

UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

In Re: )  
)  
marchFIRST, INC., et al., )  
)  
Debtors. )  
)  
\_\_\_\_\_)  
ANDREW J. MAXWELL, Chapter 7 Trustee for )  
the bankruptcy estate of Debtors, )  
)  
Plaintiff, )  
)  
vs. )  
)  
ROBERT F. BERNARD, ROBERT CLARKSON, )  
EDWARD F. SZOFER, BERT B. YOUNG, )  
PAUL D. CARBERY, MARK KVAMME, )  
JOSEPH MARENGI, W. BARRY MOORE, )  
DAVID STORCH and JOHN R. TORELL, III )  
)  
Defendants. )  
\_\_\_\_\_)

Chapter 7  
Case No. 01-24742  
Jointly Administered  
Honorable John D. Schwartz

**FILED**  
UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF ILLINOIS  
AUG 30 2002  
KENNETH S. GARDNER, CLERK  
TEAM - A

Adversary No. 02 A 00194

**MEMORANDUM IN SUPPORT OF CERTAIN DEFENDANTS' MOTION TO DISMISS**

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Edward Szofer and Bert Young*

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# Exhibit A

<DOCUMENT>  
<TYPE>10-Q  
<SEQUENCE>1  
<FILENAME>a10-q.txt  
<DESCRIPTION>FORM 10-Q  
<TEXT>  
  
<PAGE>

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2000

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-28166

marchFIRST, Inc.

-----  
(Exact name of registrant as specified in its charter)

Delaware

36-3 797833

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification No.)

311 South Wacker Drive, Suite 3500, Chicago, Illinois 60606-6 618

-----  
(Address of principal executive offices, including Zip Code)

(312) 922-9 200

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

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

As of July 31, 2000, there were 150,214,123 shares of common stock of the  
registrant outstanding.

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marchFIRST, Inc.

FORM 10-Q

Quarter ended June 30, 2000

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Item 1. Condensed Consolidated Financial Statements (unaudited)

Condensed Consolidated Balance Sheets as of June 30, 2000  
and December 31, 2000

Condensed Consolidated Statements of Operations  
for the six months ended June 30, 2000  
and June 30, 1999

Condensed Consolidated Statements of Cash Flows  
for six months ended June 30, 2000  
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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

marchFIRST, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

<TABLE>  
<CAPTION>

	--
<S>	<C
ASSETS	
Current assets:	
Cash and cash equivalents	\$
Short-term investments	
Trade accounts receivable, net of allowance for doubtful accounts	
Prepaid expenses and other current assets	
Deferred income taxes	--
Total current assets	--
Property and equipment	
Less accumulated depreciation and amortization	--
Property and equipment, net	
Long-term investments	
Deferred income taxes	
Intangible assets, net	
Other assets	--
Total assets	\$ ==
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$
Accrued compensation and related costs	
Accrued expenses and other liabilities	
Deferred revenue	
Current maturities of long-term debt	--
Total current liabilities	--
Deferred income taxes, net	
Long-term debt, less current maturities	--
Total liabilities	--
Stockholders' equity:	
Common stock, \$.001 par value; 500,000 shares authorized, 149,625 and 61,934 shares issued at June 30, 2000, and December 31, 1999, respectively	
Additional paid-in capital	
Retained earnings (deficit)	
Treasury stock, at cost ; 3,000 shares held in treasury June 30, 2000	
Deferred compensation	
Accumulated other comprehensive loss	--
Total stockholders' equity	--
Total liabilities and stockholders' equity	\$



</TABLE>

See accompanying notes to condensed consolidated financial statements.

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marchFIRST, Inc.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

<TABLE>

<CAPTION>

	THREE MONTHS ENDED	
	JUNE 30, 2000	JUNE 1999
	<C>	<C>
Revenues	\$ 380,201	\$
Cost of services	192,793	
Gross profit	187,408	
Costs and expenses:		
Selling and marketing (excluding stock compensation)	25,931	
General and administrative (excluding stock compensation)	116,363	
Stock compensation	26,756	
Acquired in-process technology	-	
Amortization of intangible assets	355,903	
Merger, branding and integration costs	28,970	
Total costs and expenses	553,923	
Income (loss) from operations	(366,515)	
Other income, net	3,526	
Net income (loss) before provision for income taxes	(362,989)	
Provision for income taxes	11,458	
Net income (loss)	\$ (374,447)	\$
Basic earnings (loss) per share	\$ (2.44)	\$
Diluted earnings (loss) per share	\$ (2.44)	\$
Weighted average number of common shares outstanding - basic	153,659	

Weighted average number of common shares  
outstanding - diluted

153,659

=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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marchFIRST, Inc.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

<TABLE>

<CAPTION>

	SI
	-----
	JUNE 30,
	2000
	-----
<S>	<C>
Cash flows from operating activities:	
Net income (loss)	\$ (491)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	11
Amortization of intangible assets	474
Deferred income taxes	
Tax benefit of stock options	14
Acquired in-process technology	4
Unrealized holding loss on investments	(4)
Stock compensation expense	41
Changes in assets and liabilities, net of acquisition:	
Trade accounts receivable, net	(123)
Prepaid expenses and other current assets	1
Other assets	(10)
Accounts payable	(5)
Accrued compensation and related costs	22
Income taxes payable	6
Accrued expenses and other liabilities	(18)
Deferred revenue	(17)
Other, net	
Net cash provided by (used in) operating activities	(94, 9)
Cash flows from investing activities:	
Purchases of short-term investments	(52)
Sales of short-term investments	143
Investments in non-marketable equity securities	(59)
Cash acquired in acquisition	162
Cash paid for acquisition costs	(58)
Purchases of property and equipment, net	(39)
Net cash provided by investing activities	95
Cash flows from financing activities:	
Proceeds from debt line of credit, net	2
Proceeds from issuance of common stock	40

Purchase of treasury stock	(65)
Proceeds from issuance of ESPP	5
Partnership capital distributions	
	-----
Net cash provided by (used in) financing activities	(16)
	-----
Effect of foreign exchange rate changes	(4)
Net increase (decrease) in cash and cash equivalents	(20)
Cash and cash equivalents at beginning of period	147
	-----
Cash and cash equivalents at end of period	\$ 127
	=====
Supplemental disclosures of cash flow information:	
Interest paid	\$ 1
Income taxes paid	
Supplemental disclosures of non-cash investing activity:	
Common stock issued for acquisition	\$ 5,286
Transfer of non-marketable equity securities to Bluevector	23

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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marchFIRST, Inc.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands, except per share data)  
(Unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements of marchFIRST, Inc. ("marchFIRST" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. The information furnished herein includes all adjustments, which are, in the opinion of management, necessary for a fair presentation of results for these interim periods. All such adjustments are of a normal recurring nature, except for the adjustments relating to the acquisition discussed in Note 4. The results of operations for the three and six months ended June 30, 2000 are not necessarily indicative of the results to be expected for the year ending December 31, 2000.

These financial statements should be read in conjunction with the Company's historical audited consolidated financial statements and notes thereto for the year ended December 31, 1999 included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission.

NOTE 2. BALANCE SHEET COMPONENTS (in thousands)

<TABLE>  
<CAPTION>

June 30,  
2000

<S>		<C>	
	Trade accounts receivable, net:		
	Accounts receivable	\$	377,508
	Media receivable		8,466
	Unbilled revenues		97,704
	Less: Allowance for doubtful accounts		(20,777)
		\$	462,901
			=====
	Intangible assets, net:		
	Workforce in place	\$	139,702
	Goodwill		6,698,368
	Customer lists		50,360
	Purchased technology		18,600
		\$	6,907,030
	Less: Accumulated amortization		(472,601)
		\$	6,434,429
			=====
	Accrued expenses and other liabilities:		
	Professional fees	\$	1,217
	Merger and related costs		102,440
	Other		39,969
		\$	143,626
			=====

</TABLE>

NOTE 3. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes changes in the balances of items that are reported directly as a separate component of stockholders' equity in the condensed consolidated balance

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sheets. marchFIRST, Inc. has comprehensive income (loss) comprised of net unrealized loss on marketable securities and foreign currency translation adjustments. The components of comprehensive income (loss) for the six months ended June 30, 2000, and 1999 were as follows (in thousands):

<TABLE>  
<CAPTION>

	Three Months Ended		
	June 30,	June 30,	
	2000	2000	
	-----	-----	--
<S>	<C>	<C>	<C>
Net income (loss)	\$ (374,447)	\$ 6,943	\$
Foreign currency translation adjustments	(893)	(119)	
Net unrealized loss on marketable securities	(4,030)	28	
	-----	-----	--
Comprehensive income (loss)	\$ (379,370)	\$ 6,852	\$
	=====	=====	==

</TABLE>

The components of accumulated other comprehensive loss at June 30, 2000 and December 31, 1999 were as follows (in thousands):

<TABLE>  
<CAPTION>

	June 30, 2000
<S>	-----
	<C>
Net unrealized loss on marketable securities	\$ (6,546)
Foreign currency translation adjustments	(2,133)
	-----
Accumulated other comprehensive loss	\$ (8,679)
	=====

</TABLE>

#### NOTE 4. EQUITY INVESTMENT

On March 1, 2000, the Company announced the formation of a venture capital organization, Bluevector L.L.C. ("Bluevector"). Bluevector will invest in the technology industry and will also provide financial advisory services as well as business strategy and branding to its clients. During the six months ended June 30, 2000, the Company contributed \$49.8 million of cash and transferred \$23.7 million of its non-marketable equity securities to Bluevector. At June 30, 2000, the Company's investment in Bluevector was \$71.5 million representing an approximately 50% interest. The investment is classified as a long-term investment and is being accounted for using the equity method of accounting. The carrying value of its investment at June 30, 2000 has been reduced to record the amortization of the difference between the Company's investment balance and its percentage ownership in the underlying net assets of Bluevector.

#### NOTE 5. STOCKHOLDERS' EQUITY

During the three month period ended June 20, 2000, the Company purchased 3.0 million shares of its common stock to be held as treasury stock at a cost of \$65.1. The treasury stock is intended for issuance under the Company's employee stock option and stock purchase plan.

#### NOTE 6. BUSINESS COMBINATIONS

On March 1, 2000, the Company (which was then named Whittman-Hart, Inc.), and USWeb/CKS completed a merger. Under the terms of the merger agreement, approximately 82,431,300 shares of Company common stock were exchanged for all the outstanding common stock of USWeb/CKS. In addition, employee options and warrants to purchase shares of USWeb/CKS common stock were assumed by Whittman-Hart and became options to purchase

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approximately 34,010,426 shares of the Company's common stock and warrants to purchase approximately 2,058,700 shares of the Company's common stock. These amounts reflect an exchange ratio of 0.865 of a share of the Company's common stock for each share of USWeb/CKS common stock. This transaction was accounted for as a purchase business combination in accordance with Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations" and, accordingly, the results of operations of USWeb/CKS have been included in the Company's financial statements from March 1, 2000.

The total consideration for the transaction was valued at approximately \$7.1 billion as of February 29, 2000, which includes the value of Company common stock issued in the merger, options and warrants assumed by the Company, and other direct acquisition costs.

The purchase price was preliminarily allocated to the following (in thousands):

<S>	<C>
Fair value of assets acquired and liabilities assumed	\$ 233,466
Workforce in place	127,100
Existing and in-process technology	18,600
Customer list	49,100
Goodwill	6,652,072
	-----
Total	\$ 7,080,338
	=====

The above intangible asset amounts are being amortized over their estimated useful lives of 3 to 5 years. The following unaudited pro forma financial information presents the combined results of operations of the Company and USWeb/CKS as if the acquisition had occurred as of the beginning of fiscal 2000 and 1999, after giving effect to certain adjustments, including amortization of goodwill, and related income tax effects. The pro forma financial information does not reflect the results of operations that would have occurred had the Company and USWeb/CKS constituted a single entity during such periods.

<S>	Six months ended (unaudited) (in thousands)
	June 30, 2000
	-----
Revenue	\$ 732,239
Net loss	\$ (747,957)
Basic and diluted loss per share	\$ (6.10)

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

THE DISCUSSION BELOW CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS (AS SUCH TERM IS DEFINED IN SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934) THAT ARE BASED ON THE BELIEFS OF THE COMPANY'S MANAGEMENT, AS WELL AS ASSUMPTIONS MADE BY, AND INFORMATION CURRENTLY AVAILABLE TO, THE COMPANY'S MANAGEMENT. THE COMPANY'S RESULTS, PERFORMANCE AND ACHIEVEMENTS IN 2000 AND BEYOND COULD DIFFER MATERIALLY FROM THOSE EXPRESSED IN, OR IMPLIED BY, ANY SUCH FORWARD-LOOKING STATEMENTS. SEE "CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS" ON PAGE 16.

OVERVIEW

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On March 1, 2000, the Company merged with USWeb/CKS. As a result of the merger, the Company's revenue and operating expenses increased substantially during the first quarter and in the current period, and the Company believes that such increases are likely to continue to increase in future periods as compared to pre-merger periods. This business combination was accounted for by the purchase method, and accordingly, the results of operations of USWeb/CKS have been included in the Company's financial statements and reflected in the Company's results of operations since March 1, 2000. Prior to the consummation of the merger on March 1, 2000, the Company filed a registration statement on Form S-4 on January 27, 2000, Registration No. 333-94565, which was declared effective by the Securities and Exchange Commission on February 20, 2000. This registration statement contains unaudited pro forma information for the combined company.

marchFIRST is the new name for the company which was formerly known as Whittman-Hart, and reflects the merger of Whittman-Hart and USWeb/CKS, completed on March 1, 2000. As a leading information technology services company prior to the merger, Whittman-Hart provided technology-based e-Business solutions, including back office business systems integration, supply-chain management and business-to-business processes and technologies. USWeb/CKS was a leading provider of Internet professional services, with an emphasis on emerging e-commerce companies and the Fortune 500 business-to-consumer marketplace, and offered strong strategy and creative capabilities.

marchFIRST, Inc. is now an Internet professional services firm that helps companies build business models, brands, systems and processes to capitalize on the opportunities created by the Internet and related computer and communications technologies. marchFIRST has more than 70 offices in 14 countries and employs more than 9,000 employees. The professional services provided by marchFIRST include business strategy and management consulting, creative branding and marketing, Web application design and development, packaged software implementation and integration, and Web and network infrastructure design and implementation. marchFIRST also provides integrated application hosting services and, through an affiliated company, provides access to venture capital and external funding sources. marchFIRST provides services to clients ranging from early-stage Internet start-up companies to Global 2000 companies, reflecting management's belief that the Internet has narrowed the range of technology needs among small, middle-market and global companies.

The Company's revenues are generated primarily from professional fees, which are generally billed at a contracted hourly rate and are recognized as services are provided. marchFIRST's revenues are generated on both a time and materials and on a fixed-bid or fee-capped basis. Revenues from fixed bid arrangements are recognized by the percentage of completion method. Billable rates vary by service provided and geographic region. Historically, engagements were primarily billed on a time and material basis, but since the merger with USWeb/CKS, the Company has increased the percentage of its engagements that are based on a fixed price. These arrangements subject the Company to the risk of cost overruns; however, historically, such overruns have not been significant. The Company typically bills on a weekly basis to monitor client satisfaction and manage its outstanding accounts receivable balances. The Company's most significant cost is project cost of services, which consists of consultant salaries and benefits. Thus, the Company's financial performance is primarily based upon billing margin (billable hourly rate less the consultant's hourly cost) and personnel utilization rates

(billable hours divided by paid hours).

To date, the Company has been able to maintain its billing margins by offsetting increases in consultant salaries with increases in its hourly rates. Because most of the Company's engagements are billed on a time and materials basis, increases in its cost of services are

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generally passed along to the Company's clients and, accordingly, do not have a significant impact on the Company's financial results. In addition, the Company attempts to control expenses that are not passed through to its clients. Furthermore, profitability is improved by tying significant incentive compensation to achieving performance goals.

The Company establishes standard billing guidelines based on the type of service offered. Actual billing rates are established on a project-by-project basis and may vary from the standard guidelines. Over the last three years, the Company's average revenue per assignment hour has steadily increased. The growth in average revenue per assignment hour reflects a higher percentage of value-added services, such as strategic consulting, brand building, and other technical projects.

The Company manages its personnel utilization rates by monitoring project requirements and timetables. The number of consultants assigned to a project will vary according to the size, complexity, duration and demands of the project. Project terminations, completions and scheduling delays may result in periods in which consultants are not fully utilized. An unanticipated termination of a project could result in a higher than expected number of unassigned consultants or, if the Company were to terminate such consultants, increased severance expenses. Although the number of the Company's consultants can be adjusted to correspond to the number of active projects, marchFIRST must maintain a sufficient number of senior consultants to oversee existing client projects and assist the Company's sales force in securing new client assignments. The Company's merger with USWeb/CKS doubled the number of professionals employed by the Company. marchFIRST consultants are subject to employment contracts that may be terminated upon two weeks' notice without substantial penalty or further expense to the Company.

Historically, the Company's revenue growth has been attributable to the addition of new clients and the growth of current client relationships at existing and new office locations supplemented by acquisitions. During the remainder of 2000, the Company intends to continue to achieve growth primarily through the addition of new clients and growth of current client relationships at both existing and new office locations.

