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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF PENNSYLVANIA

Lihong Zhang, on Behalf of Himself
and All Others Similarly Situated,

Plaintiff

vs

STEPHEN T. ZARILLI, ERIC PULIER and
JOHN D. SHULMAN,

Defendants

Civil Action No. 01-CV-0658

CLASS ACTION

DEMAND FOR JURY TRIAL

FILED

FEB 8 2001

By Michael E. Kunz, Clerk
Dep. Clerk

COMPLAINT FOR VIOLATION OF THE
FEDERAL SECURITIES LAWS

Plaintiff individually and on behalf of all others similarly situated, by his attorneys, alleges the following after due investigation by his counsel. The investigation included a review and analysis of public statements and documents pertaining to U.S Interactive, Inc. ("USIT" or the "Company"), including its various public filings with the United States Securities and Exchange Commission ("SEC"), analysts' reports, interviews with employees of the Company, newspaper articles, and articles and reports in financial publications.

SUMMARY OF THE ACTION

1. This is a securities fraud class action brought on behalf of all persons who purchased the common stock of USIT between February 10, 2000 and November 8, 2000 (the "Class Period"). This lawsuit is brought against certain of USIT's officers/directors for violations of the federal securities laws arising out of defendants' dissemination of false and

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misleading statements concerning the Company's business condition and its prospects. USIT is not being named as a defendant because, on January 22, 2001, the Company announced that it had filed a voluntary petition to reorganize under Chapter 11 of the Bankruptcy Code.

2. USIT is an Internet professional services firm that provides integrated Internet consulting, marketing, and technology services that enable USIT's clients to align employees, processes and systems to form an electronic enterprise.

3. During the Class Period, defendants repeatedly represented that the Company was achieving explosive growth and would achieve profitability by year end. However, defendants were aware of underlying conditions and circumstances adversely affecting the Company, which rendered their statements false and misleading when made. For example, defendants knew that USIT's acquisition of SoftPlus, pursuant to which USIT issued an \$80 million note to certain selling shareholders of SoftPlus, subjected USIT to an oppressive debt burden which would clearly prevent the Company from achieving profitability as promised.

4. Moreover, by March, 2000, defendants knew that the financial climate for dot-com companies had changed for the worse. Dot-com companies were finding it increasingly difficult to raise much needed capital for operations, and, as a result, USIT's near term business prospects were diminished. In particular, defendants were aware that at least two of USIT's dot-com clients, NetSmart, Inc. ("Netsmart") and Exist Corporation ("Exist"), which were owned in part by certain of the defendants, had experienced financial difficulties and would not be paying the Company for services rendered. Despite their knowledge to the contrary, during the Class Period, defendants reassured the public that their dot-com risk exposure was minimal, that the Company carefully evaluated the dot-com organizations it provided services to and that the

Company only did business with dot-com organizations that had proper levels of funding.

5. Defendants also represented that USIT was not adversely affected by the lengthening of the sales cycle. Defendants stated that the adverse effect of the longer sales cycle was offset by the realization of larger sales, even though they knew that the larger sales would not be a sufficient counterbalance.

6. On September 20, 2000, USIT pre-announced that its third quarter financial results would be lower than expected due to rapid changes in the Internet professional services market, including lengthening sales cycles, re-evaluation of e-business initiatives by clients and prospective clients, and reduced funding available to dot-com clients.

7. Following this partial disclosure of adverse information known to defendants since, at latest, the outset of the Class Period, USIT stock dropped over 33% from the day before on record volume of 2,105,000 shares, to close at \$12.937. During the Class Period, USIT stock traded as high as \$50.

8. The September 20 disclosure, however, did not reveal the full extent of USIT's financial problems. On November 8, 2000, when USIT announced its third quarter financial results, it disclosed that not only were its results worse than pre-announced on September 20, 2000, but that the Company was forced to write-off \$8.8 million of uncollectible accounts receivable during the third quarter, which amounts were primarily related to services performed for dot-com organizations.

9. Following this full disclosure, USIT stock dropped further on high volume of 1.5 million shares, to close at \$0.81 per share.

10. In its Form 10-Q for the third quarter of fiscal year 2000, dated November 20, 2000 and filed with the SEC, USIT disclosed that, of the \$8.8 million written-off, \$3.9 million was written-off for NetSmart, a company owned in part by defendants Pulier and Shulman, and \$1.1 million was written-off for Exist, owned in part by defendant Pulier.

11. Defendants made the false and misleading statements alleged herein during the Class Period while having actual knowledge of the falsity of their statements. In addition, defendants' knowledge of the falsity of their Class Period statements is further evidenced by their motive and the opportunity to perpetrate the fraudulent scheme and course of business described herein. Defendants issued the false and misleading statements complained of in order to artificially inflate the price of USIT's common stock price and thereby personally profit. During the Class Period, defendants sold over \$5 million worth of USIT common stock at prices which were significantly higher than the price to which USIT shares dropped at the end of the Class Period when the true but concealed facts were revealed. Moreover, defendant Zarrilli, after having made certain of the alleged misrepresentations contained herein and having sold some of his USIT stock based on non-public Company information, resigned from the Company and received a severance payment of more than \$400,000, even though his employment contract did not require USIT to pay severance in the event of a resignation. Further, defendant Pulier, after having sold some of his USIT stock and having had debts owed to USIT written off for NetSmart and Exist, companies in which he owned large equity stakes, resigned as Chairman of the Company's Board of Directors. Similarly, defendant Shulman also sold some of his USIT stock and had the debts owed to USIT written off for Exist a company in which he owned a large equity stake.

