community of associated companies, consisting of 39 companies as of December 31, 2000 which offer integrated solutions to business enterprises, e-commerce, and vertical markets. Our current focus is on offering a complete enterprise solution specifically designed and promoted for use in a web environment. We announced our strategy to focus on enterprise web solutions in February 2001. We expect to concentrate our efforts and resources on this quickly growing enterprise software and technology segment. We expect that our offering will include an enterprise information portal ("EIP") that combines specialization in vertical markets and proven software and other applications.

We were formed in May 1999 as divine interVentures, inc., and in February 2001 we changed our name to divine, inc. On June 30, 1999, we began start-up and organizational activities, including building our management team, raising our initial capital, hiring technical and operational personnel, and marketing our business, which was initially focused on business-to-business e-commerce. Since September 30, 1999, we established or acquired interests in 53 associated companies. As of December 31, 2000, our community of associated companies consisted of 39 companies.

Many of our associated companies possess leading-edge applications, content, collaboration, multimedia, infrastructure, and hosting capabilities which we plan to include as part of our integrated enterprise solution. We expect to spend a portion of our available cash and to issue shares of our class A common stock in future periods to acquire additional interests in certain of these companies, many of which may become our wholly-owned subsidiaries, and to acquire other companies that offer products or services that complement and enhance our complete enterprise solution.

Many of our associated companies remain primarily focused on e-commerce and vertical markets. We anticipate that most of these companies will be accounted for under the equity method in future periods, as we expect to own minority interests in these companies. We may, but do not expect to, invest additional funds into these companies in future periods. Because we have not yet implemented our new strategy to deliver integrated enterprise web solutions, the discussion of our current operations, as well as those for the year ended December 31, 2000 and the period from May 7, 1999 (inception) through December 31, 1999 (the period ended December 31, 1999) focus on our activities as an Internet holding company actively engaged in business-to-business e-commerce.

We generate revenues principally through our majority-owned associated companies, the operating results of which are consolidated with our operating results. Our associated companies generate, or expect to generate, revenues from the sale of products and services, advertising, and transaction fees. We also generate revenues from fees paid to us by venture capital funds that we manage, as well as consulting fees.

Because we have acquired significant interests in business-to-business e-commerce companies, many of which generate net losses, we expect to experience significant volatility in our quarterly results. We do not know if we will report net income in any period, and we expect that we will report fluctuating net losses for the foreseeable future. Although our associated companies may report net losses in the future, we may record further income or losses in certain periods due to one-time transactions incidental to our ownership interests in, and advances to, associated companies. These one-time transactions may include dispositions of, or changes to, our associated company ownership interests, dispositions of our holdings of available-for-sale securities, and impairment charges.

Many of our associated companies are in the early stages of development. Our associated companies generally increase their spending as they market themselves, develop their various products and services, and implement infrastructure such as web site development and hiring key employees. The net losses incurred by these associated companies generally increase along with the level of these expenditures. We anticipate that this trend will continue as our associated companies develop and if we acquire interests in additional companies that are in the early stages of development.

Our associated companies provide ongoing services, including technological support, facilities usage, and professional services, to other of our associated companies at mutually agreed upon prices, which we believe to be substantially equivalent to prices that could be obtained through arm's-length negotiations. To the extent that these transactions occur between consolidated associated companies, they are not reflected in our consolidated operating results. To the extent that these transactions occur between a consolidated associated company and an associated company in which we own at least 20%, but not more than 50%, of the outstanding voting power, our consolidated statement of operations reflects the entire revenue or expense of the consolidated company. The income or expense of the associated company in which we own at least 20%, but not more than 50%, of the outstanding voting power is included in the results of operations of that associated company, and we recognize a portion that is equal to our ownership interest in that associated company.

On July 18, 2000, we completed an initial public offering ("IPO") of 14,285,000 shares of our class A common stock at an offering price of $9.00 per share with proceeds to us of approximately $109,244,000, net of underwriters' fees of $9,000,000 and other offering expenses of $10,321,000. Our class A common stock is quoted on the Nasdaq National Market. We also raised an additional $258,914,000 of proceeds, including $218,597,000 of cash proceeds, from private offerings concurrent with our IPO. We sold 7,257,455 shares of our class A common stock and 23,288,511 shares of our non-voting class C convertible common stock in those private placements. Our class C common stock converts on a share-for-share basis into our class A common stock.

Effect of Various Accounting Methods on the Consolidated Financial Statements

The various interests that we acquire in our associated companies are accounted for under three methods: consolidation, equity method, or cost method. We determine the method of accounting for our associated company interests on a case by case basis based upon our ownership percentage in each associated company, as well as our degree of influence over each associated company.

Consolidation

Associated companies in which we own, directly or indirectly, more than 50% of the outstanding voting power are accounted for under the consolidation method of accounting. Under this method, an associated company's results of operations are reflected within our consolidated statement of operations. Earnings or losses attributable to other stockholders of a consolidated associated company are identified as "minority interest" in our consolidated statement of operations. Minority interest adjusts our consolidated net results of operations to reflect only our share of the earnings or losses of a consolidated associated company. The results of operations of our consolidated associated companies, as well as our share of net income (loss) from our equity method associated companies, are reflected in our consolidated financial statements from the acquisition date of the related associated company.

Our associated companies accounted for under the consolidation method of accounting at December 31, 2000 included the companies in the table below. The asterisk ("*") denotes associated companies that we established. Our equity ownership percentages have been calculated based on the issued and outstanding common stock of each associated company, assuming the issuance of common stock upon the conversion of preferred stock, but excluding the effect of unexercised options or warrants. We have contributed an aggregate of $81,410,000 for start-up financing through December 31, 2000 to the 13 associated companies that we have established to date. We anticipate that our contributions to these companies will decrease significantly in future periods, as many have ceased operations or have been collapsed into our operations. Two of these associated companies have used $13,000,000 of this amount to acquire interests in three associated companies. The terms and amount of any funding to these associated companies are potentially subject to significant changes.

Associated Company	Associated Company Since	Our Equity Ownership
bid4real.com, inc.	1/24/00	54.3%
Buzz msp, Inc.*(1)	10/26/99	100.0%
dotspot, Inc.*	10/26/99	100.0%
FiNetrics, Inc.*(2)	11/3/99	100.0%
iFulfillment, Inc.	1/28/00	59.1%
i-Street, Inc.(3)	11/23/99	63.8%
LightsEdge, Inc. *(formerly known as Knowledge divine, inc.)**	10/26/99	100.0%
LiveOnTheNet.com, Inc.(4)	12/8/99	76.9%
mindwrap, inc.	11/19/99	97.1%
NetUnlimited, Inc.	3/24/00	76.9%
OpinionWare.com, Inc.	12/8/99	54.4%
Panthera Productions, LLC	3/30/00	62.9%
Parlano, Inc.	2/11/00	69.5%
salespring, inc.!!*(5)	10/26/99	100.0%
ViaChange.com, Inc.	1/31/00	70.3%
Web Design Group, Inc.(1)	2/11/00	66.7%
Westbound Consulting, Inc.(1)	2/11/00	65.0%
Xqsite, Inc.*	10/26/99	100.0%

(1) In February 2001, we acquired the minority interest of Web Design Group. In March 2001, we acquired the minority interest of Westbound Consulting while retaining a 83.8% interest in Westbound Consulting Services Pvt. Ltd., a subsidiary of Westbound Consulting. Web Design Group, Westbound Consulting, and Buzz msp were merged into divine Global Services, Inc. in 2001. We own 100% of divine Global Services, Inc.

(2) Effective March 2001, FiNetrics ceased all business operations.

(3) Excludes our $1,500,000 investment in shares of i-Street's non-voting, non-convertible preferred stock, which is redeemable at i-Street's option any time before March 2003. In January 2001, our ownership in i-street was restructured so that our voting ownership was reduced to 25.1%.

(4) Excludes our 5,000 shares of LiveOnTheNet's non-voting, non-convertible preferred stock, which is redeemable at LiveOnTheNet's option any time before April 2001 with respect to 477 shares.

(5) Effective February 2001, the operations of salespring were collapsed into our operations, and salespring ceased operating as an independent business.

Equity Method

Associated companies in which we own 50% or less of the outstanding voting power, but over which we exercise significant influence, are accounted for under the equity method of accounting. Whether or not we exercise significant influence with respect to an associated company depends on an evaluation of several factors including, among other things, representation on the associated company's board of directors, ownership percentage, and voting rights associated with our holdings in the associated company. With respect to our current associated companies, if we own at least 20%, but not more than 50%, of the outstanding voting power of an associated company, we account for our interests under the equity method. Under the equity method of accounting, an associated company's results of operations are not reflected within our consolidated operating results. However, our share of the earnings or losses of that associated company is identified as "equity in losses of associated companies" in our consolidated statement of operations.

The net effect of an associated company's results of operations on our results of operations is generally the same under either the consolidation method of accounting or the equity method of accounting, because, under each of these methods, only our share of the earnings or losses of an associated company is reflected in the net loss in our consolidated statement of operations. However, the presentation of the consolidation method differs dramatically from the equity method of accounting. The consolidation method presents associated company results in the applicable line items within our consolidated financial statements. In contrast, the equity method of accounting presents associated company results in a single category, "equity in losses of associated companies" within our consolidated statement of operations.

Our associated companies accounted for under the equity method of accounting at December 31, 2000 included the following companies. Our equity ownership percentages have been calculated based on the issued and outstanding common stock of each associated company, assuming the issuance of common stock upon the conversion of preferred stock, but excluding the effect of unexercised options or warrants.

Associated Company	Associated Company Since	Our Equity Ownership
Aluminium.com, Inc.	3/10/00	34.6%
closerlook, inc.	2/1/00	40.9%
Dolphin Interventures *(formerly known as Latin American Econetworks N.V.)*	7/26/00	37.4%
Emicom Group, Inc.	4/3/00	33.0% (1)
eReliable Commerce, Inc.	3/15/00	45.7%
Farms.com, Ltd.	4/28/00	40.7% (2)
iGive.com, inc.	2/11/00	32.1%
iSalvage.com, Inc.(3)	2/3/00	36.4%
Launchworks inc.	2/25/00	40.4% (4)
Mercantec, Inc.	2/11/00	41.9% (5)
Outtask.com Inc.	12/10/99	28.9%
Perceptual Robotics, Inc.	2/14/00	33.3%
TV House, Inc.	3/8/00	42.0%
United Process Group, Inc. *(formerly known as eFiltration.com, Inc.)*(6)	2/11/00	45.3%
Xippix, Inc.	2/4/00	31.5%

(1) Beginning March 24, 2002, Emicom will have a right to cause us to purchase all of its outstanding common stock, which right will terminate under certain circumstances, including Emicom's completion of an initial public offering.

(2) We also hold warrants to purchase shares of common stock of Farms.com. Giving effect to the exercise of these warrants, we would hold 45.3% of both the equity and the voting power of Farms.com.

(3) In February 2001, iSalvage ceased all business operations.

(4) We also hold warrants to purchase shares of common stock of Launchworks. Giving effect to the exercise of these warrants, we would hold 49.4% of both the equity and voting power of Launchworks.

(5) We also hold warrants to purchase shares of common stock of Mercantec. Giving effect to the exercise of these warrants, we would hold 44.3% of both the equity and voting power of Mercantec.

(6) In connection with our investment in United Process Group (UPG), we may be required to make an additional investment of $11,000,000 if UPG meets certain revenue goals for the twelve-month period ending May 31, 2001.

Cost Method

Associated companies not accounted for under either the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, our share of the earnings and losses of these companies is not included in our consolidated statements of operations unless earnings or losses are distributed.

We expect to record our ownership interest in equity securities of our associated companies accounted for under the cost method at the lesser of cost or fair value. Those cost method associated companies that have readily determinable fair values based on quoted market prices are classified in accordance with Statement of Financial Accounting Standards No. 115, *"Accounting for Certain Investments in Debt and Equity Securities."*

Our associated companies accounted for under the cost method of accounting, or under SFAS No. 115 (as marked with a cross ("†")) at December 31, 2000, included the following companies. Our equity ownership percentages have been calculated based on the issued and outstanding common stock of each associated company, assuming the issuance of common stock upon the conversion of preferred stock, but excluding the effect of options or warrants.

Associated Company	Associated Company Since	Our Equity Ownership
Commerx, Inc.	11/19/99	0.9%
comScore, Inc.	10/29/99	0.6%
FuelQuest, Inc.	10/06/00	3.0%
NTE, Inc. *(formerly known as The National Transportation Exchange, Inc.)*	10/29/99	5.3%
Neoforma.com, Inc.†	10/14/99	0.7%
Sequoia Software Corporation† (1)	11/23/99	8.0%

(1) In March 2001, Sequoia Software Corporation agreed to be acquired by Citrix Systems, Inc. in a cash tender offer for $5.64 per share. We expect that we will receive approximately $13,174,000 for our 2,335,770 shares of Sequoia upon consummation of that tender offer.

The presentation and content of our financial statements is largely a function of the presentation and content of the financial statements of our associated companies. We assume responsibility for the presentation and content of our financial statements, and each of our associated companies assumes responsibility for the presentation and content of its financial statements. To the extent any of our associated companies change the presentation or content of its financial statements, as may be required upon changes in accounting standards, the presentation and content of our financial statements may also change.

The presentation of our consolidated financial statements may differ from period to period if our ownership in any of our associated companies changes significantly. Our consolidated revenues and related costs and expenses may fluctuate due to the applicable accounting method used for recognizing our participation in the operating results of a particular associated company.

Deconsolidation

In October 2000, Oilspot.com, Inc. ("Oilspot") repurchased an amount of its shares from us that reduced our ownership in Oilspot from 55.6% to 28.5%. As part of this transaction, the $1,500,000 note payable by us to Oilspot, and the related interest due, was cancelled. Immediately following that repurchase, we exchanged our remaining ownership interest in Oilspot for an ownership interest of 3.0% in FuelQuest, Inc. in connection with the acquisition of Oilspot by FuelQuest. Beginning in October 2000, we accounted for our investment in FuelQuest on the cost basis.

Results of Operations

We were formed in May 1999. The discussion below regarding our results of operations includes comparisons between the year ended December 31, 2000 and the period from May 7, 1999 (inception) through December 31, 1999 (period ended December 31, 1999). However, as of December 31, 1999, our operations were in the very early stage and we owned a relatively small number of our current equity interests in associated companies, which account for the majority of our operations. The early stage of our operations and relatively low level of activity through December 31, 1999 affects the comparability of our operations for the year ended December 31, 2000 and the period ended December 31, 1999.

