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NEW CENTURY EQUITY HOLDINGS CORP
Form 10-K/A
April 12, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

/X/ AMENDMENT NO. 2 TO ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year 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: 0-28536

NEW CENTURY EQUITY HOLDINGS CORP.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE
(State of Incorporation)

74-2781950
(I.R.S. Employer
Identification No.)

10101 REUNION PLACE, SUITE 450, SAN ANTONIO, TEXAS
(Address of Principal Executive Office)

78216
(Zip Code)

(210) 302-0444
(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act: NONE

Securities Registered Pursuant to Section 12(g) of the Act:
COMMON STOCK, PAR VALUE \$0.01 PER SHARE
(Title of Class)

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

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

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The aggregate market value of the Registrant's outstanding Common Stock held by non-affiliates of the Registrant as of December 15, 2000 was approximately \$96,456,833. There were 36,745,460 shares of the Registrant's Common Stock outstanding as of December 15, 2000.

DOCUMENTS INCORPORATED BY REFERENCE None

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) DOCUMENTS FILED AS PART OF REPORT

1. Financial Statements:

The Consolidated Financial Statements of the Company and the related report of the Company's independent public accountants thereon have been filed under Item 8 hereof.

Audited Financial Statements of Princeton eCom Corporation.

2. Financial Statement Schedules:

The information required by this item is not applicable.

3. Exhibits:

The exhibits listed below are filed as part of or incorporated by reference in this report. Where such filing is made by incorporation by reference to a previously filed document, such document is identified in parentheses. See the Index of Exhibits included with the exhibits filed as a part of this report.

| EXHIBIT NUMBER ----- | DESCRIPTION OF EXHIBITS ----- |
|----------------------------|---|
| 2.1 | - Plan of Merger and Acquisition Agreement among BCC, CRM Acquisition Corp., Computer Resources Management, Inc., and Michael A. Harrelson dated effective June 1, 1997 (incorporated by reference from Exhibit 2.1 to June 30, 1997, Form 10-Q) |
| 2.2 | - Stock Purchase Agreement between Princeton TeleCom Corporation and BCC dated September 4, 1998 (incorporated by reference from Exhibit 2.2 to September 30, 1998, Form 10-K) |
| 2.3 | - Stock Purchase Agreement dated February 21, 2000, by and between BCC and Princeton eCom Corporation (incorporated by reference from Exhibit 2.1 to Current Report on Form 8-K dated March 16, 2000) |
| 3.1 | - Amended and Restated Certificate of Incorporation of BCC (incorporated by reference from Exhibit 3.1 to the Amendment No. 1 to the Company's Registration Statement on Form 10/A dated July 11, 1996), as amended by Certificate of Amendment to Certificate of Incorporation, amending Article I to change the name of the Company |

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- to Billing Concepts Corp. and amending Article IV to increase the number of authorized shares of common stock from 60,000,000 to 75,000,000, filed with the Delaware Secretary of State on February 27, 1998 (incorporated by reference from Exhibit 3.4 to March 31, 1998, Form 10-Q)
- 3.2 - Certificate of Designation of Series A Junior Participating Preferred Stock (incorporated by reference from Exhibit 3.2 to the Amendment No. 1 to BCC's Registration Statement on Form 10/A dated July 11, 1996)
 - 3.3 - Amended and Restated Bylaws of BCC (incorporated by reference from Exhibit 3.3 to September 30, 1998, Form 10-K)
 - 4.1 - Form of Stock Certificate of Common Stock of BCC (incorporated by reference from Exhibit 4.1 to March 31, 1998, Form 10-Q)
 - 10.1 - BCC's 1996 Employee Comprehensive Stock Plan, amended as of August 31, 1999 (incorporated by reference from Exhibit 10.8 to September 30, 1999, Form 10-K)

 - 10.2 - Form of Option Agreement between BCC and its employees under the 1996 Employee Comprehensive Stock Plan (incorporated by reference from Exhibit 10.9 to September 30, 1998, Form 10-K)
 - 10.3 - Amended and Restated 1996 Non-Employee Director Plan of BCC, amended as of August 31, 1999 (incorporated by reference from Exhibit 10.10 to September 30, 1999, Form 10-K)
 - 10.4 - Form of Option Agreement between BCC and non-employee directors (incorporated by reference from Exhibit 10.11 to September 30, 1998, Form 10-K)
 - 10.5 - BCC's 1996 Employee Stock Purchase Plan, amended as of January 30, 1998 (incorporated by reference from Exhibit 10.12 to September 30, 1998, Form 10-K)
 - 10.6 - BCC's Executive Compensation Deferral Plan (incorporated by reference from Exhibit 10.12 to the Post Effective Amendment No. 2 to the Company's Registration Statement on Form 10/A dated August 1, 1996)
 - 10.7 - BCC's Executive Qualified Disability Plan (incorporated by reference from Exhibit 10.14 to the Amendment No. 1 to the Company's Registration Statement on Form 10/A dated July 11, 1996)
 - 10.8 - Office Building Lease Agreement dated July 12, 1996 between Medical Plaza Partners, Ltd. and Billing Concepts, Inc. (incorporated by reference from Exhibit 10.21 to the Post Effective Amendment No. 1 to the Company's Registration Statement on Form 10/A dated July 22, 1996), as amended by First Amendment to Lease Agreement dated September 30, 1996 (incorporated by reference from Exhibit 10.31 to March 31, 1998, Form 10-Q), Second Amendment to Lease Agreement dated November 8, 1996 (incorporated by reference from Exhibit 10.32 to March 31, 1998, Form 10-Q), and Third Amendment to Lease Agreement dated January 24, 1997 (incorporated by reference from Exhibit 10.33 to March 31, 1998, Form 10-Q)
 - 10.9 - Put Option Agreement between BCC and Michael A. Harrelson dated effective June 1, 1997 (incorporated by reference from Exhibit 10.1 to June 30, 1997, Form 10-Q)
 - 10.10 - Employment Agreement dated January 15, 1999, between BCC and W. Audie Long, as amended (incorporated by reference from Exhibit 10.10 to September 30, 2000, Form 10-K)
 - 10.11 - Amended and Restated Employment Agreement dated January 25, 1999, between BCC and Parris H. Holmes, Jr., as amended (incorporated by reference from Exhibit 10.11 to September 30, 2000, Form 10-K)
 - 10.12 - Employment Agreement dated August 30, 1999, between BCC and David P. Tusa (incorporated by reference from Exhibit 10.12 to September 30,