JURISDICTION AND VENUE

12. The claims asserted herein arise under §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") (15 U.S.C. §§78j(b) and 78t(a)) and Rule 10b-5, (17 C.F.R. § 240 10b-5) promulgated thereunder. Jurisdiction is conferred by the §27 of the 1934 Act, 15 U.S.C. §78aa.

13. Venue is proper in this District pursuant to Section 27 of the Exchange Act (15 U.S.C § 78aa) as substantial acts in furtherance of the alleged fraud and/or its effects have occurred within this District.

14. In connection with the acts and omissions alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

THE PARTIES

15. Plaintiff Lihong Zhang purchased shares of USIT common stock as detailed in the attached certification and was damaged thereby.

16. USIT is not named as a defendant due to its announcement on January 22, 2001 that it filed for protection under the Bankruptcy Code. Plaintiffs allege that USIT is a primary violator of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, through the conduct of defendants named herein, who were controlling persons of USIT. USIT is an Internet services firm whose primary offerings include e-commerce, digital marketing and electronic customer relationship management services. It maintained its headquarters in King of Prussia, Pennsylvania. As of November 20,2000, it had over 26 million shares outstanding,

which shares were traded in an efficient market on the NASDAQ National Market System.

17. (a) Defendant Stephen T. Zarrilli ("Zarrilli") was, during the Class Period, President and Chief Executive Officer of the company until his resignation on September 8, 2000. During the Class Period, while in possession of non-public, adverse information concerning USIT, defendant Zarrilli sold 60,000 shares of USIT stock at artificially inflated prices for proceeds of more than \$1 million.

(b) Defendant Eric Pulier ("Pulier") was, during the class Period, the Chairman of the Board of USIT. He was succeeded by William C. Jennings as Chairman on November 8, 2000. During the Class Period, while in possession of non-public, adverse information concerning USIT, Pulier sold 242,500 shares of USIT stock at artificially inflated prices for proceeds of more than \$3.59 million. Although Pulier's title at the Company during the Class Period was that of Chairman, Pulier's function in the Company was more akin to an officer. Pulier was the Chief Technology Officer of USIT until May, 1999. During the Class Period, his responsibilities including establishing and directing growth strategies for the Company and establishing and maintaining high-level, strategic client relationships. Pulier was also responsible for interacting with the financial and industry press and analysts and for creating public exposure for the Company. Moreover, Pulier collaborated with USIT's CEO, Zarrilli, on a regular basis regarding decisions affecting the company. Further, during the Class Period, Pulier's annual salary exceeded the salary USIT paid to CEO Zarrilli.

(c) Defendant John D. Shulman ("Shulman") was, during the Class Period, a director of the Company. During the Class Period, while in possession of non-public, adverse

information concerning USIT, Shulman sold 37,500 shares of USIT stock at artificially inflated prices for proceeds of more than \$484,625.

18. Defendants listed in ¶ 16(a)-(c) are liable for the false statements pleaded herein at ¶¶ 31, 34 and 37, as those statements were each “group-published” information for which they were collectively responsible. Defendants, by reason of their stock ownership and positions with USIT, wer controlling persons of USIT. These controlling persons are liable under §20(a) of the 1934 Act.

CLASS ACTION ALLEGATIONS

19. Plaintiff brings this action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons who purchased or otherwise acquired shares of USIT common stock between February 10, 2000 and November 8, 2000, inclusive, and were damaged thereby. Excluded from the Class are defendants, officers and directors of the Company, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which any defendant has or had a controlling interest.

20. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to plaintiff at this time and can only be ascertained through appropriate discovery, plaintiff believes that there are tens of thousands of members of the Class. As of November 20, 2000, USIT had over 26 million shares outstanding, which shares were traded in an efficient market on the NASDAQ National Market System. Record owners and other members of the Class may be identified from records maintained by USIT or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

21. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class were similarly affected by defendants' wrongful conduct in violation of the federal law that is complained of herein.

22. Plaintiff will fairly and adequately protect the Class' interests and has retained counsel competent and experienced in securities litigation.

23. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. Among the questions of law and fact common to the Class are:

(1) whether the federal securities laws were violated by defendants' acts as alleged herein;

(2) whether defendants participated in and pursued the common course of conduct complained of herein;

(3) whether documents, press releases and other statements disseminated to the investing public and the Company's shareholders during the Class Period misrepresented and/or omitted material facts concerning the Company's business, financial position and condition, and future business prospects;

(4) whether defendants acted with scienter in knowingly or recklessly omitting and/or misrepresenting material facts regarding the Company's true financial position and condition;

(5) whether, during the Class Period, the material misrepresentations, omissions and failure to correct the material misrepresentations complained of herein artificially inflated the Company's common stock price; and

(6) whether the class has sustained damages and, if so, the proper measure of damages.

24. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

- (1) defendants made public misrepresentations or omitted facts during the Class Period, as alleged herein
- (2) the misrepresentations and/or omissions were material;
- (3) plaintiff and members of the Class acquired their shares during the time defendants made the misrepresentations and/or omissions;
- (4) USIT's common stock met the requirements for listing, and was listed and actively traded on a highly efficient market;
- (5) As a regulated issuer, USIT filed periodic public reports with the SEC;
- (6) USIT was followed by securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace;

25. Based upon the foregoing, plaintiff and the other members of the Class are entitled to a presumption of reliance upon the integrity of the market price for USIT's common stock, for the purposes of class certification, as well as for ultimate proof of the claims on their merit. Similarly, plaintiff and the members of the Class are entitled to a presumption of reliance with respect to the omissions alleged herein.

26. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them.

BACKGROUND TO CLASS PERIOD

27. USIT is a provider of Internet professional services that helps companies take advantage of opportunities provided by the Internet. The Company provides integrated Internet strategy consulting and marketing and technology services that enable clients to align their people, processes, and systems to form an electronic enterprise. An electronic enterprise utilizes Internet-based technologies to transact business, communicate information, and share knowledge across employees, customers and suppliers.

28. The Company was originally formed under the name MasterSmith, Inc. in August 1991, and commenced operations in May, 1994. In November, 1995, the Company changed its name from Mastersmith, Inc. to U.S. Interactive, Inc. USIT has incurred significant losses since it was formed. In the period prior to the Company's going public, USIT lost \$8.4 million in the year ending December 31, 1998, and \$6.8 million for the six months ended June 30, 1999.

29. On or about August 11, 1999, the Company went public in an Initial Public Offering ("IPO"). In the IPO, USIT offered 441,402 shares of common stock at \$10.00 per share. It raised approximately \$38.2 million, after deducting underwriting discounts, management fees and offering expenses.

30. On February 1, 2000, USIT announced via the PR Newswire that it entered into a definitive merger agreement to acquire SoftPlus, Inc., a privately-held e-solutions company. The consideration for the transaction was 4.8 million shares of USIT common stock, \$20 million in cash, and a one year \$80 million note due to the selling shareholders. The acquisition, according

31. to USIT, would allow it to redefine the Internet professional service landscape by offering “the Global 2000 innovative, end-to-end(e2e) solutions to extend their business from behind the web to beyond the web.”

FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD

32. At the time of USIT’s IPO in August, 1999, the officers of the Company entered into a lock-up agreement which prevented them from selling their shares for a period of 180 days from the date of the IPO. By February 2000, as the lock-up date was expiring and defendants were free to sell their shares to the market, they commenced their scheme to artificially inflate the price of USIT stock in order to profit thereby.

33. On February 10, 2000, USIT announced in a press release via the Business Wire that it intended to file a secondary public offering. The announcement stated:

It is anticipated that the filing will occur in the first quarter of 2000. Of the shares included in the offering, it is anticipated that Approximately one-half of the shares will be offered by the Company with the remaining shares to be offered by selling stockholders, including management stockholders.

It is anticipated that part of the proceeds to the Company will be used to satisfy the \$80 million one-year note to be issued to shareholders of SoftPlus, Inc. in connection with the pending merger with SoftPlus announced last week by the Company.

34. Later that day on February 10, 2000, USIT Chairman, defendant Pulier, and Chief Financial Officer, Philip Calamia, were interviewed on Radio Wallstreet.com. In the interview, Pulier and Calamia addressed the Company’s fourth quarter and year end results for 1999. Pulier portrayed the Company in a positive light, emphasizing the Company’s growth potential and customer relationships. He also stated, with regard to the secondary offering, that one of the uses of the proceeds would be the satisfaction of the debt that is part of the SoftPlus merger.

35. On March 8, 2000, the Company completed its acquisition of SoftPlus. USIT paid to the SoftPlus shareholders: (i) 3,391,106 unregistered shares of USIT common stock, (ii) \$20 million in cash, and (iii) an unsecured \$80 million note due to the former shareholders of SoftPlus. As a result of the merger, SoftPlus became USIT's wholly owned Delaware subsidiary with the name "U.S. Interactive Corp.(Delaware)."

36. On March 29, 2000, the Company filed its 10-K for fiscal 1999 with the Securities and Exchange Commission ("SEC"). In the 10-K, defendants stated that "we anticipate that we will repay the \$80 million note, which we issued in the (SoftPlus) Merger, with proceeds of an underwritten public offering of our common stock. On March 10, 2000, we filed a registration statement on Form S-1 (Reg.No. 333-32224) relating to the offering. . . "(Emphasis added)

37. The foregoing statements made by defendants pertaining to satisfaction of the \$80 million SoftPlus merger debt with proceeds from the secondary offering were materially false and misleading when made. Contrary to defendants' representation that the proceeds of USIT's secondary offering would be used to satisfy the SoftPlus debt, defendants were aware that, due to the Company's need to pay off other debts, including the Company's outstanding balance under its revolving credit agreement with a commercial institution, and the Company's need for the funds for working capital, the funds raised in the secondary offering would not be used to satisfy the SoftPlus debt. Defendants knew but failed to disclose to the public that the \$80 million SoftPlus debt would not be paid off with the proceeds from USIT's secondary offering and that the Company would be saddled with the debt, hindering the company's ability to become profitable. Indeed, even by the end of the Class Period, none of the \$80 million debt had been

paid off.