Year Ended December 31, 2000 vs. Period Ended December 31, 1999

General

During the year ended December 31, 2000, we acquired controlling majority voting interests in BeautyJungle.com, Inc., bid4real.com, inc., NetUnlimited, Oilspot.com, Inc., Panthera Productions LLC, Parlano, Inc., ViaChange.com, Inc., Web Design Group and Westbound Consulting, Inc., and made contributions to our wholly-owned subsidiary, Skyscraper Management, L.L.C., through which we managed Skyscraper Ventures, L.P. as general partner, for total aggregate consideration of $68,043,000, including $5,000,000 in the form of promissory notes, all of which have since been paid. In addition, we issued a total of 10,000,000 shares of our series F preferred stock, with a fair value of $4.80 per share, in connection with our acquisition of Parlano. These shares were converted into 1,666,666 shares of class A common stock upon completion of our initial public offering. We also acquired significant minority ownership interests in 18 new associated companies, which we account for under the equity method of accounting, for total consideration of $216,388,000, including $75,971,000 in the form of promissory notes, all of which have since been paid. In addition, we issued a total of 3,000,000 shares of our series F preferred stock, with a fair value of $4.80 per share, which converted into 499,999 shares of class A common stock upon completion of our initial public offering, in connection with our acquisitions of two of the 18 equity method companies, closerlook and Perceptual Robotics. In April 2000, we made an additional investment in OpinionWare.com, Inc., an associated company since December 1999, that caused OpinionWare to become a consolidated associated company, whereas it was an equity method associated company prior to this additional investment. In August 2000, we made an additional investment in iFulfillment, Inc., an associated company since January 2000, that caused us to account for iFulfillment as a consolidated associated company instead of an equity method associated company.

Revenues

We generated revenues totaling $44,079,000 for the year ended December 31, 2000, which is an increase of $43,042,000 over revenues of $1,037,000 for the period ended December 31, 1999. The total revenues for the year ended December 31, 2000 included approximately $5,316,000 from the sale of products, including $2,267,000 related to on-line sales of retail goods and $2,787,000 related to software sales contracts. The total revenues also included approximately $38,763,000 from the sale of services, including $9,646,000 from web design services, $6,396,000 from marketing and public relations services, $4,524,000 from software maintenance contracts, $4,446,000 from web-based advertising, $3,492,000 from facilities management, $2,388,000 from hosting services, and $2,296,000 from inventory management services. Revenues of approximately $8,605,000 were generated from transactions with our equity method associated companies for the year ended December 31, 2000.

For the period ended December 31, 1999, we generated revenues of approximately $1,037,000. These revenues included approximately $275,000 in management fees as general partner of Platinum Venture Partners I and II. These revenues also included approximately $272,000 related to software sales contracts and maintenance contracts of mindwrap, one of our consolidated associated companies. Other sources of revenues included $135,000 in web-based advertising, and other infrastructure service revenues such as public relations, consulting and facilities management. Revenues of approximately $293,000 were generated from transactions with our equity method associated companies for the period ended December 31, 1999.

Cost of Revenues

For the year ended December 31, 2000, our cost of revenues were approximately $42,266,000, exclusive of $1,274,000 of amortization of stock-based compensation. This is an increase of $41,238,000 over the $1,028,000 (exclusive of $5,000 of amortization of stock-based compensation) cost of revenues we incurred for the period ended December 31, 1999. Cost of revenues for the year ended December 31, 2000 included approximately $37,996,000 of direct costs of providing services, which consisted principally of salaries and benefits, professional services, rent and facilities services, supplies expenses, and marketing expenses. Cost of revenues for 2000 also included approximately $4,270,000 of direct costs of providing products. Cost of revenues for the period ended December 31, 1999 included approximately $794,000 of direct costs of providing services, consisting primarily of salaries and benefits, and approximately $234,000 of direct costs of providing products.

The types of revenues to which the cost of revenues for the year ended December 31, 2000 were attributed included web consulting ($10,385,000 cost of revenues), public relations revenues ($6,972,000 cost of revenues), facilities management services ($4,272,000 cost of revenues), inventory management services ($3,716,000 cost of revenues), web-based advertising ($3,402,000 cost of revenues), commissions revenue ($3,190,000 cost of revenues) and hosting services and related product sales ($5,351,000 cost of revenues).

The types of revenues to which the cost of revenues for the period ended December 31, 1999 were attributed included management fees ($236,000 cost of revenues), software and related maintenance revenues ($165,000 cost of revenues), web-based advertising ($160,000 cost of revenues), and other infrastructure service revenues such as public relations, consulting, and facilities management ($466,000 cost of revenues).

Selling, General, and Administrative Expenses

For the year ended December 31, 2000, we incurred selling, general, and administrative expenses of approximately $175,663,000, exclusive of $46,367,000 of amortization of stock-based compensation. This represents an increase of $167,106,000 over the $8,557,000 (exclusive of $740,000 of amortization of stock-based compensation) of selling, general, and administrative expenses for the period ended December 31, 1999. These expenses for the year ended December 31, 2000 consisted primarily of approximately $73,606,000 of employee benefits and related compensation, approximately $16,289,000 of marketing costs, approximately $12,000,000 of travel costs, approximately $9,820,000 of facility costs, consisting primarily of rent expense, and approximately $9,752,000 of fees for professional services, including legal, consulting, and accounting. Selling, general, and administrative expenses also included amortization of identifiable intangible assets and goodwill in connection with our acquisitions of consolidated associated companies, which totaled approximately $21,088,000. Selling, general, and administrative expenses for 1999 included approximately $3,851,000 of employee benefits and related compensation, approximately $1,449,000 of travel costs, approximately $865,000 of professional services, and approximately $332,000 of facility costs.

Research and Development Expenses

For the year ended December 31, 2000, we incurred research and development expenses of approximately $12,036,000, exclusive of $428,000 of amortization of stock-based compensation. This represents an increase of $11,903,000 over the $133,000 (exclusive of $2,000 of amortization of stock-based compensation) of research and development expenses for the period ended December 31, 1999. These expenses for the year ended December 31, 2000 consisted primarily of approximately $5,792,000 of employee benefits and related compensation, approximately $2,677,000 of professional fees, and approximately $1,779,000 of marketing expenses.

Impairment of Investment in Consolidated Associated Companies and Facilities

For the year ended December 31, 2000, we recorded impairment charges of approximately $57,626,000 for other than temporary declines in the carrying values of certain consolidated associated companies. These charges included, but were not limited to, write-offs of our investments in BeautyJungle, Brandango, and OfficePlanIt, each of which have ceased all meaningful operations and is conducting an orderly wind-up of its business or has filed for bankruptcy.

Additionally, we recorded an impairment charge of $10,961,000, including declines in the carrying value of property owned by us, improvements made to properties that we no longer consider recoverable and charges related to certain of our operating leases, consisting mainly of the net value of future cash payments to honor operating leases on facilities that we are no longer utilizing.

Stock-Based Compensation

For the year ended December 31, 2000, we incurred a non-cash expense of approximately $28,489,000 related to the issuance, prior to our IPO, of shares of restricted stock and grants of options to employees, directors, and consultants under our 1999 Stock Incentive Plan with exercise prices lower than the fair value of the class A common stock on the dates of grant. Also for the year ended December 31, 2000, we recovered $7,854,000 of previously recognized compensation expense related to options of terminated employees that had not vested.

During September 2000, we reduced the exercise price of options granted, and restricted stock purchased, under our stock incentive plan prior to our IPO to $9.00 (the IPO price of our class A common stock), if the exercise price of such options or restricted shares was greater than the IPO price and if the holder agreed to the change. Also during September 2000, we repurchased 3,820,735 shares of restricted class A common stock, issued upon exercise of options granted under our 1999 Stock Incentive Plan, at prices ranging from $4.50 to $9.00, which represented the lower of the respective exercise price or fair market value on the date of repurchase. Any consideration in excess of the exercise price, as adjusted, was refunded to these holders. As a result of these repurchases, we recorded a one-time stock-based compensation charge of $3,209,000. For the year ended December 31, 2000, we repurchased an additional 613,774 shares of restricted class A common stock from terminated employees.

Each of the holders of the repurchased restricted stock received a replacement option grant for the same number of shares with an exercise price of $9.00 per share. All of these replacement options are exercisable and vest as to 25% of the options on the first anniversary of the original option grant, and thereafter in equal monthly installments over the next three years. For those replacement options repriced downward, we will recognize stock-based compensation expense in the future for any amount by which the fair value of our class A common stock exceeds $9.00 per share. After giving effect to these changes, as of December 31, 2000, 15,430,225 shares of our class A common stock had been issued under our stock incentive plan, upon exercise of outstanding options or otherwise, at prices ranging from $1.19 to $13.50 per share, and we had outstanding options to purchase 6,559,649 shares of class A common stock under our stock incentive plan, with exercise prices ranging from $1.19 to $13.50 per share. The total unearned stock-based compensation related to the outstanding options and restricted stock at December 31, 2000 was approximately $36,641,000.

From January 1, 2000 through September 21, 2000, we incurred an additional non-cash expense of approximately $5,896,000 related to our issuance to our employees of shares of common stock of our majority-owned associated companies that we established. Effective September 22, 2000, we repurchased these minority interests from our employees. These repurchases were made at the initial investment cost plus 8% for our executive officers and at two times the initial investment cost for the other employees that owned those shares. The aggregate purchase price for all of these shares was $93,000. As a result of these repurchases, we accelerated our recognition of the remaining $18,329,000 of stock-based compensation related to these shares.

For the period ended December 31, 1999, we incurred a non-cash expense of approximately $747,000 related to the issuance of shares of restricted stock and grants of options to employees and directors under our 1999 Stock Incentive Plan with exercise prices lower than the fair value of the class A common stock on the dates of the grant. We did not recover any previously recognized compensation expense in 1999.

Interest Income and Expense

Interest income for the year ended December 31, 2000 was approximately $15,583,000 and was earned from the investment of our available cash balances. This is an increase of $13,994,000 over the $1,589,000 of interest income earned during the period ended December 31, 1999. Interest expense for the year ended December 31, 2000 was approximately $1,857,000 and was incurred primarily from notes payable to associated companies. This is an increase of $1,652,000 over the $205,000 of interest expense incurred during the period ended December 31, 1999, which was related primarily to borrowings under a previous line of credit.

Income Taxes

We recorded no income tax provision or benefit for the year ended December 31, 2000 or the period ended December 31, 1999. Because we have no history of taxable income through December 31, 2000, the tax benefit associated with our net losses has been fully reserved. As of December 31, 2000 we had total net operating loss carryforwards of approximately $152,451,000, of which approximately $88,009,000 may be utilized by us to reduce future consolidated taxable income, if any. Approximately $64,442,000 of the total net operating loss carryforwards are attributable to majority-owned subsidiaries not includible in our consolidated tax group. Although each majority-owned subsidiary excluded from our consolidated tax group may utilize its net operating loss carryforwards to reduce separate future income taxes, if any, such carryforwards may not offset our consolidated taxable income, if any. In addition, our utilization of the net operating loss carryforwards may be limited under Internal Revenue Code Section 382 as a result of prior ownership changes. The net operating loss carryforwards will expire from 2019 through 2020.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some or all of the deferred tax assets will not be realized. Based upon our historical net operating losses and projections for future tax losses, we believe it is more likely than not that we will not realize the deferred tax assets. Thus, we have provided a full valuation allowance against the net deferred tax assets as of December 31, 2000.

Minority Interest

Minority interest of approximately $18,169,000 and $51,000 represents the non-controlling stockholders' share of our consolidated associated companies' net losses for the year ended December 31, 2000 and the period ended December 31, 1999, respectively.

Net Gain on Stock Transactions of Associated Companies

Net gain on stock transactions of associated companies of approximately $4,375,000 for the year ended December 31, 2000 relates to the net increase in the value of our investments in associated companies resulting from the issuance of stock by these companies to outside investors at prices higher than the value at which we have carried these investments and other stock transactions of these associated companies. The gain was attributed mainly to issuances of stock by Launchworks, which accounted for approximately $4,430,000 and closerlook, which accounted for approximately $847,000. The gain was reduced by a loss of approximately $1,011,000 resulting from the redemption of shares by Mercantec. We expect to record future gains and/or losses as more of our associated companies engage in stock transactions. Because none of our associated companies had any such stock transactions during the period ended December 31, 1999, we had no such gains or losses during that period.

Equity in Losses of Associated Companies

Equity in losses of associated companies resulted from our minority ownership interests we account for, or accounted for, under the equity method. Equity in losses of associated companies includes our proportionate share of equity method associated companies' losses, which totaled approximately $53,627,000 in net losses for the year ended December 31, 2000 and $672,000 in net losses for the period ended December 31, 1999. Equity in losses of associated companies also includes amortization of our net excess investment over the equity in the net assets of these associated companies, which totaled approximately $36,994,000 for the year ended December 31, 2000 and $742,000 for the period ended December 31, 1999.

Impairment of Investment in Equity and Cost Method Associated Companies

For the year ended December 31, 2000, we recorded impairment charges of approximately $113,125,000 for other than temporary declines in the carrying values of certain equity and cost method associated companies. These charges included the write-down of our net investment in BidBuyBuild to $200,000, which was the value at which it was sold in October 2000, and the write-down of our net investment in iSalvage to $72,000. iSalvage has ceased all meaningful business operations and is currently in the liquidation process. The impairment charges also included write-offs of our investments in CapacityWeb, Entrepower, PocketCard, and Whiplash, each of which has ceased all meaningful operations and has conducted or is conducting an orderly wind-up of its business or has filed for bankruptcy. In conjunction with the sale of BidBuyBuild, we also received a warrant to acquire 5% of the shares of BidBuyBuild with an exercise price of approximately $100,000. In addition, the carrying values of certain other equity and cost method associated companies were written down to their estimated fair values.

> Summary of Currently Expected Fixed Charges

The following table summarizes the fixed charges as of December 31, 2000 that we currently expect to incur over the next four years for amortization of (1) identifiable intangible assets and goodwill, (2) our net excess investment over our equity in the net assets of associated companies, and (3) unearned stock-based compensation:

	Year			
Amortization of:	2001	2002	2003	2004
Identifiable Intangible Assets and Goodwill	$ 5,661,000	$ 2,401,000	$ 559,000	$ ---
Our Net Excess Investment	4,122,000	3,463,000	313,000	---
Unearned Stock-Based Compensation*	12,675,000	11,821,000	11,531,000	614,000
Total	$ 22,458,000	$ 17,685,000	$ 12,403,000	$ 614,000

** These unearned stock-based compensation charges do not reflect potential additional charges associated with options granted to employees which are accounted for under the variable method of accounting as well as options granted to consultants. The future value of these potential charges cannot be estimated at this time because the charges will be based on the future value of our stock.*

Liquidity and Capital Resources

As of December 31, 2000, we had cash and cash equivalents of approximately $252,533,000, including cash and cash equivalents of $24,443,000 held by our consolidated associated companies, consisting almost entirely of funds raised in our IPO and in private placements of securities. Our cash and cash equivalents as of December 31, 2000 represented an increase of approximately $89,692,000 from approximately $162,841,000 as of December 31, 1999. The net increase in cash and cash equivalents was due primarily to proceeds from issuance of preferred stock of approximately $230,720,000, proceeds from our IPO of approximately $109,244,000, and proceeds from our private placements concurrent with our IPO of approximately $218,597,000. These increases were partially offset by acquisitions of ownership interests in associated companies of approximately $172,760,000, repayments on notes payable to associated companies of approximately $101,187,000, and net cash used in operating activities of approximately $153,792,000.

As of December 31, 2000, we were negotiating with LaSalle Bank N.A. to enter into a $25,000,000 line of credit, which was finalized on January 29, 2001. The line of credit is cash collateralized and is available for working capital financing and general corporate purposes other than permanent financing for acquisitions of interests in associated companies. In addition, our obligations under our office lease in Lisle, Illinois are secured by a letter of credit for $443,000 issued by Bank of America.