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- 2000, Form 10-K)
- 10.13 - Office Building Lease Agreement dated November 11, 1999 between Prentiss Properties Acquisition Partners, L.P. and Aptis, Inc. (incorporated by reference from Exhibit 10.33 to September 30, 1999, Form 10-K)
 - 10.14 - BCC's 401(k) Retirement Plan (incorporated by reference from Exhibit 10.14 to September 30, 2000, Form 10-K)
 - 10.15 - Agreement and Plan of Merger, dated as of September 15, 2000, among BCC, Billing Concepts, Inc., Enhanced Services Billing, Inc., BC Transaction Processing Services, Inc., Aptis, Inc., Operator Service Company, BC Holding I Corporation, BC Holding II Corporation, BC Holding III Corporation, BC Acquisition I Corporation, BC Acquisition II Corporation, BC Acquisition III Corporation and BC Acquisition IV Corporation (incorporated by reference from Exhibit 2.1 to Current Report on Form 8-K dated September 15, 2000)
 - 21.1 List of Subsidiaries (incorporated by reference from Exhibit 21.1 to September 30, 2000, Form 10-K)
 - 23.1 - Consent of Arthur Andersen LLP (incorporated by reference from Exhibit 23.1 to September 30, 2000, Form 10-K)
-
- 27.1 - Financial Data Schedule (incorporated by reference from Exhibit 27.1 to September 30, 2000, Form 10-K)

(b) REPORTS ON FORM 8-K

Form 8-K dated September 15, 2000, announcing the agreement to sell Billing Concepts, Inc., Enhanced Services Billing, Inc., BC Transaction Processing Services, Inc., Aptis, Inc. and Operator Service Company to Platinum Equity Holdings.

SIGNATURE

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

NEW CENTURY EQUITY HOLDINGS CORP.
(Registrant)

Date: April 12, 2001

By: /s/ DAVID P. TUSA

David P. Tusa
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

(Duly authorized and principal financial officer)

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Princeton eCom Corporation:

We have audited the accompanying consolidated balance sheets of Princeton eCom Corporation (a Delaware corporation) and subsidiary, formerly Princeton TeleCom Corporation, as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Princeton eCom Corporation and subsidiary as of December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Philadelphia, Pennsylvania
March 20, 2001 (except with respect to the matter
discussed in Note 1, as to which
the date is April 12, 2001)

PRINCETON ECOM CORPORATION

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

For the years ended December 31, 1998, 1999 and 2000.....

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 1998, 1999 and 2000.....

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000.....

PRINCETON ECOM CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1999 AND 2000

| | 1999 | 2000 |
|---|---------------|--------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 2,243,310 | \$ 24, |
| Accounts receivable, net of allowance of \$59,625 and \$110,625 | 1,246,990 | 3, |
| Prepaid expenses and other | 1,242,561 | 2, |
| | ----- | ----- |
| Total current assets | 4,732,861 | 30, |
| PROPERTY AND EQUIPMENT, NET | 8,517,858 | 12, |
| OTHER ASSETS | 570,204 | |
| SOFTWARE LICENSE | 1,000,000 | |
| | ----- | ----- |
| | \$ 14,820,923 | \$ 44, |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Bank overdraft | \$ 8,228,518 | \$ |
| Customer deposits payable | 11,022,120 | 11, |
| Current portion of capital lease obligations | 33,821 | |
| Deferred revenue | -- | |
| Accounts payable | 1,665,694 | 3, |
| Accrued expenses | 2,691,188 | 2, |
| | ----- | ----- |
| Total current liabilities | 23,641,341 | 17, |
| DEFERRED RENT | -- | |

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| | | |
|---|---------------|--------|
| DEFERRED REVENUE | -- | |
| CAPITAL LEASE OBLIGATIONS | 15,793 | |
| OTHER LIABILITIES | 185,014 | |
| Total liabilities | 23,842,148 | 18, |
| SERIES A MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK | -- | 24, |
| SERIES B MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK | -- | 2, |
| SERIES C MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK | -- | 33, |
| COMMITMENTS AND CONTINGENCIES (NOTE 8) | | |
| STOCKHOLDERS' DEFICIT: | | |
| Preferred stock, \$.01 par value, 15,000,000 shares authorized | -- | |
| Common stock, \$.01 par value, 100,000,000 shares authorized, 11,364,002 and 11,839,340 shares issued and outstanding | 113,640 | |
| Additional paid-in capital | 15,705,915 | 33, |
| Common stock warrants | -- | 2, |
| Accumulated deficit | (23,468,896) | (67, |
| Subscriptions receivable | (94,703) | |
| Deferred compensation | (1,277,181) | (1, |
| Total stockholders' deficit | (9,021,225) | (33, |
| | \$ 14,820,923 | \$ 44, |

The accompanying notes are an integral part of these consolidated financial statements.

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PRINCETON ECOM CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000

| | 1998 | 1999 | 2000 |
|--|--------------|--------------|--------------|
| REVENUES: | | | |
| Payment and presentment transaction fees | \$ 2,385,587 | \$ 3,686,663 | \$ 9,499,000 |
| Implementation and other professional service fees | -- | 158,000 | 1,260,000 |
| Interest | 1,436,448 | 1,465,857 | 2,300,000 |
| Total revenues | 3,822,035 | 5,310,520 | 13,059,000 |