38. On April 12, 2000, USIT's registration statement on Form S-1 (Reg. No. 333-32224) relating to its secondary offering became effective. The Company sold 2,274,567 shares of its common stock at a price of \$19.625 per share in the secondary offering, and USIT received approximately \$41.7 million after deducting underwriter discounts and offering expenses.

39. The April 12, 2000 registration statement pertaining to the secondary offering was materially false and misleading because it failed to correct defendants' prior misrepresentations that the Company anticipated using the proceeds of the offering to pay off the SoftPlus debt. In fact, the registration statement affirmed defendants' prior false statements. Under the section "Use of Proceeds" in the registration statement, defendants stated:

"We intend to use the net proceeds from this offering to repay any outstanding balance under our revolving credit agreement with a commercial bank, open new offices and for other general corporate purposes. In addition, we may use a portion of the net proceeds from this offering for acquisitions or to repay a portion of the \$80 million dollar note issues in the Merger. (Emphasis added)

40. On April 24, 2000, the Company announced its first quarter 2000 results via the Business Wire. The next day, defendant Zarrilli and USIT's Chief Financial Officer, Philip Calamia were interviewed on Radio Wallstreet.com. In the interview, Zarrilli described the Company as a high growth company on the verge of profitability. With regard to the Company's ability to reach cash break even by third quarter, 2000, the interview went as follows:

QUESTION: ... Given that the analysts are looking for the Company in total to reach cash break even basis by third quarter, how comfortable are you that you'll have the integration in line, and given the visibility you have in the business pipeline that that's a reasonable objective for you?

ZARRILLI: Third quarter break even along the line that analysts

had projected for the Company is reasonable. We don't expect to have any difficulty meeting that goal....(Emphasis added)

Additionally, while Zarrilli acknowledged that the Company was experiencing longer sales cycles, he downplayed their impact on the Company. Zarrilli stated: "The sales cycles are beginning to get a little bit longer, but interestingly enough, the sales themselves are beginning to be a lot larger than they were in the past. So they tend to counterbalance themselves. What we're seeing is a lot of strength in the demand funnel for the services we're providing in the marketplace." (Emphasis added)

Moreover, when questioned about use of the funds the Company raised in the secondary offering completed on April 12, 2000, Zarrilli reiterated, "Knowing that we're at a cash flow of break even or soon to be, it's obviously not there to supplement working capital for general operating purposes. . .We do have a \$80 million note due to the sellers of SoftPlus that due in March of 2001. I would expect a fair amount of the proceeds associated with the secondary offering that we just completed will be applied to the note."

Further, with regard to the valuation of USIT stock, Zarrilli said:

I actually think that our sector has taken an unduly [sic] amount of punishment with regard to valuation over this period of time. . . a sector that, if you will. . . for the most part is at profitability or moving toward profitability with regard to each of the individual companies that comprise the sector. . . I look at the group and I tend to view us as being probably at a valuation of half of where we should be in a legitimate market environment. But we know that we can recapture that value. . .(Emphasis added)

41. The foregoing statements by Zarrilli were false and misleading when made. At the time the statements were made, Zarrilli was aware of underlying market conditions adversely affecting the Company. For example, Zarrilli was aware that the funds the Company raised in

the secondary offering would not be used to pay off the \$80 million note to the sellers of SoftPlus, as such funds were required to pay off other debts for working capital, and the \$80 million note would negatively impact the Company's ability to achieve profitability. Moreover, by April 2000, Zarrilli was well aware, based on his conversations with clients and USIT employees, that dot-com organizations were having difficulties obtaining funding and would be reducing capital expenditures, translating into slower growth for USIT and preventing USIT from reaching a break even point with regard to cash flow. Moreover, even though Zarrilli knew that the lengthening of the sales cycle was adversely affecting the Company, he falsely reassured the public that it would not have a negative impact on the Company given that the Company was obtaining larger deals. Additionally, despite Zarrilli's knowledge that USIT's common stock was overvalued and would plummet once the truth concerning the Company's true financial condition became known, he represented that the Company was undervalued by the market in order to persuade investors to invest in the Company. Zarrilli made each of these false and misleading statements in an effort to keep the price of USIT common stock at an artificially inflated level.

42. On April 26, 2000, one day after his Radio Wallstreet.com interview in which he lauded the Company's financial condition and prospects, Zarrilli sold 51,500 shares of his stock for proceeds of \$858,244. Prior to that date, Zarrilli had not sold any of his USIT stock.

43. Shortly thereafter, on April 28, 2000, the Chairman of USIT, Eric Pulier, sold 128,000 shares of his stock for proceeds of \$2.14 million. Prior to that date, Pulier had not sold any of his USIT stock.