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#### RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected consolidated statements of operations data as a percentage of revenues:

<TABLE>  
<CAPTION>

Three Months Ended	Six
-----	-----



	June 30, 2000	June 30, 1999	June 3 20
<S>	<C>	<C>	<C>
Consolidated statement of operations data:			
Revenues	100%	100%	
Cost of services	51	56	
	-----	-----	---
Gross profit	49	44	
Costs and expenses:			
Selling and marketing	7	6	
General and administrative	31	27	
Stock compensation	7	-	
Acquired in-process technology	-	-	
Amortization of intangible assets	94	-	
Merger, branding and integration costs	8	1	
	-----	-----	---
Total costs and expenses	147	34	
	-----	-----	---
Income (loss) from operations	(98)	10	
Other income, net	1	1	
	-----	-----	---
Net income (loss) before provision for income taxes:	(97)	11	
Provision for income taxes	3	5	
	-----	-----	---
Net income (loss)	(100)%	6%	
	=====	=====	==

</TABLE>

REVENUES. Revenues increased 228%, or \$264.2 million, to \$380.2 million for the three month period ended June 30, 2000, up from \$116.0 million for the three month period ended June 30, 1999. Additionally, revenues increased 170%, or \$382.9 million, to \$607.6 million for the six month period ended June 30, 2000, up from \$224.7 million for the six month period ended June 30, 1999. The increases during both the three and six month comparison periods were primarily attributable to the revenues of the former USWeb/CKS, which are combined with those of the former Whittman-Hart effective March 1, 2000. In the 1999 periods, reported revenues only include those of the former Whittman-Hart. The revenues recognized resulting from the former USWeb/CKS were \$299.1 million for the six-month period ending June 30, 2000. The remaining increase in revenue was due to the addition of new clients and to the growth of current client relationships at existing and new office locations and to the acquisition of Fulcrum Solutions, Ltd. ("Fulcrum") in November 1999.

Revenues from the Company's ten most significant clients as a percentage of total revenues increased to 15% for the three and six months ended June 30, 2000. This compares to 12% for both the three and six months ended June 30, 1999. The increase in revenue from the Company's ten most significant clients is attributable to revenues generated from clients of the former USWeb/CKS.

GROSS PROFIT. Gross profit consists of revenues less cost of services, which includes consultant salaries and benefits and other incentives for employees engaged in delivering professional services. Gross profit for the three months ended June 30, 2000 grew 268% to \$187.4 million from \$50.9 million for the three months ended June 30, 1999. Gross profit for the six months ended June 30, 2000 grew 206% to \$300.3 million from \$98.0 million for

the six months ended June 30, 1999. Gross profit as a percentage of revenues was 49% for both the three and six months ended June 30, 2000, and 44% for the same periods in 1999. The increase in gross profit for both the three and six month periods ending June 30, 2000 was largely attributable to higher gross profit margins on services provided by the former USWeb/CKS, acquired by the Company on March 1, 2000. Gross profit recognized subsequent to March 1, 2000 attributable to the former USWeb/CKS was \$160.2 million. The remaining increase in gross profit was due to a change in the sales mix toward higher end service offerings, the Company's established offices reaching critical mass, and the acquisition of Fulcrum in November 1999, partially offset by lower margins in recently opened offices.

**SELLING AND MARKETING EXPENSES.** Selling and marketing expenses include the salaries, benefits, commissions, travel, entertainment and all other direct costs associated with the direct sales force as well as advertising, branding, and other marketing costs. During the six month period ended June 30, 2000, costs related to branding and marketing resulted primarily from the merger and integration of Whittman-Hart and USWeb/CKS. Accordingly, the costs were classified as merger and integration costs.

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Selling and marketing expenses for the three months ended June 30, 2000 increased approximately 268% to \$25.9 million from \$7.1 million for the three months ended June 30, 1999 and increased approximately 226% to \$40.8 million from \$12.5 million for the six months ended June 30, 2000. These increases were related to the period subsequent to March 1, 2000 and were largely attributable to additional sales and marketing personnel expenses resulting from the merger with USWeb/CKS. It was also due to increased efforts in the area of sales and marketing. As a percentage of revenues, selling expenses in the three and six month periods ending June 30, 2000 were 7%, compared to 6% in both the three and six month periods ending June 30, 1999.

**GENERAL AND ADMINISTRATIVE EXPENSES.** General and administrative expenses include salaries and benefits of management and support personnel, facilities costs, training, travel, outside professional fees and all other office and corporate costs, including recruiting costs. General and administrative expenses for the three months ended June 30, 2000 increased 274% to \$116.4 million from \$31.1 million for the three months ended June 30, 1999. General and administrative expenses for the six months ended June 30, 2000 increased 200% to \$182.9 million, from \$61.0 million for the six months ended June 30, 1999. The increase in general and administrative expenses was due to increased costs incurred subsequent to March 1, 2000 as a result of the merger. In the 1999 periods, reported general and administrative expenses only include those of the former Whittman-Hart. As a percentage of revenues, general and administrative expenses increased to 31% for the three month period ended June 30, 2000, compared to 27% for the three month period ended June 30, 1999, and increased to 30% for both the six month period ended June 30, 2000, compared to 27% for the six month period ended June 30, 1999. The increase in general and administrative expenses as a percentage of revenues for both the three- and six- month periods resulted largely from duplicative administrative functions during the integration of the two companies. The Company expects decreases in general and administrative expenses as a percentage of revenues as the Company continues its integration efforts.

**ACQUIRED IN-PROCESS TECHNOLOGY.** Acquired in-process technology expenses resulted from the Company's March 1, 2000 merger with USWeb/CKS and totaled \$4.8 million for the six month period ended June 30, 2000. Acquired in-process technology represents purchased technology that had not reached

the stage of technological feasibility as of the merger and had no alternative future use. Accordingly, such amounts were charged to operations in March 2000 when the Company acquired the technology.

**STOCK COMPENSATION.** Stock compensation resulted principally from certain stock compensation arrangements assumed when the Company merged with USWeb/CKS. The expense resulted primarily from stock bonuses awarded to employees of companies previously acquired by USWeb/CKS, prior to March 1, 2000, as well as from options granted by USWeb/CKS with exercise prices below the fair value of the common stock on the date of grant. Such expense is recognized ratably over the vesting period, which is generally three to four years. Stock compensation expense totaled \$26.7 million during the three months ended June 30, 2000 and \$42.0 million during the six months ended June 30, 2000, and related principally to stock compensation arrangements entered into by the former USWeb/CKS prior to March 1, 2000. The Company did not incur stock compensation expense in the three- or six- month periods ended June 30, 1999. The Company expects to continue to incur similar stock compensation expense during the remainder of 2000 as a result of these existing agreements.

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**AMORTIZATION OF INTANGIBLE ASSETS.** Amortization of intangible assets consists primarily of amortization of purchased technology, workforce in place, and goodwill resulting from acquisitions, substantially all of which arose from the Company's acquisition of USWeb/CKS. Amortization of intangible assets totaled \$355.9 million in the three months ended June 30, 2000 and \$474.2 million in the six months ended June 30, 2000 and included amortization of intangible assets capitalized as a result of the merger with USWeb/CKS. Amortization of intangible assets for the three months ended June 30, 1999 totaled \$0.1 million and \$0.2 for the six months ended June 30, 1999. The Company will continue to amortize its intangible assets related to the merger with USWeb/CKS during the next five years and expects amortization expense related to intangible assets to approximate \$1.4 billion annually during that five year period.

**MERGER BRANDING AND INTEGRATION COSTS.** Merger, branding and integration costs includes legal, accounting, other transaction-related fees and expenses, and severance payments and costs directly related to integrating acquired companies, primarily USWeb/CKS. Also included in merger, branding and integration costs in the three and six month periods ended June 30, 2000 were expenses related to the creation, launch and promotion of the Company's new brand.

Merger, branding and integration costs were \$29.0 million for the three months ended June 30, 2000 and \$1.6 million for the three months ended June 30, 1999. Merger, branding and integration costs were \$35.9 million for the six months ended June 30, 2000 and \$4.3 million for the six months ended June 30, 1999. As a percentage of revenue, merger, branding and integration costs accounted for 8% of revenues for the three months ended June 30, 2000, and 1% for the three months ended June 30, 1999; 6% for the six months ended June 30, 2000 and 2% for the six months ended June 30, 1999. During the three and six month periods ended June 30, 2000, the increase in merger, branding and integration costs related to the Company's merger with USWeb/CKS on March 1, 2000. In the first half of 1999, merger and integration costs related to the Company's acquisition of Waterfield in March 1999 and POV Partners Inc. in May 1999. The Company anticipates that merger branding and integration costs related to the merger with USWeb/CKS will total approximately \$80 million in 2000.

OPERATING INCOME (LOSS) FROM OPERATIONS. Operating income (loss) from operations decreased \$377.4 million to a loss of \$366.5 million for the three months ended June 30, 2000, down from operating income of \$11.0 million in the three months ended June 30, 1999. Operating income (loss) also decreased \$500.2 million to a loss of \$480.2 million for the six months ended June 30, 2000, down from operating income of \$20.0 million in the six months ended June 30, 1999. The increased operating loss is due principally to expenses associated with the amortization of intangible assets, stock compensation expense and merger and integration costs associated with the merger with USWeb/CKS.

OTHER INCOME, NET. Other income, net increased 114% to \$3.5 million for the three months ended June 30, 2000, from \$1.6 million for the three months ended June 30, 1999. Other income, net also increased 103% to \$6.9 million for the six months ended June 30, 2000 from \$3.4 million for the six months ended June 30, 1999. The three and six month periods ended June 30, 2000 included increased interest income on investments related to the net proceeds of \$98.2 million from the Company's issuance of common stock to Novell, Inc. in November 1999 and the cash acquired from the acquisition of USWeb/CKS.

INCOME TAXES. For the three and six months ended June 30, 2000, the provision for income taxes represents U.S. federal, foreign and state taxes accrued for marchFIRST and subsidiaries. The tax expense represents taxes related to foreign jurisdictions and the effect of certain items affecting taxable income that do not affect the provision for income taxes. For the three and six

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months ended June 30, 1999, the provision for income taxes represents the actual provision for income taxes of Whittman-Hart prior to its merger with USWeb/CKS.

#### LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2000, the Company had approximately \$312.9 million of cash and cash equivalents, and short-term and long-term investments compared to \$284.3 million at December 31, 1999. Long-term investments at June 30, 2000 included \$97.1 million in non-marketable equity securities and \$39.4 million in marketable equity securities. During the six months ended June 30, 2000 the Company's cash and cash equivalents as well as short and long term investments increased \$28.6 million resulting primarily from cash acquired from its merger with USWeb/CKS. Prior to its merger with USWeb/CKS, the Company's primary source of liquidity has been cash provided through equity offerings and cash from operations.

As of June 30, 2000, marchFIRST had a loan agreement for up to \$10.0 million of unsecured credit with interest, at the Company's option, at LIBOR plus 1.5% or the lender's prime rate. There were no borrowings under this loan agreement as of June 30, 2000. On April 30, 2000, the above loan agreement was extended to April 30, 2001, and the available amount of borrowings was increased to \$20.0 million. In connection with the Company's merger with USWeb/CKS, the Company assumed two revolving credit lines with a maximum borrowing capacity of \$35 million, of which approximately \$16.9 million was outstanding as of June 30, 2000. The credit agreements are scheduled to expire on August 31, 2000.

Net cash used in operating activities was \$94.9 million during the

six-month period ended June 30, 2000. The use of cash during the three months ended June 30, 2000 was due to several factors, including increases in accounts receivable resulting from revenue growth and slightly slower collection of cash since the merger of USWeb/CKS and Whittman-H art. During the six months ended June 30, 1999, operating activities provided \$10.5 million due primarily to net income generated during the period.

Capital expenditures of \$39.3 million and \$10.7 million for the six month periods ended June 30, 2000 and 1999, respectively, consisted primarily of real estate, computer equipment and software and office furniture and equipment to support the growth and expansion of the Company.

During the remainder of 2000, marchFIRST expects to make similar types of expenditures relating to the expansion of offices and the improvement of information systems. The Company also expects to make expenditures of approximately \$50.0 million in 2000 related to the expansion of marchFIRST's new Chicago facility, which will house marchFIRST's education center, the Chicago office, and its corporate headquarters. Total capital expenditures for marchFIRST during 2000 are expected to approximate \$100.0 million.

During the six-month period ended June 30, 2000, the Company invested \$83.5 million in non-marketable equity securities consisting primarily of an investment in Bluevector L.L.C. ("Bluevector"). On March 1, 2000, when the merger closed, the Company announced the formation of a venture capital organization, Bluevector. Bluevector provides marchFIRST with access to venture capital for its clients. Bluevector is managed by investment banking professionals and plans to invest in wireless, broadband and technology infrastructure companies and technology start-ups. The venture capital organization, in addition to receiving capital, will also gain access to financial advisory services from Bluevector and business strategy and

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branding and technology support services from marchFIRST. The Company expects to invest a total of approximately \$100.0 million in Bluevector and will eventually hold a slightly lower than 50% interest in the venture. During the six months ended June 30, 2000, the Company contributed \$49.8 million of cash and transferred \$23.7 million of non-marketable equity securities to Bluevector. The investment in Bluevector is being accounted for using the equity method of accounting.

The Company purchased 3.0 million shares of its common stock to be held as treasury stock during the second quarter of 2000 at a cost of \$65.1 million. The treasury stock is intended for issuance of shares under the Company's employee stock option and employee stock purchase plan.

During the three-month periods ended June 30, 2000 and June 30, 1999, \$46.3 million and \$7.6 million, respectively, of cash was provided by the exercise of stock options and the purchase of common stock through the Company's employee stock purchase plan.

On April 26, 2000, the Company entered into an operating lease agreement which engaged Bank One Capital Markets, Inc. as administrative agent to structure, arrange and syndicate a \$93 million lease facility. The financing will be utilized to develop previously acquired property into the new corporate headquarters of marchFIRST. Included as part of this lease facility is the financing for construction of a parking facility. The lease agreement provides a construction period of up to 27 months. Upon completion of the structures, the five-year lease term will commence. The Company's

lease obligation is dependent upon the ultimate cost of the facility. The lease contains certain restrictive covenants related to change in control and also various financial covenants. In addition, the Company has the option to renew the lease at the end of the term or purchase the lessor's interest in the property.

The Company anticipates its current cash resources, together with existing sources of liquidity and funds generated from operations, will provide adequate cash to fund the Company's anticipated cash needs at least through the next 12 months as well as its long term liquidity needs.

#### STRATEGIC ALLIANCES

As a result of the Company's merger with USWeb/CKS, the Company renegotiated its strategic alliance with Microsoft Corporation effective April 1, 2000. The alliance was formed to assist in the development of the Internet framework ("iFrame"), a standardized architecture for developing integrated e-business solutions. Under the terms of the renegotiated alliance agreement, Microsoft has agreed to pay the Company a total of \$58.0 million for certain system and methodology development initiatives. As of June 30, 2000, Microsoft has paid the Company \$33.8 million related to these initiatives, with the remainder to be paid by the end of 2000. Under the terms of the renegotiated alliance agreement, the Company recognized as revenue \$14.1 million of the \$33.8 million during the second quarter of 2000. In addition, \$12.2 million of the \$33.8 million payment is recorded as deferred revenue at June 30, 2000. Also, Microsoft will provide a joint technology application services lab to assist in such development and will provide certain other funding including a joint marketing fund. As part of the original alliance agreement, Microsoft purchased, for \$15.0 million, a warrant allowing Microsoft to acquire shares of USWeb/CKS common stock. This warrant was assumed by Whittman-Hart and became a warrant to purchase up to 865,000 shares of marchFIRST common stock at an exercise price of \$31.90 per share, which represented the fair value of the Company's common stock at the date of the alliance. The warrant is exercisable anytime prior to its expiration in September 2004. Should the Company be successful in developing iFrame and its associated applications, the Company will pay to Microsoft a royalty at a variable rate of certain revenues, if any, from July 2001 until the earlier of December 31, 2007 or when the aggregate royalty paid totals \$107.7 million.

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Finally, in connection with the renegotiated agreement, Microsoft agreed to loan the Company \$12.0 million on an interest free basis. This loan shall be due and payable in four equal installments of \$3.0 million each beginning on December 31, 2002 and ending June 30, 2004.

#### ACQUISITIONS

On March 1, 2000, the Company and USWeb/CKS completed a merger. Under the terms of the merger agreement, approximately 82,431,300 shares of Whittman-Hart common stock were exchanged for all the outstanding common stock of USWeb/CKS. In addition, employee options and warrants to purchase shares of USWeb/CKS common stock were assumed by Whittman-Hart and became options to purchase approximately 34,010,426 shares of the Company's common stock and warrants to purchase approximately 2,058,700 shares of the Company's common stock. These amounts reflect an exchange ratio of 0.865 of a

share of Whittman-Hart common stock for each share of USWeb/CKS common stock. This transaction was accounted for as a purchase business combination in accordance with Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations." The total consideration for the transaction was valued at approximately \$7.1 billion, which includes the value of common stock issued in the merger, options and warrants, and other direct acquisition costs.

#### RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138, is effective for financial statements for fiscal years beginning after June 15, 2000, but may be adopted in earlier periods. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. The Company does not believe that SFAS No. 133 will have a significant impact on its financial statements.

Financial Accounting Standards Board Interpretation "FIN" No. 44, "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of Accounting Principles Board Opinion No. 25, is effective for financial statements beginning after July 1, 2000. The company does not believe FIN No. 44 will have a significant impact on its financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS, as amended, which is effective no later than the fourth quarter of fiscal 2000. The Company is in the process of determining the impact of this accounting pronouncement on its results of operations, financial position and cash flows.

#### CAUTIONARY NOTE REGARDING FORWARD -LOOKING STATEMENTS

This Form 10-Q contains certain forward-looking statements that reflect marchFIRST's current expectations about its future operating results, performance, and opportunities that involve substantial risks and uncertainties. When used in this Form 10-Q, the words "anticipate," "believe," "estimate," "plan," "intend," and "expect," and similar expressions, as they relate to marchFIRST or its management, are intended to and generally identify such forward-looking

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statements. These forward-looking statements are based on information currently available to marchFIRST and are subject to a number of risks, uncertainties, and other factors that could cause marchFIRST's actual results, performance, prospects, and opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, integration and other risks related to the merger with USWeb/CKS, difficulties in attracting and retaining highly skilled employees, marchFIRST's ability to manage rapid growth and expansion into new geographic areas and service lines, marchFIRST's ability to manage the risk associated with client projects, and risks related to possible acquisitions. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 1999 for further description of factors that could affect the Company's operating results, performance and opportunities. Except as required by the Federal Securities law, the Company does not undertake any obligation to release publicly any revisions to any

forward-looking statements to reflect events or circumstances after the date of this Form 10-Q or for any other reason.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 2000, the Company maintained investments in marketable securities. The securities are classified as available for sale on the consolidated balance sheet and reported at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity, net of applicable deferred income taxes. As of June 30, 2000, the fair value of the Company's marketable securities portfolio was \$209.9 million, all of which was invested in equity and debt securities.

