

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

CAMILLE DEFILLIPPO, on behalf of herself
and all others similarly situated,

Plaintiff,

v.

WORLDWIDE XCEED GROUP, INC.,
SCOTT A. MEDNICK, WERNER G.
HAASE, NURIT K. HAASE, WILLIAM
ZABIT, and JOHN P. GANDOLFO,

Defendants

Civ. No.

CLASS ACTION COMPLAINT

JURY TRIAL DEMANDED

Plaintiff, for her class action complaint, alleges upon personal knowledge as to herself and her own acts, and upon information and belief as to all other matters, based upon the investigation made by and through her attorneys, which included, inter alia, a review of articles in the financial news media, press releases, and other publicly available information concerning trading in the securities of Worldwide Xceed Group, Inc., formerly named Xceed, Inc.

NATURE OF THE ACTION

1. This is a class action on behalf of a class (the "Class") of all persons who purchased the common stock of Worldwide Xceed Group, Inc., formerly named Xceed, Inc. (hereinafter "Xceed" or the "Company"), between November 29, 1999, and November 15, 2000 (the "Class Period), seeking to pursue remedies under the Securities Exchange Act of 1934.

JURISDICTION AND VENUE

2. This action arises under §10(b) of the Securities & Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. §240.10b-5.

3. Jurisdiction is conferred upon this Court by §27 of the Exchange Act, 15 U.S.C §78aa and 28 U.S.C. § 1331 (federal question jurisdiction).

4. Venue is proper in this District pursuant to § 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Xceed maintains its principal executive offices in this District and many of the acts complained of herein occurred in this District.

5. In connection with the acts alleged herein, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including the facilities of a national securities exchange.

PARTIES

6. Plaintiff Camille Defillippo purchased Xceed common stock during the Class Period, as set forth in the certification attached hereto and incorporated herein by reference, and has suffered substantial damages as a result of the wrongful acts of defendants as alleged herein..

7. Defendant Xceed is a Delaware corporation and maintains its principal executive offices at 233 Broadway, New York, New York 10279. The Company purports to provide consulting services and digital solutions to corporations and businesses to compete more effectively in the network economy and to accelerate the development of eBusiness

solutions.

8. Defendant Scott A. Mednick (“Mednick”) was, at all relevant times, Co-Chairman of the Board of Directors of the Company until his resignation effective December 15, 2000. In 1999 defendant Mednick received a salary of \$350,000 and a bonus of \$1,080,000.

9. Defendant Werner G. Haase (“Haase”) was, from March 2000 until his resignation in August 2000, Co-Chairman and Chief Executive Officer and President of Xceed. In 1999 defendant Haase received \$500,000 in salary and a bonus of \$150,000 and additional compensation of \$84,299.

10. Defendant Nurit K. Haase (“N. Haase”) was Senior Vice President and Secretary of the Company at all relevant times up until her resignation on July 31, 2000. Defendant N. Haase received \$250,000 as salary from the Company for each year from 1997 to 1998, inclusive. Defendant N. Haase sold 200,000 shares of Xceed common stock for the artificially inflated price of \$7 per share during the Class Period on April 17, 2000, while in possession of adverse material, non-public information regarding Xceed, as described herein. Defendant N. Haase also was the sole shareholder and director of Journey Corp.Com, which purchased the assets of the Company's wholly owned subsidiary, Journeycraft, for a promissory note of \$ 704,000 at 6% interest and an exclusivity agreement, on July 31, 2000.

11. Defendant John Gandolfo (“Gandolfo”) was, from November 1999 until his resignation on September 29, 2000, the Company’s Senior Vice-President and Chief Financial Officer.

12. Defendant William Zabit (“Zabit”) was, at all relevant times up to March 2000, the Company’s President. In 1999 defendant Zabit received a \$400,000 salary and other compensation of \$7,066.00. Defendant Zabit sold 11,500 shares of Xceed common stock for the artificially inflated price of \$12 per share during the Class Period on July 17, 2000 while in possession of adverse material, non-public information regarding Xceed, as described herein.