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| | | | |
|--|----------------|-----------------|------------|
| OPERATING EXPENSES: | | | |
| Cost of services: | | | |
| Cost of payment and presentment transactions | 1,966,956 | 3,537,914 | 8,52 |
| Cost of implementation and other professional services | -- | 151,680 | 1,94 |
| Development costs | 895,152 | 3,393,865 | 3,48 |
| Selling, general and administrative: | | | |
| Other selling, general and administrative | 3,282,669 | 8,536,788 | 22,98 |
| Financing related costs | -- | 970,038 | 1,31 |
| Noncash commissions related to warrants | -- | -- | 2,71 |
| Amortization of deferred compensation, net | 1,017,744 | 1,285,792 | 2,20 |
| Total operating expenses | 7,162,521 | 17,876,077 | 43,17 |
| OPERATING LOSS | (3,340,486) | (12,565,557) | (30,11) |
| INTEREST INCOME | -- | -- | (52) |
| INTEREST EXPENSE | 14,150 | 9,510 | 11 |
| AMORTIZATION OF ORIGINAL ISSUANCE DISCOUNT | -- | -- | 32 |
| Net loss | (3,354,636) | (12,575,067) | (30,02) |
| Accretion of preferred stock | -- | -- | 10 |
| Preferred stock dividends | -- | -- | 1,02 |
| Beneficial conversion feature treated as a dividend | -- | -- | 12,93 |
| Net loss applicable to common stockholders | \$ (3,354,636) | \$ (12,575,067) | \$ (44,08) |
| BASIC AND DILUTED NET LOSS APPLICABLE TO COMMON STOCKHOLDERS PER SHARE | \$ (.36) | \$ (1.11) | \$ |
| SHARES USED IN COMPUTING, BASIC AND DILUTED NET LOSS APPLICABLE TO COMMON STOCKHOLDERS PER SHARE | 9,423,068 | 11,292,223 | 11,6 |

The accompanying notes are an integral part of these consolidated financial statements.

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PRINCETON ECOM CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000

| | COMMON STOCK | | ADDITIONAL | COMMON | |
|----------------------------|--------------|-----------|-----------------|----------------|------|
| | SHARES | AMOUNT | PAID-IN CAPITAL | STOCK WARRANTS | AC |
| BALANCE, DECEMBER 31, 1997 | 8,614,806 | \$ 86,148 | \$ 334,366 | \$ -- | \$ (|
| Sale of common stock | 2,493,870 | 24,939 | 9,975,061 | -- | |
| Exercise of stock options | 10,950 | 109 | 256 | -- | |

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| | | | | | |
|--|-------------------|------------------|---------------------|--------------------|--------------|
| Deferred compensation resulting from grant of options | -- | -- | 1,884,500 | -- | |
| Amortization of deferred compensation | -- | -- | -- | -- | |
| Net loss | -- | -- | -- | -- | (|
| BALANCE, DECEMBER 31, 1998 | 11,119,626 | 111,196 | 12,194,183 | -- | (1 |
| Sale of common stock | 134,376 | 1,344 | 537,504 | -- | |
| Exercise of stock options | 110,000 | 1,100 | 2,567 | -- | |
| Deferred compensation resulting from grant of options | -- | -- | 1,819,467 | -- | |
| Compensation resulting from nonemployee option grants | -- | -- | 307,694 | -- | |
| Compensation resulting from options granted in connection with terminated employee | -- | -- | 567,750 | -- | |
| Sale of common stock by majority stockholder | -- | -- | 400,000 | -- | |
| Amortization of deferred compensation, net of forfeitures | -- | -- | (123,250) | -- | |
| Repayment of subscription receivable | -- | -- | -- | -- | |
| Net loss | -- | -- | -- | -- | (1 |
| BALANCE, DECEMBER 31, 1999 | 11,364,002 | 113,640 | 15,705,915 | -- | (2 |
| Sale of common stock | 150,000 | 1,500 | 973,500 | -- | |
| Exercise of stock options | 325,338 | 3,253 | 31,675 | -- | |
| Compensation resulting from nonemployee option grants | -- | -- | 132,959 | -- | |
| Deferred compensation resulting from grant of options | -- | -- | 2,439,476 | -- | |
| Amortization of deferred compensation | -- | -- | -- | -- | |
| Issuance of common stock warrant | -- | -- | -- | 2,114,431 | |
| Noncash commissions relating to warrants | -- | -- | 2,718,518 | -- | |
| Accretion of preferred stock redemption value | -- | -- | -- | -- | |
| Cumulative preferred stock dividends | -- | -- | -- | -- | (|
| Beneficial conversion feature on preferred stock | -- | -- | 11,146,223 | -- | |
| Beneficial conversion feature treated as a dividend | -- | -- | -- | -- | (1 |
| Repayment of subscription receivable | -- | -- | -- | -- | |
| Net loss | -- | -- | -- | -- | (3 |
| BALANCE, DECEMBER 31, 2000 | 11,839,340 | \$118,393 | \$33,148,266 | \$2,114,431 | \$ (6 |

| | DEFERRED COMPENSATION | TOTAL |
|---|--------------------------|----------------|
| | ----- | ----- |
| BALANCE, DECEMBER 31, 1997 | | |
| Sale of common stock | \$ -- | \$ (7,385,186) |
| Exercise of stock options | -- | 10,000,000 |
| Deferred compensation resulting from grant of options | (1,884,500) | 365 |
| Amortization of deferred compensation | 1,017,744 | -- |
| Net loss | -- | (3,354,636) |
| BALANCE, DECEMBER 31, 1998 | (866,756) | 278,287 |
| Sale of common stock | -- | 538,848 |
| Exercise of stock options | -- | 3,667 |
| Deferred compensation resulting from grant of options | (1,819,467) | -- |

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| | | |
|--|-------------|----------------|
| Compensation resulting from nonemployee option grants | -- | 307,694 |
| Compensation resulting from options granted in connection with terminated employee | -- | 567,750 |
| Sale of common stock by majority stockholder | -- | 400,000 |
| Amortization of deferred compensation, net of forfeitures | 1,409,042 | 1,285,792 |
| Repayment of subscription receivable | -- | 171,804 |
| Net loss | -- | (12,575,067) |
| | ----- | ----- |
| BALANCE, DECEMBER 31, 1999 | (1,277,181) | (9,021,225) |
| Sale of common stock | -- | 975,000 |
| Exercise of stock options | -- | 34,928 |
| Compensation resulting from nonemployee option grants | -- | 132,959 |
| Deferred compensation resulting from grant of options | (2,439,476) | -- |
| Amortization of deferred compensation | 2,201,701 | 2,201,701 |
| Issuance of common stock warrant | -- | 2,114,431 |
| Noncash commissions relating to warrants | -- | 2,718,518 |
| Accretion of preferred stock redemption value | -- | (100,227) |
| Cumulative preferred stock dividends | -- | (1,020,000) |
| Beneficial conversion feature on preferred stock | -- | 11,146,223 |
| Beneficial conversion feature treated as a dividend | -- | (12,937,192) |
| Repayment of subscription receivable | -- | 94,703 |
| Net loss | -- | (30,022,692) |
| | ----- | ----- |
| BALANCE, DECEMBER 31, 2000 | (1,514,956) | \$(33,682,873) |
| | ===== | ===== |

The accompanying notes are an integral part of these consolidated financial statements.