As a result of the merger with USWeb/CKS, the Company assumed certain additional risks, including changes in interest rates affecting the return on its investments and, to a lesser extent, risks associated with foreign currency fluctuations. In the normal course of business, the Company establishes policies and procedures to manage its exposure to fluctuations in interest rates and foreign currency values.

**INTEREST RATE RISK.** The Company's exposure to interest rate risks results primarily from its short-term investments. To minimize exposure to interest rate risks, the Company invests predominately in instruments that are highly liquid, are of investment grade and generally have maturities of less than one year. The Company intends to make such funds readily available for operating purposes. At June 30, 2000, the Company had investments with maturities and weighted-average interest rates as follows (in thousands):

<TABLE>

<CAPTION>

	Maturities	
	2000	2001
	-----	-----
<S>	<C>	<C>
Balance	\$37,036	\$11,841
Interest Rate	5.8%	5.3%

</TABLE>

**FOREIGN CURRENCY RISKS.** As of June 30, 2000, the Company had operating subsidiaries located in several countries including the United Kingdom, Germany, France, Canada, Switzerland, Spain, Australia, and South Africa. These subsidiaries operate primarily in the functional currency of their individual countries. As a result, the Company does not have exposure to significant foreign currency risk related to the ongoing operations of these subsidiaries.

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## PART II. OTHER INFORMATION

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

The following summarizes the votes of the Annual Meeting of the Company's stockholders held on May 24, 2000:

Matter

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Election of two directors of the first class to the Company's Board of



Directors.

	For	Against	Abstentions	Broker Non-V otes
Mark D. Kvamme	113,089,694	387,844	0	0
Joseph Marengi	113,089,694	387,844	0	0

Matter

Approval of the marchFIRST, Inc. Amended and Restated Employee Stock Purchase Plan.

	For	Against	Abstentions	Broker Non-V otes
	111,164,318	1,795,612	517,607	0

ITEM 6. EXHIBITS AND REPORTS ON FORM 8 -K.

10.1 Operating Lease Agreement between the Company and Bank One Capital Markets, Inc. as Administrative Agent.

10.2 Indemnification Agreement between marchFJRST, Inc. and Indemnitee.

(a) Exhibits

(27.1) Financial Data Schedule

(27.2) Financial Data Schedule (restated)

(b) No reports on Form 8 -K were filed during the three month period ended June 30, 2000.

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#### SIGNATURES

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

marchFIRST, Inc.

Date: August 14, 2000

By: /s/ Robert F. Bernard

Robert F. Bernard  
Chairman of the Board

Date: August 14, 2000

By: /s/ Bert B. Young

Bert B. Young  
Chief Financial Officer and Treasurer

(*Id.*) Like Whittman-Hart, USWeb grew quickly during the e-commerce boom. (*Id.* ¶ 20.) Between 1995 and 1999, USWeb expanded its services and resources by acquiring over 40 companies. (*Id.*) For fiscal year 1999, USWeb reported annual revenue of approximately \$510 million, with a net loss of \$175.1 million. (*Id.*)

The merger between Whittman-Hart and USWeb was effective March 1, 2000, with Whittman-Hart as the surviving company. (Complaint ¶¶ 15, 24.) The combined company, marchFIRST, provided services in strategy, marketing, and information technology. (*Id.* ¶¶ 16, 19.) In addition to traditional businesses, marchFIRST's client list included numerous dot.com and Internet companies. (*Id.* ¶ 34.)

Following the merger, marchFIRST and Defendants faced numerous challenges regarding integration of operations, investment opportunities, and expansion. The Trustee claims Defendants, in responding to these challenges, made bad business decisions. The Trustee does not claim Defendants were uninformed or disloyal or acted in bad faith. Instead, with the benefit of hindsight, the Trustee claims marchFIRST should have negotiated better agreements, hired fewer consultants and fired them earlier, and eliminated expansion plans. Because he would have made different business decisions, the Trustee asserts Defendants breached fiduciary duties to the company, its shareholders and creditors.

### **ARGUMENT**

Defendants' motion to dismiss under Fed. R. Civ. P. 12(b)(6) asks the Court to determine the legal sufficiency of the Trustee's Complaint. *Ellsworth v. City of Racine*, 774 F.2d 182, 184 (7<sup>th</sup> Cir. 1985). Although the Court must accept all well-pleaded allegations in the Complaint as true, it is also true that the Court should ignore the Complaint's conclusory statements of law. *Halprin v. Prairie Single Family Homes of Dearborn Park Assoc.*, 208 F. Supp. 2d 896, 900

(N.D. Ill. 2002). To defeat Defendants' motion to dismiss, the Complaint must include well-pleaded factual allegations with respect to "all material elements of the claims asserted." *Id.* at \*3; *Haber v. Bell*, 465 A.2d 353, 358 (Del. Ch. 1983) (breach of fiduciary duty claims must contain "allegations of particular facts"). In determining whether the Complaint does so, the Court should consider the allegations that undermine the Trustee's claims. *Halprin*, 208 F. Supp. 2d at 900.

**I. THE BUSINESS JUDGMENT RULE REQUIRES  
DISMISSAL OF ALL THE TRUSTEE'S CLAIMS.**

The Complaint at bottom is an attack on the wisdom of Defendants' business decisions. The business judgment rule protects officers and directors from being second-guessed with the benefit of hindsight. *Cinerama, Inc. v. Technicolor, Inc.*, 663 A.2d 1156, 1162 (Del. 1995). The business judgment rule operates as both a presumption protecting business decisions and a substantive rule of law. *Id.* A "corporate officer or director is not legally responsible to the corporation for losses that may be suffered as a result of a decision that an officer made or that directors authorized in good faith." *Gagliardi v. Tri Foods Intern, Inc.*, 683 A.2d 1049, 1051 (Del. Ch. 1996). To overcome the presumption protecting directors' and officers' decisions, the Complaint must contain "allegations of particular facts--and not conclusions--"showing Defendants breached their duty of care, acted in bad faith, or were disloyal to the company. *Haber*, 465 A.2d at 358 (Del. Ch. 1983).

The duty of due care is "process due care only." *Brehm v. Eisner*, 746 A.2d 244, 264 (Del. Supr. 2000). To raise an inference that Defendants breached their duty of care, the Complaint must show they did not adequately apprise themselves of reasonably available, material facts before making their decisions. *Id.* at 259; *Smith v. Van Gorkom*, 488 A.2d 858,

873 (Del. Supr. 1985). The Complaint makes no such attempt. In Counts 1, 3, 5, 7-9, and 11, the Trustee concludes Defendants breached their duty of care by authorizing or approving the challenged decisions. These Counts are based on the Trustee's disagreement with the wisdom of the business decisions. He does not claim Defendants were uninformed. As a result, these Counts fail to state a cause of action. *See Brehm*, 746 A.2d at 264 (business judgment rule bars claims based on plaintiff's disagreement with wisdom of a decision); *Gagliardi*, 683 A.2d at 1052 (challenges to wisdom of a business decision do not state cause of action "no matter how foolish the decision may appear in retrospect").

The Complaint also fails to allege facts showing bad faith. For instance, in Counts 1-3 and 8-11, the Trustee concludes Defendants acted in bad faith when they made the challenged business decisions. But the Trustee does not allege Defendants made the business decisions "for some purpose other than a genuine attempt to advance corporate welfare." *Gagliardi*, 682 A.2d at 1051 n.2. Nor does the Trustee allege "specific facts" showing Defendants decisions were "so beyond the bounds of reasonable judgment" that they seem "essentially inexplicable" on any grounds other than bad faith. *Leung v. Schuler*, No. 17089, 2000 WL 1478538, \*6 (Del. Ch. Sep. 29, 2000) (internal quotation omitted). Without such allegations, the Complaint fails to rebut the presumption that Defendants acted in good faith. *Id.*

The Trustee's allegations regarding disloyalty are similarly conclusory. In Counts 2, 6-8, and 10-11, the Trustee concludes Defendants breached their duty of loyalty. But the Trustee never alleges how Defendants were "interested" in any one of the challenged business decisions. Nor does he allege Defendants appeared on both sides of a transaction or received a personal benefit not shared by the shareholders and company generally. *Cede & Co. v. Technicolor, Inc.*, 634 A.2d 345, 362 (Del. 1994); *In re Western Nat'l Corp. Shareholders Litig.*, No. 15927, 2000

WL 710192, \* 11 (Del. Ch. May 22, 2000). Accordingly, the Complaint fails to plead facts showing Defendants breached their duty of loyalty. *Cede*, 634 A.2d at 361.

In sum, the Trustee's Complaint does not allege facts demonstrating disloyalty, bad faith, or uninformed decision making by Defendants. Under these circumstances, the business judgment rule precludes further review of the wisdom of the challenged business decisions.

## **II. THE TRUSTEE'S CLAIMS FARE NO BETTER WHEN EXAMINED INDIVIDUALLY.**

The Trustee challenges the wisdom of nine business decisions allegedly made by Defendants between September 1999 and April 2001. In each instance, the Complaint fails utterly to overcome the protection of the business judgment rule because there are no allegations of fact showing disloyalty, bad faith, or a failure to act on an informed basis. In many cases, the Trustee's allegations affirmatively show Defendants made informed business decisions they believed to be in the best interest of marchFIRST.

### **A. The Complaint Shows That Forming Bluevector Was an Informed Decision Aimed at Furthering marchFIRST's Interests.**

Counts 1 and 2 challenge marchFIRST's decision to create and fund Bluevector, LLC (Bluevector), an investment fund that was a joint undertaking between marchFIRST and the former managing director and team of investment bankers and analysts of Credit Suisse First Boston (CSFB) who had advised the Whittman-Hart Board on its merger with USWeb. (Complaint ¶¶ 23, 38-39.) marchFIRST invested \$50 million in cash and approximately \$37 million in assets (prior investments of the company) for approximately a 50 percent share of Bluevector. (*Id.* ¶ 41.) The Trustee claims Bernard, Szofer and Young breached their fiduciary duties by authorizing marchFIRST's participation in Bluevector because the terms of the arrangement were "so unfavorable to marchFIRST. . . ." (*Id.* ¶ 42.)

The business judgment rule applies, and the Trustee's disagreement with the terms of the Bluevector partnership does not state a cause of action. *Gagliardi*, 683 A.2d at 1052 (no cause of action based on plaintiff's claim that terms of deal were allegedly unwise). The Trustee does not claim Bernard, Szofer, and Young were uninformed when they authorized marchFIRST's participation. To the contrary, the Trustee admits they were familiar with the qualifications of the former high-level CSFB employees involved, repeatedly discussed the company's need for an investment vehicle like Bluevector, and received Board approval and ratification for the investment. (Complaint ¶¶ 23, 34-40, 46-50, 60.) marchFIRST may have contributed the lion's share of money, but the former CSFB bankers provided Bluevector with investment expertise and agreed to forego large guaranteed salaries and instead to peg their potential compensation largely to the success or failure of Bluevector's investments. (*Id.* ¶¶ 38-42.) Finally, there are no allegations that Defendants were disloyal in connection with the Bluevector investment. Under these circumstances, the Complaint fails to show Defendants breached their fiduciary duty. *See Leung*, 2000 WL 1478583 at \*6 (dismissing complaint where allegations show defendants knew what was being paid and what company received).

**B. The Complaint Shows Investing in Bluevector Strategic Partners Was an Informed Decision Aimed at Furthering marchFIRST's Interests.**

Count 3 attacks the creation and operation of Bluevector Strategic Partners (BVSP). marchFIRST and Bluevector created BVSP on September 8, 2000, with marchFIRST owning an 80 percent interest and Bluevector a 20 percent interest. (Complaint ¶ 57.) BVSP invested approximately \$19.8 million in fourteen customers of marchFIRST. In each instance, the customers used the investments to pay marchFIRST for work marchFIRST had performed or agreed to perform. (*Id.* ¶ 62.) The Trustee alleges Bernard and Szofer breached their fiduciary

duties by investing in BVSP because the investment was “not for any legitimate purpose.” (*Id.* ¶¶ 144-45.)<sup>2</sup>

The business judgment rule applies. That precludes a judicial review of whether or not marchFIRST should have invested in BVSP. *Brehm*, 746 A.2d at 264 (courts do not decide if business decision are reasonable). The Trustee’s *post hoc* criticism of the BVSP investments notwithstanding, Bernard’s and Szofer’s decision to establish BVSP and invest in clients of marchFIRST was an informed and considered judgment. The Trustee admits Bernard and Szofer discussed the basic concepts of the BVSP deal with the Board of Directors for almost one year before making the investment. (Complaint ¶¶ 34-35.) He also admits they discussed investing in marchFIRST clients with Bluevector personnel. (*Id.* ¶ 56.) The Trustee may disagree with Bernard’s and Szofer’s ultimate decision, but he does not claim they acted on an uninformed basis or were disloyal to the company. And the entire Board’s approval of the BVSP deal (*Id.* ¶¶ 65-66) shows Bernard’s and Szofer’s decision was not “so beyond the bounds of reasonable judgment” as to be inexplicable on any ground other than bad faith. *Leung*, 2000 WL 1478538 at \*6. For these reasons, Bernard’s and Szofer’s business decision to proceed with the BVSP venture is entitled to the protection of the business judgment rule.<sup>3</sup>

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<sup>2</sup> The Trustee’s criticism of BVSP is internally inconsistent. The Trustee criticizes marchFIRST’s involvement in Bluevector because marchFIRST did not have enough control over the partnership. BVSP was an investment vehicle over which marchFIRST had almost complete control. Yet the Trustee criticizes that decision as well.

<sup>3</sup> In any event, the Trustee fails to allege how the BVSP investment injured marchFIRST. The closest he comes is his condemnation of what he characterizes as “roundtripping.” But he does not allege how investing in clients who owed marchFIRST money injured marchFIRST. That is indistinguishable from seller financing. In the absence of any allegation showing how the BVSP investments monetarily injured marchFIRST, there is no cause of action. *O’Reilly v. Transworld Healthcare, Inc.*, 745 A.2d 902, 917 (Del. Ch. 1999); *In re Lukens Inc. Shareholders Litig.*, 757 A.2d 720, 724 (Del. Ch. 1999).

**C. The Claims of Waste Fail Because the Complaint Alleges Neither a Failure of Consideration nor the Absence of Due Care.**

In Counts 4 and 5, the Trustee claims Defendants breached their fiduciary duties to marchFIRST by “their reckless management of the company’s assets” and by “wasting tens of millions of dollars of company assets to create a facade that marchFIRST was a growing and successful company.” (Complaint ¶ 68.) The Trustee claims Defendants committed waste by: (1) hiring consultants and employees when there was little or no work and not firing them sooner; (2) spending too much money on marchFIRST’s corporate headquarters in Chicago and committing marchFIRST to office leases when the company “did not need and could not afford such space”; and (3) leasing a corporate jet. (*Id.* ¶¶ 150-51.) The Trustee’s criticism of these expenditures does not meet the standard for pleading a claim for waste or breach of Defendants’ duty of care.

The business judgment rule applies. In order to overcome the presumption afforded by the business judgment rule and to state a claim for waste, the plaintiff must allege facts demonstrating that “what the corporation received is so inadequate in value that no person of ordinary, sound business judgment would deem it worth that which the corporation has paid.” *Lewis v. Austen*, No. 12937, 1999 WL 378125, \* 6 (Del. Ch. Jun. 2, 1999). The pleaded facts must show “an absolute lack of consideration, rather than inadequate consideration.” *Id.* If any reasonable person could conclude the business decision made sense, then the Court’s inquiry ends. *Zupnick v. Goizneta*, 698 A.2d 384, 387 (Del. Ch. 1997). The Court must dismiss waste claims “even if the transaction appears, with hindsight, to be unreasonably risky . . .” *White v. Panic*, 783 A.2d 543, 554 (Del. 2001).



The Trustee's waste claim, Count 4, fails for a simple reason. In each instance, marchFIRST received something in exchange for its expenditure. In exchange for paying consultants their salary, marchFIRST received a workforce of consultants who could serve marchFIRST's clients and potential clients. *See Lewis*, 1999 WL 378125 at \*7 (no waste claim because "option plan" implemented by defendants helped the company retain employees).<sup>4</sup> In exchange for spending money on real estate, marchFIRST received corporate headquarters and office space that would have accommodated continued growth plans. *See Harbor Finance Partners v. Huizenga*, 751 A.2d 879, 892-93 (Del. Ch. 1999) (no waste claim based on decision to merge because that decision was part of the company's expansion plan). And, in exchange for paying money to lease a corporate jet, marchFIRST received use of a corporate jet. Because the Trustee never alleges a complete lack of consideration, his waste claims fail. *In re 3Com Shareholders Litig.*, No. 16721, 1999 WL 1009210, \*4-5 (Del. Ch. Oct. 25, 1999).

The Trustee's duty of care claim, Count 5, which challenges the same business decisions as Count 4, fails for a similarly simple reason. In each instance, the Trustee challenges the wisdom of the business decision--not whether the decision was informed.<sup>5</sup> marchFIRST may not have fully used all its consultants and real estate, but Defendants' decisions to hire employees and acquire real estate do not constitute a breach of their duty of care. *Gagliardi*, 683 A.2d at 1053 (no cause of action against officer who caused corporation to waste money on duplication of existing research facility). marchFIRST may have paid more to lease a corporate jet than it

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<sup>4</sup> That the Trustee claims there was not enough work to keep all of the consultants fully occupied falls far short of showing marchFIRST got nothing in exchange for the salaries paid to its employees.