We continually examine all of our associated companies to assess their potential for financial success as part of our organization, whether on a stand-alone basis or otherwise. This examination includes consideration of each associated company's development of its business plans and objectives and progress toward achievement of its performance goals. As of December 31, 2000, we have recognized $170,751,000 of impairment charges related to our associated companies. In conjunction with our new strategic direction, we will continue to evaluate the remaining associated companies in our portfolio to determine whether we will make any future contributions to their capital. We expect that we will be making significant contributions only to our associated companies that provide products or services that are included in our integrated web solutions platform.

On May 5, 2000, we committed to contribute a total of $10,000,000 to Skyscraper Ventures, L.P. ("Skyscraper"). Of this amount, $9,860,000 was in our capacity as a limited partner and $140,000 was in our capacity as the general partner. On June 8, 2000, we contributed $2,310,000 to Skyscraper as a limited partner and $33,000 as the general partner. However, on December 1, 2000, we made the decision to no longer manage or fund Skyscraper. Based upon this decision, Skyscraper returned $1,285,000 of our limited partnership investment, returned $18,000 of our general partnership investment and cancelled our remaining funding commitments. Additionally, we will receive share interests from Skyscraper in Novarra, Inc. (the only investment made by Skyscraper). These share interests, which represent a non-significant minority interest in Novarra, Inc., are valued at our cost of $714,000, which equals estimated fair value.

In July 2000, we spent approximately $10,761,000 to acquire commercial property in Chicago. We paid an additional $3,571,000 in 2000 for the development of this property. However, development of this property no longer complements our new strategic direction. We continue to hold our investment in the commercial property, although we listed the property for sale in February 2001.

Concurrent with our IPO in July 2000, we sold 7,257,455 shares of our class A common stock and 23,288,511 shares of our non-voting class C convertible common stock in private placements. Our total proceeds from the concurrent private placements were $258,914,000, which includes a $25,000,000 credit toward the purchase by us of co-location and bandwidth services from Level 3 Communications, and shares of common stock of CMGI, Inc. (CMGI) valued at $15,317,000 at that time. Our ownership interest in CMGI had a cost basis of $41.18 per share and a fair value of $5.59 per share at December 31, 2000. Our cash proceeds from these concurrent private placements were approximately $218,597,000. In connection with these private placements: (1) we have agreed under our Alliance Agreement with Microsoft to purchase approximately $9,600,000 of software products, $4,700,000 of consulting services, and $1,000,000 of product support services from Microsoft through January 2004, to expend $4,000,000 over four years to promote Microsoft solutions, to open an accelerator facility in Seattle, the cost for which will be determined as the size and scope of the accelerator is finalized, and to dedicate up to $50,000,000 in capital to projects and acquisitions in the Seattle area; we are currently working to restructure our relationship with Microsoft, including the Alliance Agreement, to focus on our enterprise web solutions strategy and Microsoft's ".NET" strategy, although there can be no assurance that we will successfully achieve that goal; (2) we entered into an agreement concerning the purchase of a minimum of $100,000,000 of co-location and bandwidth services from Level 3 over a four-year period, $25,000,000 of which would be credited as payment by Level 3 for its purchase of shares from us; we are actively negotiating the terms of a definitive agreement concerning these services, which we expect to complete; and (3) we have agreed to purchase a minimum of $5,000,000 of computer equipment and software, storage solutions, and professional services from Compaq over four years.

In addition, in connection with our private placement to 360networks, we also purchased 374,181 subordinated voting shares of 360networks in a private placement concurrent with 360networks' initial public offering on April 26, 2000. We purchased 93,545 shares at a purchase price of $5.00 per share and 280,636 shares at a price of $13.23 per share, which represents the 360networks' initial public offering price, less underwriting discounts, for a total purchase price of $4,181,000. We completed our purchase of these shares on April 26, 2000, at which time the shares had an aggregate market value of $5,239,000. Our ownership interest in 360networks had a cost basis of $11.17 per share and a fair value of $12.75 per share at December 31, 2000.

In February 2000, Neoforma.com, Inc. (Neoforma) completed an initial public offering of its common shares at $13.00 per share. Neoforma, which became one of our associated companies in October 1999, is a leading provider of business-to-business e-commerce solutions to the global medical marketplace. At December 31, 2000, our ownership interest in Neoforma had a cost basis of $5.68 per share and a fair value of $0.81 per share.

In May 2000, Sequoia Software Corporation completed an initial public offering of its common shares at $8.00 per share. Sequoia, which became one of our associated companies in November 1999, is a leading provider of Internet infrastructure software based on the XML programming language for web applications. At December 31, 2000, our ownership interest in Sequoia had a cost basis of $2.81 per share and a fair value of $1.91 per share. In March 2001, Sequoia agreed to be acquired by Citrix Systems, Inc. in a cash tender offer for $5.64 per share. We expect that we will receive approximately $13,174,000 for our 2,335,770 shares of Sequoia upon consummation of that tender offer.

At December 31, 2000, we had approximately $12,404,000 in available-for-sale securities, consisting of shares of Neoforma, Sequoia, 360networks, and CMGI.

Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, *"Accounting for Derivatives and Hedging Activities,"* (SFAS No. 133) which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. SFAS No. 133, as amended, is effective for all fiscal quarters beginning after December 31, 2000. We do not anticipate that SFAS No. 133 will have a material effect on our financial position or our results of operations.

Quantitative and Qualitative Disclosures About Market Risk

Equity Price Risk – At December 31, 2000, we had approximately $12,404,000 of available-for-sale equity securities. These securities represent companies in the Internet and hi-tech sectors, both of which have experienced significant volatility, specifically in 2000. These investments are at risk in the event of a downturn in the public markets in general or a downturn in their specific sectors. However, these investments accounted for only 3.0% of our total assets at December 31, 2000.

Interest Rate Risk – At December 31, 2000, we had approximately $252,533,000 in cash and cash equivalents. A decrease in market rates of interest would have no material effect on the value of these assets, as they are short-term financial instruments with a fair value approximating our cost basis. Cash equivalents consist mainly of money market accounts and short-term federal agency securities. The carrying values of other financial instruments, such as accounts receivable, notes receivable, accounts payable, and notes payable approximate fair value as well as because of their short-term nature. Nearly all of our long-term debt relates to a note that an executive officer of one of our associated companies extended to that associated company. We expect that this long-term debt will be converted into equity of that associated company.

Foreign Currency Exchange Risk – Our financial market risk includes risks associated with our ownership interests in three associated companies that transact business in foreign currencies. Through December 31, 2000, we have not experienced any significant impact on our operations as a result of fluctuations in foreign currency exchange rates. We do not currently engage in any activities for the purpose of hedging foreign currency.

Impairment Risk – At December 31, 2000, we held ownership interests in 37 associated companies that were not publicly traded. We assess the net realizable value of these associated companies on a regular basis to determine if we have incurred any other than temporary decline in the value of our investment. For the year ended December 31, 2000, we incurred approximately $181,712,000 in impairment charges, related mainly to our investment in equity method associated companies and the goodwill and/or specific assets associated with our investment in consolidated associated companies. We may incur additional impairment charges in future periods.

CONSOLIDATED BALANCE SHEETS

Assets	December 31, 2000	1999
	(in thousands, except share and per share data)	
Current assets:		
Cash and cash equivalents	$ 252,533	$ 162,841
Restricted cash	2,143	---
Accounts receivable, less allowance for doubtful accounts of $6,863 and $587	7,678	2,629
Available-for-sale securities	12,404	---
Notes receivable	179	4,075
Prepaid expenses	1,959	912
Other current assets	4,903	479
Total current assets	281,799	170,936
Property and equipment, net	33,820	3,927
Goodwill and other intangible assets, net of accumulated amortization of $21,170 and $595	8,621	17,840
Ownership interests in associated companies	65,939	44,455
Prepaid co-location and bandwidth services	25,000	---
Deferred offering costs	---	1,612
Restricted cash	1,000	---
Other noncurrent assets	4,002	102
Total assets	$ 420,181	$ 238,872

Liabilities and Stockholders' Equity	2000	1999
Current liabilities:		
Accounts payable	$ 10,193	$ 3,524
Accrued payroll expenses	1,631	1,107
Accrued professional fees	2,091	---
Current portion of facilities impairment	2,257	---
Current portion of capital leases	2,868	170
Other accrued expenses and current liabilities	6,579	4,819
Notes payable	521	22,500
Deferred revenue	1,431	536
Total current liabilities	27,571	32,656
Long-term debt	826	---
Capital leases	3,801	119
Other noncurrent liabilities	144	162
Long-term facilities impairment	3,006	---
Minority interest	16,950	701
Stockholders' equity:		
Series C senior convertible preferred stock, $.001 par value; 0 and 200,000,000 shares authorized; 0 and 190,062,125 shares issued and outstanding	---	190
Series B-1 junior convertible preferred stock, $.001 par value; 0 and 25,000,000 shares authorized; 0 and 2,712,000 shares issued and outstanding	---	3
Series B-2 junior convertible preferred stock, $.001 par value; 0 and 21,000,000 shares authorized; 0 and 20,100,000 shares issued and outstanding	---	20
Series A-1 junior convertible preferred stock, $.001 par value; 0 and 48,000,000 shares authorized; 0 and 9,236,600 shares issued and outstanding	---	9
Series A-2 junior convertible preferred stock, $.001 par value; 0 and 39,000,000 shares authorized; 0 and 37,750,000 shares issued and outstanding	---	38
Class A common stock, $.001 par value; 2,500,000,000 and 900,000,000 shares authorized; 128,382,154 and 3,791,614 shares issued; 127,390,478 and 3,791,614 shares outstanding	128	4
Class B common stock, $.001 par value; 0 and 100,000,000 shares authorized; 0 and 2,041,662 shares issued and outstanding	---	2
Class C common stock, $.001 par value; 100,000,000 and 0 shares authorized; 6,777,777 and 0 shares issued and outstanding	7	---
Additional paid-in capital	956,110	241,036
Notes receivable from exercise of stock options	(5,636)	---
Unearned stock-based compensation	(36,641)	(26,661)
Accumulated other comprehensive income	(20,011)	---
Treasury stock, class A common, at cost; 741,676 and 0 shares	(5,592)	---
Accumulated deficit	(520,482)	(9,407)
Total stockholders' equity	367,883	205,234
Total liabilities and stockholders' equity	$ 420,181	$ 238,872

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2000	Period from May 7, 1999 (inception) through December 31, 1999
	(in thousands, except share and per share data)	
Revenues:		
Products	$ 5,316	$ 313
Services	38,763	724
Total revenues	44,079	1,037
Operating expenses:		
Cost of revenues:		
Products *(exclusive of $123 and $0 of amortization of stock-based compensation)*	4,270	234
Services *(exclusive of $1,151 and $5 of amortization of stock-based compensation)*	37,996	794
Total cost of revenues	42,266	1,028
Selling, general and administrative *(exclusive of $46,367 and $740 of amortization of stock-based compensation)*	175,663	8,557
Research and development *(exclusive of $428 and $2 of amortization of stock-based compensation)*	12,036	133
Impairment of investment in consolidated associated companies	57,626	---
Impairment of facilities	10,961	---
Stock-based compensation	48,069	747
Total operating expenses	346,621	10,465
Operating loss	(302,542)	(9,428)
Other income (expense):		
Interest income	15,583	1,589
Interest expense	(1,857)	(205)
Other expense, net	(301)	---
Total other income	13,425	1,384
Loss before minority interest, net gain on stock transactions of associated companies, equity in losses of associated companies and impairment of investment in equity method and cost method associated companies	(289,117)	(8,044)
Minority interest	18,169	51
Net gain on stock transactions of associated companies	4,375	---
Equity in losses of associated companies	(90,621)	(1,414)
Impairment of investment in equity method and cost method associated companies	(113,125)	---
Net loss	(470,319)	(9,407)
Accretion of redeemable preferred stock dividends	(8,037)	---
Accretion of preferred stock dividends	(9,070)	(3,520)
Deemed dividends	(40,756)	---
Net loss applicable to common stockholders	$ (528,182)	$ (12,927)
Basic and diluted net loss per share applicable to common stockholders	$ (7.84)	$ (4.59)
Shares used in computing basic and diluted net loss per share	67,390,746	2,816,074

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred stock		Common stock	
(in thousands, except share data)	Shares	Amount	Shares	Amount
Balance at May 7, 1999 (inception)	---	$ ---	---	$ ---
Comprehensive loss:				
Net loss	---	---	---	---
Total comprehensive loss				
Issuance of Class A common stock	---	---	3,449,956	4
Issuance of Class B common stock	---	---	2,041,662	2
Issuance of Series A-1 preferred stock	9,236,600	9	---	---
Issuance of Series A-2 preferred stock	37,750,000	38	---	---
Issuance of Series B-1 preferred stock	2,712,000	3	---	---
Issuance of Series B-2 preferred stock	20,100,000	20	---	---
Issuance of Series C preferred stock	190,062,125	190	---	---
Exercise of stock options – Class A common stock	---	---	341,658	---
Unearned stock-based compensation	---	---	---	---
Stock-based compensation	---	---	---	---
Balance at December 31, 1999	259,860,725	260	5,833,276	6
Comprehensive loss:				
Net loss	---	---	---	---
Other comprehensive loss:				
Unrealized holding loss during the year	---	---	---	---
Total comprehensive loss				
Issuance of Series F preferred stock	11,500,000	11	---	---
Conversion from Class B common stock to Class A common stock	---	---	(2,041,662)	(2)
Conversion of Class A common stock from Class B common stock	---	---	2,041,662	2
Conversion of preferred stock to Class A common stock, net of ⅙ conversion factor	(271,360,725)	(271)	45,226,788	45
Conversion of redeemable preferred stock to Class A common stock, net of ⅙ conversion factor and capital raising costs	---	---	35,880,721	36
Issuance of Class C common stock, net of offering costs	---	---	23,288,511	23
Conversion from Class C common stock to Class A common stock	---	---	(16,510,734)	(17)
Conversion to Class A common stock from Class C common stock	---	---	16,510,734	17
Issuance of Class A common stock in conjunction with initial public offering, net of offering costs	---	---	14,285,000	14
Issuance of Class A common stock exclusive of initial public offering shares, net of capital raising costs	---	---	8,527,046	9
Deemed dividends related to beneficial conversion feature of Series E & F preferred stock	---	---	---	---
Deemed dividends related to discount on issuance of Class C common stock	---	---	---	---
Accretion of redeemable preferred stock dividends	---	---	---	---
Issuance of Class A common stock through the Employee Stock Purchase Plan	---	---	425,712	1
Dilution gain on equity transactions by associated companies	---	---	---	---
Exercise of stock options – Class A common stock	---	---	5,877,670	6
Issuance of notes receivable to exercise stock options	---	---	---	---
Repurchase and retirement of Class A common stock and reduction of related notes receivable	---	---	(4,434,509)	(4)
Unearned stock-based compensation	---	---	---	---
Stock-based compensation	---	---	---	---
Recovery of unearned stock based compensation	---	---	---	---
Capital raising costs of subsidiaries	---	---	---	---
Payout of fractional shares	---	---	(284)	---
Indirect ownership of shares of the Company's Class A common stock owned by equity method associated companies	---	---	(741,676)	(1)
Balance at December 31, 2000	---	$ ---	134,168,255	$ 135

See accompanying notes to consolidated financial statements.