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PRINCETON ECOM CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000

| | 1998 | 1999 | 2000 |
|---|----------------|-----------------|-----------------|
| | ----- | ----- | ----- |
| OPERATING ACTIVITIES: | | | |
| Net loss | \$ (3,354,636) | \$ (12,575,067) | \$ (30,022,692) |
| Adjustments to reconcile net loss to net cash used in operating activities- | | | |
| Depreciation and amortization | 276,791 | 547,933 | 2,408,835 |
| Noncash compensation expense | -- | 875,444 | 132,959 |
| Amortization of lease guaranty | -- | -- | 40,000 |
| Amortization of original issuance | | | |

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| | | | |
|---|--------------|--------------|---------------|
| discount | -- | -- | 323,462 |
| Amortization of deferred compensation, net | 1,017,744 | 1,285,792 | 2,201,701 |
| Noncash commissions relating to warrants | -- | -- | 2,718,518 |
| Provision for bad debts | 15,500 | 34,317 | 51,000 |
| Loss on disposal of assets | 10,664 | 11,195 | 80,380 |
| Changes in operating assets and liabilities- | | | |
| Accounts receivable | (46,032) | (643,704) | (2,535,774) |
| Prepaid expenses and other assets | (1,376,535) | 109,195 | (1,467,766) |
| Customer deposits payable | (317,383) | 3,570,087 | 213,014 |
| Deferred revenue | -- | -- | 764,511 |
| Accounts payable | 291,411 | 1,163,044 | 1,822,099 |
| Accrued expenses | 76,372 | 1,255,275 | 558,257 |
| Deferred rent | -- | -- | 125,946 |
| Other liabilities | 8,800 | (11,397) | -- |
| NET CASH USED IN OPERATING ACTIVITIES | (3,397,304) | (4,377,886) | (22,585,550) |
| INVESTING ACTIVITIES: | | | |
| Purchases of property and equipment | (257,327) | (8,254,844) | (6,608,971) |
| Purchase of software license | -- | -- | (1,000,000) |
| NET CASH USED IN INVESTING ACTIVITIES | (257,327) | (8,254,844) | (7,608,971) |
| FINANCING ACTIVITIES: | | | |
| (Decrease)/increase in bank overdraft | (443,739) | 7,828,709 | (8,228,518) |
| Proceeds from convertible note and warrant | -- | -- | 5,000,000 |
| Proceeds from sale of preferred stock, net | -- | -- | 54,413,600 |
| Payments on capital leases | (44,386) | (29,441) | (33,821) |
| Proceeds from sale of common stock | 10,000,000 | 538,848 | 975,000 |
| Proceeds from repayment of subscription receivable | -- | 171,804 | 94,703 |
| Proceeds from exercise of stock options | 365 | 3,667 | 34,928 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 9,512,240 | 8,513,587 | 52,255,892 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 5,857,609 | (4,119,143) | 22,061,371 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 504,844 | 6,362,453 | 2,243,310 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 6,362,453 | \$ 2,243,310 | \$ 24,304,681 |

The accompanying notes are an integral part of these consolidated financial statements.

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DECEMBER 31, 2000

1. BACKGROUND, LIQUIDITY AND BASIS OF PRESENTATION:

On January 25, 1984, Princeton eCom Corporation (the Company) was incorporated in the State of Delaware as Princeton TeleCom Corporation. In March 1999, the Company changed its name to Princeton eCom Corporation. The Company, which operates in one business segment, is a provider of comprehensive electronic bill presentment and payment services to financial institutions and large businesses who generate a significant number of recurring bills. The Company's current customers consist primarily of financial institutions, utilities, telephone companies, cable companies, credit card companies, mortgage companies and an international package delivery company (billers).

The Company has incurred significant operating losses and expects to incur significant operating losses on a quarterly and annual basis for the foreseeable future. As of December 31, 2000, the Company had an accumulated deficit of \$67,549,007 and during 2000 the Company incurred a net loss of \$30,022,692. Since its inception, the Company has incurred costs to develop and enhance its technology, establish marketing and customer relationships and build its capital infrastructure and administrative organization. Management believes that substantial additional financing will be required for the Company to fund its operations and continue to execute its strategy. On April 12, 2001, the Company issued \$20,000,000 in bridge notes to two existing stockholders. There can be no assurance that additional financing will be obtained in the future. Management believes that its current cash and cash equivalents and the funds received under the bridge note will be sufficient to fund its operations during 2001.

The Company currently intends to substantially increase its operating expenses to further develop its business. To the extent that significant increased revenues are not realized, the Company's business, results of operations and financial condition will be materially and adversely affected. In addition, the Company's business model is unproven and evolving and is subject to possible changing governmental regulations (see Note 5). The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

2. SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Princeton eCom Corporation and its subsidiary. All material intercompany balances and transactions have been eliminated.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

Payment and presentment fee revenues primarily consist of transaction fees charged to billers and financial institutions based on contractual rates. Transaction fees are recognized as the services are performed. Professional

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service fees consist of professional consulting services provided to customers on a time and materials basis. Revenues from professional consulting services are recognized as the services are performed. Fees earned for implementation services are deferred and recognized as revenue over the term of the ongoing transaction service period. Interest on the overnight investment of funds received from consumers pending payment processing is recorded as revenue as earned.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 provides guidance on a variety of revenue recognition matters and required adoption no later than the fourth quarter of 2000. Since the Company's accounting policies are consistent with the provisions of SAB 101, the provisions of SAB 101 did not have an impact on the financial statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and funds received from consumers pending payment processing. The Company maintains cash and cash equivalents with various major financial institutions.