<sup>5</sup> In fact, the Trustee acknowledges that, when these decisions were made, Defendants were monitoring marchFIRST's business on a monthly, weekly, and daily basis. (Complaint ¶ 31.) He admits, therefore, that when Defendants made the challenged decisions, they were informed.

would have spent buying tickets on commercial airlines, but the Trustee admits Defendants decision to enter the lease was made after considering the costs and other factors (Complaint ¶ 94). Challenging the terms of the lease is not enough. *Gagliardi*, 683 A.2d at 1052 (no cause of action even though plaintiff alleged terms of deal were unwise compared to terms of similar deal). The Trustee’s critique of the wisdom of Defendants’ business decisions “cannot serve as grounds for imposing liability based on alleged breaches of fiduciary duty. . . .” *Brehm*, 746 A.2d at 266.

**D. The Trustee’s Attacks on the Fourth Floor Transaction Are Merely Conclusory Statements of Law.**

Counts 6 and 7 allege Bernard, as an officer of marchFIRST and Whittman-Hart, breached his fiduciary duties by permitting marchFIRST to enter into a transaction with Fourth Floor. (Complaint ¶¶ 159-60.) On September 22, 1999, Whittman-Hart entered into a consulting agreement with Fourth Floor, pursuant to which Whittman-Hart helped develop business model software for Fourth Floor. (*Id.* ¶ 99.) Fourth Floor paid Whittman-Hart \$3.55 million for its assistance in creating the business model. (*Id.* ¶ 100.) On February 8, 2000, Whittman-Hart purchased a non-exclusive license to the finished business model from Fourth Floor for \$4.155 million. (*Id.*) The Trustee claims the purchase was a waste of Whittman-Hart’s assets and lacked any valid business purpose. (*Id.* ¶ 101.)

The business judgment rule applies and protects the decision to enter into the license agreement with Fourth Floor against second-guessing by the Trustee. The Trustee claims Bernard was “grossly negligent” to purchase Fourth Floor’s business model. (Complaint ¶ 165.) He claims “no ordinarily careful and prudent person” would enter into a similar transaction. (*Id.*) But the Trustee never explains how Bernard was “grossly negligent” or why “no ordinarily

careful person” would purchase a license to the business model software. The Trustee’s conclusion, therefore, should be ignored. *See Criden v. Steinberg*, No. 17082, 2000 WL 354390, \*3 (Del. Ch. Mar. 23, 2000) (legal allegations such as the transaction was “gross, reckless, willful, and intentional” and that “no person of ordinary sound business judgment would be expected to entertain a view that the consideration or, indeed, lack of consideration was fair” are wholly conclusory); *Wagner v. Salinger*, No. 16740, 2000 WL 85318, \*3 (Del. Ch. Jan. 18, 2000) (alleging company “will receive essentially nothing” is conclusory).

Missing from the Trustee’s allegations is any challenge to Bernard’s procedural due care. The Trustee does not claim Bernard was unaware of the value of the business model software or that Bernard did not consider alternatives to purchasing a license to the business model software. The Trustee simply complains that Whittman-Hart paid too much for the license. That is insufficient to state a cause of action. *Gagliardi*, 683 A.2d at 1053; *In re Student Loan Corp. Derivative Litig.*, No. 17799, 2002 WL 75479, \*4 (Del. Ch. Jan. 8, 2002) (alleging company paid more than fair market does not plead claim for waste). That MarchFIRST received the right to use the business model software is sufficient consideration to defeat the Trustee’s claims. *Steiner v. Meyerson*, No. 13139, 1995 WL 441999, \*5 (Del. Ch. Jul. 19, 1995) (no claim where company acquired control over technology and rights).

The Trustee alleges Bernard acquired a 25 percent interest in Fourth Floor for approximately \$300,000 when Whittman-Hart first contracted with Fourth Floor. (Complaint ¶ 99.) Bernard’s interest in Fourth Floor does not remove the deal from the protection of the business judgment rule. The Trustee does not claim Bernard’s interest in Fourth Floor was “material.” Nor does he allege why Bernard would structure the business model purchase in a way that harmed MarchFIRST, the company of which he was the largest single shareholder. (*Id.*

¶ 18). The Court cannot fill these gaps in the Complaint for the Trustee. *Brehm*, 746 A.2d at 257 (because Eisner owned several million options to purchase Disney stock, it would be illogical and counterintuitive to infer he was interested in maximizing his compensation at the expense of Disney and its stockholders).

**E. There Is No Allegation of Bad Faith in Defendants' Selection of One Internal Control System Over Another Favored by the Trustee.**

Count 8 accuses Defendants of breaching their fiduciary duties when selecting software to serve as the internal control system for marchFIRST. After the merger, Defendants selected accounting software known as ServiceSphere, custom developed by Evolve Software, Inc., to integrate the back-office systems of Whittman-Hart and USWeb and to track financial data from each of marchFIRST's branch offices. (Complaint ¶¶ 103-04.) The Trustee believes Defendants chose poorly. (*Id.* ¶¶ 111, 113, 170). He claims Defendants breached their fiduciary duties by not selecting an "adequate" accounting program. (*Id.* ¶ 170.)

The business judgment rule protects Defendants' choice of software. The Trustee does not allege Defendants made their selection on an uninformed basis. To the contrary, the Trustee admits Defendants knew they had to select an accounting program for the combined company. (Complaint ¶ 103.) He admits they were familiar with the pros and cons of ServiceSphere and the company that developed the program, as well as the pros and cons of USWeb's existing accounting software--the one the Trustee presumably would have selected. (Complaint ¶¶ 104-06.) With the benefit of hindsight the Trustee claims he would have made a different decision, but he does not allege that the decision actually made by Defendants at the time was an uninformed one. *Gagliardi*, 683 A.2d at 1052-3 (management "mistakes" and "poor judgment" do not give rise to a cause of action).

Even if the internal controls Defendants established were not “adequate”—as the Trustee claims (Complaint ¶¶ 111, 113)—the Trustee still would not state a cause of action. *Gagliardi*, 683 A.2d at 1052-53 (no cause of action based on plaintiff’s allegation that transaction was not “reasonably fit” for the intended purpose). The Trustee admits marchFIRST had an internal control system and a method to track financial performance. (Complaint ¶¶ 31, 32, 106, 108.) Although the Trustee alleges the process was slow and labor intensive, implementing a poor process does not expose officers and directors to liability for breach of their fiduciary duty. *Gagliardi*, 683 A.2d at 1052-53 (no cause of action based on corporate loss caused by “delivery of poor product” and “poor payment practices”).<sup>6</sup>

**F. Bernard and Szofer Could Not Have Breached Any Fiduciary Duty in Connection With the divine Sale.**

Counts 9 and 10 challenge the sale of certain marchFIRST assets to divine, Inc. (divine). On March 28, 2001, marchFIRST’s then-entire Board of Directors approved the sale of certain assets to divine for approximately \$70 million. (Complaint ¶¶ 122-23.) The assets consisted of the core of the old Whittman-Hart business, a few foreign offices, and marchFIRST’s interest in Bluevector. (*Id.*) The Trustee believes marchFIRST should have received more money for these assets. (*Id.* ¶ 128.) Based solely on this belief, he claims Bernard and Szofer breached their fiduciary duty to the company and its shareholders by supposedly negotiating and approving the sale. (*Id.* ¶¶ 174-75, 180-81.) And, because the company was allegedly in the vicinity of insolvency when the sale was made, the Trustee also alleges Bernard and Szofer breached their

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<sup>6</sup> The Trustee attempts to bootstrap into bad faith by claiming “[t]hese glaring weaknesses in marchFIRST’s internal controls facilitated the abuses in income recognition that have previously been explained.” (Complaint ¶ 110.) Not only does the Trustee fail to explain how the alleged weakness in internal control did or could facilitate what he describes as purposeful income recognition abuse, but his claim is disingenuous. The only income recognition abuse alleged in the Complaint is the so-called “roundtripping” investments of BVSP, which, as

duty to creditors. (*Id.* ¶¶ 174-75, 182.)<sup>7</sup> The Trustee has the audacity to sue Bernard over the sale of divine event though Bernard resigned from marchFIRST over two weeks before the Board approved the sale. (Complaint ¶¶ 122-24.)<sup>8</sup>

The business judgment rule protects Bernard and Szofer from liability based on their alleged role in the divine sale. When loyalty is questioned, as the Trustee does here, the issue is “whether a conflict has deprived stockholders of a ‘neutral decision-making body.’” *Cinerama*, 663 A.2d at 1170. In this case, a fully informed, independent Board of Directors approved the divine sale. (Complaint ¶¶ 122-124.) The Trustee does not and could not allege Bernard or Szofer influenced or controlled the independent Board members in any way. The approval of the divine sale by this disinterested and independent Board brings the sale and Bernard’s and Szofer’s alleged conduct within the scope of the business judgment rule. *Cinerama*, 663 A.2d at 1170 (internal quotations and citations omitted).

The business judgment rule protects the decision to enter the divine transaction notwithstanding the company’s approaching insolvency. Alleging marchFIRST sold its assets at too low a price does not establish disloyalty, lack of due care, or bad faith. *Dean v. Dick*, No. 16566, 1999 WL 413400, \*4 (Del. Ch. Jun. 10, 1999) (no cause of action even though defendant sold for below the amount owed on the property); *Leung*, 2000 WL 1478538 at \*6 (selling below fair market does not give rise to a reasonable inference of bad faith). The Trustee does not claim

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explained above at 7-8, does not give rise to a claim of breach of fiduciary duty itself. And the BVSP investments were fully disclosed in marchFIRST’s SEC filings. (*Infra* p. 17.)

<sup>7</sup> Corporate officers and directors do not generally owe a fiduciary duty to creditors. *Prudential-Bache Sec., Inc. v. Franz Manu. Co.*, 531 A.2d 953, 955 (Del. Supr. 1987). When a company is insolvent or in the vicinity of insolvency, directors may then have a limited fiduciary duty to creditors. *In re Ben Franklin Retail Stores*, Nos. 97 C 7934, 97 C 6043, 2000 WL 28266, \*4 (N.D. Ill. Jan. 12, 2000). Count 9, which is based on Bernard’s and Szofer’s status as officers, not as directors, should be dismissed.

<sup>8</sup> Any fiduciary duty Bernard may have had ended on the day he resigned. *Total Care Physician, P.A. v. O’Hara*, 798 A.2d 1043, 1059 (Del. Ch. 2001).

Bernard or Szofer were unaware of the value of the assets sold by marchFIRST. Nor does he claim they failed to consider the assets' fair market value or alternatives to a sale. Without such allegations, the Complaint does not sufficiently allege that Bernard and Szofer breached their fiduciary duties.<sup>9</sup>

The Trustee attempts to rebut the business judgment rule by alleging Bernard and Szofer breached their duty of loyalty by negotiating the divine sale at a time when they “*hoped* to have an affiliation with divine after the transaction was complete.” (*Id.* ¶ 122 (emphasis added).) But the mere “hope of an affiliation” with divine does not create a conflict of interests or render Bernard and Szofer materially interested in the transaction. *See In re Freeport-McMoran Sulphur, Inc. Shareholders Litig.*, No. 16729, 2001 WL 50203, \*4 (Del. Ch. Jan. 11, 2001) (defendants did not lack independence regarding merger even though defendants were *promised* positions as executive vice-president, chief financial officer, and director if merger was approved). That Szofer was subsequently employed by divine (working for the same businesses marchFIRST sold to divine) does nothing to change this conclusion. *See Western Nat'l. Corp. Shareholders Litig.*, 2000 WL 710192 at \*15 (inside directors not interested even though they had entered employment contracts with surviving company). An officer or director does not breach his duty of loyalty by *hoping* for “better employment opportunities.” *Cinerama*, 663 A.2d at 1170.

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<sup>9</sup> *In re Wheelabrator Tech. Inc. Shareholders Litig.*, No. 11495, 1992 WL 212595, \*9 (Del. Ch. Sept. 1, 1992) (dismissing *Revlon* claims where “complaint says nothing” about what defendants knew or did not know about the company's value); *See Caruana v. Saligman*, No. 11135, 1990 WL 212304, \*5 (Del. Ch. Dec. 21, 1990) (dismissing claim challenging sale where plaintiff did not allege board failed to retain investment advisor or failed to consider other offers); *see also Parnes v. Bally Ent. Corp.*, No. 15192, 2001 WL 224774, \*10 (Del. Ch. Feb. 23, 2001) (board of directors deemed fully informed where it retained investment bank to analyze potential offers and kept apprised of sale process).

**G. The Trustee's Conclusory Allegations About Bernard's and Young's Disclosures Do Not State a Cause of Action.**

Count 11 alleges Bernard and Young breached their duties of loyalty and good faith by knowingly disseminating "false and inaccurate information about the condition of the company" to the public. (Complaint ¶ 187.) Specifically, the Trustee claims Bernard and Young: (1) made incomplete and inaccurate disclosures about marchFIRST's investment in Bluevector; (2) failed to disclose accurate financial information because of the BVSP "roundtripping" investments; and (3) made false disclosures about the extent of marchFIRST's integration efforts. (*Id.*) The Trustee's disclosure allegations, even assuming they are true, do not state a cause of action against Bernard or Young.

The Trustee's disclosure allegations fail to show how or why marchFIRST's disclosures were false or misleading. For example, marchFIRST fully disclosed the Bluevector investment in its Form 10-Q for the second quarter of 2000. (Ex. A at 6.)<sup>10</sup> marchFIRST also fully disclosed its so-called "roundtripping" investments with BVSP in its Form 10-Q for the third quarter of 2000. (Ex. B at 9.) The Trustee does not identify what information in these disclosures is false or misleading. Nor does the Trustee allege why the purportedly false disclosures were material to a reasonable investor. Count 11 should be dismissed for these reasons alone. *In re Wheelabrator Tech. Inc. Shareholders Litig.*, No. 11495, 1992 WL 212595, \*3 (Del. Ch. Sep. 1, 1992) (plaintiff must plead why the false or inaccurate information was material); *In re KDI Corp. Shareholders Litig.*, No. 10278, 1990 WL 201385, \*5 (Del. Ch. Dec.

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<sup>10</sup> Because the Trustee challenges the adequacy and accuracy of Bernard's and Young's disclosures, the Court may consider the content of marchFIRST's publicly-filed documents on a motion to dismiss. *Wheelabrator*, 1992 WL 212595 at \*12; *Lewis*, 1999 WL 378125 at \*1 n.1.



13, 1990) (dismissing claim because plaintiff offered no basis “from which court can infer that the non-disclosures were material”).

Count 11 also fails because the Trustee does not allege how the allegedly false disclosures injured marchFIRST. For example, the Trustee claims Bernard and Young made false statements regarding the status of the company’s integration efforts. Even if true, the Trustee does not explain how misrepresenting the status of marchFIRST’s integration injured the company. To state a cause of action based on an allegedly false disclosure, the plaintiff must “plead causation and identify actual quantifiable damages.” *O’Reilly v. Transworld Healthcare, Inc.*, 745 A.2d 902, 917 (Del. Ch. 1999). Because the Trustee does not allege how or why the disclosures injured marchFIRST, the Trustee fails to state a cause of action.<sup>11</sup>

### **III. marchFIRST’s “RAINCOAT PROVISION” INDEPENDENTLY BARS THE CLAIMS AGAINST BERNARD AND SZOFER AS DIRECTORS.**

The Trustee’s claims against Bernard and Szofer as directors of marchFIRST fail for another, independent reason: the “raincoat provision” in marchFIRST’s articles of incorporation bars the claims. Section 102(b)(7) of Delaware General Corporation Law permits a Delaware corporation, by so providing in its articles of incorporation, to protect its directors from personal liability for duty of care violations. *Rothenberg v. Santa Fe Pacific Corp.*, No. 11749, 1992 WL 111206, \*4 (Del. Ch. May 18, 1992). marchFIRST availed its directors with the protection of § 102(b)(7) when it adopted a raincoat provision that states:

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<sup>11</sup> In Counts 1 and 11, the Trustee claims Bernard and Young breached their fiduciary duty by failing to disclose the Bluevector investment in marchFIRST’s Form 10-Q filed for the first quarter of 2000. (Complaint ¶¶ 44, 187.) But Bernard and Young had no duty to disclose the investment. A duty to disclose arises only when “shareholder action is contemplated, *i.e.*, requested or required.” *O’Reilly v. Transworld Healthcare, Inc.*, 745 A.2d 902, 916 (Del. Ch. 1999) (internal quotations omitted). The Trustee does not allege that shareholder action was requested or required when Bernard and Young, according to the Trustee, were supposed to disclose the investment. The Trustee thus fails to state a cause of action. *Malone v. Brincat*, 722 A.2d 5, 11 (Del. 1998).

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, as the same exists or hereafter may be amended, or (iv) for any transaction from which the director derived an improper personal benefit.

(Ex. C at 10.) This provision "render[s] duty of care claims not cognizable" and "preclude[s] plaintiffs from pressing claims of breach of fiduciary duty, absent the most basic factual showing that the directors' conduct was the product of bad faith, disloyalty or one of the other exceptions listed in the statute." *In re Lukens Inc. Shareholders Litig.*, 757 A.2d 720, 734 (Del. Ch. 1999).

marchFIRST's raincoat provision bars the Trustee's fiduciary duty claims against Bernard and Szofer. The Trustee alleges bad faith and disloyalty, but only in conclusory form and without any supporting facts. As such, the Court should ignore the allegations. *Local Union 15, Int'l Brotherhood of Elec. Workers v. Exelon Corp.*, 191 F. Supp. 2d 987, 991-92 (N.D. Ill. 2001) ("conclusory statements of law and their unwarranted inferences are not sufficient to defeat a motion to dismiss"); *Haber*, 465 A.2d at 358 (Del. Ch. 1983) (complaint must contain particular allegations of fact, not conclusions, to show breach of fiduciary duty). Stripped of these unsupported conclusions, all that remains of the Trustee's claims against Bernard and Szofer are the allegations that they breached their duty of care as directors. The raincoat provision prohibits imposing liability based on those allegations. *In re BHC Communications Shareholder Litig.*, 789 A.2d 1, 4-5 (Del. Ch. 2001).