Additional paid-in capital	Notes receivable from exercise of stock options	Unearned stock-based compensation	Treasury stock	Accumulated deficit	Accumulated other comprehensive income	Total stockholders' equity
$ ---	$ ---	$ ---	$ ---	$ ---	$ ---	$ ---
---	---	---	---	(9,407)	---	(9,407)
						(9,407)
17	---	---	---	---	---	21
10	---	---	---	---	---	12
2,287	---	---	---	---	---	2,296
9,387	---	---	---	---	---	9,425
1,341	---	---	---	---	---	1,344
10,018	---	---	---	---	---	10,038
189,031	---	---	---	---	---	189,221
1,537	---	---	---	---	---	1,537
27,408	---	(27,408)	---	---	---	---
---	---	747	---	---	---	747
241,036	---	(26,661)	---	(9,407)	---	205,234
---	---	---	---	(470,319)	---	(470,319)
---	---	---	---	---	(20,011)	(20,011)
						(490,330)
14,719	---	---	---	---	---	14,730
---	---	---	---	---	---	(2)
---	---	---	---	---	---	2
226	---	---	---	---	---	---
223,134	---	---	---	---	---	223,170
193,440	---	---	---	---	---	193,463
---	---	---	---	---	---	(17)
---	---	---	---	---	---	17
109,230	---	---	---	---	---	109,244
73,887	---	---	---	---	---	73,896
25,814	---	---	---	(25,814)	---	---
14,942	---	---	---	(14,942)	---	---
(8,037)	---	---	---	---	---	(8,037)
762	---	---	---	---	---	763
1,021	---	---	---	---	---	1,021
34,651	---	---	---	---	---	34,657
---	(31,154)	---	---	---	---	(31,154)
(26,513)	25,518	---	---	---	---	(999)
106,274	---	(106,274)	---	---	---	---
3,209	---	44,860	---	---	---	48,069
(51,434)	---	51,434	---	---	---	---
(250)	---	---	---	---	---	(250)
(1)	---	---	---	---	---	(1)
---	---	---	(5,592)	---	---	(5,593)
$ 956,110	$ (5,636)	$ (36,641)	$ (5,592)	$ (520,482)	$ (20,011)	$ 367,883

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2000	Period from May 7, 1999 (inception) to December 31, 1999
Cash flows from operating activities	*(in thousands)*	
Net loss	$ (470,319)	$ (9,407)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	27,266	693
Stock-based compensation	48,069	747
Bad debt expense	6,186	587
Equity in losses of associated companies	90,621	1,414
Net gain on stock transactions of associated companies	(4,375)	---
Impairment charges	181,712	---
Minority interest	(18,169)	(51)
Changes in assets and liabilities, excluding effects from acquisitions:		
Restricted cash	(3,143)	---
Accounts receivable	(10,031)	(1,164)
Deferred offering costs	1,612	(1,612)
Prepaid expenses	(1,047)	(27)
Other current assets	(8,942)	(462)
Accounts payable	(1,672)	2,641
Accrued expenses and other liabilities	7,554	5,816
Deferred revenue	886	121
Net cash used in operating activities	(153,792)	(704)
Cash flows from investing activities		
Additions to property and equipment	(45,676)	(2,636)
Acquisitions of ownership interests in associated companies, net of cash acquired	(172,760)	(43,238)
Deconsolidation of associated companies	(1,242)	---
Sale of associated companies	1,990	---
Purchase of available-for-sale securities	(4,181)	---
Net issuance (repayment) on notes receivable	3,936	(4,075)
Net cash used in investing activities	(217,933)	(49,949)
Cash flows from financing activities		
Proceeds from the issuance of preferred stock, net of issuance costs	230,720	211,924
Proceeds from initial public offering, net of issuance costs	109,244	---
Proceeds from private placements concurrent with initial public offering	218,597	---
Issuance of shares under Employee Stock Purchase Plan	763	---
Proceeds from the issuance of common stock, net of issuance cost	---	33
Net repayments of notes payable to associated companies	(101,187)	---
Issuance of long-term debt	2,643	---
Repayment of long-term debt	(2,140)	---
Proceeds from the exercise of stock options	4,261	1,537
Repurchase and cancellation of exercised stock options	(1,233)	---
Capital raising costs of subsidiaries and payment of fractional shares	(251)	---
Net cash provided by financing activities	461,417	213,494
Net increase in cash and cash equivalents	89,692	162,841
Cash and cash equivalents at beginning of period	162,841	---
Cash and cash equivalents at end of period	$ 252,533	$ 162,841
Supplemental disclosures		
Interest paid	$ 1,467	$ 27
Noncash financing and investing activities:		
Issuance of notes payable or stock for ownership interests in associated companies	85,316	22,500
Issuance of notes receivable from exercise of stock options	31,154	---
Retirement of notes receivable from exercise of stock options	25,518	---
Issuance of stock in exchange for service credit or stock	40,317	400

See accompanying notes to consolidated financial statements.

Note 1: Summary of Significant Accounting Policies

Description of Business

divine interVentures, inc. (the Company) was incorporated in the State of Delaware on May 7, 1999 and commenced operations on June 30, 1999. The Company is actively engaged in business-to-business e-commerce through its community of associated companies. The Company fosters collaboration among the associated companies, many of which are located together in the Company's facilities, to provide cross-selling and marketing opportunities and support business growth and the sharing of information and business expertise. The Company manages, finances, operates and provides services to its associated companies. In February 2001, the Company changed its name to divine, inc. All references in these notes to our consolidated financial statements to "the period ended December 31, 1999" refer to the period from May 7, 1999 (inception) through December 31, 1999.

Principles of Consolidation

The various interests that the Company acquires in its associated companies are accounted for under three methods: consolidation, equity, or cost method. The Company determines the method of accounting for its associated companies on a case-by-case basis based upon its ownership percentage in each associated company, as well as its degree of influence over each associated company.

Consolidation. Associated companies in which the Company owns, directly or indirectly, more than 50% of the outstanding voting power are accounted for under the consolidation method of accounting. Under this method, an associated company's results of operations are reflected within the Company's consolidated statements of operations from the acquisition date forward. Earnings or losses attributable to other stockholders of a consolidated associated company are identified as "minority interest" in the Company's consolidated statements of operations. Minority interest adjusts the Company's consolidated net results of operations to reflect only its share of the earnings or losses of an associated company. Transactions between the Company and its consolidated associated companies are eliminated in consolidation.

Equity Method. Associated companies in which the Company owns 50% or less of the outstanding voting power, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an associated company depends on an evaluation of several factors including, among other things, representation on the associated company's board of directors, ownership percentage and voting rights associated with the Company's holdings in the associated company. If the Company owns at least 20%, but not more than 50%, of the outstanding voting power of an associated company, the Company accounts for its interests under the equity method. Under the equity method of accounting, associated companies' results of operations are not reflected within the Company's consolidated operating results. However, the Company's share of the earnings or losses of these associated companies, from the acquisition date forward, is identified as "equity in losses of associated companies" in the Company's consolidated statements of operations.

The amount by which the Company's carrying value exceeds its share of the underlying net assets of associated companies accounted for under the equity method of accounting is amortized on a straight-line basis over three years, which the Company believes to be the minimum number of years for which the associated companies will be successfully implementing their business plans, based on various factors such as their revenue models and technology, and the industries in which they operate. This amortization adjusts the Company's share of the "equity in losses of associated companies" in the Company's consolidated statements of operations.

Cost Method. Associated companies not accounted for under either the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, the Company's share of the earnings and losses of these companies is not included in the Company's consolidated statements of operations.

The Company records its ownership interest in equity securities of its associated companies accounted for under the cost method at cost, unless the securities have readily determinable fair values based on quoted market prices, in which case these interests would be accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities.*

Cash Equivalents

The Company considers all highly liquid instruments with an original maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents at December 31, 2000 are invested principally in money market accounts.

Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents. The Company maintains its cash accounts with various banks. The total cash balances of the Company are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000 per depositor, per bank. In addition, a significant portion of the cash held by the Company in brokerage accounts at December 31, 2000 is protected with coverage provided through commercial insurers. The Company had cash and cash equivalents at December 31, 2000 that exceeded the balance insured by the FDIC or others by approximately $116,798,000.

Financial Instruments

Cash equivalents, accounts receivable, notes receivable, accounts payable, accrued expenses and notes payable are carried at cost which approximates fair value due to the short-term maturity of these instruments.

Property and Equipment

Property and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. Amortization of leasehold improvements is computed over the shorter of the lease term or estimated useful life of the assets.

Software Development Costs

The Company capitalizes software development costs incurred subsequent to the internal release of products for acceptance testing. Upon the general release of the product to customers, development costs for that product are amortized over periods not exceeding three years, based on the estimated economic life of the product.

Software Developed for Internal Use

Under the provisions of Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,* the Company capitalizes costs associated with software developed or obtained for internal use when the preliminary project stage is completed and it is probable that the project will be completed and used to perform the intended function. Capitalized costs include only 1) external direct costs of materials and services, 2) internal payroll costs, and 3) interest costs incurred, and only the portion of those costs directly related to the development of the internal-use software.

Web Site Development Costs

The Company accounts for costs incurred for web site development under Emerging Issues Task Force (EITF) 00-2, *Accounting for Web Site Development Costs.* Generally, all costs incurred in the planning and operational phases are expensed as incurred. For costs incurred in other phases, such as application and infrastructure development, graphics development and content development, the Company applies SOP 98-1 in determining whether to capitalize or expense these costs.

Revenue Recognition

Software transactions are accounted for in accordance with SOP 97-2, *Software Revenue Recognition.* SOP 97-2 generally requires revenue earned on software arrangements involving multiple elements, such as software products, upgrades/enhancements, post-contract customer support, installation and training to be allocated to each element based on the relative fair values of the elements. The revenue allocated to software licenses where the separate service elements are not essential to functionality of the other elements is generally recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed or determinable, and collectibility is probable. When the separate service elements are essential to the functionality of the other elements, software license revenues are recognized according to the contract accounting provisions outlined in SOP 81-1, *Accounting for Performance of Construction-Type and Certain Performance-Type Contracts,* specifically the percentage-of-completion method. The revenue allocated to post-contract customer support is recognized ratably over the term of the support, and revenue allocated to service elements such as training, installation and customization is recognized as the services are performed.

Revenue earned from webcasting and Web page development, hosting and advertising are generally recognized in the month in which services are performed, provided that no significant obligations remain. Webcasting revenues are recognized when events are cast. Web advertising revenues are recognized in the period in which the advertising is displayed. One-time fees earned from web page development is recognized upon completion of the work. Revenues for Web hosting and advertising are recognized in the period the services are provided. Amounts received in advance of meeting the revenue recognition criteria are deferred.

Barter revenues are recognized upon delivery of barter products or services. The corresponding expenses are recognized upon the Company's receipt of barter products or services. Barter revenue and expenses are recognized at the value that the related products or services would be exchanged for cash in the normal course of business, if readily determinable. Any difference between the value of products or services received and the value of products or services provided is recognized as barter gain or loss in the period the transaction is completed.

Revenue from consulting services is provided under fixed price and time and materials contracts. For fixed price contracts, revenue is recorded on the basis of the estimated percentage of completion of services rendered. Losses, if any, on fixed price contracts are recognized when the loss is determined. For time and materials contracts, revenue is recorded at contractually agreed upon rates as the costs are incurred.

Revenue from equipment sales is recognized upon shipment.

Management fees are recognized as revenue over the period of the management service.

Goodwill and Other Intangible Assets

The Company accounts for its acquisitions of consolidated associated companies under the purchase method of accounting. Goodwill represents mainly the excess of cost over net assets of acquired businesses that are consolidated and is amortized on a straight-line basis over three years, which the Company believes to be the minimum number of years for which the associated companies will be successfully implementing their business plans, based on various factors such as their revenue models and technology, and the industries in which they operate. Goodwill is also generated by the Company's consolidated associated companies as they make acquisitions. This goodwill is amortized over three years or less. Other intangible assets include developed technology, customer lists and workforce in place which are generally amortized over one to two years.

Impairment Valuation

On a continuous basis, but no less frequently than at the end of each quarterly reporting period, the Company evaluates the carrying value for financial statement purposes of its interests in, and advances to, each of its associated companies for impairment. These evaluations of impairment are based on achievement of business plan objectives and milestones of each associated company, the fair value of each ownership interest and advance relative to its carrying value, the financial condition and prospects of the associated company, and other relevant factors. The business plan objectives and milestones that are considered include, among others, those related to financial performance, such as achievement of planned financial results and completion of capital raising activities, and those that are not primarily financial in nature, such as the launching of a web site, the hiring of key employees, the number of people who have registered to be part of the associated company's web community, and the number of visitors to the associated company's web site per month. For financial statement purposes, the fair value of the Company's ownership interests in, and advances to, privately held associated companies is generally determined based on the prices paid by third parties for ownership interests in the associated companies, to the extent third party ownership interests exist, or based on the achievement of business plan objectives and the milestones described above.

Gain or Loss on Stock Transactions of Associated Companies

Pursuant to SEC Staff Accounting Bulletin No. 84, at the time an associated company accounted for under the consolidation or equity method issues its stock at a price different from the associated company's book value per share, the Company's share of the associated company's net equity changes. If at that time, the associated company is not a newly-formed, non-operating entity, nor a research and development start-up or development stage company, nor is there question as to the associated company's ability to continue in existence, the Company records the change in its share of the associated company's net equity as a gain or loss in its consolidated statements of operations. Otherwise, the Company records the change in its share of the associated company's net equity as an increase or decrease in its additional paid-in capital.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Stock Options

SFAS No. 123, *Accounting for Stock-Based Compensation,* encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees,* and related interpretations. Accordingly, compensation cost of stock options is measured as the excess, if any, of the fair value of the Company's stock at the date of grant over the option exercise price and is charged to operations over the vesting period. Income tax benefits attributable to stock options exercised are credited to additional paid-in capital.

Net Loss Per Share

Net loss per share is calculated in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. The dilutive effect of common stock equivalents and convertible preferred stock is included in the calculation of diluted earnings per share only when the effect of their inclusion would be dilutive. Because the Company reported a net loss for all periods presented, potentially dilutive securities have not been included in the shares used to compute net loss per share.

Had the Company reported net income for the year ended December 31, 2000, the weighted average number of shares outstanding would have potentially been diluted by approximately 41,631,000 common equivalent shares, assuming the conversion of preferred stock from the date of issuance of that preferred stock. All of the Company's preferred stock was automatically converted into class A common stock upon the Company's completion of its initial public offering on July 18, 2000. Had the Company reported net income for the year ended December 31, 2000, the weighted average number of shares outstanding would have potentially been further diluted by approximately 3,189,000 common equivalent shares, assuming the exercise of stock options.

Had the Company reported net income for the period ended December 31, 1999, the weighted average number of shares outstanding would have potentially been diluted by approximately 14,992,500 common equivalent shares, assuming the conversion of preferred stock and an additional 619,000 common stock equivalent shares, assuming the exercise of stock options.