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At times such amounts may exceed the FDIC limits. The Company limits the amount of credit exposure with any one financial institution and management believes that no significant concentration of credit risk exists with respect to cash investments.

PREPAID EXPENSES AND OTHER

At December 31, 1999 and 2000, prepaid expenses and other included \$511,829 and \$1,346,278, respectively, for payments made to billers where consumers' bank accounts had insufficient balances at the time of collection. Management believes that these amounts are fully realizable assets because contractual agreements stipulate that the Company's customers are obligated to reimburse the Company for such payments.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Property and equipment capitalized under capital leases are recorded at the present value of the minimum lease payments due over the term of the lease. Depreciation and amortization are provided using the straight-line method over the estimated useful lives or the lease term, whichever is shorter. Expenditures for maintenance, repairs and betterments that do not prolong the useful life of an asset have been charged to operations as incurred. Additions and betterments that substantially extend the useful life of the asset are capitalized. Upon sale or other disposition of assets, the cost and related accumulated depreciation and amortization are removed from the respective accounts, and the resulting gain or loss, if any, is included in operating results.

LONG-LIVED ASSETS

The Company reviews its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When factors indicate that such assets should

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be evaluated for possible impairment, the Company uses an estimate of the related future undiscounted cash flows in measuring whether the asset should be written down to fair value. As of December 31, 2000, management believes that there are no impairment losses or needed revisions to remaining useful lives.

OTHER ASSETS

In December 1999, the Company entered into a lease for their primary operating facility. In order to induce an existing shareholder, New Century Equity Holdings Corp. (formerly Billing Concepts Corp.), (NCEH) to guarantee the lease, the Company's then Chief Executive Officer sold NCEH 150,000 shares of Common stock from his personal account at \$5.33 per share, which was below the then estimated fair market value of \$8.00 per share. The in-the-money value of the common stock sold to NCEH of \$400,000 has been recorded as a deferred asset with a corresponding credit to additional paid-in capital. The deferred asset is being amortized to rent expense over the ten-year lease term. In 2000, the Company recognized \$40,000 of rent expense related to this deferred asset. The guaranty will automatically terminate upon an initial public offering, as defined, at which time any unamortized balance will be recognized as a charge to operations.

SOFTWARE LICENSE

On October 19, 1999, the Company entered into an agreement with Bottomline Technologies, Inc. (Bottomline) pursuant to which the Company purchased a five-year license to certain Bottomline software products. In 2000, the Company paid Bottomline the \$1,000,000 nonrefundable license fee. Amortization of the license fee was \$134,615 for the year ended December 31, 2000. There was no amortization of the license fee in 1999.

CUSTOMER DEPOSITS PAYABLE

Customer deposits payable represents funds received from consumers that are held by the Company pending payment processing.

DEFERRED RENT

Rent expense on leases is recorded on a straight-line basis over the lease period. The excess of rent expense over the actual cash paid is recorded as deferred rent.

DEVELOPMENT COSTS

Research and development costs are charged to expense as incurred.

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ADVERTISING AND MARKETING EXPENSE

The Company charges to expense advertising and marketing costs as incurred. Advertising and marketing expense was \$98,861, \$457,346 and \$1,266,903 for the years ended December 31, 1998, 1999 and 2000, respectively.

INCOME TAXES

Income taxes are accounted for using the liability method. Accordingly, deferred

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income tax assets and liabilities are determined based on differences between the financial statement carrying amounts of assets and liabilities and their respective income tax basis, measured using enacted tax rates.

RESTATEMENT OF CERTIFICATE OF INCORPORATION AND STOCK SPLIT

In August 2000, the Company's Certificate of Incorporation was amended to authorize 15,000,000 shares of preferred stock and 100,000,000 shares of common stock. In June 1999, the Company declared a 3-for-1 split of its common stock in the form of a stock dividend. The increase in authorized capital stock and the stock split have been retroactively reflected in the consolidated financial statements.

STOCK COMPENSATION

The Company has elected to follow Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its employee stock options. Under APB No. 25, if the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of the grant, no compensation expense is recognized. If the exercise price of an option is below the market price of the underlying stock on the date of grant, compensation cost is recorded and is recognized in the statements of operations over the vesting period (see Note 7).

NET LOSS PER SHARE

Basic EPS is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period. Diluted EPS includes the dilutive effect, if any, from the potential exercise or conversion of securities such as stock options, which would result in the issuance of additional shares of common stock. For each of the three years in the period ended December 31, 2000, the impact of stock options, warrants to acquire common stock and the conversion of mandatorily convertible preferred stock was not considered as the effect on net loss per share would be anti-dilutive.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivable, prepaid expenses and other, customer deposits payable, bank overdraft, accounts payable, accrued expenses, deferred revenue and related party note receivable are reflected in the accompanying consolidated financial statements at fair value due to the relatively short-term nature of those instruments.

RECLASSIFICATION

Certain items in the prior year financial statements were reclassified to conform to the 2000 financial statement presentation

COMPREHENSIVE LOSS

The only comprehensive loss item for the years ended December 31, 1998, 1999 and 2000, was net loss.

3. SUPPLEMENTAL CASH FLOW INFORMATION:

For the years ended December 31, 1998, 1999 and 2000, the Company paid interest of \$14,150, \$9,510 and \$5,929, respectively.

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4. PROPERTY AND EQUIPMENT:

| | USEFUL LIVES | DECEMBER 31, | |
|---|--------------|--------------|---------------|
| | | 1999 | 2000 |
| Computer and telephone equipment | 3-5 years | \$ 7,452,932 | \$ 13,373,675 |
| Furniture and fixtures | 5 years | 911,177 | 1,137,550 |
| Leasehold improvements | Lease term | 1,139,866 | 1,420,165 |
| | | ----- | ----- |
| | | 9,503,975 | 15,931,390 |
| Less- Accumulated depreciation and amortization | | (986,117) | (3,159,161) |
| | | ----- | ----- |
| | | \$ 8,517,858 | \$ 12,772,229 |
| | | ===== | ===== |

Depreciation and amortization expense for the years ended December 31, 1998, 1999 and 2000, was \$276,791, \$547,933 and \$2,274,220, respectively. As of December 31, 1999 and 2000, the Company had property and equipment under capitalized lease obligations of \$134,069, net of accumulated amortization of \$84,688 and \$118,276, respectively.