CONCLUSION

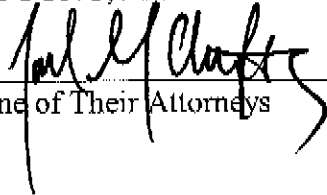
The business judgment rule protects Defendants. The rule applies to each business decision challenged by the Trustee. The Complaint second guesses these decisions as unwise in hindsight, but never alleges--as it must--facts showing Defendants were uninformed, disloyal to the company, or acted in bad faith. The business judgment rule and the Delaware "raincoat provision" require dismissal of all counts against Defendants.

Dated: August 30, 2002

Respectfully submitted,

ROBERT BERNARD, ROBERT CLARKSON,  
BERT YOUNG, AND EDWARD SZOFER

By: \_\_\_\_\_

  
One of Their Attorneys

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# Exhibit B

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2000

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-28166

**marchFIRST, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

36-3797833  
(IRS Employer Identification No.)

311 South Wacker Drive, Suite 3500, Chicago, Illinois 60606-6618  
(Address of principal executive offices, including Zip Code)

(312) 922-9200  
(Registrant's telephone number, including area code)

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

As of October 31, 2000, there were 155,284,971 shares of common stock of the registrant outstanding.

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marchFIRST, Inc.

FORM 10-Q

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**marchFIRST, Inc.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands)

	September 30, 2000	December 31, 1999
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 108,725	\$ 147,816
Short-term investments	11,427	80,424
Trade accounts receivable, net of allowance for doubtful accounts	409,071	90,709
Prepaid expenses and other current assets	53,874	11,542
Deferred income taxes, net	—	1,956
	<u>583,097</u>	<u>332,447</u>
Property and equipment	217,276	84,350
Less accumulated depreciation and amortization	(59,994)	(16,331)

Property and equipment, net	157,282	68,019
Long-term investments	142,936	56,095
Deferred income taxes, net	—	16,896
Intangible assets, net	6,072,947	29,250
Other assets	27,249	1,501
Total assets	\$ 6,983,511	\$ 504,208

#### LIABILITIES AND STOCKHOLDERS' EQUITY

##### Current liabilities:

Accounts payable	\$ 45,785	\$ 5,469
Accrued compensation and related costs	111,026	28,290
Accrued expenses and other liabilities	128,155	15,738
Deferred revenue	37,452	57
Current maturities of long-term debt	16,499	—
Total current liabilities	338,917	49,554

Deferred income taxes, net	45,717	—
Long-term debt, less current maturities	6,000	—
Other liabilities	8,803	—
Total liabilities	399,437	49,554

##### Stockholders' equity:

Common stock, \$.001 par value; 500,000 shares authorized, 153,985 and 61,934 shares issued and outstanding at September 30, 2000, and December 31, 1999, respectively	154	62
Additional paid-in capital	7,545,637	387,308
Retained earnings (deficit)	(861,035)	67,490
Accumulated other comprehensive loss	(35,666)	(206)
Treasury stock, at cost; 3,000 shares held at September 30, 2000	(65,016)	—
Total stockholders' equity	6,584,074	454,654
Total liabilities and stockholders' equity	\$ 6,983,511	\$ 504,208

See accompanying notes to condensed consolidated financial statements.

**marchFIRST, Inc.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2000	1999	2000	1999
Revenues	\$ 369,351	\$ 123,211	\$ 976,947	\$ 347,901

Cost of services	192,723	68,564	500,030	195,264
Gross profit	176,628	54,647	476,917	152,637
Costs and expenses:				
Selling and marketing	24,320	7,871	65,094	20,370
General and administrative	149,796	32,422	332,652	93,431
Stock compensation	21,076	—	63,046	1,090
Acquired in process technology	—	—	4,800	—
Amortization of intangible assets	356,827	90	831,004	270
Merger, branding and integration costs	64,075	407	99,969	3,604
Total costs and expenses	616,094	40,790	1,396,565	118,765
Income (loss) from operations	(439,466)	13,857	(919,648)	33,872
Other income, net	820	1,881	7,676	5,257
Net income (loss) before provision for income taxes	(438,646)	15,738	(911,972)	39,129
Provision (benefit) for income taxes	(1,897)	6,763	16,553	17,196
Net income (loss)	\$ (436,749)	\$ 8,975	\$ (928,525)	\$ 21,933
Basic earnings (loss) per share	\$ (2.86)	\$ 0.16	\$ (6.87)	\$ 0.39
Diluted earnings (loss) per share	\$ (2.86)	\$ 0.14	\$ (6.87)	\$ 0.35
Basic weighted average number of common shares outstanding	152,732	56,437	135,101	55,571
Diluted weighted average number of common shares outstanding	152,732	62,213	135,101	62,104

See accompanying notes to condensed consolidated financial statements.

**marchFIRST, Inc.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

Nine Months Ended  
September 30,

2000	1999
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Cash flows from operating activities:				
Net income (loss)	\$	(928,525)	\$	21,933
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization of property and equipment		19,879		4,144
Amortization of intangible assets		831,004		90
Provision for doubtful accounts		41,159		1,132
Provision for billing adjustments		8,890		—
Write-off of fixed asset impairment		11,227		—
Equity loss in unconsolidated subsidiaries		1,103		—
Tax benefit of stock options		9,247		16,359
Acquired in-process technology		4,800		—
Stock compensation expense		63,046		1,090
Changes in assets and liabilities, net of acquisition:				
Trade accounts receivable, net		(147,522)		(19,579)
Prepaid expenses and other current assets		(12,622)		(4,227)
Other assets		(23,127)		—
Accounts payable		8,022		(395)
Accrued compensation and related costs		41,062		9,343
Accrued expenses and other liabilities		8,269		(1,829)
Deferred revenue		(27,391)		—
Other, net		11,684		(1,275)
		<u>(79,795)</u>		<u>26,786</u>
Net cash provided by (used in) operating activities				
Cash flows from investing activities:				
Purchases of short-term investments		(52,753)		(97,170)
Sales and maturities of short-term investments		207,265		103,106
Investments in equity securities		(95,822)		—
Cash acquired in acquisition		162,102		—
Cash paid for acquisition costs		(79,780)		—
Purchases of property and equipment, net		(93,143)		(30,962)
		<u>47,869</u>		<u>(25,026)</u>
Net cash provided by (used in) investing activities				
Cash flows from financing activities:				
Proceeds from line of credit		26,000		(1,494)
Payments on line of credit		(26,000)		—
Proceeds from exercise of stock options		49,300		22,348
Proceeds from issuance of common stock under the employee stock purchase plan		13,900		2,058
Purchase of treasury stock		(65,016)		—
Partnership capital distributions		—		(1,685)
		<u>(1,816)</u>		<u>21,227</u>
Net cash provided by (used in) financing activities				
Effect of foreign exchange rate changes on cash				
		(5,349)		—
Net increase (decrease) in cash and cash equivalents				
		(39,091)		22,987
Cash and cash equivalents at beginning of period				
		147,816		50,602
Cash and cash equivalents at end of period				
	\$	<u>108,725</u>	\$	<u>73,589</u>
Supplemental disclosures of cash flow information:				
Interest paid	\$	604	\$	25
Income taxes paid		308		2,479
Supplemental disclosures of non-cash investing activity:				
Common stock issued for acquisition	\$	5,286,615		—
Transfer of nonmarketable equity securities to Blue Vector		28,557		—

See accompanying notes to condensed consolidated financial statements.

**marchFIRST, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
(In thousands, except share data)  
(Unaudited)

**Note 1. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited interim condensed consolidated financial statements of marchFIRST, Inc. ("marchFIRST" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. The information furnished herein includes all adjustments, which are, in the opinion of management, necessary for a fair presentation of results for these interim periods. All such adjustments are of a normal recurring nature, except for the adjustments relating to the acquisition discussed in Note 6. The results of operations for the three and nine months ended September 30, 2000 are not necessarily indicative of the results to be expected for the year ending December 31, 2000.

These financial statements should be read in conjunction with the Company's historical audited consolidated financial statements and notes thereto for the year ended December 31, 1999 included in the Annual Report on Form 10-K filed by the Company with the SEC.

*New Accounting Pronouncements*

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements*, as amended, which is effective no later than the fourth quarter of fiscal 2000. The impact of this SAB was not significant on the Company's results of operations and financial position.

Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137 and SFAS No. 138, is effective for financial statements for fiscal years beginning after June 15, 2000, but may be adopted in earlier periods. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. The Company does not believe that SFAS No. 133 will have a significant impact on its financial statements.

**Note 2. Accounts Receivable**

	September 30, 2000	December 31, 1999
(in thousands)		
Trade accounts receivable, net:		
Accounts receivable (including passthrough receivables)	\$ 411,458	\$ 88,224
Unbilled receivables	79,331	6,004
Less: Allowance for doubtful accounts	(81,718)	(3,519)
	\$ 409,071	\$ 90,709

**Note 3. Comprehensive Income (Loss)**

Comprehensive income (loss) includes changes in the balances of items that are reported directly as a separate component

The following table shows the details of costs to exit certain activities accrued and charged to merger, branding and integration costs during the nine-month period ended September 30, 2000.

	Initial Charge Incurred	Utilized	Accrual Balance at September 30, 2000
Involuntary employee termination costs	\$ 4,550	\$ 4,550	\$ —
Lease termination and sublease costs	4,900	—	4,900
	<u>\$ 9,450</u>	<u>\$ 4,550</u>	<u>\$ 4,900</u>

#### Note 7—Related Party Transactions

In September 2000, the Company funded \$19.9 million of nonmarketable equity investments and convertible notes of its majority-owned subsidiary, BV Strategic Partners, as partial consideration for its ownership interest. From the proceeds of these investments, certain of these indirect investees of the Company remitted a total of \$19.8 million back to the Company to repay accounts receivable. During the three- and nine-month periods ended September 30, 2000, the Company recorded \$24.2 million and \$30.4 million, respectively, of revenue from companies in which BV Strategic Partners owns nonmarketable equity securities and convertible notes. At September 30, 2000 the Company has accounts receivable of \$11.2 million from these indirect equity investees.

During the three- and nine-month periods ended September 30, 2000, the Company recorded revenue of \$20.1 million and \$46.7 million, respectively, from companies in which Blue Vector owns nonmarketable equity securities. At September 30, the Company has accounts receivable of \$16.9 million from these indirect equity investees.

At September 30, 2000, the Company owned 1,666,667 shares of common stock and 2,000,000 of preferred stock of divine interVentures, Inc. ("Divine"). In addition, an officer of the Company is a member of the Board of Directors of Divine. During the three- and nine-month periods ended September 30, 2000, the Company recognized revenue of \$0.8 million and \$4.2 million, respectively, from Divine. At September 30, 2000 the Company has accounts receivable from Divine of \$0.4 million.

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The discussion below contains certain forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934) that are based on the beliefs of management of marchFIRST, Inc. (including its subsidiaries, the "Company" or "marchFIRST,") as well as assumptions made by, and information currently available to, the Company's management. The Company's results, performance and achievements in 2000 and beyond could differ materially from those expressed in, or implied by, any such forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements" on page 21.*

### Overview

On March 1, 2000, the Company merged (formerly named Whittman-Hart, Inc.) with USWeb Corporation ("USWeb/CKS"), with USWeb/CKS becoming a wholly-owned subsidiary of the Company and the Company subsequently being renamed "marchFIRST, Inc." As a result of the merger, the Company's revenue and operating expenses have increased substantially in subsequent periods, and the Company believes that such increases are likely to continue in future periods as compared to pre-merger periods. This business combination was accounted for by the purchase method, and accordingly, the results of operations of USWeb/CKS have been included in the Company's financial statements and reflected in the

Company's results of operations since March 1, 2000. Prior to the consummation of the merger on March 1, 2000, the Company filed a registration statement on Form S-4 on January 27, 2000, Registration No. 333-94565, which was declared effective by the Securities and Exchange Commission on February 20, 2000. This registration statement contains unaudited pro forma information for the combined company.

Prior to the merger, Whittman-Hart was a leading information technology services company, providing e-business solutions including back-office business systems integration, supply-chain management and business-to-business processes and technologies. USWeb/CKS was a leading provider of Internet professional services, with an emphasis on emerging e-commerce companies and the Fortune 500 business-to-consumer marketplace, and offered strong strategy and brand building capabilities.

marchFIRST, Inc. is a leading global professional services firm that helps companies build innovative business models, brands, systems and processes to capitalize on the opportunities created by the Internet and related computer and communications technologies. The Company's professional services include brand strategy, e-strategy, B2B commerce, operational effectiveness and performance improvement, brand strategy and development, user experience, digital design and development, online/ offline advertising, advanced planning and scheduling, logistics and order management, warehouse management, data warehousing, mining and analysis, employee self-service, network architecture and implementation, security, ERP/package software installation and integration, and custom Web and software development. As of September 30, 2000 marchFIRST has more than 68 offices in 14 countries worldwide and employs approximately 9,500 people. On November 13, 2000 the Company announced the termination of approximately 1,000 employees.

marchFIRST provides these services to clients ranging from middle-market organizations that want to transform their market and become the category leader, to Global 3000 companies that want to leverage their brand strength to create new markets, and to emerging companies that are changing the face of business.

The Company's revenues are generated primarily from professional fees, which are billed on both a time and materials and a fixed-bid or fee-capped basis. Revenues from arrangements billed on a time and materials basis are recognized as services are provided. Revenues from fixed bid arrangements are recognized using the percentage of completion method. Historically, engagements were primarily billed on a time and materials basis, but since the merger with USWeb/CKS, the Company has increased the

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percentage of revenue derived from fixed-price engagements. These arrangements subject the Company to the risk of cost overruns. The Company's most significant cost, excluding amortization of intangible assets, is cost of services, which consists of salaries, benefits and incentive compensation of employees engaged in the delivery of professional services.

With respect to the Company's engagements that are billed on a time and materials basis, increases in the cost of services are generally passed along to the Company's clients and, accordingly, do not have a significant impact on the Company's financial results. However, for engagements that are billed on a fixed price basis, increases in the cost of services provided would have a negative impact on the Company's billing margin and the financial results. Billable rates vary by service provided and geographic region. Actual billing rates are established on a project-by-project basis and may vary from the standard guidelines.

The Company manages its personnel utilization by monitoring project requirements and timetables. The number of resources assigned to a project will vary according to the size, complexity, duration and demands of the project. Project terminations, completions and scheduling delays may result in periods in which the Company's billable employees are not fully utilized. An unanticipated termination of a project could result in a higher than expected number of unassigned employees or, if the Company were to terminate such employees, increased severance expenses. Although the number of the Company's employees can be adjusted to correspond to the number of active projects, marchFIRST must maintain a sufficient number of senior level professional services staff to oversee existing client projects and assist the Company's sales force in securing new client assignments. The Company's merger with USWeb/CKS approximately doubled the number of professionals employed by the Company.

## Results of Operations

The following table sets forth, for the periods indicated, selected consolidated statements of operations data as a percentage of revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Consolidated statement of operations data:				
Revenues	100%	100%	100%	100%
Cost of services	52	56	51	56
Gross profit	48	44	49	44
Costs and expenses:				
Selling and marketing	7	6	7	6
General and administrative	41	26	34	27
Stock compensation	6	—	6	—
Amortization of intangible assets	97	—	85	—
Merger, branding and integration costs	17	1	10	1
Total costs and expenses	168	33	142	34
Income (loss) from operations	(120)	11	(93)	10
Other income, net	—	2	1	1
Net income (loss) before provision for income taxes:	(120)	13	(94)	11
Provision (benefit) for income taxes	(1)	6	1	5
Net income (loss)	(119)%	7%	(95)%	6%

**Revenues.** Revenues increased 200%, or \$246.1 million, to \$369.4 million for the three-month period ended September 30, 2000, up from \$123.3 million for the three-month period ended September 30, 1999. Additionally, revenues increased 181%, or \$629.0 million, to \$976.9 million for the nine-month period ended September 30, 2000, from \$347.9 million for the nine-month period ended September 30, 1999. The increases during both the three- and nine-month comparison periods were primarily attributable to the revenues of the former USWeb/CKS, which are combined with those of the former Whittman-Hart effective March 1, 2000. In the 1999 periods, reported revenues only include those of the former Whittman-Hart. However, overall market demand for Internet professional services declined during the third quarter of 2000, and marchFIRST has experienced the same decline in demand. In addition, third quarter 2000 revenue was reduced due to lower utilization rates compared to prior periods.

Revenues from the Company's ten most significant clients as a percentage of total revenues increased to 16% and 12% for the three- and nine-month periods ended September 30, 2000, respectively. This compares to 10% and 11% for both the three- and nine-month periods ended September 30, 1999, respectively. The increase in revenue from the Company's ten most significant clients is attributable to revenues generated from clients of the former USWeb/CKS, which are presently producing greater levels of revenue than those of the former Whittman-Hart.

Below is a table categorizing the Company's professional revenues by business discipline (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999

Technology	\$ 212.4	\$ 115.0	\$ 595.7	\$ 325.2
Brand building	62.0	2.0	152.1	5.3
Business strategy	83.0	6.2	204.7	17.4
Host One	12.0	—	24.4	—
Total revenues	\$ 369.4	\$ 123.2	\$ 976.9	\$ 347.9

Due to an overall decline in market demand across the technology consulting industry, the Company currently expects, for the foreseeable future, a substantial decline from its historical annual revenue growth rate.