Comprehensive Income (Loss)

Comprehensive income (loss) is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Excluding net income (loss), the Company's source of comprehensive income (loss) is from net unrealized appreciation (depreciation) on its available-for-sale securities. The Company reports comprehensive income (loss) in the consolidated statements of stockholders' equity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Recent Accounting Pronouncements

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on its results of operations, financial position or cash flows.

Reclassifications

Certain reclassifications of prior period amounts have been made to conform to current period presentations.

Note 2: Revenues From Equity Method Investees

Consolidated revenues for the year ended December 31, 2000 and the period ended December 31, 1999 include $8,605,000 and $293,000, respectively, of revenues generated from transactions with the Company's equity method associated companies.

Note 3: Property and Equipment

Property and equipment are summarized as follows:

	December 31, 2000	December 31, 1999
	(in thousands)	
Land and land improvements	$ 9,750	$ ---
Machinery and equipment	7,543	---
Computer equipment and software	17,775	3,739
Office equipment and furniture	1,622	194
Construction in progress	94	33
Leasehold improvements	6,289	63
	43,073	4,029
Less accumulated depreciation and amortization	(9,253)	(102)
	$ 33,820	$ 3,927

Note 4: Goodwill and Other Intangible Assets

Goodwill and other intangible assets are summarized as follows:

	December 31, 2000	December 31, 1999
	(in thousands)	
Goodwill	$ 11,860	$ 12,222
Developed technology	10,079	3,894
Customer lists	5,570	1,503
Workforce in place	1,620	573
Other intangible assets	662	243
	29,791	18,435
Less accumulated amortization	(21,170)	(595)
	$ 8,621	$ 17,840

Note 5: Business Combinations

1999 Business Combinations Activity

On October 14, 1999, the Company acquired 1.9% of Neoforma.com, Inc. (Neoforma) for $6,000,000. Neoforma provides business-to-business e-commerce services in the medical products market.

On October 29, 1999, the Company acquired 2.1% of NTE, Inc. (formerly The National Transportation Exchange, Inc.) (NTE) for $750,000. NTE offers an electronic marketplace that aggregates suppliers and buyers of freight transportation capacity. On January 5, 2000, the Company paid $5,112,665 to acquire an additional 3.2% of NTE, thereby increasing the Company's ownership percentage of NTE to 5.3%.

On October 29, 1999, the Company acquired 0.9% of comScore, Inc., (comScore) for $200,208. ComScore is a company that provides online consumer behavior data and related consulting services.

On November 8, 1999, the Company paid $2,000,000 and issued a promissory note for $4,000,000 for 26.5% of Whiplash, Inc. (Whiplash), which provided a web-based global distribution system to improve the efficiency and profitability of sellers in the leisure travel market space. The promissory note carried interest at 6%. The first $2,000,000 installment was paid on December 31, 1999 and the second $2,000,000 installment was paid in March 2000. Whiplash ceased all meaningful operations in 2000.

On November 19, 1999, the Company acquired 1.1% of Commerx, Inc. (Commerx) for $2,500,000. Commerx provides vertical online marketplaces for industrial markets.

On November 19, 1999, the Company paid $4,905,275 for 100% of mindwrap, inc. (mindwrap) and their OPTIX software, which provides document imaging, management and control to laser disk technology. As part of this acquisition, $694,529 of debt owed by mindwrap to its parent company was forgiven.

On November 23, 1999, the Company paid $5,000,000 and issued a promissory note for $10,000,000 for 37.4% of PocketCard Inc. (PocketCard), which provided businesses and individuals with debit cards that allowed real-time funding over the Internet. The promissory note carried interest at 8%. The note was paid in $5,000,000 installments in February and March 2000. PocketCard ceased all meaningful operations in 2000.

On November 23, 1999, the Company acquired 8.3% of Sequoia Software Corporation (Sequoia) for $5,000,000. Sequoia provides Internet infrastructure software to proprietary web sites designed as market makers.

On November 23, 1999, the Company paid $500,000 for 63.8% of i-Street, Inc., which is a business-to-business media company and news portal focused on the Internet and technology businesses in Chicago and the Midwest.

On November 23, 1999, the Company paid $867,000 for a 43.0% interest in Entrepower, Inc. (Entrepower), which was an on-line recruiting service provider. Entrepower ceased all meaningful operations in 2000.

On December 8, 1999, the Company paid $7,500,000 and issued a promissory note for $7,500,000 to purchase 76.9% of LiveOnTheNet.com, Inc. (LiveOnTheNet), which offers proprietary technology for webcasting live events online. This promissory note carried interest at the prime rate as recorded in the Wall Street Journal (8.5% at December 31, 1999) and was paid in full in June 2000. As part of this acquisition, $4,514,000 of debt owed by LiveOnTheNet to its parent company was forgiven.

On December 8, 1999, the Company acquired 44.1% of OpinionWare.com, Inc. (OpinionWare) for $2,000,000. OpinionWare provides technology that allows businesses to gather and analyze the opinions of large public and private online communities.

On December 10, 1999, the Company acquired 31.8% of Outtask.com Inc. (Outtask) for $4,000,000 and a promissory note for $3,000,000. The promissory note carried an interest rate of 8.5% and was paid in March 2000. Outtask provides business-to-business e-commerce applications and services to technology and Internet companies.

2000 Business Combination Activity

On January 11, 2000, the Company acquired 51.3% of BeautyJungle.com, Inc. ("BeautyJungle") for $10,000,000. Subsequently on March 13, 2000, the Company acquired an additional interest in BeautyJungle for $8,000,000, which increased the Company's ownership percentage of BeautyJungle to 61.2%. BeautyJungle offered an electronic marketplace for buyers and sellers of beauty products, but ceased all meaningful operations in 2000.

On January 24, 2000, the Company acquired 54.3% of bid4real.com, inc., ("bid4real") for $7,000,000. bid4real provides a forum on which real estate auctions are conducted on-line.

On January 28, 2000, the Company paid $1,000,000 and issued a promissory note for $9,000,000 for 48.8% of iFulfillment, Inc., which provides fulfillment and inventory management services to businesses selling products over the Internet. The promissory note carried interest at 8.5% and was paid in installments through May 2000.

On January 31, 2000, the Company paid $3,000,000 and issued a promissory note for $2,000,000 for 70.0% of ViaChange.com, Inc., which provides a forum on which auctions of products in capital markets are conducted on-line. The promissory note carried interest at 8.0% and was paid in May 2000.

On February 1, 2000, the Company paid $11,500,000 and issued 500,000 shares of its series F preferred stock (with a fair value of $4.80 per share) for 42.7% of closerlook, inc., a strategy, design and technology firm that delivers communications, marketing and software solutions to bring its clients closer to their customers. As part of the purchase agreement, the

Company placed an additional $1,500,000 and 1,500,000 shares of its series F preferred stock into escrow, which may or may not be released to the sellers depending on whether or not closerlook meets certain predetermined revenue goals for 2000. These predetermined revenue goals may also require the Company to fund an additional $3,000,000 to closerlook for no additional equity interest in closerlook. The 1,500,000 shares of series F preferred stock, which have since been converted to 250,000 shares of the Company's class A common stock, held in escrow at December 31, 2000, have been reflected as issued but not outstanding within the accompanying consolidated balance sheet as of December 31, 2000.

On February 3, 2000, the Company acquired 36.3% of iSalvage.com, Inc., ("iSalvage") for $6,500,000. iSalvage provides an electronic marketplace for recycled and rebuilt automotive parts in February 2001.

On February 4, 2000, the Company paid $5,000,000 and issued a promissory note for $4,000,000 for 32.3% of Xippix, Inc., which provides technology that allows high-resolution imaging for companies' web sites. The promissory note carried interest at 8.0% and was paid in May 2000.

On February 8, 2000, the Company acquired 25.0% of Martin Partners, L.L.C. ("Martin Partners") for $1,670,883. Martin Partners is an executive search firm which focuses on e-commerce and technology companies. In November 2000, the Company sold its interest in Martin Partners back to the principals of Martin Partners for a price equal to the Company's purchase price plus interest. The Company recognized a loss of approximately $39,000 on the sale of Martin Partners.

On February 10, 2000, the Company paid $2,500,000 and issued a promissory note for $2,500,000 for 55.6% of Oilspot.com, Inc., which provides an electronic marketplace for purchasers and suppliers of petroleum products and services. The promissory note carried interest at 8.5%; $1,000,000 was paid in June 2000 and $1,500,000 was forgiven in October 2000 in conjunction with Oilspot's merger with FuelQuest, Inc., of which the Company owned 3.0% at December 31, 2000.

On February 11, 2000, the Company paid $3,000,000 and issued a promissory note for $3,000,000 for 35.5% of BidBuyBuild, Inc. (BidBuyBuild), which provides an electronic marketplace in the commercial and industrial construction supply industry. The promissory note carried interest at 8.5% and was paid in April 2000. The Company sold its interest in BidBuyBuild for $200,000 in October 2000.

On February 11, 2000, the Company acquired 44.5% of CapacityWeb.com, Inc. ("CapacityWeb") for $4,500,000. CapacityWeb provided an electronic marketplace for industrial manufacturing capacity, but ceased all meaningful operations in 2000.

On February 11, 2000, the Company paid $15,000,000 and issued 10,000,000 shares of its series F preferred stock (with a fair value of $4.80 per share) for communication and collaboration software. This software was the basis for Parlano, Inc. ("Parlano"), of which the Company obtained a 75.1% ownership interest. Parlano markets and licenses software that allows information to be captured, filtered and stored in corporate databases and used in knowledge management applications. In connection with the issuance of the Company's series F preferred stock on February 11, 2000, the Company recorded a non-cash dividend of $7,530,000. This non-cash dividend relates to the deemed beneficial conversion features associated with this preferred stock. The series F preferred stock has since been converted to 1,666,666 shares of the Company's class A common stock.

On February 11, 2000, the Company paid $5,000,000 and issued a promissory note for $5,000,000 for 45.2% of United Process Group, Inc. (formerly eFiltration.com, Inc.), which offers an electronic marketplace for the filtration industry. The promissory note carried interest at 8.5% and was paid in July 2000.

On February 11, 2000, the Company acquired 32.1% of iGive.com, inc. ("iGive") for $4,000,000. iGive provides technology and services to a network of merchants, non-profit organizations and consumers which enable retail purchasers to assist non-profit organizations.

On February 11, 2000, the Company paid $12,000,000 and issued a promissory note for $11,500,000 for 40.4% of Mercantec, Inc., which produces software that allows merchants to integrate e-commerce capabilities into their existing web sites. The promissory note carried interest at 6.0%; $6,500,000 was paid in April 2000 and $5,000,000 was paid in August 2000.

On February 11, 2000, Xqsite, Inc., of which the Company owned 80.6% on the acquisition date, acquired 66.7% of Web Design Group, Inc. (“Web Design Group”) for $7,000,000. Web Design Group provides web development and electronic business services to companies seeking to develop and implement effective web solutions for their operations.

On February 11, 2000, Xqsite, Inc., paid $500,000 and issued a promissory note for $500,000 for 65.0% of Westbound Consulting, Inc., which delivers customized Internet solutions through web consulting, marketing, development and hosting services. The promissory note carried interest at the prime rate of interest as stated in the Wall Street Journal; $250,000 was paid by the Company in April 2000 and $250,000 was paid by Web Design Group on behalf of Xqsite in May 2000.

On February 14, 2000, the Company paid $10,000,000 and issued 1,000,000 shares of its series F preferred stock (with a fair value of $4.80 per share) for 33.4% of Perceptual Robotics, Inc., which offers a software system that allows Internet users to control a robotic camera and immediately capture still images from remote locations. The series F preferred stock has since been converted to 166,666 shares of the Company’s class A common stock.

On February 25, 2000, the Company acquired 39.7% of Launchworks, inc. (“Launchworks”) for $11,428,571. Launchworks is a provider of capital and strategic services to business-to-business e-commerce companies.

On March 8, 2000, the Company paid $2,500,000 and issued a promissory note for $2,500,000 for 42.0% of TV House, Inc., which produces and syndicates Internet video financial news updates designed for individual investors. The promissory note carried interest at 8.5% and was paid in July 2000.

On March 10, 2000, the Company acquired 34.6% of Aluminium.com, Inc. (“Aluminium”) for $19,250,000. Aluminium provides a business-to-business online exchange for buying and selling all grades of aluminum raw materials.

On March 15, 2000, the Company acquired 47.1% of eReliable Commerce, Inc. (“eReliable”) for $4,725,000. eReliable offers technology to provide business-to-business e-commerce web sites with customized guaranteed transaction services.

On March 24, 2000, Host divine, inc., of which the Company owned 80.6% on the acquisition date, acquired 76.2% of NetUnlimited, Inc. (“NetUnlimited”) for $5,000,000. NetUnlimited markets various Internet technology infrastructure services.

On March 30, 2000, the Company acquired 62.9% of Panthera Productions, LLC (“Panthera”) for $2,700,000. Panthera offers a web channel for entertainment and education that will provide users a virtual experience with animals throughout Africa.

On April 3, 2000, the Company paid $2,000,000 and issued a promissory note for $24,871,429 for 33.0% of Emicom Group, Inc. (“Emicom”). The promissory note carried interest at 8.5% and was paid in July 2000. Emicom is a technology holding company that provides capital and advisory services to early-stage technology companies located in the Middle East.

On April 28, 2000, the Company paid $16,100,000 and issued a promissory note for $16,100,000 for 41.0% of Farms.com, Ltd. (“Farms.com”). The promissory note carried interest at 8.0% and was paid in July 2000. Farms.com provides an electronic marketplace for the livestock and grain industries.

On July 26, 2000, the Company paid $17,500,000 for 37.4% of Dolphin Interventures (formerly Latin American Econetworks N.V.), which provides capital and strategic services to Internet and related companies throughout Latin America.

In addition, during 2000, the Company paid $20,542,000 in cash, issued a note for $1,250,000 and issued 1,152,826 shares of its class A common stock valued at $8,095,000 to obtain additional interests in OpinionWare, Whiplash, Xippix, Launchworks and iFulfillment. On April 30, 2000 and August 1, 2000, the Company changed its method of accounting for its investment in OpinionWare and iFulfillment, respectively, from the equity method to the consolidation method due to the Company’s additional investment.

Pro Forma Impact of Acquisitions

During the period from February 15, 2000 through December 31, 2000, the Company acquired a controlling interest in NetUnlimited, Inc. and Panthera Productions, LLC and significant minority ownership in seven equity method associated companies. The following unaudited pro forma financial information does not include the operating results of these associated companies because the acquisitions did not meet the criteria for the acquisition of a significant subsidiary as defined by the SEC's published rules and regulations and, as a result, the effect of the acquisitions are not required to be presented within the Company's pro forma financial statements.