5. BRIDGE NOTE, WARRANT AND MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK:

ACCOUNTING FOR BRIDGE NOTE AND WARRANT

On June 1, 2000, the Company issued a \$5,000,000 bridge note to NCEH. The bridge note was convertible into shares of Series C mandatorily redeemable preferred stock (Series C) at the Series C offering price. The bridge note bore interest at 10 percent and the principal was due on July 1, 2001. In connection with the bridge note, NCEH was issued a warrant to purchase 500,000 shares of the Company's common stock at an exercise price of \$2.50 per share.

The Company allocated the proceeds from the bridge note to the note and the warrant based on their relative fair values. The fair value of the note was determined based on a discounted cash flow analysis using a discount rate of 30 percent. The fair value of the warrant was determined based on the Black-Scholes option-pricing model. As a result, the Company allocated \$2,885,569 to the note and \$2,114,431 to the warrant.

The Company recognized interest expense on the note of \$427,630 in 2000, of which \$104,168 was accrued coupon interest payable in cash as of December 31, 2000, and \$323,462 was amortization of the debt discount.

MANDATORILY REDEEMABLE PREFERRED STOCK

As of December 31, 2000, the Company has authorized 15,000,000 shares of Preferred stock with a par value of \$.01 per share. The authorized shares have been designated as 3,753,846 shares of Series A mandatorily redeemable convertible preferred stock (Series A), 487,805 shares of Series B mandatorily redeemable convertible preferred stock (Series B) and 7,555,556 shares of Series C.

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The Series A, Series B and Series C are convertible at any time into common stock at the holders' option at a conversion rate, as defined (one-to-one at December 31, 2000). All outstanding shares of the Series A, Series B and Series C are automatically convertible into common stock upon the closing of a qualified underwritten public offering, as defined. The Series A, Series B and Series C have voting rights equivalent to the number of common shares into which they are convertible. The holders of Series A, Series B and Series C are entitled to certain anti-dilution and registration rights, as defined.

The Series A, Series B and Series C are redeemable, upon the receipt of notice of the election of two-thirds of the Series C holders to redeem the Series C, at the option of the holders in March 2005. The holders of Series A, Series B and Series C are entitled to liquidation preferences equal to the original purchase prices of \$6.50, \$5.33 and \$4.50 per share, respectively, plus all accrued but unpaid dividends. The holders of the Series C are entitled to receive cumulative dividends at an annual rate of 8 percent. The Company has recorded cumulative dividends of \$1,020,000 for the year ended December 31, 2000. The holders of Series A and Series B are not entitled to cumulative dividends.

In March 2000, the Company sold 3,753,846 shares of Series A for \$6.50 per share and 487,805 shares of Series B for \$5.33 per share to NCEH for aggregate proceeds of \$26,489,241, net of offering costs of \$510,759. The offering costs will be accreted using the

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effective interest method through the March 2005 redemption date of the Series A and Series B. For the year ended December 31, 2000, the Company recorded \$73,584 of such accretion.

In August 2000, the Company sold 6,111,112 shares of Series C to new investors at \$4.50 per share for proceeds of \$27,174,359, net of offering costs of \$325,641, and NCEH converted the bridge note into 1,111,111 shares of Series C. The offering costs will be accreted using the effective interest method through the March 2005 redemption date of the Series C. For the year ended December 31, 2000, the Company recorded \$26,643 of such accretion. In connection with the conversion of the bridge note, the Company recorded a beneficial conversion feature as a preferred stock dividend for the difference between the carrying amount of the bridge note and the fair value of the common shares to be issued upon conversion in the amount of \$1,790,969. Also in August 2000, the Company sold 333,333 shares of Series C at \$4.50 per share to the Company's Chief Executive Officer for cash of \$750,000 and a full recourse note of \$750,000. The note accrues interest at 6.18% and the principal and accrued interest are payable on August 10, 2005. The note receivable was recorded as a reduction of the Series C on the accompanying consolidated balance sheets.

SERIES A AND SERIES B CONVERSION PRICE ADJUSTMENT

In connection with the sale of Series C, the conversion prices of the Series A and Series B were adjusted to \$4.50 per share from \$6.50 and \$5.33, respectively. These conversion price adjustments created a contingent beneficial conversion feature for financial reporting purposes. Upon the issuance of the Series C, the Company recorded a discount on the Series A and Series B of \$10,666,667 and \$479,556, respectively, for the beneficial conversion feature. This beneficial conversion feature is being treated as a preferred stock dividend. During 2000, the Company recorded a deemed preferred stock dividend in the amount of \$11,146,223.

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6. COMMON STOCK AND PERFORMANCE WARRANTS:

COMMON STOCK

On September 4, 1998, the Company entered into an agreement with NCEH whereby NCEH acquired 2,493,870 shares of the Company's common stock for \$10,000,000. NCEH was also given the right to purchase 134,376 shares of the Company's common stock, as defined. This purchase right was exercised on March 30, 1999. In addition, this agreement provides for, among other things, the right of first refusal on certain equity transactions.

In February 1999, the Company's then Chairman of the Board sold 102,000 shares of his holdings of the Company's common stock to certain NCEH affiliates and to a former director of the Company at \$5.33 per share. In addition, in July 1999, the Company's then Chairman of the Board sold 150,000 shares of his holdings of the Company's common stock to NCEH in connection with NCEH's guarantee of the lease on the Company's new operating facility (see Note 2).

In March 2000, the Company sold 150,000 shares of common stock to a director of the Company at \$6.50 per share.

PERFORMANCE WARRANTS

In August 2000, the Company agreed to grant warrants to certain Series C investors to purchase 924,867 shares of common stock at \$.01 per share in exchange for certain future performance obligations. In 2000, one of the Series C investors satisfied a portion of the obligation and the Company recorded a noncash commission charge of \$2,718,518 related to the granting of 604,911 fully vested warrants.