**Gross Profit.** Gross profit represents revenues less cost of services. Gross profit for the three months ended September 30, 2000 grew 223% to \$176.6 million from \$54.6 million for the three months ended September 30, 1999. Gross profit for the nine months ended September 30, 2000 increased 212% to \$476.9 million from \$152.6 million for the nine months ended September 30, 1999. Gross profit as a percentage of revenues was 48% and 49% for both the three- and nine-month periods ended September 30, 2000, respectively, and 44% for the same periods in 1999. The increase in this gross profit percentage for both the three- and nine-month periods ending September 30, 2000 was due to an increase in revenues derived from brand building and business strategy consulting, which was partially offset by lower utilization.

**Selling and Marketing Expenses.** Selling and marketing expenses include the salaries, benefits and direct expenses for employees in sales and marketing departments, as well as external costs of product and service research, advertising, brand name promotions and lead-generation activities. During the nine-month period ended September 30, 2000, costs related to branding and marketing resulted primarily from the merger and integration of Whittman-Hart and USWeb/CKS. Accordingly, the costs were classified as merger, branding and integration costs.

Selling and marketing expenses increased approximately 208% to \$24.3 million for the three months ended September 30, 2000 from \$7.9 million for the three months ended September 30, 1999 and increased approximately 220% to \$65.1 million for the nine months ended September 30, 2000 from \$20.4 million for the nine months ended September 30, 1999. These increases were related principally to the period subsequent to March 1, 2000 and were largely attributable to the ongoing selling and marketing expenses of the former USWeb/CKS. The remainder of the increase in sales and marketing expenses during the three and nine months ended September 30, 2000, was due to increased selling and marketing efforts to support the increased revenue base.

**General and Administrative Expenses.** General and administrative expenses include salaries and benefits of management and support personnel, facilities costs, training, travel, outside professional fees and all other office and corporate costs, including recruiting costs. General and administrative expenses for the three months ended September 30, 2000 increased 362% to \$149.8 million from \$32.4 million for the three months ended September 30, 1999. General and administrative expenses for the nine months ended September 30, 2000 increased 256% to \$332.7 million, from \$93.4 million for the nine months ended September 30, 1999. The increase in general and administrative expenses was primarily due to increased costs incurred subsequent to March 1, 2000 as a result of the merger, including the provision for doubtful accounts discussed below. In the 1999 periods, reported general and administrative expenses only include those of the former Whittman-Hart. As a percentage of revenues, general and administrative expenses increased to 41% for the three-month period ended September 30, 2000, compared to 26% for the three-month period ended September 30, 1999. For the nine-month period ended September 30, 2000, general and administrative expenses as a percent of revenue were 34% as compared to 27% for the nine-month period ended September 30, 1999. During the quarter ended September 30, 2000, the Company recorded a provision for doubtful accounts of \$32.5 million. Since the end of the third quarter of 2000, the Company has continued to review its accounts receivable and has established a task force to improve its collection rate. During this process, the Company may identify additional receivables for which collection could be regarded as doubtful. As a result, the Company may record an additional provision for doubtful accounts, which would negatively affect earnings in the fourth quarter of 2000. In addition, the increase in general and administrative expenses for the three- and nine-month periods ended September 30, 2000 is due to greater office and facility expenses, including depreciation and amortization of facilities, equipment and software and computer rentals. Over time, the Company expects to achieve gradual decreases in general and administrative expenses as a percentage of revenues as the Company completes its integration efforts.

**Acquired In-Process Technology.** Acquired in-process technology expenses resulted from the Company's March 1, 2000 merger with USWeb/CKS and totaled \$4.8 million for the nine-month period ended September 30, 2000. Acquired in-process technology represents purchased technology that had not reached the stage of technological feasibility as of the merger and had no alternative future use. Accordingly, such amounts were charged to operations in March 2000 when the Company acquired the technology.

**Stock Compensation.** Stock compensation resulted principally from certain stock compensation arrangements assumed when the Company merged with USWeb/CKS. The expense resulted primarily from stock bonuses awarded and compensation arrangements made to employees of companies acquired by USWeb/CKS prior to March 1, 2000. The Company did not incur stock compensation expense in the three- or nine-month periods ended September 30, 1999. The Company intends to offer employees the opportunity to submit outstanding options for cancellation in exchange for an agreement by the Company to issue new options to them six months and a day from the date of cancellation of the outstanding options. Generally, for each cancelled option to purchase three shares of the Company's Common Stock, the Company would agree to issue a new option to purchase one share of the Company's Common Stock. The exercise price of the new options would be based upon the fair market value of the Company's Common Stock on their issuance date. The Company does not expect

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to incur any stock compensation expense in connection with the exchange or the issuance of the new options.

**Amortization of Intangible Assets.** Amortization of intangible assets consists primarily of amortization of goodwill, purchased technology, workforce in place and customer lists resulting from acquisitions, substantially all of which arose from the Company's acquisition of USWeb/CKS. In general, these intangible assets have a useful life of five years. Amortization of intangible assets totaled \$356.8 million in the three months ended September 30, 2000 and \$831.0 million in the nine months ended September 30, 2000. Amortization of intangible assets for the three months ended September 30, 1999 totaled \$0.1 million and \$0.3 million for the nine months ended September 30, 1999. Until these intangible assets are fully amortized, the Company expects that amortization expense will approximate \$1.4 billion per year.

**Merger, Branding and Integration Costs.** Merger, branding and integration costs include expenses related to the creation, launch and promotion of the Company's new brand and lease termination fees, fixed asset impairment provisions, severance accruals, professional fees and other transaction-related fees and expenses, primarily incurred by the former Whittman-Hart. Merger, branding and integration costs were \$64.1 million for the three months ended September 30, 2000 and \$0.4 million for the three months ended September 30, 1999. Merger, branding and integration costs were \$100.0 million for the nine months ended September 30, 2000 and \$4.7 million for the nine months ended September 30, 1999. During fiscal 2000, the increase in merger, branding and integration costs related to the Company's merger with USWeb/CKS on March 1, 2000. In the first nine months of 1999, merger and integration costs related to the Company's acquisition of Waterfield Technology Group in March 1999 and POV Partners Inc. in May 1999. Subsequent to the third quarter of 2000, the Company does not expect to incur additional merger, branding and integration costs related to the merger with USWeb/CKS.

During the three and nine months ended September 30, 2000, the Company incurred specific costs for redundant offices and personnel. The total cost related to lease termination was \$4.9 million for the three and nine months ended September 30, 2000. Also included in the three- and nine-month periods ended September 30, 2000 were severance payments and duplication of certain administrative functions totaling \$1.0 million and \$3.5 million, respectively.

**Income (Loss) From Operations.** Income (loss) from operations decreased \$453.3 million to a loss of \$439.5 million for the three months ended September 30, 2000, down from operating income of \$13.9 million in the three months ended September 30, 1999. Income (loss) from operations also decreased \$953.5 million to a loss of \$919.6 million for the nine months ended September 30, 2000, from operating income of \$33.9 million during the nine months ended September 30, 1999. The increased operating loss is due principally to expenses associated with the amortization of intangible assets, stock compensation expense and merger, branding and integration costs associated with the merger with USWeb/CKS.

**Other Income, Net.** Other income, net, decreased \$1.1 million to \$0.8 million from \$1.9 million for the three months ended September 30, 2000, as compared to the three months ended September 30, 1999. The decrease in other income, net, for the three months ended September 30, 2000 as compared to September 30, 1999 resulted from the Company's equity loss in Blue Vector LLC ("Blue Vector") of approximately \$0.9 million. Other income, net, increased 45% to \$7.7 million for the nine months ended September 30, 2000 from \$5.3 million for the nine months ended September 30, 1999. Other income, net,

for the nine-month period ended September 30, 2000 includes increased interest income on investments related to the net proceeds of \$98.2 million from the Company's issuance of common stock to Novell, Inc. in November 1999 and cash acquired from the acquisition of USWeb/CKS.

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**Income Taxes.** For the three and nine months ended September 30, 2000, the provision for income taxes represents accrued U.S. federal, foreign and state taxes. The tax expense represents taxes related to foreign jurisdictions and the effect of certain items affecting taxable income that do not affect the provision for income taxes. For the three and nine months ended September 30, 1999, the provision for income taxes represents the actual provision for income taxes of Whittman-Hart prior to its merger with USWeb/CKS.

### Liquidity and Capital Resources

At November 17, 2000, the Company had approximately \$80 million of cash and cash equivalents compared to \$120 million and \$228 million of cash and cash equivalents and short-term investments at September 30, 2000 and December 31, 1999, respectively. Cash and cash equivalents of \$80 million at November 17, 2000 included restricted cash of \$53 million relating to letters of credit collateralizing leases and other financing arrangements. Accordingly, at such date, approximately \$27 million of cash and cash equivalents were available to meet the Company's short-term liquidity needs.

Net cash used in operating activities was \$79.8 million during the nine-month period ended September 30, 2000. The use of cash during the nine months ended September 30, 2000 was primarily due to a net loss excluding non-cash charges (largely resulting from increased expenditures for merger, funding and integration relating to the merger with USWeb/CKS), as well as increases in accounts receivable resulting from revenue growth and slower collection of cash since the merger of USWeb/CKS and Whittman-Hart, offset in part by increases in certain accrued liabilities. In the third quarter of 2000, the Company identified and reserved approximately \$59.8 million of accounts receivable for which collection is doubtful, approximately \$27.3 million of which was charged to the pre-merger operating results of USWeb/CKS, effectively increasing the goodwill resulting from that merger, and the remainder of which was charged to third quarter operating results. Since the end of the third quarter of 2000, the Company has continued to review its accounts receivable and has established a task force to improve its collection rate. During this process, the Company may identify additional receivables for which collection could be regarded as doubtful. As a result, the Company may record an additional provision for doubtful accounts, which would negatively affect earnings in the fourth quarter of 2000. During the nine months ended September 30, 1999, operating activities provided \$26.8 million due primarily to net income generated during the period.

During the nine-month period ended September 30, 2000, the Company invested cash of \$95.8 million in marketable and nonmarketable equity securities, the most significant of which was an investment in Blue Vector. On March 1, 2000, the Company announced the formation of and its investment in Blue Vector, a venture capital organization. Blue Vector invests in the technology industry and also provides financial advisory services, business strategy and branding services to its clients. During the nine months ended September 30, 2000, the Company contributed \$49.8 million of cash and \$28.6 million of nonmarketable equity securities to fund its investment in Blue Vector. As of November 17, 2000, the Company had contributed an additional \$6.5 million to Blue Vector and may also owe Blue Vector an additional \$5.0 million. In addition to the investment in Blue Vector, during the nine-month period ended September 30, 2000, the Company invested \$30.2 million in nonmarketable equity investments and \$15.8 million in marketable equity securities.

Capital expenditures of \$93.1 million and \$31.0 million for the nine-month periods ended September 30, 2000 and 1999, respectively, consisted primarily of real estate, computer equipment and software and office furniture and equipment to support the growth and expansion of the Company. During the remainder of 2000, marchFIRST may make similar types of expenditures to expand offices and improve information systems. Total capital expenditures for marchFIRST during 2000 are expected to approximate \$115 million, including approximately \$15 million to repay the operating lease facility as described below.

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During the nine-month periods ended September 30, 2000 and September 30, 1999, \$63.2 million and \$24.6 million,



respectively, of cash was provided by the exercise of stock options and the issuance of common stock through the Company's employee stock purchase plan. Based upon the current trading price of the Company's common stock, the exercise prices of outstanding options, and the opportunity to exchange outstanding options for new options that the Company intends to offer its employees, the Company does not believe that the exercise of stock options will continue to be a meaningful source of cash, at least in the near term.

The Company has purchased three million shares of its common stock to be held as treasury stock during 2000 at a cost of \$65.0 million. The treasury stock is intended for issuance of shares under the Company's employee stock option and employee stock purchase plans. The Company does not have any current plans to purchase any additional common stock in the foreseeable future.

On April 26, 2000, the Company entered into an operating lease agreement which engaged Bank One Capital Markets, Inc. as administrative agent to structure, arrange and syndicate a \$93 million lease facility related both to the expansion of marchFIRST's new Chicago facility and to the construction of a new parking facility. On November 14, 2000, the Company repaid the approximately \$15 million then outstanding under the facility and the operating lease agreement was terminated. Any further construction activities related to these development efforts are expected to be funded by the Company's operating cash flows over the next two to three years or through new financing.

Since September 15, 2000, marchFIRST has had the ability to borrow up to \$55 million under an unsecured loan agreement with American National Bank and Trust Company of Chicago, an affiliate of Bank One Corporation, that bears interest at LIBOR plus 1.5% or the lender's prime rate. As of September 30, 2000, there were no borrowings under this loan agreement, but \$15 million had been utilized to secure certain letters of credit. As of November 17, 2000 the Company had utilized a total of approximately \$53 million under this agreement, including \$38 million in borrowings and \$15 million to secure letters of credit. This facility expires on March 15, 2001.

Additionally, the Company has an unsecured credit line with PNC Bank with a current borrowing capacity of \$11.0 million, which was fully drawn on both September 30, 2000 and November 17, 2000. This agreement bears interest at LIBOR plus 1.75% and is scheduled to expire December 31, 2000. Also, the Company has an unsecured line of credit with KBC Bank, a Belgian bank, with borrowing capacity of up to 5.0 million Euros or approximately \$4.3 million at November 17, 2000. There were outstanding borrowings of \$3.2 million and \$4.3 million at September 30, 2000 and November 17, 2000, respectively. The line of credit bears an interest rate of 6.4% and is scheduled to expire on November 24, 2000, but the expiration date is expected to be extended.

Further, in connection with a renegotiated strategic alliance with Microsoft, Microsoft provided the Company with an interest-free loan of which \$12.0 million is outstanding at November 17, 2000, and \$6.0 million at September 30, 2000. The loan is due and payable in four equal installments of \$3.0 million each beginning on December 31, 2002 and ending on June 30, 2004.

The Company believes that it will be required to obtain additional financing to meet its anticipated short-term cash needs. The Company believes that it will need approximately \$50 million in additional financing through the end of 2000 and an additional approximately \$50 million in early 2001 to refinance its existing bank facilities and to meet, along with cash flows from operations, the Company's liquidity needs for the foreseeable future. The Company is currently engaged in active discussions and review of proposals regarding various potential financing alternatives. These alternatives include new or expanded credit facilities, accounts receivable financing, other secured debt financing, sales of non-strategic business units and sales of debt or equity securities. The Company also expects to sell marketable securities now held by the Company. Although the Company believes that it will be able to obtain sufficient additional financing, its ability to obtain such financing on acceptable terms, if at all, will depend on a number of factors, including market conditions and the Company's operating

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performance. Additionally, if the Company raises funds through the issuance of equity or equity-related securities, the securities may have rights, preferences and privileges senior to those of the Company's common stock, and the holders of the common stock may suffer significant dilution.

The Company has also implemented cost reduction measures to slow the rate at which it uses cash. These include

workforce reductions and reductions in capital expenditures. On November 13, 2000, the Company announced the layoffs of 1,000 employees, which are expected to reduce operating costs by approximately \$100 million per year, beginning in 2001. In the fourth quarter of 2000, the Company expects to incur significant expenses for employee severance and other related expenses in connection with these layoffs.

See "Risk Factors—If we cannot increase our available cash resources in the near future, we will not be able to operate our business as currently anticipated."

## Acquisition

On March 1, 2000, the Company and USWeb/CKS completed a merger. Under the terms of the merger agreement, 82,431,300 shares of Whittman-Hart common stock were exchanged for all the outstanding common stock of USWeb/CKS. In addition, employee options and warrants to purchase shares of USWeb/CKS common stock were assumed by Whittman-Hart and became options and warrants to purchase 34,010,426 shares and 2,058,700 shares of the Company's common stock, respectively. These amounts reflect an exchange ratio of 0.865 of a share of Whittman-Hart common stock for each share of USWeb/CKS common stock. This transaction was accounted for as a purchase business combination in accordance with Accounting Principles Board ("APB") Opinion No. 16, "*Business Combinations*." The total consideration for the transaction was valued at approximately \$7.1 billion, and includes the value of common stock issued in the merger, options and warrants, and other direct acquisition costs.

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## Strategic Alliances

### *OpenTide*

During the third quarter of 2000, the Company entered into a series of agreements with OpenTide Korea Corporation ("OpenTide"), an affiliate of Samsung Corp. In connection with this transaction, the Company agreed to contribute \$12.0 million to OpenTide in exchange for a 10-year bond convertible into a 33.3% equity interest in OpenTide.

Also in connection with this transaction, the Company transferred certain materials to OpenTide in exchange for cash payments totaling \$10.0 million. Under the terms of the agreement, \$5.0 million was payable by OpenTide on October 17, 2000 and the remaining \$5.0 million is due on or before April 17, 2002. The Company did not recognize any revenue on this transaction in the third quarter of 2000.

### *Microsoft*

As a result of the Company's merger with USWeb/CKS, the Company renegotiated its strategic alliance with Microsoft Corporation effective April 1, 2000. The alliance was formed to assist in the development of the Internet framework ("iFrame"), a standardized architecture for developing integrated e-business solutions. The professional services revenues recognized by the Company under this alliance agreement represent its Host One business discipline. Under the terms of the renegotiated alliance agreement, Microsoft has agreed to pay the Company a total of \$58.0 million for certain system and methodology development initiatives. As of September 30, 2000, Microsoft has paid the Company \$42.8 million related to these initiatives, with the remainder expected to be paid by the end of 2000. Under the terms of the renegotiated alliance agreement, the Company recognized as revenue \$14.4 million of the \$42.8 million payment during the third quarter of 2000. In addition, \$6.9 million of the \$42.8 million payment is recorded as deferred revenue at September 30, 2000. Also, Microsoft will provide a joint technology application services lab to assist in such development and will provide certain other funding including a joint marketing fund. As part of the original alliance agreement, Microsoft purchased, for \$15.0 million, a warrant allowing Microsoft to acquire shares of USWeb/CKS common stock. This warrant was assumed by Whittman-Hart and became a warrant to purchase up to 865,000 shares of marchFIRST common stock at an exercise price of \$31.90 per share, which represented the fair value of USWeb/CKS's common stock at the date of the alliance as adjusted for the merger. The warrant is exercisable anytime prior to its expiration in September 2004. Should the Company be successful in developing iFrame and its associated applications, the Company will pay to Microsoft a royalty at a variable rate of certain revenues, if any, from July 2001 until the earlier of December 31, 2007 or when the aggregate royalty paid totals \$107.7 million. Finally, in connection with the renegotiated alliance agreement, Microsoft agreed to loan the Company \$12.0 million on an interest free basis. This loan will be due and payable in four equal installments of \$3.0 million each

beginning on December 31, 2002 and ending on June 30, 2004.