The unaudited proforma financial information for the year ended December 31, 2000 presents the consolidated operations of the Company as if the acquisitions made between January 1, 2000 and February 14, 2000 (2000 acquisitions) had occurred on January 1, 2000, after giving effect to certain adjustments including increased amortization of goodwill and other intangible assets related to the acquisitions. The following unaudited pro forma financial information for the period ended December 31, 1999 presents the consolidated operations of the Company as if the 2000 acquisitions and the acquisitions made in 1999 had occurred on May 7, 1999, after giving effect to certain adjustments including increased amortization of goodwill and other intangible assets related to the acquisitions. The unaudited pro forma financial information is provided for informational purposes only and should not be construed to be indicative of the Company's consolidated results of operations had the 2000 acquisitions or the acquisitions made in 1999 been consummated on these earlier dates, and do not project the Company's results of operations for any future period:

	Year Ended December 31, 2000	Period Ended December 31, 1999
	(in thousands, except per share data)	
Revenues	$ 44,530	$ 9,529
Net loss applicable to common stockholders	(531,362)	(74,948)
Basic and diluted net loss per share applicable to common stockholders	$ (7.88)	$ (26.61)

Note 6: Ownership Interests in Associated Companies

The following summarizes the Company's ownership interests in associated companies accounted for under the equity method or cost method of accounting. The ownership interests are classified according to applicable accounting methods at December 31, 2000 and December 31, 1999. Cost basis represents the Company's original acquisition cost. Associated companies that ceased operations or were sold in 2000, which were BidBuyBuild, CapacityWeb, Entrepower, Martin Partners, PocketCard and Whiplash, are not included at December 31, 2000.

	December 31, 2000		December 31, 1999	
	Carrying value	Cost basis	Carrying value	Cost basis
	(in thousands)			
Equity method	$ 57,000	$ 209,144	$ 30,003	$ 31,417
Cost method	8,939	10,189	14,452	14,452
	$ 65,939	$ 219,333	$ 44,455	$ 45,869

The Company recorded $120,102,000 in excess investment over its share of the underlying equity in the net assets of companies acquired during the year ended December 31, 2000, accounted for under the equity method of accounting. The Company also recorded $113,125,000 for other than temporary declines in the carrying value of certain equity and cost method associated companies for the year ended December 31, 2000. Amortization expense of $36,995,000 is included in "equity in losses of associated companies" in the accompanying consolidated statement of operations for the year ended December 31, 2000. During 1999, the Company recorded an excess investment over the equity in the net assets of acquired companies of approximately $21,719,000. Amortization expense of $742,000 is included in "equity in losses of associated companies" in the accompanying consolidated statement of operations for the period ended December 31, 1999. This excess is being amortized over a three-year period.

The following summarized financial information for associated companies accounted for under the equity method of accounting at December 31, 2000 and 1999 has been compiled from the financial statements of the respective associated companies. Information regarding the balance sheets of these associated companies includes only those associated companies in which we owned an interest at the end of the respective year. Information regarding the results of operations of these associated companies is included from the respective acquisition date of each associated company.

Balance Sheets	December 31, 2000	December 31, 1999
	(in thousands)	
Current assets	$ 178,942	$ 30,759
Noncurrent assets	31,637	1,328
Total assets	210,579	32,087
Current liabilities	24,154	1,713
Non-current liabilities	3,670	375
Redeemable preferred stock	198,826	32,614
Stockholders' deficit	(16,071)	(2,615)
Total liabilities, redeemable preferred stock and stockholders' deficit	$ 210,579	$ 32,087

Results of Operations	Year Ended December 31, 2000	Period Ended December 31, 1999
	(in thousands)	
Revenues	$ 46,734	$ 34
Gross profit	28,884	24
Net loss	$ (140,641)	$ (4,785)

In April 2000, the Company acquired an additional interest in OpinionWare which resulted in the Company owning over 50% of OpinionWare. OpinionWare is included in the Company's consolidated financial statements since April 30, 2000. In August 2000, the Company acquired an additional interest in iFulfillment divine, inc. which resulted in the Company owning over 50% of iFulfillment. iFulfillment is included in the Company's consolidated financial statements since August 1, 2000. In addition to the above two companies, nine of the companies in which the Company acquired an interest during the period ended December 31, 2000 and three of the companies in which the Company acquired an interest during the period ended December 31, 1999 have been accounted for using the consolidation method. The purchase prices have been allocated to the identifiable net assets based upon their book values, which approximate fair values, at the dates of acquisition. The portions of the purchase prices allocated to identifiable intangible assets and goodwill are being amortized on a straight-line basis over one to three years. These companies are included in the Company's consolidated financial statements from the dates of acquisition, or from the dates of the subsequent investments by the Company that caused the Company's ownership interest to exceed 50%. The purchase prices for the year ended December 31, 2000 and period ended December 31, 1999 for these acquisitions were allocated as follows:

	Year Ended December 31, 2000	Period Ended December 31, 1999
	(in thousands)	
Identifiable net assets	$ 58,371	$ 2,213
Developed technology	16,371	3,894
Customer lists	5,433	1,503
Workforce in place	1,537	573
Goodwill	24,213	12,222
Purchase price	$ 105,925	$ 20,405

Note 7: Net Gain on Stock Transactions of Associated Companies

For the year ended December 31, 2000, the Company has recorded gains (losses) from stock transactions of associated companies in the consolidated statement of operations as follows:

Associated company	Gain (loss)
	(in thousands)
Launchworks	$ 4,430
Mercantec	(1,011)
closerlook	847
Other associated companies	109
Net gain on stock transactions of associated companies	$ 4,375

The Launchworks gain resulted from the sale, to outside investors, of 3,169,846 shares of Launchworks stock for approximately $15.2 million. The closerlook gain resulted from the issuance, in conjunction with a business combination, of 451,124 shares of closerlook stock valued at approximately $2.3 million on the date of the business combination. The Mercantec loss resulted from Mercantec redeeming 1,432,434 shares of stock for approximately $2.9 million.

The net gain (loss) represents the net increase (decrease) in the book value of the Company's net equity in the subsidiary as a result of the subsidiary's stock transactions.

Note 8: Lease Commitments

The future minimum lease payments related to the Company's noncancelable operating and capital lease commitments as of December 31, 2000 are as follows:

	Operating Leases	Capital Leases
	(in thousands)	
2001	$ 12,033	$ 3,688
2002	11,096	2,876
2003	9,769	1,324
2004	9,263	89
2005	6,926	56
Thereafter	20,600	---
Total minimum lease payments	$ 69,687	8,033
Less interest portion of payments		(1,364)
Present value of minimum lease payments		6,669
Less current portion of minimum lease payments		(2,868)
Long-term portion of minimum lease payments		$ 3,801

The future minimum lease payments for operating leases includes payments for facilities that the Company is planning to sublease. The Company has established a long-term liability of $3,006,000 related to these facilities leases. Rental expense under operating leases was approximately $9,830,000 and $200,000 for the year ended December 31, 2000 and the period ended December 31, 1999, respectively.

Note 9: Income Taxes

The reconciliation of income tax expense (benefit) computed using the Federal statutory rate of 34% to the Company's income tax expense (benefit) is as follows:

	Year Ended December 31, 2000	Period Ended December 31, 1999
	(in thousands)	
Federal income tax benefit at the statutory rate	$ (159,908)	$ (3,198)
State income tax benefit, net	(8,620)	(329)
Equity in losses of associated companies	18,233	481
Minority interest	(6,178)	(18)
Amortization of stock-based compensation	16,346	254
Nondeductible intangible asset amortization	19,748	202
Impairment of investment in subsidiaries	39,500	---
Impairment of intangibles	13,315	---
Nondeductible meals and entertainment	281	40
Other	51	---
	(67,232)	(2,568)
Effect of change in valuation allowance	67,232	2,568
	$ ---	$ ---

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	December 31, 2000	December 31, 1999
	(in thousands)	
Deferred tax assets:		
Depreciation	$ 1,246	$ 3
Allowance for doubtful accounts	2,334	---
State taxes	1,783	41
Accrued expenses	807	274
Charitable contributions	256	---
Impairment on fixed assets and facilities	8,967	---
Net operating loss carryforward	59,456	2,250
Total gross deferred tax assets	74,849	2,568
Deferred tax liabilities:		
Gain on stock transactions of associated companies	(1,487)	---
Total deferred tax liabilities	(1,487)	---
Net of deferred tax assets and liabilities	73,362	2,568
Less valuation allowance	(73,362)	(2,568)
Net deferred tax asset	$ ---	$ ---

No provision for Federal or state income taxes has been recorded as the Company incurred a net operating loss during the periods presented. The Company has recorded a full valuation allowance against its net deferred tax assets since management believes that it is more likely than not that these assets will not be realized. No income tax benefit has been recorded for the periods presented because of the valuation allowance. Because the 1999 financial results of certain majority-owned subsidiaries that were acquired in 2000 were not reflected in the Company's results of operations for the period ended December 31, 1999, these majority-owned subsidiaries' net operating loss carryforwards are not included in the Company's deferred tax assets as of December 31, 1999. Accordingly, the deferred tax assets as of December 31, 2000, have been adjusted to include these net operating loss carryforwards.

At December 31, 2000 the Company had total net operating loss carryforwards of approximately $152,451,000, of which approximately $88,009,000 may be utilized by the Company to reduce future consolidated taxable income, if any. Approximately $64,442,000 of the total net operating loss carryforwards are attributable to majority-owned subsidiaries not includible in the Company's consolidated tax group. Although each majority-owned subsidiary excluded from the Company's consolidated tax group may utilize its net operating loss carryforwards to reduce separate future income taxes, if any, such carryforwards may not offset the Company's consolidated taxable income, if any. In addition, the utilization of the net operating loss carryforwards may be limited pursuant to Internal Revenue Code Section 382 as a result of prior ownership changes. The net operating loss carryforwards will expire from 2019 through 2020.

Note 10: Ownership Interest in Platinum Venture Partners I, L.P. and Platinum Venture Partners II, L.P.

On August 4, 1999, the Company became the general partner of Platinum Venture Partners I, L.P. (PVP I) and Platinum Venture Partners II, L.P. (PVP II) pursuant to a vote by the limited partners of PVP I and PVP II, after Platinum Venture Partners, Inc. withdrew as general partner. The Company provides strategic and operations support to the portfolio companies of PVP I and PVP II. These services are generally provided by the Company's employees, members of its board of directors, and outside consultants. The costs related to employees are paid by the Company and are reflected by the Company in cost of revenues on the consolidated statements of operations.

The Company has made no contribution to, and has no interest in the profits and losses of, PVP I and PVP II. As the general partner of PVP I, the Company's only source of income is an annual management fee, payable in advance in quarterly installments commencing on October 1, 1999, of 2½% of the fair market value of the partnership, adjusted annually, by the percentage increase in the Consumer Price Index for All Urban Consumers, U.S. City Average during the preceding calendar year. As the general partner of PVP II, the Company's only source of income is an annual management fee, payable in advance in quarterly installments commencing on October 1, 1999, of 2½% of the aggregate partner commitments, adjusted annually, by the percentage increase in the Consumer Price Index for All Urban Consumers, U.S. City Average during the preceding calendar year. Beginning on January 1, 2001, the Company's annual management fee as general partner of PVP II will be payable in advance in quarterly installments of 2½% of the fair market value of the partnership, adjusted annually, by the percentage increase in the Consumer Price Index for All Urban Consumers, U.S. City Average during the preceding calendar year.

Under the terms of the PVP I and PVP II Agreements of Limited Partnership (the Agreements), the Company may be removed as the general partner of PVP I and PVP II upon the written request of those limited partners which have at least two-thirds of the total limited partner interests as defined in the Agreements. The Company accounts for its general partnership interests in PVP I and PVP II under the equity method of accounting because it has influence over the operating and financial policies of the partnerships. For the year ended December 31, 2000 and the period ended December 31, 1999, the Company received approximately $815,000 and $275,000, respectively, in management fees from PVP I and PVP II.

Note 11: Capital Stock

Holders of class A common stock are entitled to one vote per share. Holders of class C common stock are not entitled to vote.

The class A common stock has no conversion rights. A holder of class C common stock is able to convert its class C common stock into class A common stock, in whole or in part, at any time and from time to time on a share-for-share basis.

In the case of any dividend paid in stock, holders of class A common stock will be entitled to receive the same percentage dividend payable in shares of class A common stock that the holders of class C common stock receive payable in shares of class C common stock.

Except as described above, the relative powers, preferences and participating, optional or other special rights, and the qualifications, limitations or restrictions of the class A common stock and class C common stock are identical in all respects.

The Company's authorized shares of stock as of December 31, 2000 included 50,000,000 shares of non-designated preferred stock with a par value of $0.001 per share.

Several of the Company's equity method associated companies owned a total of 1,986,259 shares of the Company's class A common stock at December 31, 2000. The Company indirectly owned 741,676 of these shares which are reflected as treasury stock in the consolidated balance sheet and statement of stockholders' equity at December 31, 2000.

Note 12: Reverse Stock Split

On June 1, 2000, the Company's Board of Directors and stockholders authorized a 1-for-6 reverse stock split for its common shares. The par value of the common stock was maintained at the pre-split amount of $.001 per share. All references to common shares and per share amounts in these consolidated financial statements and notes to consolidated financial statements have been restated to reflect this reverse stock split on a retroactive basis, exclusive of fractional shares. All fractional common shares resulting from the Company's reverse stock split were redeemed by the Company at a price per share of $9.00, being the Company's initial public offering price for its class A common stock.

Note 13: Initial Public Offering and Private Equity Placements

The Company completed its initial public offering ("IPO") on July 18, 2000, selling approximately 14.3 million shares of its class A common stock at $9.00 per share, raising $109.2 million in net cash proceeds to the Company, net of underwriters fees of $9.0 million and other offering expenses of $10.3 million.

Concurrent with its IPO the Company sold an aggregate of 7,257,455 shares of its class A common stock and 23,288,511 shares of its class C non-voting convertible common stock (which converts to class A common stock on a 1-for-1 basis) to 360networks, inc., Aon Corporation, BancBoston Capital, Inc., CMGI, Inc., Compaq Computer Corporation, Hewlett Packard Company, Level 3 Communications (Level 3), marchFIRST, Inc. and Microsoft Corporation. In conjunction with these concurrent private placements, the Company raised an additional $258,914,000, including $218,597,000 in cash, a $25,000,000 credit toward the purchase of co-location and bandwidth services from Level 3, and shares of common stock of CMGI valued at $15,317,000 at that time.

Note 14: Employee Benefit Plans

Stock Options and Employee Stock Purchase Plan

The Company, under the 1999 Stock Incentive Plan (Plan), which was adopted on October 1, 1999 and amended on January 29, 2000 and October 18, 2000, reserved 10,833,333 shares of common stock for issuance. The maximum number of shares available for delivery under the Plan automatically increases on January 1 of each year, beginning on January 1, 2001, by a number of shares of class A common stock equal to the lesser of (1) 10% of the total number of shares of class A common stock then outstanding, assuming for that purpose the conversion into class A common stock of all then outstanding convertible securities, or (2) 50,000,000 shares.

The stock is reserved for employees, directors, and consultants. The Company applies APB 25 for employees and directors and SFAS 123 for all consultants in accounting for the Plan.

All stock options granted prior to May 15, 2000 were granted at a price less than the fair value of the common stock at the date of grant.