7. STOCK OPTIONS:

Effective August 17, 2000, the Company adopted the 2000 Stock Option Plan (the Plan). The Plan provides for the granting of incentive and nonqualified stock options to employees and consultants of the Company. The Compensation Committee of the Board of Directors administers the Plan and awards grants and determines the terms of such grants at its discretion. The Company has reserved 6,500,000 shares of common stock for issuance pursuant to the Plan. The Plan supercedes the 1996 Stock Option Plan and the 1998 Non-Employee Director Plan. All available and unissued shares previously authorized under the 1996 Stock Option Plan and the 1998 Non-Employee Director Plan expired on August 17, 2000.

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Information with respect to the Company's common stock options is as follows:

| | SHARES | EXERCISE PRICE | WEIGHTED AVERAGE EXERCISE PRICE |
|---------------------------------|-----------|----------------|---------------------------------|
| | ----- | ----- | ----- |
| Balance, December 31, 1997 | 1,093,200 | \$.03 | \$.03 |
| Granted at fair market value | 492,000 | 4.00 | 4.00 |
| Granted below fair market value | 733,500 | .03 | .03 |
| Exercised | (10,950) | .03 | .03 |

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| | | | |
|---------------------------------|-----------|-------------|---------|
| Canceled | (140,850) | .03 | .03 |
| | ----- | ----- | ----- |
| Balance, December 31, 1998 | 2,166,900 | .03-4.00 | .93 |
| Granted at fair market value | 978,850 | 6.50-8.00 | 7.47 |
| Granted below fair market value | 661,000 | 4.00-5.33 | 4.90 |
| Exercised | (110,000) | .03 | .03 |
| Canceled | (276,375) | .03-8.00 | 1.35 |
| | ----- | ----- | ----- |
| Balance, December 31, 1999 | 3,420,375 | .03-8.00 | 3.57 |
| Granted at fair market value | 3,375,572 | 4.50-6.50 | 5.29 |
| Granted below fair market value | 2,072,366 | .03-4.00 | 3.40 |
| Exercised | (325,338) | .03-8.00 | .11 |
| Canceled | (424,439) | .03-8.00 | 4.82 |
| | ----- | ----- | ----- |
| Balance, December 31, 2000 | 8,118,536 | \$.03-8.00 | \$ 4.28 |
| | ===== | ===== | ===== |

All options have terms ranging from five to ten years and generally vest over four years. The weighted average remaining contractual life of all options outstanding as of December 31, 2000, was 7.59 years. The total number of shares available for future grant under the Plan as of December 31, 2000, was 2,521,054.

The following table summarizes information relating to the Plan as of December 31, 2000 based upon each exercise price:

| OUTSTANDING STOCK OPTIONS | | | | EXERCISABLE STOCK OPTIONS | |
|---------------------------|-----------|--|---|---------------------------|--|
| EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS) | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| ----- | ----- | ----- | ----- | ----- | ----- |
| \$.03 | 1,024,050 | \$.03 | 2.24 | 910,550 | \$.03 |
| 3.50 | 1,994,366 | 3.50 | 6.61 | 664,789 | 3.50 |
| 4.00 | 573,625 | 4.00 | 7.81 | 380,375 | 4.00 |
| 4.50 | 1,984,580 | 4.50 | 9.70 | 21,000 | 4.50 |
| 5.33 | 445,000 | 5.33 | 8.21 | 355,417 | 5.33 |
| 6.50 | 1,570,326 | 6.50 | 9.14 | 103,558 | 6.50 |
| 7.92 | 250 | 7.92 | 8.34 | 63 | 7.92 |
| 8.00 | 526,339 | 8.00 | 8.39 | 131,733 | 8.00 |
| ----- | ----- | ----- | ----- | ----- | ----- |
| \$.03-8.00 | 8,118,536 | \$ 4.28 | 7.59 | 2,567,485 | \$ 2.87 |
| ===== | ===== | ===== | ===== | ===== | ===== |

In connection with certain options granted to employees during the years ended December 31, 1998, 1999 and 2000, the Company recorded \$1,884,500, \$1,819,467 and \$2,439,476 of deferred compensation, respectively. These amounts represent the difference between the fair market value of the Company's common stock on the date of grant and the exercise price of options to purchase 733,500, 661,000 and 2,072,366 shares, respectively, of the Company's common stock. Deferred compensation is amortized over the vesting periods of the options, which range

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from immediate vesting to periods of up to four years. For the years ended December 31,

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1998, 1999 and 2000, \$1,017,744, \$1,285,792 and \$2,201,701 of deferred compensation, net of forfeitures, was charged to expense, respectively.

Pro forma information provided below has been determined as if the Company had accounted for its employee stock options in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation." The determination of the fair value of the options noted above was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted-average assumptions for the years ended December 31, 1998, 1999 and 2000: risk-free interest rate of 4.9 percent, 5.6 percent and 6.1 percent, respectively, dividend yield of 0 percent, volatility factor of the expected market price of the Company's common stock of 70 percent, and an expected life of the options of four years.

The weighted average fair value of the options granted is as follows:

| | YEAR ENDED DECEMBER 31, | | |
|---------------------------------|-------------------------|---------|---------|
| | 1998 | 1999 | 2000 |
| Granted at fair market value | \$ 2.24 | \$ 4.26 | \$ 5.29 |
| Granted below fair market value | 2.80 | 5.33 | 4.58 |

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option vesting periods. The Company's pro forma information is as follows:

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|-----------------|-----------------|
| | 1998 | 1999 | 2000 |
| Net loss applicable to common stockholders, as reported | \$ (3,354,636) | \$ (12,575,067) | \$ (46,194,542) |
| Net loss per share, as reported | (0.36) | (1.11) | (2.98) |
| Pro forma net loss applicable to common stockholders | (3,364,955) | (13,823,739) | (48,293,565) |
| Pro forma net loss per share | (0.36) | (1.22) | (4.16) |