44. On May 1, 2000, Zarrilli sold an additional 8,500 shares of USIT stock for proceeds of \$144,942.

45. Similarly, on May 1, 2000, Pulier sold an additional 21,500 shares of USIT stock for proceeds of \$366,618.

46. A few days thereafter, on May 17, 2000, defendant Shulman also sold 35,000 shares of USIT stock for proceeds of \$452,152. Prior to that date, Shulman had not sold any of his USIT stock.

47. On June 6, 2000, First Union issued an analyst report based on conversations with USIT management, including defendants. The analyst report stated that USIT's customer signings remained strong with several multimillion dollar deals closed. The report also stated that despite the fact that most of USIT's dot-com business was coming from related venture capitalists, USIT's management saw no concern with its exposure in this area.

48. The foregoing statements made by USIT management to First Union were false and misleading when made. At the time they made these statements, defendants were aware that most dot-com companies were finding it increasingly difficult to obtain financing and therefore the Company's growth would necessarily slow. Moreover, defendants absolutely knew that at least two of USIT's dot-com clients, NetSmart and Exist, were having financial difficulty and would not be able to pay the amounts they owed to USIT for services rendered. Defendants had this knowledge because NetSmart and Exist were owned in part by certain of defendants. Indeed, Pulier was the sole general partner of Digital Evolution, L.P., which owned 50% of Chromazone LLC, a company in which Pulier served as a director. Chromazone owned a 50% equity in NetSmart (formerly Chromazone.com., Inc.), and Pulier was a director of NetSmart.

Additionally, with respect to Exist, Pulier and Shulman were stockholders of Exist and owned, in the aggregate, 36% of the equity of Exist in 1999, and 17% of its equity in 2000. Pulier and Shulman also each held exercisable options to acquire an additional 6% of the equity of Exist. Moreover, Shulman was the chairman of the board of Exist, and Pulier was a director of Exist.

49. On July 27, 2000, USIT reported its second quarter 2000 results in a press release via the Business Wire. USIT announced it had achieved revenue for the second quarter of \$29.5 million, nearly four times the \$7.6 million earned in the previous year's second quarter and 50% over the \$18.6 million for the first quarter. Commenting on the Company's performance, Zarrilli stated,

"The strong second quarter operating results reflect our ability to Remain nimble, anticipate the changing needs of our clients and pave the way to the next generation of e-business using leading edge technologies," . . . "US Interactive strives to create and deliver innovative solutions to generate competitive advantages for our clients. To that end, our recent acquisition of The Fourth Room, a highly respected, London-based marketing and brand consulting firm, complements and enhances our global operations." (Emphasis added)

50. Following the July 27, 2000 press release, Zarrilli was interviewed about the Company on Radio Wallstreet.com. During the interview, Zarrilli was upbeat and made numerous positive statements concerning the Company. Zarrilli reassured the public that, with regard to the Company's services, "demand is still strong." Zarrilli was also asked about the risk associated with Company's dependence on dot-com organizations,

QUESTION: Additionally, if you can talk about some of the exposure you have to the dot.com sector. How do you manage to keep the percentage rate that you have. I mean, as we often saw of these firms during the correction, people that have more exposure to the dot coms as the capital market collapsed - - for lack of better word -- as the capital market collapse for those with dot com exposure,

51. The foregoing statements were materially false and misleading when made. At the time he made these statements, Zarrilli was aware that the Company was experiencing slowing demand from large corporations due to the Company's inability to meet these clients' demands, including providing end-to-end integration requirements. Moreover, Zarrilli was aware that dot-com companies' lack of funding and their substantial reduction in capital expenditures would negatively impact the Company's growth and profitability. In particular, defendants knew that NetSmart and Exist, which were owned in part by Pulier and Shulman, were having financial difficulty and would not be able to pay the amounts they owed to USIT for services rendered.

52. On August 2, 2000, defendant Shulman sold an additional 2,500 shares of his USIT stock for proceeds of \$32,500.

53. On August 3, 2000, The Wall Street Transcript published analyst comments on USIT. Based on conversations with USIT management, analyst Notardonato highlighted USIT stating that "We could see the company reach break-even a little ahead of schedule."

54. That same day, on August 3, 2000, defendant Pulier sold 92,500 shares of his USIT stock for proceeds of \$1.09 million.

55. On September 8, 2000, USIT issued a press release via the Business Wire announcing that CEO Stephen Zarrilli "has resigned from the company to pursue other independent business ventures." The press release stated that William C. Jennings, a member of the board of directors, had been named the new chief executive officer of USIT. In connection with Zarrilli's purported resignation, Zarrilli received a severance payment in the amount of \$412,500, even though his employment agreement, dated July 30, 1999 and effective for a term

there's fear that we're not going to see the same kind of growth we've seen previous to that. How do you manage these types of relationships and where are you getting your deal flow from?