For the year ended December 31, 2000, the Company granted stock options to purchase shares of class A common stock to employees, directors and consultants at a weighted average exercise price of $7.55. In January 2000, the Company also sold 116,665 restricted shares of class A common stock to its employees at a price of $4.50 per share. These restricted shares reduce the otherwise available shares reserved for issuance under the Plan. For the year ended December 31, 2000, the Company recorded unearned stock-based compensation of approximately $82,048,000 in connection with these options. This amount is amortized over the vesting period of the applicable options, generally four years in the case of options granted to employees and consultants and one year in the case of options granted to non-employee directors. The Company amortized approximately $20,635,000, net of recoveries of approximately $7,854,000, of unearned stock-based compensation related to stock options during the year ended December 31, 2000. As a result of employee terminations, the Company recovered approximately $51,434,000 of unearned stock-based compensation for the year ended December 31, 2000.

During September 2000, the Company reduced the exercise price of options granted, and restricted stock purchased, under the Plan prior to its IPO to $9.00, being the IPO price of the Company's class A common stock, if the exercise price of such options or restricted shares was greater than the IPO price and if the holder agreed to the change. Also during September 2000, the Company repurchased 3,820,735 shares of restricted class A common stock, issued upon exercise of options granted under the Plan, at prices ranging from $4.50 to $9.00, which represented the lower of the respective exercise price or fair market value on the date of repurchase. Any consideration in excess of the exercise price, as adjusted, was refunded to these holders. As a result of these repurchases, the Company recorded a one-time stock-based compensation charge of $3,209,000. For the year ended December 31, 2000, the Company repurchased an additional 613,774 shares of restricted class A common stock from terminated employees.

At December 31, 2000, the Company had $36,641,000 of unearned stock-based compensation. The Company expects to amortize this unearned stock-based compensation as follows: 2001 – $12,675,000; 2002 – $11,821,000; 2003 – $11,531,000; and 2004 – $614,000.

During 1999, the Company granted stock options to purchase shares of class A common stock to employees and directors at a weighted average exercise price of $4.50, which were granted at less than the fair value of the common stock at the date of grant. For the period from May 7, 1999 (inception) through December 31, 1999, the Company recorded unearned stock-based compensation of approximately $27,408,000 in connection with these options. This amount is amortized over the vesting period of the applicable options, generally four years in the case of options granted to employees and one year in the case of options granted to non-employee directors. The Company amortized approximately $747,000 of unearned stock-based compensation for the period ended December 31, 1999.

Had compensation costs for the Plan been determined consistent with SFAS No. 123, the Company's net loss applicable to common stockholders and net loss per share applicable to common stockholders would have been the pro forma amounts indicated below for the year ended December 31, 2000 and the period ended December 31, 1999:

	Year Ended December 31, 2000	Period Ended December 31, 1999
	(in thousands, except per share data)	
Net loss applicable to common stockholders:		
As reported	$ 528,182	$ 12,927
Pro forma	536,472	13,107
Net loss per share applicable to common shareholders:		
As reported	(7.84)	(4.59)
Pro forma	$ (7.96)	$ (4.64)

Options issued under the Plan have an exercise price equal to the closing market price of the Company's stock on the date of grant, have a legal life of ten years, and typically vest in equal annual installments over a four-year period beginning one year from the date of grant. However, if the stock option is an incentive stock option, then the exercise price of the stock cannot be less than 100% of the fair value per share on the date of the grant. Prior to June 27, 2000, options under the Plan were exercisable immediately, subject to repurchase rights held by the Company, which lapse over the vesting period.

The fair value of the stock option grants is estimated using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for stock option grants in 2000 and 1999, respectively: weighted-average exercise price at grant date of $7.55 and $4.50; expected dividend yields of 0% and 0%; expected volatility of 123% and 0%; risk-free interest rate of 5.14% and 6.42%; and an expected life of four years.

A summary of the status of the Company's stock option plan and the changes during the periods ended on those dates, is presented below:

	Year Ended December 31, 2000		Period Ended December 31, 1999	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of period	3,192,246	$ 4.50	---	$ ---
Granted	11,896,321	7.55	3,533,904	4.50
Exercised	(5,877,670)	5.90	(341,658)	4.50
Forfeited	(2,651,248)	8.81	---	---
Outstanding at end of period	6,559,649	7.04	3,192,246	4.50
Options exercisable at end of period	933,996		3,192,246	
Weighted-average fair value of options granted during the period		$ 6.10		$ 1.02

The following table summarizes information about stock options outstanding at December 31, 2000:

	Options outstanding			Options exercisable	
Exercise Price	Number of Shares	Weighted average remaining contractual life	Weighted average exercise price	Number of Shares	Weighted average exercise price
$1.19 – $5.18	3,654,286	9.65 years	$ 5.35	323,912	$ 4.91
$6.00 – $13.50	2,905,363	9.58 years	9.18	610,084	9.00
	6,559,649	9.62 years	$ 7.04	933,996	$ 7.58

In January 2000, the Company adopted its 2000 Employee Stock Purchase Plan (Purchase Plan), under which a total of 4,166,666 shares of class A common stock are available for sale to its employees and employees of its majority-owned associated companies. Through the Purchase Plan, eligible employees can purchase class A common stock through payroll deductions and other cash contributions. The purchase price of each share of class A common stock under the Purchase Plan is equal to 85% of the lesser of (1) the fair market value of the Company's class A common stock on the first day of the plan period or (2) the fair market value on the date of purchase. Under the Purchase Plan, the Company sold 425,712 shares to employees in 2000.

During January 2000, the Company's employees acquired an average of 22.0% ownership interest in 13 associated companies, that the Company established in October and November 1999, for total consideration of approximately $57,000. The Company recorded unearned stock-based compensation of approximately $24,225,000, representing the excess of the fair value of the ownership interests over the consideration given by the Company's employees. The Company amortized approximately $5,896,000 in connection with this acquisition of ownership through September 21, 2000. Effective September 22, 2000, the Company repurchased these minority interests. These repurchases were made at the initial investment cost plus 8% for the Company's executive officers and at two times the initial investment cost for the other employees that owned these shares. The aggregate purchase price for all of these interests was approximately $93,000. As a result of these repurchases, the Company accelerated its recognition of the remaining $18,329,000 of stock-based compensation related to these shares.

Incentive Program

The Company maintains an incentive program (the Pool), whereby certain of the Company's employees are given bonuses in the event there is an appreciation in value of the Company's interest in any of its associated companies, when and if these associated companies experience a liquidity event. The portion of the appreciation that is credited to the Pool is adjusted as deemed necessary by the Company's management. For the year ended December 31, 2000, the Company allocated to the Pool 126,497 of the Company's 2,462,267 shares of Sequoia Software Corporation (Sequoia). Sequoia, which has been an associated company of the Company since November 1999, had an initial public offering in 2000. The Sequoia shares in the Pool were distributed to the Company's participating employees in February 2001.

Deferred Savings Plan

On January 1, 2000, the Company established a deferred savings plan under Section 401(k) of the Internal Revenue Code. The plan enables employees to reduce their taxable income by contributing up to 20% of their salary to the plan. The Company makes a 3% discretionary contribution to the plan on behalf of each employee regardless of their contribution rate. The Company's contributions are 100% vested immediately upon contribution. The Company made discretionary contributions of approximately $1,518,000 for the year ended December 31, 2000.

Note 15: Impairment Charges

For the year ended December 31, 2000, the Company recorded impairment charges of approximately $57,626,000 for other than temporary declines in carrying value of certain consolidated associated companies. These charges included, but were not limited to, write-offs of the Company's investments in BeautyJungle, Brandango and OfficePlanIt, each of which have ceased all meaningful operations. Of the total impairment charges, $39,162,000 was related to goodwill and other intangible assets recognized by the Company upon the acquisition of consolidated associated companies, $15,413,000 was related to fixed assets of consolidated associated companies, and $3,051,000 was related other assets of consolidated companies.

The Company also recorded impairment charges of approximately $113,125,000 for other than temporary declines in the carrying value of certain equity and cost method associated companies. These charges included the write-down of the Company's net investment in BidBuyBuild to $200,000, which was the value at which it was sold in October 2000, and the write-down of the Company's net investment in iSalvage to $72,000. iSalvage has since ceased all meaningful operations and is in the liquidation process. These impairment charges also included write-offs of the Company's investments in CapacityWeb, Entrepower, PocketCard and Whiplash, each of which have ceased all meaningful operations. In addition, certain other associated companies' carrying values were written down to their estimated fair values.

Additionally, the Company recorded an impairment charge of $10,961,000, including declines in the carrying value of property owned by the Company, improvements made to properties that the Company no longer considers recoverable and charges related to certain of the Company's operating leases. Of this amount, $5,263,000 represents a liability equal to the net value of future cash payments to honor operating leases on facilities that the Company is no longer utilizing.

Note 16: Related-party Transactions

Robert Bernard, who served as one of the Company's directors in 2000, was the Chairman and Chief Executive Officer of marchFIRST, Inc. while he served on our board of directors. The Company paid marchFIRST approximately $1,383,000 for consulting services in 2000. Additionally, marchFIRST purchased 1,666,666 shares of the Company's class C convertible common stock for $15,000,000 in a private placement concurrent with the Company's initial public offering in July 2000.

Peter Bynoe, who served as one of the Company's directors in 2000, was a partner in the law firm of Piper Marbury Rudnick & Wolfe (Piper Marbury) while he served on the Company's board of directors. The Company paid Piper-Marbury approximately $1,005,000 for legal services in 2000. Additionally, partners of Piper Marbury purchased 700,000 shares of the Company's series C preferred stock for $700,000 in December 1999. These shares were converted to 116,666 shares of the Company's class A common stock upon completion of the Company's initial public offering in July 2000.

Thomas Danis and Theresa Pahl served on the Company's board of directors in 2000. Thomas Danis was a Managing Director of Aon Risk Services Mergers and Acquisitions group, and Teresa Pahl was an Executive Vice President of Aon Corporation, while they served on the Company's board of directors. Aon Corporation purchased 2,777,777 shares of the Company's class C convertible common stock for $25,000,000 in a private placement concurrent with the Company's initial public offering in July 2000.

Arthur Hahn, one of the Company's directors, is a partner in the law firm of Katten Muchin Zavis (KMZ). The Company paid KMZ approximately $2,373,000 and $2,400,000 in 2000 and 1999, respectively, for legal services. In addition, the Company issued 400,000 shares of its series C preferred stock to KMZ in December 1999 as payment for $400,000 of additional legal services. These shares converted into 66,666 shares of the Company's class A common stock upon completion of the Company's initial public offering.

Michael Leitner, who served as one of the Company's directors in 2000, was the Vice President, Corporate Development of 360networks, inc. while he served on the Company's board of directors. 360networks purchased 4,000,000 shares of the Company's class C convertible common stock for a total purchase price of $20,000,000, for cash in a private placement concurrent with the Company's initial public offering in July 2000. In April 2000, the Company purchased 374,181 shares of 360networks' subordinate voting shares for a total purchase price of $4,181,000.

John Cooper, one of the Company's directors, is a Senior Director of Corporate Development of Microsoft Corporation. Additionally, Michael Leitner also served as a Senior Director of Corporate Development of Microsoft while he served on the Company's board of directors. The Company paid Microsoft approximately $2,092,000 in 2000 for computer software and various consulting services. In addition, Microsoft purchased 25,000,000 shares of the Company's series D preferred stock in January 2000 for $25,000,000. These shares were converted into 4,166,666 shares of the Company's class A common stock upon completion of the Company's initial public offering in July 2000.

Thomas Meredith, one of the Company's directors, was a Senior Vice President of Dell Computer Corporation. Additionally, Alex Smith, who served as one of the Company's directors in 2000, was the Vice-President of Dell Ventures, which is a division of Dell USA L.P., a subsidiary of Dell Computer Corporation while he served on the Company's board of directors. The Company paid Dell Computer Corporation approximately $6,359,000 and $1,200,000 in 2000 and 1999, respectively, for computers and servers. Additionally, Dell USA purchased 100,000,000 shares of the Company's series D preferred stock in January 2000 for $100,000,000. These shares were converted into 16,666,666 shares of the Company's class A common stock upon completion of the Company's initial public offering in July 2000.

Aleksander Szlam, who served as one of the Company's directors in 2000, was the Chairman and Chief Executive Officer of eShare Technologies, Inc. while he served on the Company's board of directors. Brandango, one of the Company's associated companies, entered into a license agreement with eShare to use eShare's software programs and receive related support and maintenance services. Brandango acquired approximately $1,800,000 of software related to this agreement in 2000, which was subsequently written off as Brandango ceased operations in 2000.

FleetBoston Robertson Stephens Inc. (Robertson Stephens) was an underwriter of the Company's initial public offering. BancBoston Capital, Inc., an affiliate of Robertson Stephens, purchased 955,181 shares of the Company's class C convertible common stock for $8,597,000 in a private placement concurrent with the Company's initial public offering in July 2000.

The Company's Chief Executive Officer owns 33.3% of Blackhawk, LLC (Blackhawk). In July 2000, the Company purchased from Blackhawk the real property on which to construct a planned office facility in Chicago, Illinois. During the year ended December 31, 2000, the Company paid Blackhawk $11,261,000, which included the purchase price and reimbursed costs for that real property and which also included $500,000 in payments for an option to lease or purchase that property. During the period from July 1, 1999 through December 31, 1999, the Company paid Blackhawk $300,000 for an option to lease or purchase that property.

The Company's Chief Executive officer owns 33.3% of Habitat-Kahney, LLC (Habitat). In January 2000, the Company entered into a ten-year facility lease with Habitat. The Company's rent under this lease is $730,080 per year, with an annual 2% increase.

During January 2000, a subsidiary of the Company paid $1,815,000 to Platinum Entertainment, Inc. and paid $200,000 into an escrow account for certain licensing rights of Platinum Entertainment, Inc. The Company's Chief Executive Officer, its President and its Chief Financial Officer served as directors of Platinum Entertainment, Inc. during 2000.

Note 17: Revenues from Major Customers

The Company applies SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* as it pertains to significant customers. No customer accounted for more than 10% of the Company's total revenues in 2000. PVP I and PVP II, for which the Company acts as general partner, and Whiplash, Inc. accounted for $275,082 (27%) and $282,493 (27%), respectively, of the Company's total revenues in 1999. No other customers accounted for more than 10% of the Company's total revenues in 1999.

Note 18: Commitments and Contingencies

Contingent Payment to closerlook

In connection with the Company's investment in closerlook, inc. (closerlook), 250,000 shares of the Company's class A common stock and $1,500,000 in cash are being held in escrow and will be released to closerlook only upon closerlook's achievement of a revenue threshold, as defined in the stock purchase agreement between the Company and closerlook. Further, if closerlook achieves an additional revenue threshold, as defined in the stock purchase agreement, the Company will be obligated to pay an additional $3,000,000 in cash for its interest in closerlook.

Launchworks Collar Agreement

In connection with the Company's subsequent investment in Launchworks, the Company issued to Launchworks 1,152,926 shares of the Company's class A common stock. The issuance of the Company's shares to Launchworks is subject to adjustment according to the terms and conditions of a collar agreement, whereby a fluctuation in the market value of the Company's shares may result in any one of the following: the forfeiture by Launchworks of a portion of the Company's shares; the issuance by Launchworks of additional shares of its stock to the Company; or an additional payment of cash or issuance of the Company's shares by the Company to Launchworks. The market value of the Company's shares is to be measured on the earlier of the date on which Launchworks is able to enter into a market-based collar on these shares or August 30, 2001. The fair value of the Company's shares issued in this transaction, including any additional cash or shares that may be issued under the collar agreement, will equal $12 million in Canadian dollars as of the measurement date.