8. COMMITMENTS AND CONTINGENCIES:

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LEASE COMMITMENTS

The Company leases facilities and equipment under capital and noncancellable operating leases with expiration dates through December 2009. Rent expense for the years ended December 31, 1998, 1999 and 2000, was \$119,216, \$147,561 and \$1,431,570, respectively. Future minimum lease payments as of December 31, 2000, are as follows:

| | OPERATING LEASES | CAPITAL LEASES |
|--|---------------------|-------------------|
| | ----- | ----- |
| 2001 | \$ 1,265,075 | \$ 16,375 |
| 2002 | 1,340,980 | -- |
| 2003 | 1,340,980 | -- |
| 2004 | 1,404,233 | -- |
| 2005 | 1,404,233 | -- |
| 2006 and thereafter | 5,920,549 | -- |
| | ----- | ----- |
| Total minimum lease payments | \$ 12,676,050 | 16,375 |
| | ===== | |
| Less- Amount representing interest | | (582) |
| | | ----- |
| Present value of future minimum lease payments | | 15,793 |
| Less- Current portion | | (15,793) |
| | | ----- |
| | | \$ -- |
| | | ===== |

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LITIGATION

The Company is involved, from time to time, in various legal matters and claims which are being defended and handled in the ordinary course of business. None of these matters are expected, in the opinion of management, to have a material adverse effect on the financial position or results of operations of the Company.

EMPLOYMENT AGREEMENTS

In 1999, the Company entered into employment agreements with two officers of the Company. In August 2000, the Company entered into an employment agreement with its Chief Executive Officer. The agreements provide for, among other things, salaries, bonuses, severance payments and certain other payments payable upon a change in control, as defined.

GOVERNMENT REGULATION

Management believes, based upon consultation with legal counsel, that the Company is not required to be licensed by the Office of the Comptroller of the Currency, the Federal Reserve Board or other federal or state agencies that

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regulate or monitor banks or other providers of electronic commerce. However, the Company may be periodically audited by banking authorities since the Company is a supplier of services to financial institutions. Laws regulating internet commerce may be enacted to address issues such as, trust accounting, user privacy, pricing, content, taxation and the characteristics and quality of online products and services, among other things. If enacted, these laws could have a material adverse effect on the Company's business.

9. INCOME TAXES:

The reconciliation of the statutory federal income tax rate to the Company's effective income tax rate is as follows:

| | YEAR ENDED DECEMBER 31, | | |
|--|-------------------------|---------|---------|
| | 1998 | 1999 | 2000 |
| Statutory federal income tax rate | (34.0)% | (34.0)% | (34.0)% |
| State income taxes, net of federal tax benefit | (6.3) | (6.3) | (6.3) |
| Nondeductible expenses | 0.2 | 0.7 | 0.1 |
| Valuation allowance | 40.1 | 39.6 | 40.2 |
| | ----- | ----- | ----- |
| | -- % | -- % | -- % |
| | ===== | ===== | ===== |

Deferred taxes are determined based upon the estimated future tax effects of differences between the financial statements and income tax basis of assets and liabilities given the provisions of the enacted tax laws. The tax effect of temporary differences that give rise to deferred taxes are as follows:

| | DECEMBER 31, | |
|--|--------------|---------------|
| | 1999 | 2000 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 7,966,164 | \$ 19,187,707 |
| Deferred compensation | 928,325 | 2,178,408 |
| Development costs | 525,005 | 525,005 |
| Accruals and reserves not currently deductible | 226,596 | 588,577 |
| | ----- | ----- |
| | 9,646,090 | 22,479,697 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Property and equipment | (196,151) | (880,106) |
| Other | (17,504) | (640,643) |
| | ----- | ----- |
| | (213,655) | (1,520,749) |
| | ----- | ----- |
| | 9,432,435 | 20,958,948 |
| Less- Valuation allowance | (9,432,435) | (20,958,948) |
| | ----- | ----- |

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Net deferred tax asset

\$ --
=====

\$ --
=====

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Due to the uncertainty surrounding the realization of the net deferred tax asset, management has provided a full valuation allowance. As of December 31, 2000, the Company has net operating loss carryforwards of approximately \$47,600,000 for federal tax purposes, which will begin to expire in 2003, and \$46,200,000 for state tax purposes, which have begun to expire. The Tax Reform Act of 1986 contains provisions that may limit the net operating loss carryforwards available in any given year in the event of a 50 percent cumulative change in ownership over a three-year period.

10. EMPLOYEE BENEFIT PLAN:

The Company has a Section 401(k) retirement savings plan (the 401(k) Plan). The 401(k) Plan allows employees to contribute 2 percent to 15 percent of their annual compensation subject to statutory limitations. Company contributions to the 401(k) Plan are discretionary. Effective January 1999, the Company began matching contributions of 100 percent of the first 6 percent of employee contributions. For the years ended December 31, 1999 and 2000, the Company made matching contributions of \$171,522 and \$235,162, respectively, to the 401(k) Plan.

11. CONCENTRATION OF CREDIT RISK:

For the years ended December 31, 1998, 1999 and 2000, the Company had two, one and one customer(s) which accounted for 12 percent, 19 percent and 20 percent of service fee revenues, respectively. At December 31, 1999 and 2000, the Company had aggregate accounts receivable for these customers of \$394,021 and \$676,497, respectively. The loss of one or more of these customers could have a materially adverse effect on the Company's business.

12. RELATED-PARTY TRANSACTIONS:

Prepaid expenses and other at December 31, 1999, included \$195,027 of advances made to the Company's then Chief Executive Officer. These advances were repaid in February 2000.

During 1999, the Company's then Chief Executive Officer sold certain of his holdings of the Company's common stock to NCEH (see Note 6).

In connection with the Series A and Series B financing, the Company paid \$975,000 to a director and shareholder of the Company. This amount was charged to financing costs on the accompanying consolidated statements of operations.

In connection with the Series C financing, the Company issued a \$750,000 note receivable to the Company's Chief Executive Officer (see Note 6).

The Company provides services to a customer who is also a stockholder. The payment and presentment transaction fees and implementation and other professional service fees recognized from this customer were \$945,000 and \$360,948, respectively, for the year ended December 31, 2000. The total accounts receivable, accrued expenses and deferred revenue for this customer were \$1,179,953, \$500,000 and \$139,052, respectively, as of December 31, 2000.