ZARRILLI: From a dot com perspective, let's keep in mind a couple of things. The company's always had a target of keeping dot com exposure to no more than 20% of our revenue. In Q2 it was 14% , in Q1 it was 11%. We like the dot com work on one level because it provides some unique challenge to our staff and our staff like to work on those types of projects. But we do have to manage the financial risk. One way to do that is making sure what types of dot coms we're working with. As a lot of the flow of our dot coms come from parties we have relationships with, be it SafeGuard Scientific, be it Internet Capital Group, Chia (phonetic) Ventures, or Trident Capital, you know, original investors in the Company. . . Then the other ones are dealt with companies we feel have proper levels of funding. We make sure we've got real solid contracts in place. We do as much as we can to evaluate their levels of funding as it relates to their ability to meet their obligations to U.S. Interactive. We have proactively created ways in which to Make sure that we bill timely and collect timely on those amounts so that we're not at risk. But the overall emphasis is not to let it get to be too much of our overall business. We've only had one significant situation with a dot com that was properly reserved for in connection with the closing of Q2 which, you know, caused us to make sure and revalidate the processes that we were using to ensure that we were doing the right thing surrounding our dot com customer base. (Emphasis added)

Furthermore, Zarilli intimated that the Company would be profitable by year end:

QUESTION: What realistically should we be looking for for the highlights of the second half of the year? You're promising us profitability here. What are some of the highlights we should be keeping our eyes focused on?

ZARILLI: I think you'll start seeing some of our metrics start reflect the accelerated integration of SoftPlus. You'll see it in our billing rates, you'll see it in our utilization rates, you'll see it in our ability to generate levels of profitability that the company has obviously focused on. . . . And I think you'll see some of that prudence and some of that focus pay off as we go into the second half of this year. (Emphasis added)

ending December 31, 2000, provided that the Company was not required to make severance payments to Zarrilli if he voluntarily resigned.

56. On September 12, 2000, defendant Pulier and the new CEO, William Jennings, were interviewed on Radio Wallstreet.com. In the interview, Pulier was positive about the Company's condition and prospects and repeatedly emphasized that the Company was a leader in its field. However, at the time he made these statements, Pulier knew that the Company's condition was deteriorating. Indeed, Pulier knew that demand was slowing, the Company's ability to continue as a going concern was questionable due to its oppressive debts (including the \$80 million note from the SoftPlus merger), and the dot-com fallout would make at least some of the fees owed the Company for services rendered uncollectible. For example, Pulier was well aware that NetSmart and Exist, which he owned in part, were having serious financial difficulty and would not be able to pay the amounts owed to USIT for services rendered.

57. On September 20, 2000, USIT announced via the Business Wire that its third quarter financial performance would be below expectations, in stark contrast to its earlier public statements. As stated in the announcement:

The Company expects its revenues for the third quarter ending September 30, 2000 will be in the range of \$21 million to \$23 million, more than double third quarter 1999 revenues of \$9.9 million but below the \$29.5 million reported for the second quarter 2000.

William C. Jennings, recently appointed CEO, US Interactive, said, "After a track record of double-digit sequential growth each quarter, this quarter's performance is principally due to the rapid changes in the Internet professional services market, including lengthening sales cycles, re-evaluation of e-business initiated by our clients and prospects, and reduced funding available to do-com clients." (Emphasis added)

58. Analysts were extremely surprised by this news, immediately reducing their 2000

and 2001 earnings estimates and ratings for USIT. Among the analysts that lowered their ratings of USIT, J.P. Morgan reduced its rating from “buy” to “market perform”, Janney Montgomery Scott lowered its rating to “hold”, and Lehman Brothers reduced its rating from “buy” to “outperform”.

59. Defendants’ September 20, 2000 statements were only a partial disclosure of the fundamental problems facing the Company. On November 8, 2000, the Company announced its financial results for the third quarter ending September 30, 2000. Revenues for the third quarter were \$17.8 million - significantly lower than the \$21 - \$23 million in revenue it had told the public to expect. Moreover, the Company disclosed that it was forced to write-off \$8.8 million for uncollectible accounts receivable during the quarter, which were primarily related to services performed for dot-com organizations. According to the Company’s press release:

“We are clearly disappointed by our third-quarter numbers, and we are aggressively taking strategic actions to improve our operations going forward, “Mohan Uttawar [who has been named Chief Executive Officer, succeeding William C. Jennings who has been appointed Chairman of the Board of Directors and who was succeeding Eric Pulier], stated, The underlying reasons for our performance are varied and include a share reduction in demand for the Company’s services by dot-com organizations, a lengthening of the sales cycle by Fortune 1000 and other well established prospective clients, and an increase in expenses due to bad debts.” (Emphasis added)

In addition, Mr. Uttawar noted, US Interactive has been burdened by excessive overhead. “Overall our operating expenses are too high,” he said, “We built our infrastructure for a level of business that unfortunately has not materialized because of dramatic market changes.” (Emphasis added)

60. Following the announcement, on November 9, 2000, the Company’s stock plummeted to close at \$0.81, as 1.53 million shares were traded.

61. In its Form 10-Q for the third quarter, dated November 20, 2000 and filed with the SEC, USIT disclosed that, of the \$8.8 million written-off as uncollectible, \$3.9 million was written-off for NetSmart, a company owned in part by defendants Pulier and Shulman, and \$1.1 million was written-off for Exist, a company owned in part by defendant Pulier.

62. On January 22, 2001, USIT announced that it filed a voluntary petition to reorganize under Chapter 11 of the Bankruptcy Code.