Additional Investment in United Process Group

In connection with the Company's investment in United Process Group, Inc. (formerly eFiltration.com, Inc.), the Company may be required to make an additional investment of $11,000,000 if United Process Group meets certain revenue goals for the twelve-month period ending May 31, 2001.

Additional Investment in Emicom Group

Beginning March 24, 2002, Emicom Group, Inc. (Emicom) will have a right to cause the Company to purchase all of its outstanding common stock. This right will terminate under certain circumstances, including Emicom's completion of an initial public offering.

Commitments Related to Private Investors

Concurrent with the Company's IPO in July 2000, the Company sold 7,257,455 shares of its class A common stock and 23,288,511 shares of its non-voting class C convertible common stock in private placements. In connection with these private placements: (1) the Company has agreed under its Alliance Agreement with Microsoft to purchase approximately $9,600,000 of software products, $4,700,000 of consulting services, and $1,000,000 of product support services from Microsoft through January 2004, to expend $4,000,000 over four years to promote Microsoft solutions, to open an accelerator facility in Seattle, the cost for which will be determined as the size and scope of the accelerator is finalized, and to dedicate up to $50,000,000 in capital to projects and acquisitions in the Seattle area; the Company is currently working to restructure its relationship with Microsoft, including the Alliance Agreement, to focus on its enterprise web solutions strategy and Microsoft's ".NET" strategy. (2) the Company entered into an agreement concerning the purchase of a minimum of $100,000,000 of co-location and bandwidth services from Level 3 over a four-year period, $25,000,000 of which would be credited as payment by Level 3 for its purchase of the Company's shares; the Company is actively negotiating the terms of a definitive agreement concerning these services, which the Company expects to complete; and (3) the Company has agreed to purchase a minimum of $5,000,000 of computer equipment and software, storage solutions, and professional services from Compaq over four years.

Note 19: Subsequent Events

Stockholder Rights Plan

On February 13, 2001, the Company's board of directors adopted a Stockholder Rights Plan and declared a dividend of one Right on each outstanding share of class A common stock. The dividend was payable to shareholders of record on February 23, 2001.

Initially, no separate certificates were issued for the Rights; rather, the Rights are evidenced by the certificates for class A common stock and trade automatically with the class A common stock. The Rights are not exercisable unless a person or group has acquired, or announces the intent to acquire, 15% or more of the Company's outstanding common stock (or 20% or more if such a person or group presently owns 10% or more of the Company's outstanding common stock). Thereafter, separate Rights certificates will be distributed and each Right will entitle its holder to purchase one one-thousandth of a share of Series A Junior Participating Preferred Stock at $15.00 per Right. The Rights are redeemable by the Company's board of directors, for $0.001 per Right, at any time prior to the exercisability of the Rights.

In the event a person or group acquires 15% (20% in certain circumstances) or more of the Company's class A common stock, each shareholder, other than the acquiror, is entitled to purchase, for the exercise price of the Rights, the number of shares of the Company's common stock having a market value of two times the exercise price of the Rights. In addition, the Company's board of directors may then exchange the Rights for class A common stock at a ratio of one share of class A common stock per Right. Also, if the Rights have become exercisable and the Company is acquired in a merger or other business combination, or 50% or more of its assets, cash flow, or earning power are sold, each Right will entitle the holder to purchase, at the exercise price of the Right, that number of shares of common stock of the acquiring company that, at the time of the transaction, will have a market value of two times the exercise price of the Right.

The Rights will expire on January 31, 2011, unless extended by the Company's board of directors.

Line of Credit

On January 29, 2001, the Company entered into a $25,000,000 line of credit with La Salle Bank N.A. This line of credit, which carries a variable interest rate equal to the current LIBOR rate plus 125 basis points, is available for working capital and general corporate business needs other than permanent financing for the Company's acquisition of interests in associated companies. The line of credit is collateralized by cash or cash equivalents of the Company to the extent of any borrowings or letters of credit issued under the credit agreement. This line of credit expires in January 2002.

Acquisitions/Mergers

In February 2001, the Company, through its wholly-owned subsidiary divine Global Services, Inc. (dGS), acquired the minority interest of Web Design Group in exchange for 222,841 of the Company's class A common shares. In addition, the Company may be obligated to issue up to a maximum of 222,841 additional common shares should Web Design Group exceed certain revenue targets in 2001. In February 2001, Buzz msp was merged into dGS.

In February 2001, the operations of salespring, inc.!! were collapsed into the operations of the Company and salespring ceased operating as an independent business.

In March 2001, the Company, through dGS, acquired the minority interest of Westbound Consulting in partial satisfaction of a note payable by Westbound Consulting to the Company. Westbound Consulting was merged into dGS. Westbound Consulting Services Pvt. Ltd., which was a subsidiary of Westbound Consulting, became a subsidiary of dGS and continues to have a 16.2% minority ownership.

On March 29, 2001, the Company acquired 100% of SageMaker, Inc. in exchange for a total of 10,533,333 shares of its class A common stock. Of those shares, 1,333,333 shares are held in an escrow account and will be returned to the Company if SageMaker does not achieve certain cash collection thresholds in 2001. The Company also agreed to grant stock awards, up to a maximum of $2,000,000, to the continuing employees of SageMaker to the extent SageMaker exceeds certain cash collection thresholds in 2001. SageMaker offers software that integrates content for enterprise information portals.

On March 30, 2001, the Company agreed to acquire certain assets from marchFIRST, Inc., including much of its former Whittman-Hart operations. The acquired business will be held by a newly-formed subsidiary of the Company called divine/Whittman-Hart, Inc. The Company agreed to pay approximately $6.25 million in cash and to have divine/Whittman-Hart, Inc. issue a $27.75 million balloon note, payable in five years but accelerated to the extent of 50% of free cash flow from the acquired operations, and which will be secured by the assets of divine/Whittman-Hart, Inc. marchFIRST also will be eligible to receive up to an aggregate of $39.05 million in bonus payments of 50% of free cash flow from the acquired operations during the next five years to the extent the note is pre-paid.

In a separate transaction, the Company agreed with marchFIRST to acquire certain other of its assets, including its HostOne application hosting unit, its SAP implementation practice, its value-added reseller business, its iCampus training and technology unit, certain of its Asian joint ventures, the assets of its BlueVector venture capital arm, and accounts receivable related to the acquired operations. The Company agreed to pay $6.25 million in cash and to have divine/Whittman-Hart, Inc. issue a similar promissory note in the principal amount of $29.75 million and make similar bonus payments in the maximum amount of $15.95 million. Closing of this second transaction is conditioned upon receiving approvals from regulatory authorities.

Sale/Termination of Associated Companies

In February 2001, iSalvage ceased all meaningful business operations and is currently in the liquidation process. The Company wrote down the carrying value of its investment in iSalvage to $72,000 in 2000.

In March 2001, FiNetrics ceased business operations.

In March 2001, Sequoia Software Corporation agreed to be acquired by Citrix Systems, Inc. in a cash tender offer for $5.64 per share. The Company expects that it will receive approximately $13,174,000 for its 2,335,770 shares of Sequoia upon consummation of that tender offer.

Changes in Equity Ownership

In January 2001, the Company restructured its ownership interest in i-Street, such that the Company’s voting ownership in i-Street was reduced to 25.1%.

In February 2001, the Company contributed $4,000,000 to Outtask. As a result of this contribution, the Company’s ownership in Outtask was increased to 34.2%.

Note 20: Selected Quarterly Financial Information (unaudited)

The following table sets forth selected quarterly financial information for the year ended December 31, 2000 and the period ended December 31, 1999. The operating results for any given quarter are not necessarily indicative of results for any future period.

	2000 Quarters Ended			
	December 31	September 30	June 30	March 31
	(in thousands, except per share data)			
Revenues	$ 13,079	$ 13,693	$ 12,092	$ 5,215
Cost of revenues	15,194	12,345	10,320	4,407
Selling, general and administrative expenses	37,290	56,172	50,750	31,451
Research and development expenses	3,392	4,000	3,048	1,596
Impairment in consolidated associated companies	50,487	7,139	---	---
Impairment of facilities	10,961	---	---	---
Stock-based compensation	5,020	26,185	8,199	8,665
Operating loss	(109,265)	(92,148)	(60,225)	(40,904)
Interest income (expense), net	4,624	4,198	1,492	3,412
Non-operating gains, net	(777)	1,920	2,933	(2)
Minority interest	3,437	6,192	4,353	4,187
Equity in losses of associated companies	(30,240)	(25,567)	(23,936)	(10,878)
Impairment in equity/cost method associated companies	(106,997)	(6,128)	---	---
Net loss	(239,218)	(111,533)	(75,383)	(44,185)
Accretion of preferred stock dividends	---	(1,045)	(8,645)	(7,417)
Deemed dividends	---	(14,942)	---	(25,814)
Net loss applicable to common stockholders	$ (239,218)	$ (127,520)	$ (84,028)	$ (77,416)
Basic and diluted net loss per share applicable to common stockholders*	$ (1.79)	$ (1.13)	$ (7.39)	$ (7.79)
Proforma basic and diluted net loss per share applicable to common stockholders*		(0.99)		
Sales price of class A common stock				
High	4.25	12.44		
Low	$ 1.00	$ 3.62		

	2000 Quarters Ended		
	December 31	September 30	June 30
	(in thousands, except per share data)		
Revenues	$ 1,020	$ 17	$ ---
Cost of revenues	1,028	---	---
Selling, general and administrative expenses	7,067	1,490	---
Research and development expenses	134	---	---
Stock-based compensation	747	---	---
Operating loss	(7,956)	(1,473)	---
Interest income (expense), net	1,385	(1)	---
Minority interest	51	---	---
Equity in losses of associated companies	(1,413)	---	---
Net loss	(7,933)	(1,474)	---
Accretion of preferred stock dividends	(3,520)	---	---
Net loss applicable to common stockholders	$ (11,453)	$ (1,474)	---
Basic and diluted net loss per share applicable to common stockholders*	$ (2.07)	$ (1.32)	$ ---

* The pro forma basic and diluted net loss per share applicable to common stockholders (pro forma net loss per share) assumes the conversion of all of the Company's preferred stock into common stock as of the date of issuance. This assumption was made by the Company in calculating the earnings per share as reported for the three- and nine-month periods ended September 30, 2000, in the Company's quarterly report on Form 10-Q for that period. The conversion assumption differs from the actual loss per share calculation, wherein the Company's preferred stock is weighted as common stock outstanding from the date of conversion, which is the date of the Company's initial public offering, or July 18, 2000.

Additionally, stock-based compensation for the three months ended September 30, 2000, as reflected in the table above, includes an accelerated charge of $18,330,000 related to the Company's repurchase of shares in 13 associated companies established by the Company that were sold to the Company's employees in January 2000. Stock-based compensation for the three months ended September 30, 2000, as reflected in the Company's quarterly report filed on Form 10-Q for that period, did not include this charge.

The pro forma net loss per share for the three and nine months ended September 30, 2000, as previously reported, were ($0.99) and ($2.68), respectively, compared to the actual net loss per share of ($1.13) and ($6.43), respectively. The differences in pro-forma versus actual net loss per share relate to both the weighting of the preferred stock and the $18,330,000 charge as described in the above paragraph.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our class A common stock ("Common Stock") is traded on the Nasdaq National Market, Inc. ("Nasdaq") under the symbol "DVIN". On December 31, 2000, the last reported sale price of the Common Stock on Nasdaq was $1.5625 per share. At December 31, 2000, there were approximately 900 record holders of the Common Stock. The table below sets forth the high and low sales prices of shares of Common Stock on Nasdaq for the periods indicated.

We have not paid any dividends on our Common Stock. We intend to continue to retain our earnings to finance our growth and for general corporate purposes. We do not anticipate paying any dividends in the foreseeable future.

	Common Stock	
	High	Low
Period From July 11, 2000 (initial public offering):		
3rd Quarter	$ 12.44	$ 3.62
4th Quarter	4.25	1.00

INDEPENDENT AUDITORS' REPORT

The Board of Directors
divine, inc.:

We have audited the accompanying consolidated balance sheets of divine, inc. and subsidiaries (formerly known as divine interVentures, inc. and subsidiaries) as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2000 and the period from May 7, 1999 (inception) through December 31, 1999. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of divine, inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for year ended December 31, 2000 and the period from May 7, 1999 (inception) through December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP

Chicago, Illinois
March 30, 2001

BOARD OF DIRECTORS

Andrew "Flip" Filipowski
Chairman and CEO, divine, inc.

Paul Humenansky
President and COO, divine, inc.

Michael Cullinane
Executive Vice President and CFO, divine, inc.

James Cowie
General Partner, Frontenac Company

Tom Meredith
Senior Vice President, Dell Computer Corporation

Michael Forster
Senior Partner of Operations, Internet Capital Group

John Rau
Chairman, Chicago Title Corporation

Arthur Hahn
Partner, Katten Muchin Zavis

Thomas Bennett
Senior Vice President of Business Development, Computer Associates

Gregory Jones
President and CEO, uBid, Inc.

John Cooper
Senior Director, Corporate Development, Microsoft Corporation

EXECUTIVE OFFICERS

Andrew "Flip" Filipowski
Chairman and CEO

Paul Humenansky
President and COO

Michael Cullinane
Executive Vice President and CFO

CORPORATE HEADQUARTERS

divine's principal executive offices are located at:
1301 N. Elston Ave.
Chicago, IL 60622
Main Phone: 773.394.6600

STOCK EXCHANGE AND SYMBOL

The common stock of divine is traded on the Nasdaq National Market under the symbol "DVIN."

INVESTOR INQUIRIES

You may contact divine investor relations through our investor connect hotline at 877.991.DVIN or by sending email to ir@divine.com

INDEPENDENT PUBLIC ACCOUNTANTS

KPMG LLP
303 E. Wacker Drive
Chicago, IL 60601

LEGAL COUNSEL

Katten Muchin Zavis
525 W. Monroe St.
Suite 1600
Chicago, IL 60661
Phone: 312.902.5200

TRANSFER AGENT

All questions regarding your ownership of divine stock should be addressed to our transfer agent, Computershare Investor Services. Computershare maintains all shareholder records, including notice of any changes in name, address, or telephone number, cancellation or issuance of stock certificates, and can provide assistance with lost, stolen, or destroyed certificates. Computershare is also responsible for issuing new certificates after a stock split. Computershare can be reached at:
Computershare Investor Services LLC
P.O. Box A3504
Chicago, IL 60690-3504
Phone: 312.360.5108

FISCAL YEAR

divine's fiscal year ends December 31

CUSIP NUMBER

divine's CUSIP number is 255402 10 9

ANNUAL MEETING

divine's annual shareholder meeting is scheduled to be held at divine's offices at:
9:30 a.m. CST, Tuesday, May 22, 2001
1301 N. Elston Ave.
Chicago, IL 60622
Main Phone: 773.394.6600

FORM 10-K

A copy of the divine, inc. Form 10-K as filed with the Securities and Exchange Commission is available without charge at http://www.sec.gov, or by contacting divine investor relations.

A copy of this annual report can also be found online at http://www.divine.com.

DIVINE.COM