### *3Com*

As a result of the Company's merger with USWeb/CKS, the Company assumed an alliance agreement with 3Com Corporation ("3Com"). Under the terms of the agreement, the Company is required to provide solutions that include an integrated set of products, technology, services, and implementation activities to promote and encourage the use of 3Com products ("Solutions"). At inception, the Company agreed to develop approximately five to six Solutions with deliverables to be agreed upon by 3Com and the Company. When such deliverables have been agreed by both parties, 3Com provides advance funding for Solutions to the Company. During the three and nine months ended September 30, 2000 the Company recognized \$9.8 million and \$19.5 million of revenue, respectively, representing services provided for Solutions developed. To date, the Company has worked on the development of three Solutions for 3Com. At September 30, 2000 deferred revenue for services provided for Solutions to 3Com totaled \$8.4 million.

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### *Other Strategic Alliances*

In the normal course of business, the Company has entered into strategic alliance agreements with a number of other companies, that focus on a variety of the Company's business focus areas. None of these other strategic alliance agreements subject the Company to significant financial obligations, nor do they have a direct and immediate impact on the Company's financial condition or its results of operations.

### **Risk Factors**

You should consider the following risks, as well as those risks described in our Annual Report on Form 10-K for the year ended December 31, 1999 (the "10-K") under the caption "Risk Factors," in evaluating our business and our securities. These matters should be considered along with the other information included in this Quarterly Report on Form 10-Q and in the 10-K.

In accordance with "plain English" guidelines provided by the SEC, the risk factors have been written in the first person.

### ***Our success is dependent on the market for Internet professional services, which has recently experienced a downturn***

The market for Internet professional services has recently experienced a significant decline. This decline is at least partly attributable to the revenue erosion and funding difficulties suffered by many e-commerce companies and their resulting reduction in spending on consulting services. In addition, many traditional, non-Internet based companies have slowed their efforts to develop e-commerce ventures, in part due to reduced competition from Internet-based startups. These trends are adversely affecting our revenue growth and profitability, and we expect that they will continue to do so, at least in the near future. Even if the market for Internet professional services improves, the growth in that market may not occur at an adequate pace to allow us to execute our business plan, and our revenue growth and operating margins may continue to suffer.

### ***If we cannot increase our available cash resources in the near future, we will not be able to operate our business as currently anticipated***

We believe that our current cash resources, together with existing sources of liquidity, will not be sufficient to fund our anticipated short-term cash needs and that we will be required to obtain additional financing in the very near future. We are currently engaged in active discussions and review of proposals regarding potential financing alternatives. However, we may not be able to obtain such financing on acceptable terms, if at all, due to a number of factors, including market conditions and our operating performance. In addition, if we raise funds through the issuance of equity or equity-related securities, the securities may have rights, preferences and privileges senior to those of our common stock, and the holders of our common stock may suffer significant dilution. If we are unable to satisfy our liquidity needs through a combination of additional financing and cost reduction measures, we will not be able to continue to conduct our business as currently anticipated, and there will be a severe adverse impact on our operating results and financial condition.

***We may lose money on fixed-price arrangements, which have become a larger part of our business***

Since the merger with USWeb/CKS, a greater percentage of our revenues have been derived from fixed-price arrangements. If our actual costs for any of these projects exceed the estimated costs, our billing margins and operating results will be harmed. In making proposals for fixed-price arrangements, we estimate the time and money required to complete the project. These estimates reflect judgments about the complexity of the engagement and the efficiency of our methods. Our most significant direct expense is for the compensation of our consulting professionals. Unanticipated complications in these arrangements typically require the utilization of more consulting time than originally budgeted. In a

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fixed-price arrangement, these complications reduce the profitability of the contracts and can even lead to losses. The losses or diminished profitability on fixed-price arrangements could materially harm our business, financial condition and results of operations.

***We have faced increasing difficulty in collecting accounts receivable***

Since our merger with USWeb/CKS, the average rate at which we have collected our accounts receivable has slowed. Largely as a result of this slowdown, as well as our increased revenues, our accounts receivable have grown substantially. The increase in accounts receivable negatively impacts our cash flow and exposes us to greater credit risk, particularly considering the liquidity problems facing many e-commerce companies. This exposure is magnified as we complete more projects on a fixed-price basis, because, in such arrangements we often fulfill a significant portion of the project before seeking payment. We have, in fact, experienced increasing difficulty in collecting some of our accounts receivable. During the third quarter of 2000, we determined that it was appropriate to reserve \$59.8 million of accounts receivable as bad debt. Of this amount, \$32.5 million directly reduced net income in the third quarter of 2000. We may identify additional receivables for which collection is doubtful. As a result, we may record an additional provision for doubtful accounts, which would negatively affect our earnings in the fourth quarter of 2000. If we are unable to reduce our accounts receivable and continue to incur difficulties in collecting these receivables and incur related bad debt write-offs, our liquidity, financial condition and operating results will be materially adversely affected.

***We must retain consulting and other key personnel in an increasingly challenging business environment***

The Internet professional services business is labor intensive. Historically, we have encountered intense competition from other companies for consulting professionals with skills required by our clients. In light of the business challenges facing our company, we may face additional difficulty in attracting and retaining these professionals and other key personnel. Also, our recently announced workforce reduction may adversely affect the morale of, and our ability to retain, those employees who are not being terminated. Because our stock price has recently suffered a significant decline, the stock options held by our employees and other stock-based compensation may have diminished effectiveness as employee retention devices. If our retention efforts are ineffective, employee turnover could increase and our ability to provide client service would be negatively affected.

***We face litigation that could have a material adverse effect on our business, financial condition and results of operations***

We and some of our directors and executive officers have been named as defendants in numerous private securities class action lawsuits. Between October 26, 2000 and November 17, 2000, nine purported class action lawsuits were filed in the United States District Court for the Northern District of Illinois, alleging that we made certain material misrepresentations and failed to disclose certain material facts about our condition and prospects. We cannot predict what the outcome of these lawsuits will be. It is possible that we may be required to pay substantial damages or settlement costs in excess of our insurance coverage, which could have a material adverse effect on our financial condition or results of operation. We could also incur substantial legal costs, and management's attention and resources could be diverted from our business.

***Our operating results may be adversely affected by declines in the value of our equity investments***

From time to time, we acquire equity securities of customers and other companies, most of which operate in Internet and e-commerce-related markets. We make these investments directly, and indirectly through Blue Vector BV Strategic Partners. There generally is no liquid trading market for these securities, and the value of these securities may decline due to market

conditions, operating results of the issuers and other conditions over which we have no control. There have been recent downturns in the equity markets generally and in the equity markets for Internet-related companies in

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particular. A decline in the value of our equity investments may adversely affect our operating results in future periods.

### **Cautionary Note Regarding Forward-Looking Statements**

This Form 10-Q contains certain forward-looking statements that reflect marchFIRST's current expectations about its future results, performance, prospects and opportunities. These forward looking statements are based on the current beliefs of marchFIRST's management as well as assumptions made by, and information currently available to, marchFIRST's management. marchFIRST has tried to identify these forward-looking statements by using words such as "believe," "expect," "anticipate," "intend," "estimate," and similar expressions. These forward-looking statements are subject to a number of risks, uncertainties, and other factors that could cause marchFIRST's actual results, performance, prospects, or opportunities in the remainder of 2000 and beyond to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and other factors include but are not limited to, the development of the marketplace for internet professional services and other factors affecting market demand, marchFIRST's ability to increase its available cash resources, marchFIRST's ability to manage its growth and expansion into new geographic areas and service lines, marchFIRST's ability to predict revenues from fixed-price client engagements, foreign currency exchange fluctuations and other risks associated with international business, difficulties in attracting and retaining highly skilled employees, marchFIRST's ability to collect on amounts billed for its consulting engagements, risks related to marchFIRST investments in equity securities, risks related to possible acquisitions, competitive factors, integration and other risks related to the merger with USWeb/CKS and the possible consequences of stockholder lawsuits against marchFIRST. For further information about these and other risks, uncertainties and factors, please review the disclosure above under the caption "—Risk Factors" and the disclosure under the caption "Risk Factors" in marchFIRST's Annual Report on Form 10-K for the year ended December 31, 1999, as filed with the Securities and Exchange Commission. marchFIRST undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or changed circumstances or for any other reason.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

At September 30, 2000, the Company maintained investments in marketable equity securities. These securities are classified as available for sale on the condensed consolidated balance sheet and reported at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity, net of applicable deferred income taxes. As of September 30, 2000, the fair value of the Company's marketable equity securities portfolio was \$22.8 million.

The Company's exposure to interest rate risks results primarily from its short-term investments. During the third quarter, the Company liquidated the majority of its short-term investments. The remaining \$11.4 million balance of short-term investments consisted of highly liquid investments that have maturities during the fourth quarter of 2000.

As a result of the merger with USWeb/CKS, the Company assumed certain additional risks, primarily risks associated with foreign currency exchange rate fluctuations. In the normal course of business, the Company establishes policies and procedures to manage its exposure to fluctuations in foreign currency exchange rates. As of September 30, 2000, the Company had operating subsidiaries located in several countries including the United Kingdom, Germany, France, Canada, Switzerland, Spain, Australia, and South Africa. These subsidiaries operate primarily in the functional currency of their individual countries.

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## **PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Between October 26, 2000 and November 17, 2000, nine purported class action lawsuits were filed in the United States District Court for the Northern District of Illinois against marchFIRST and its chief executive officer Robert Bernard alleging violations of Section 10(b) and Section 20(a) of The Securities Exchange Act of 1934, as amended (the "Act"). Peter Murphy, the Company's Chief Financial Officer, is also a defendant in two of the cases. The purported class action were filed on behalf of all those who purchased marchFIRST stock between July 25, 2000, and October 23, 2000 (the "Class Period"). According to the plaintiffs, the Company, with the knowledge and assistance of the individual defendants, made certain material misrepresentations and failed to disclose certain material facts about the Company's condition and prospects during the Class Period, causing the plaintiffs and the class to buy Company stock at artificially inflated prices. The plaintiffs ask for unspecified amounts as damages, interest and costs and ancillary relief. The Company will respond to the allegations at the appropriate time.

Management believes that these suits are without merit, and management and the Company intend to defend them vigorously. Management believes, based on information currently available, that the ultimate resolution of this litigation will not have a material adverse effect on the financial condition of results or the operations of the Company.

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

(a) Exhibits

- 3.1 Third Amended and Restated By-laws of marchFIRST
- 10.1 Executive Employment Agreement between marchFIRST and Thomas R. Metz
- 10.2 Promissory note dated September 15, 2000 issued by marchFIRST in the principal amount of \$55,000,000 payable to American National Bank and Trust Company of Chicago; together with a Loan Agreement dated as of April 30, 2000 by and between American National Bank and Trust Company of Chicago and marchFIRST
- 27.1 Financial Data Schedule
- 27.2 Financial Data Schedule (restated)

(b) No reports on Form 8-K were filed during the three-month period ended September 30, 2000.

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**SIGNATURES**

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

marchFIRST, Inc.

Date: November 20, 2000

By: /s/ ROBERT F. BERNARD

Robert F. Bernard  
Chairman of the Board

Date: November 20, 2000

By: /s/ PETER F. MURPHY

Peter F. Murphy  
Chief Financial Officer and Treasurer

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SIGNATURES

# Exhibit C



AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
WHITTMAN-HART, INC.

WHITTMAN-HART, INC. (the "Corporation") was originally incorporated in the State of Delaware on December 19, 1991 under the name "Whitman-Hart Corporation II". The Corporation does hereby certify as follows:

**FIRST:** The name of the Corporation is WHITTMAN-HART, INC.

**SECOND:** The registered office of the Corporation in the State of Delaware shall be located at Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle. The name of its registered agent shall be The Corporation Trust Company.

**THIRD:** The Corporation shall engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

**FOURTH:** A. Authorized Shares. The total number of shares of all classes of stock which the Corporation shall have authority to issue is eighteen million two hundred thirty-nine thousand and nineteen (18,239,019), consisting of fifteen million (15,000,000) shares of Common Stock, \$.001 par value per share (the "Common Stock"), three million (3,000,000) shares of Preferred Stock, \$.001 par value per share (the "Preferred Stock"), and two hundred thirty-nine thousand and nineteen (239,019) shares of 10% Cumulative Convertible Preferred Stock, \$.001 par value per share (the "Redeemable Preferred Stock").

B. Redeemable Preferred Stock. The powers, preferences and rights and the qualifications, limitations and restrictions relating to the Redeemable Preferred Stock are as follows:

1. Dividends and Distributions.

(a) Each holder of record of Redeemable Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available therefor, cash dividends at the rate of 10% per annum from August 29, 1995 on the Stated Value (as hereinafter defined), and no more ("Redeemable Preferred Dividends"). The "Stated Value" means \$23.01 per share. Redeemable Preferred Dividends shall accrue on a daily basis, whether or not the Corporation shall have earnings or surplus at the time, and shall cumulate whether or not declared, until declared and paid, which declaration and payment may be for all or part of the then accumulated Redeemable Preferred Dividends; provided, however, that upon the conversion of any shares of Redeemable Preferred Stock into shares of Common Stock under Section 4 hereof, all Redeemable Preferred Dividends shall cease to accrue on such shares of Redeemable Preferred Stock and any accumulated and unpaid Redeemable Preferred

Dividends on such shares of Redeemable Preferred Stock converted shall cease to be accrued, shall not be paid and shall be canceled.

(b) In the event that all accumulated Redeemable Preferred Dividends on the Redeemable Preferred Stock have not been declared and paid or set apart for payment, the Corporation shall not declare or pay or set apart for payment any dividends or make any other distributions on, or make any payment on account of the purchase, redemption or other retirement of any other class of stock or series thereof of the Corporation ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding up of the Corporation, junior to the Redeemable Preferred Stock until all such accumulated Redeemable Preferred Dividends on the Redeemable Preferred Stock shall have been paid or declared and set apart for payment; provided, however, that the foregoing shall not apply to (i) any dividend payable solely in any shares of any stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding up of the Corporation, junior to the Redeemable Preferred Stock; (ii) the acquisition of shares of any stock ranking, as to dividends or as to distributions in the event of a liquidation, dissolution or winding up of the Corporation, junior to the Redeemable Preferred Stock either (A) pursuant to any employee incentive or benefit plan or arrangement (including any employment agreement or stock transfer restriction agreement with employees) of the Corporation or of any subsidiary of the Corporation heretofore or hereafter adopted; or (B) in exchange solely for shares of any other stock ranking, as to dividends and as to distributions in the event of a liquidation, dissolution or winding up of the Corporation, junior to the Redeemable Preferred Stock.

2. Voting Rights. In addition to the vote required by law, each holder of record of Redeemable Preferred Stock shall be entitled to the following voting rights:

(a) Each holder of record of Redeemable Preferred Stock shall be entitled to vote on all matters submitted to a vote of the stockholders of the Corporation, voting together with the holders of Common Stock as a single class. Each holder of record of each share of Redeemable Preferred Stock shall be entitled to that number of votes as is equal to the number of shares of Common Stock into which such share of Redeemable Preferred Stock could be converted on the record date for determining the stockholders entitled to vote, or if no record date is established, as of the date such vote or any written consent is solicited or executed.

(b) Without the approval of holders of at least a majority of the shares of the Redeemable Preferred Stock then outstanding, voting together as a class, the Corporation will not (A) issue any securities which will, with respect to dividend rights or rights on liquidation, winding up and dissolution, rank senior to, or on a parity with, the Redeemable Preferred Stock, or any obligation or security convertible into or evidencing the right to purchase any securities senior to, or on a parity with, the Redeemable Preferred Stock or which will provide for mandatory redemption prior to the redemption of the Redeemable Preferred Stock; or (B) alter, amend or repeal any provision of this Amended and Restated Certificate of Incorporation (including any such alteration, amendment or repeal effected by any merger or

consolidation), if such amendment, alteration or repeal would alter or change the powers, preferences or special rights with respect to the shares of Redeemable Preferred Stock in a manner adverse to the holders thereof; or (C) alter, amend or modify this section 2(b).

### 3. Liquidation Rights.

(a) Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, before any distribution or payment shall be made to the holders of any Preferred Stock or Common Stock, the holders of Redeemable Preferred Stock shall be entitled to be paid out of the assets of the Corporation an amount per share of Redeemable Preferred Stock equal to the sum of the Stated Value plus all accrued but unpaid Redeemable Preferred Dividends thereon (the "Liquidation Preference") and no more.

(b) A merger or consolidation of the Corporation with or into any other corporation, a merger or consolidation of any other corporation with or into the Corporation or a sale, lease, exchange or other transfer of all of or any portion of the assets of the Corporation, shall not be deemed to be a voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation for purposes of this Section 3, but the holders of Redeemable Preferred Stock shall nevertheless be entitled in the event of any such merger or consolidation to the rights provided by Section 4(f).