SCIENTER ALLEGATIONS

63. At the time defendants made the misrepresentations alleged above, they were aware that their statements were materially false and misleading when made.

64. With regard to defendants' statements concerning USIT's low risk exposure to dot-com organizations, defendants were aware that, contrary to their public statements, the Company was in fact at risk with regard to the dot-com sector and would suffer as a result. Defendants knew from their frequent conversation with USIT's customers and USIT employees that the Company was experiencing slower growth due to the fact that most dot-com organizations were having difficulty obtaining funding and were therefore substantially cutting their capital expenditures.

65. Furthermore, defendants were aware that certain dot-com businesses were unable to pay their debts to the Company, and such debts would have to be written off by the Company. In particular;

(a) Defendants knew that Exist would be unable to pay its debts to the Company, as defendants had insider knowledge concerning this business and were aware that Exist had experienced financial problems. Defendant Pulier and defendant Shulman were

stockholders of Exist and owned, in the aggregate, 36% of the equity of Exist in 1999, and 17% of its equity in 2000. Pulier and Shulman also each held exercisable options to acquire an additional 6% of the equity of Exist. Exist represented more than 10% of the USIT's revenue for the twelve months ended December 31, 1999. In the third quarter of 2000, USIT wrote off \$1.1 million worth of Exist's debt.

(b) Defendants were also aware that NetSmart would be unable to pay its debt to the Company, as they also had insider knowledge concerning this business and were aware that Netsmart had experienced financial problems. Pulier was the sole general partner of Digital Evolution, L.P. Digital Evolution owned 50% of Chromazone LLC, of which Pulier served as a director. Chromazone owned a 50% equity in NetSmart (formerly Chromazone.com., Inc.), and Pulier was a director of NetSmart. Chromazone and NetSmart represented more than 13% of USIT's revenue for the twelve months ended December 31, 1999. In the third quarter, of 2000, USIT wrote off \$3.9 million worth of debt for NetSmart.

66. At the time defendants made their statements concerning paying off the \$80 million note issued in connection with the SoftPlus merger with the funds raised in USIT's secondary offering, defendants were also aware that such statements were materially false and misleading. Defendants were aware that, due to the Company's need to pay off other debts, including the Company's outstanding balance under its revolving credit agreement with a commercial institution, and the Company's need for working capital, none of the funds raised in the offering would go toward paying off the \$80 million note. Because of the Company's inability to pay off the \$80 million note, defendants were aware that this large debt would thwart the Company's ability to achieve profitability.

67. In addition to having knowledge of adverse, non-public facts that rendered their public statements false and misleading, each of the defendants had the motive and the opportunity to perpetrate the fraudulent scheme and course of business described herein. During the Class Period, each defendant sold shares of USIT common stock at artificially inflated prices. During the Class period, defendants sold the following amounts of their USIT common stock while in possession of adverse, non-public information concerning the Company:

INSIDER	DATE	SHARES	PRICE	VALUE
Stephen T. Zarrilli	4/26/00	51,500	\$16.38-\$17.00	\$858,244
	5/1/00	<u>8,500</u> 60,000	\$17.05	<u>\$144,942</u> \$1,003,186
Eric Pulier	4/26/00	128,500	\$16.38-\$17.00	\$2,140,000
	5/1/00	21,500	\$17.05	\$366,618
Eric Pulier	8/3/00	<u>92,500</u>	\$11.00-\$11.93	<u>\$1,090,000</u>
		242,500		\$3,596,618
John D. Shulman	5/17/00	35,000	\$10.03-\$14.08	\$ 452,125
	8/2/00	<u>2,500</u> 37,500	\$13.00	<u>\$ 32,500</u> \$484,625
TOTAL FOR INSIDERS		340,000		\$5,084,429

68. Defendants' insider sales during the Class Period were highly suspicious given that the trades occurred shortly after defendants made positive statements about the Company, and that the sales had occurred prior to USIT's stock drop. Moreover, Zarrilli resigned from the Company during the Class Period and received a severance payment even though his employment contract did not require the Company to provide severance in the event of his

resignations. During the Class Period, Pulier also resigned as Chairman of the Board of Directors.

NO SAFE HARBOR

69. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint, because the specific statements pleaded herein were neither forward-looking when made, identified as “forward-looking statements” when made, nor accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the specific statements. To the extent that the statutory safe harbor applies to any of the statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker knew that the particular forward-looking statement was false and/or the forward-looking statement was made by or with the approval of an executive officer of USIT who knew that the statement was material and false or misleading at the time it was made.

COUNT I

**[Against Defendants for Violations of Section 10(b) of
the Exchange Act and Rule 10b-5 Promulgated Thereunder]**

70. Plaintiff repeats and realleges each of the foregoing allegations as if fully set forth herein.

71. This claim is brought pursuant to § 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the SEC against all defendants on behalf of Plaintiff and the Class with respect to the entire Class Period.

72. During the Class Period, defendants, individually and in concert, engaged in a

plan, scheme and course of conduct, pursuant to which they knowingly and/or recklessly engaged in acts, transactions, practices, and courses of business which operated as a fraud upon Plaintiff and other members of the Class.