4. Conversion. The holders of the Redeemable Preferred Stock shall have the following rights and obligations with respect to the conversion of the Redeemable Preferred Stock into shares of Common Stock:

(a) Automatic Conversion into Common Stock. All Redeemable Preferred Stock shall automatically convert into Common Stock at the then applicable Conversion Price immediately prior to the closing of a sale of Common Stock pursuant to a registration statement declared effective by the Securities and Exchange Commission (the "Conversion Date"), if (i) the aggregate sale proceeds from such sale of Common Stock exceeds \$20 million and (ii) the price per share of Common Stock is (A) if such offering is consummated on or prior to December 31, 1996, at least \$8.75 (as appropriately adjusted for splits and combinations of Common Stock) or (B) if such offering is consummated after December 31, 1996, at least \$11.505 per share of Common Stock (as appropriately adjusted for splits and combinations of Common Stock).

(b) Optional Conversion into Common Stock. A holder of shares of Redeemable Preferred Stock shall be entitled, at any time (including at any time after a date scheduled for the redemption of such Redeemable Preferred Stock but before payment of the redemption price therefor), to convert any share or shares of Redeemable Preferred Stock into shares of Common Stock, computed by multiplying the number of such Redeemable Preferred Stock to be converted by \$5.7525 and dividing the result by the Conversion Price then in effect. Each conversion of Redeemable Preferred Stock will be deemed to have been effected as of the close of business on the date on which the holder of Redeemable Preferred Stock has

delivered a written notice requesting their conversion at the principal office of the Corporation, such delivery to be effective upon receipt (the "Optional Conversion Date"). On and after the Optional Conversion Date, the Person entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock into which such shares of Redeemable Preferred Stock have been converted. As soon as possible after the Optional Conversion Date (but in any event within five business days), the Corporation will deliver to the converting holder a notice confirming such conversion and a duly executed certificate evidencing the Common Stock into which the Redeemable Preferred Stock has been converted. The conversion of Redeemable Preferred Stock into Common Stock will be made without charge to the converting holder.

(c) Conversion Price. The initial Conversion Price shall be \$5.7525. In order to prevent dilution of the conversion rights granted, the Conversion Price shall be subject to adjustment from time to time. If at any time the Corporation issues or sells, or is deemed to have issued or sold, any Common Stock (other than Excluded Securities (as hereinafter defined)) ("Additional Stock") for a consideration per share less than the Conversion Price in effect immediately prior to the time of such issue or sale, then forthwith upon such issue or sale the Conversion Price shall be reduced, in order to increase the shares of Common Stock into which the Redeemable Preferred Stock is convertible, to that amount determined by multiplying such Conversion Price in effect immediately prior to such sale or issuance of Additional Stock by a fraction (i) the numerator of which shall be the shares of Common Stock outstanding immediately prior to such sale or issuance, plus the shares of Common Stock which the aggregate purchase price for such Additional Stock so sold or issued would purchase at the Conversion Price in effect immediately prior to such issuance and (ii) the denominator of which shall be the shares of Common Stock outstanding immediately prior to such sale or issuance plus the shares of Additional Stock so sold or issued.

(d) Anti-Dilution-Adjustments.

(i) Issuance of Rights or Options. If the Corporation in any manner grants any rights or options to subscribe for or to purchase Common Stock or any other securities convertible into or exchangeable for Common Stock (such rights or options being herein called "Options" and such convertible or exchangeable securities being herein called "Convertible Securities") and the price per share for which Common Stock is issuable upon the exercise of such options or upon conversion or exchange of such Convertible Securities is less than the Conversion Price in effect immediately prior to the time of the granting of such Options, then the total maximum shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such Options shall be deemed to be outstanding and to have been issued and sold by the Corporation for such price per share. For purposes of this paragraph, the "price per share for which shares are issuable" shall be determined by dividing (A) the total amount, if any, received or receivable by the Corporation as consideration for the granting of such Options, plus the minimum aggregate amount of additional consideration payable to the Corporation upon exercise of all such Options, plus in the case of such Options

which relate to Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the issuance or sale of such Convertible Securities and the conversion or exchange thereof, by (B) the total maximum shares of Common Stock issuable upon the exercise of all such Options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such Options. No further adjustment of the Conversion Price shall be made when Convertible Securities are actually issued upon the exercise of such Options or when shares are actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

(ii) Issuance of Convertible Securities. If the Corporation in any manner issues or sells any Convertible Securities and the price per share for which Common Stock is issuable upon such conversion or exchange is less than the Conversion Price in effect immediately prior to the time of such issue or sale, then the maximum shares of Common Stock issuable upon conversion or exchange of such Convertible Securities shall be deemed to be outstanding and to have been issued and sold by the Corporation for such price per share. For the purposes of this paragraph, the "price per share for which Common Stock is issuable" shall be determined by dividing (A) the total amount received or receivable by the Corporation as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration if any, payable to the Corporation upon the conversion or exchange thereof, by (B) the total maximum shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities. No further adjustment of the Conversion Price shall be made when shares are actually issued upon the conversion or exchange of such Convertible Securities, and if any such issue or sale of such Convertible Securities is made upon exercise of any Options for which adjustments of the Conversion Price had been or are to be made pursuant to other provisions, no further adjustment of the Conversion Price shall be made by reason of such issue or sale.

(iii) Change in Option Price or Conversion Price. If the purchase price provided for in any Options, the additional consideration, if any, payable upon the conversion or exchange of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock change at any time, and such change is not due solely to the operation of anti-dilution provisions similar in nature to those set forth in this Section 4(d), the Conversion Price in effect at the time of such change shall be readjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold.

(iv) Treatment of Expired Options and Unexercised Convertible Securities. Upon the expiration of any Option or the termination of any right to convert or exchange any Convertible Security without the exercise of any such Option or right, the Conversion Price then in effect hereunder shall be adjusted to the Conversion Price which would have been in effect at the time of such expiration or termination had such Option or

Convertible Security, to the extent outstanding immediately prior to such expiration or termination, never been issued.

(v) Calculation of Consideration Received. If any Additional Stock, Option or Convertible Security is issued or sold or deemed to have been issued or sold for cash, the consideration received therefor shall be deemed to be the net amount received by the Corporation therefor. In case any Additional Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of consideration other than cash received by the Corporation shall be the fair value of such consideration as determined by the unanimous decision of the Board of Directors. If any Additional Stock, Option or Convertible Security is issued in connection with any merger in which the Corporation is the surviving entity, the amount of consideration therefor shall be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such Additional Stock, Options or Convertible Securities, as the case may be, as reasonably determined by the Board of Directors.

(vi) Integrated Transactions. In case any Option is issued in connection with the issue or sale of other securities of the Corporation, together comprising one integrated transaction in which no specific consideration is allocated to such Option by the parties thereto, the Option shall be deemed to have been issued for the consideration determined by the unanimous decision of the Board of Directors.

(vii) Certain Exceptions. Anything herein to the contrary notwithstanding, no adjustment may be made to the Conversion Price by reason of (A) the issuance of Common Stock upon conversion of Redeemable Preferred Stock, (B) the issuance of Common Stock pursuant to the options and awards described in Section 5.5(a) (vii) of the Unit Contribution Agreement among the Corporation, Whittman-Hart, Ltd., Robert Bernard, F-WH Corporation and PVP-WH Corporation dated as of December 28, 1995, a copy of which will be provided to any stockholder who so requests, (C) the issuance of Employee Warrants, (D) the issuance of Common Stock upon exercise of Employee Warrants and (E) the issuance of Common Stock for which adjustments have been made in accordance with subparagraph (i) or (ii) of this Section 4(d) (the securities referred to in this subparagraph (vii) are herein referred to as the "Excluded Securities").

(e) Subdivision or Combination of Common Stock. If the Corporation at any time subdivides its outstanding Common Stock into a greater number or combines its outstanding Redeemable Preferred Stock into a lesser number, the Conversion Price in effect immediately prior to such subdivision or combination shall be proportionately reduced, and if the Corporation at any time combines its outstanding Common Stock into a lesser number or subdivides its outstanding Redeemable Preferred Stock into a larger number, the Conversion Price in effect immediately prior to such combination shall be proportionately increased.

(f) Reorganization, Reclassification, Consolidation, Merger or Sale. Any capital reorganization, reclassification, consolidation, merger or sale of all or

substantially all of the Corporation's assets to another Person which is effected in such a way that holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock is referred to herein as an "Organic Change." Prior to the consummation of any Organic Change, the Corporation shall make appropriate provisions (in form and substance satisfactory to the holders of a majority of the Redeemable Preferred Stock) to insure that each of the holders of Redeemable Preferred Stock shall thereafter have the right to acquire and receive, in lieu of or in addition to the Common Stock immediately theretofore acquirable and receivable upon the conversion of such holder's Redeemable Preferred Stock, such shares of stock, securities or assets as such holder would have received in connection with such Organic Change if such holder had converted its Redeemable Preferred Stock immediately prior to such Organic Change. In any such case, the Corporation shall make appropriate provisions (in form and substance satisfactory to the holders of a majority of the Redeemable Preferred Stock then outstanding) to insure that the provisions of this Section shall thereafter be applicable to the Redeemable Preferred Stock (including, in the case of any such consolidation, merger or sale in which the successor or purchasing entity is other than the Corporation, an immediate adjustment of the Conversion Price in accordance with Section 4(c) based upon the value for the Common Stock reflected by the terms of such consolidation, merger or sale, and a corresponding immediate adjustment in the number of shares of Common Stock acquirable and receivable upon conversion of Redeemable Preferred Stock, if the value so reflected is less than the Conversion Price in effect immediately prior to such consolidation, merger or sale). The Corporation shall not effect any such consolidation, merger or sale, unless prior to the consummation thereof, the successor entity (if other than the Corporation) resulting from consolidation or merger or the entity purchasing such assets assumes by written instrument (in form reasonably satisfactory to the holders of a majority of the Redeemable Preferred Stock then outstanding), the obligation to deliver to each such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to acquire.

(g) Notices. Immediately upon any adjustment of the Conversion Price, the Corporation shall give written notice thereof to all holders of Redeemable Preferred Stock. The Corporation shall give written notice to all holders of Redeemable Preferred Stock as soon as possible but in any event at least 10 days prior to the date on which the Corporation (i) makes any distribution solely upon Common Stock, or (ii) makes any pro rata subscription offer solely to holders of Common Stock. The Corporation shall also give written notice to the holders of Redeemable Preferred Stock as soon as possible but in any event at least 10 days prior to the date on which any Organic Change is intended to take place.

## 5. Redemption.

(a) A holder of Redeemable Preferred Stock may elect, by written notice delivered to the Corporation, to require the Corporation to redeem all (but not less than all) of the Redeemable Preferred Stock then held by such holder. Such election may be made at any time after the earlier of (i) the date on which a Change in Control (as hereinafter defined) occurs, (ii) the occurrence of an Event of Noncompliance as defined in the Unit

Contribution Agreement among the Corporation, Whitman-Hart, Ltd., Robert Bernard, F-WH Corporation and PVP-WH Corporation dated as of December 28, 1995, a copy of which will be provided to any stockholder who so requests, or (iii) July 31, 2000. In the event that the holder of Redeemable Preferred Stock makes an election under this subsection, the Corporation shall redeem the Redeemable Preferred Stock held by such holder on a date mutually agreed to by the Board of Directors and the holder of the Redeemable Preferred Stock, but in any event not later than sixty days after the delivery of the aforesaid notice. The redemption price for each share of Redeemable Preferred Stock redeemed shall be an amount equal to the Liquidation Preference with respect to such Redeemable Preferred Stock. "Change in Control" means (i) the acquisition by any Person(s) (as hereinafter defined), other than Robert Bernard, of the right, by virtue of ownership of voting securities of the Corporation or otherwise, to elect or designate a majority of the members of the Board of Directors, (ii) the approval by stockholders of the Corporation of an agreement to merge or consolidate with another corporation, unless following the consummation of such merger or consolidation Robert Bernard continues to have the right, by virtue of his ownership of voting securities or otherwise, to elect or designate a majority of the members of the Board of Directors of the surviving corporation, or (c) the sale, in one or more transactions, of an aggregate of 400,000 or more shares of Common Stock. "Person" means any natural person, corporation, firm, joint venture, limited liability company, partnership, trust, unincorporated association, government or any department or agency of government.

(b) At any time after July 31, 2002, the Board of Directors may elect, by written notice delivered to any holder of Redeemable Preferred Stock then outstanding, to cause the Corporation to redeem all (but not less than all) the Redeemable Preferred Stock then held by such holder. In the event that the Board of Directors causes the Corporation to make an election under this subsection, the Corporation shall redeem the Redeemable Preferred Stock held by such holder on a date mutually agreed to by the Board of Directors and the holder of the Redeemable Preferred Stock, but in any event not later than five business days after the delivery of the aforesaid notice. The redemption price for each share of Redeemable Preferred Stock redeemed shall be the Stated Value.

(c) In the event that the Redeemable Preferred Stock of any holder is required to be redeemed as a result of an election under subsection (a) or subsection (b), the Board of Directors shall cause a notice to be delivered to all the stockholders, which notice shall disclose the required redemption and the date on which the redemption is required to be effected (the "Redemption Date"). Such notice shall be given not later than 20 days prior to the Redemption Date. On the redemption date, the Corporation shall pay to each stockholder whose Redeemable Preferred Stock is required to be redeemed on such date, by wire transfer of immediately available funds, an amount equal to one-third of the aggregate redemption price owing to such holder on such date (determined in accordance with subsection (a) or subsection (b), whichever applies). The remainder of the redemption price shall be payable by the Corporation in two equal installments on the first and second anniversaries of the Redemption Date, together with interest at the rate of 10% per annum. The Corporation may, at its option, prepay, in whole or in part, the redemption price at any time after the Redemption Date.



Prepayments shall be applied first to accrued interest on that portion of the redemption price being prepaid and the remainder to the prepayment of the redemption price.

6. Reissuance Following Conversion Prohibited. The reissuance of shares of Redeemable Preferred Stock following their conversion into Common Stock is prohibited, and upon the filing of a certificate stating that such reissuance is prohibited and reciting the retirement of such shares, all reference to such shares in this Amended and Restated Certificate of Incorporation shall be eliminated.

C. Preferred Stock. The Board of Directors is authorized, subject to any limitations prescribed by law, to provide for the issuance of shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware (such certificate being hereinafter referred to as a "Preferred Stock Designation"), to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the Common Stock, without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such holders is required pursuant to the terms of any Preferred Stock Designation.

D. Common Stock. Except as otherwise provided by the General Corporation Law of the State of Delaware, by this Amended and Restated Certificate of Incorporation or any amendments thereto or by a Preferred Stock Designation, all of the voting power of the Corporation shall be vested in the holders of the Common Stock, and each holder of Common Stock shall have one (1) vote for each share of Common Stock held by such holder on all matters voted upon by the stockholders.

FIFTH: In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized and empowered, in the manner provided in the By-Laws of the Corporation, to make, alter, amend and repeal the By-Laws of the Corporation in any respect not inconsistent with the laws of the State of Delaware or with this Amended and Restated Certificate of Incorporation.

In addition to the powers and authorities hereinbefore or by statute expressly conferred upon it, the Board of Directors may exercise all such powers and do all such acts as may be done by the Corporation, subject, nevertheless, to the provisions of the laws of the State of Delaware, this Amended and Restated Certificate of Incorporation and the By-Laws of the Corporation.

SIXTH: Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them, and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof, or

on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code, or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manners as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation as the case may be, and also on this Corporation.

**SEVENTH:** The books of the Corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-Laws of the Corporation. Election of directors need not be by ballot unless the By-Laws of the Corporation shall so provide. Meetings of stockholders may be held within or outside of the State of Delaware, as the By-Laws of the Corporation may provide.

**EIGHTH:** A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, as the same exists or hereafter may be amended, or (iv) for any transaction from which the director derived an improper personal benefit.

If the Delaware General Corporation Law hereafter is amended to authorize the further elimination or limitation of the liability of directors, then the liability of directors shall be eliminated or limited to the full extent authorized by the General Corporation Law of the State of Delaware, as so amended.

Any repeal or modification of this Article shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

**NINTH:** A. Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the number of directors shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the Whole Board. For purposes of this Amended and Restated Certificate of Incorporation, the term "Whole Board" shall mean the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships. The directors, other than those who may be elected by the holders of any series of Preferred Stock under specified

circumstances, shall be divided into three (3) classes, with the term of office of the first class to expire at the Corporation's 1997 annual meeting of stockholders, the term of office of the second class to expire at the Corporation's 1998 annual meeting of stockholders and the term of office of the third class to expire at the Corporation's 1999 annual meeting of stockholders. At each annual meeting of stockholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election.

B. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause shall, unless otherwise provided by law or by resolution of the Board of Directors, be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been chosen expires. No decrease in the authorized number of directors shall shorten the term of any incumbent director.

C. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner provided in the by-laws of the Corporation.

D. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any directors, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least sixty-six percent (66%) of the voting power of all of the then-outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

**TENTH: Indemnification of Directors and Officers.**

A. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or an officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation

to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith; provided, however, that, except as provided in Section C of this ARTICLE TENTH with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

B. Right to Advancement of Expenses. The right to indemnification conferred in Section A of this ARTICLE TENTH shall include the right to be paid by the Corporation the expenses (including attorneys' fees) incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if the Delaware General Corporation Law requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section B or otherwise. The rights to indemnification and to the advancement of expenses conferred in Sections A and B of this ARTICLE TENTH shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators.

C. Right of Indemnitee to Bring Suit. If a claim under Section A or B of this ARTICLE TENTH is not paid in full by the corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the Delaware General Corporation Law. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders)

and integrates and further amends the provisions of the Corporation's Certificate of Incorporation, has been duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, WHITTMAN-HART, INC. has caused this certificate to be executed by its Vice President this 30<sup>th</sup> day of April, 1996.

WHITTMAN-HART, INC.

By: 

Edward V. Szofel, Vice President