73. Defendants perpetrated this fraudulent scheme by making various representations that were false or which omitted material facts necessary in order to make the statements, in light of the circumstances under which they were made, not misleading.

74. Defendants were obligated to supplement and update the disclosures that they made during the Class Period because: (a) they voluntarily made materially misleading statements regarding Republic's operations and prospects throughout the Class Period; (b) such disclosures were mandated by SEC regulations; and (c) those disclosure obligations were imposed upon defendants by the common law.

75. Defendants had actual knowledge that the statements specifically alleged above were materially false and misleading and that additional disclosures were necessary to correct the misleading effect of their statements. In the alternative, defendants acted with reckless disregard for the truth in that they failed or refused to ascertain that their statements concerning the Company's business, operations and potential liabilities lacked a reasonable basis when made.

76. As a direct and proximate result of the foregoing material misrepresentations and omissions, the market price of USIT common stock was artificially inflated during the Class Period.

77. In ignorance of the materially misleading and/or incomplete nature of Defendants' Class Period representations, Plaintiff and other members of the Class relied to their detriment

upon the accuracy and completeness of defendants' statements and/or upon the integrity and efficiency of the market for USIT common stock.

78. Plaintiff and the other members of the Class would not have purchased USIT common stock at the market prices that prevailed during the Class Period, if at all, had they been aware of the true facts concerning the Company's operations and future prospects.

79. The market price of USIT common stock declined dramatically upon the public disclosure of the facts that had been concealed and misrepresented by defendants during the Class Period. Plaintiff and other members of the Class have therefore suffered substantial damages.

80. By reason of the foregoing, defendants knowingly or recklessly violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that they: (a) employed devices, schemes and artifices to defraud; (b) made material misrepresentations of fact and failed to disclose material facts necessary in order to make their statements, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon Plaintiff and other members of the Class in connection with their purchases of USIT common stock during the Class Period.

COUNT II

[Against Defendants for Violation of Section 20(a) of the Exchange Act]

81. Plaintiff repeats and realleges the foregoing allegations as if fully set forth herein.

82. This Count is brought against all defendants on behalf of Plaintiff and the Class with respect to the entire Class Period.

83. By virtue of their high-level positions, substantial stock holdings, participation in and/or awareness of USIT's operations, business transactions, and contracts, and/or intimate knowledge of the Company's internal financial condition, and accounting practices, each of the defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of USIT, including the content and dissemination of the various public statements which plaintiff contends are false or misleading. Each of the defendants was provided with or had unlimited access to copies of the Company's internal reports, press releases, public filings and other statements alleged by plaintiffs to be materially false and misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

84. In particular, each of the defendants had direct involvement in or intimate knowledge of the day-to-day operations of the Company and is therefore presumed to have had the power to control the content of the public statements giving rise to the violations complained of herein, and each exercised the same.

85. As is specifically alleged: (a) USIT and defendants each violated § 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder; and (b) by virtue of their positions as senior officers, directors, and/or substantial shareholders, defendants were control persons of USIT and each other under § 20(a) of the Exchange Act.

86. By virtue of their positions as control persons of USIT and each other, defendants are each liable pursuant to § 20(a) of the Exchange Act.

87. As a direct and proximate result of the wrongful conduct of defendants, plaintiff and all other members of the Class suffered damages in connection with their purchases of USIT common stock during the Class Period.

PRAYER

WHEREFORE, plaintiff, on behalf of himself and the Class, prays for judgment as follows:

A. Declaring this action to be a proper class action pursuant to Rule 23 of the Federal Rules of Civil Procedure;

B. Awarding plaintiff and other members of the Class damages together with interest thereon;

C. Awarding plaintiff and other members of the Class costs and expenses of this litigation, including reasonable attorneys' fees, accountants' fees and experts' fees and other costs and disbursements; and


D. Awarding plaintiff and other members of the Class such other and further relief as may be just and proper under the circumstances.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: February 8, 2001

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Counsel for Plaintiff

CERTIFICATION OF NAMED PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS

I, Lihong Zhang ("Plaintiff") declare the following claims asserted under the federal securities laws, that:

1. Plaintiff has reviewed the complaint and authorized its filing.
2. Plaintiff did not acquire the securities that are the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action or any other litigation under the federal securities laws.
3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.
4. Plaintiff has made the following transaction(s) during the Class Period in the securities that are the subject of this action:

<u>No. of Shares</u>	<u>Stock Symbol</u>	<u>Buy/Sell</u>	<u>Date</u>	<u>Price Per Share</u>
<u>2000</u>	<u>USIT</u>	<u>BUY</u>	<u>9-20-2000</u>	<u>2.54</u>
<u>600</u>	<u>USIT</u>	<u>BUY</u>	<u>10-03-2000</u>	<u>2.125</u>

Please list other transactions on a separate sheet of paper, if necessary.

5. During the three years prior to the date of this Certificate, Plaintiff has not sought to serve or served as a representative party for a class in an action filed under the federal securities laws except as detailed below:

6. The Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's pro-rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 6 day of FEB, 2001.

Lihong Zhang
Signature

Lihong Zhang
Print Name