13. The defendants referenced in paragraphs 8-12 above are referred to herein as the "Individual Defendants."

CLASS ACTION ALLEGATIONS

14. Plaintiff brings this action on behalf of a class (the “Class”) pursuant to Federal Rules of Civil Procedure 23(a) and 23(b)(3) consisting of all persons who purchased Xceed’s common stock from November 29, 1999 through and including November 15, 2000 (the “Class Period”). Excluded from the Class are officers and/or directors of the Company, members of their immediate families, any entity in which any defendant has a controlling interest or is a parent or subsidiary of or is controlled by the Company.

15. The members of the Class are so numerous that joinder of all members is impracticable. Although the exact number of class members is unknown at this time and can only be ascertained from books and records maintained by the Company and/or its agents, plaintiff believes there are thousands of members of the Class.

16. The members of the Class are located throughout the United States. The names and addresses of the record owners of the shares of common stock purchased during the Class Period are available from the Company and/or its transfer agent(s). Notice can be

provided to purchasers of the Company's common stock by a combination of published notice and first class mail using the form of notice similar to that customarily used in securities class actions.

17. There are questions of law and fact common to the Class that predominate over questions affecting any individual member of the Class. Among the questions of law and fact common to the Class are:

- (a) whether the federal securities laws were violated by defendants' acts and omissions as alleged herein;
- (b) whether defendants engaged in any act, practice, or course of business which operated or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of Xceed's common stock;
- (c) whether the defendants knowingly and/or recklessly disseminated material information in violation of the Exchange Act;
- (d) whether defendants' actions constituted a scheme or artifice to defraud; and
- (e) whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

18. Plaintiff's claims are typical of the claims of the members of the Class as plaintiff and members of the Class sustained damages arising out of defendants' wrongful conduct in violations of federal law as complained of herein.

19. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class action securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

20. A class action is superior to other available methods for the fair and efficient

adjudication of this controversy since joinder of all members of the Class is impracticable. Furthermore, because the damages suffered by individual class members may be relatively small, the expense and burden of individual litigation make it virtually impossible for the class members individually to redress the wrongs done to them. Plaintiff envisions no difficulty in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

21. On November 29, 1999, defendant Xceed filed its Form 10-K for the fiscal year ended August 31, 1999 (“1999 10-K”) with the SEC, which was signed by defendants Haase, Mednick, and Zabit, among others. The 1999 10-K reported that Xceed had revenues of \$73,725,000 and a Net Loss of \$7,610,000 for the fiscal year ended August 31, 1999.

22. The 1999 10-K represented how Xceed accounted for Goodwill and Identifiable Intangible Assets stating, in pertinent part, as follows:

Goodwill and other intangible assets resulting from the Company’s acquisitions of Internet professional services firms is estimated by management to be associated with the workforce acquired, customer base, industry contacts, and technological know-how. Accordingly, a significant portion of the purchase price of each acquisition is considered to relate to goodwill. As a result of the rapid technological changes occurring in the Internet industry and the intense competition for qualified Internet professionals, goodwill recorded in connection with the Company’s acquisitions of Internet professional services firms is amortized on a straight-line basis over the estimated period of benefit (seven years). Goodwill recorded in connection with the Company’s acquisition of a corporate communications firm is amortized on a straight-line basis over twelve years.
(Emphasis added)

23. On January 14, 2000, Xceed filed its Form 10-Q for the quarter ended November 30, 1999 (“First Quarter 10-Q”) with the SEC, which was signed by defendant

Haase. The First Quarter 10-Q reported that Xceed had revenues of \$18,207,000 and a net loss of \$4,081,000 for the three months ended November 30, 1999.

24. On April 11, 2000, Xceed filed its Form 10-K/A for the fiscal year ended August 31, 1999 ("1999 Amended 10-K") with the SEC, which was signed by defendants Haase, Mednick, Zabit and Gandolfo, among others. The 1999 Amended 10-K reported that Xceed had revenues of \$63,450,000 and a net loss of \$7,610,000 for the fiscal year ended August 31, 1999.

25. The 1999 Amended 10-K represented that the Company accounted for Long-Lived Assets as follows:

The Company follows the provisions of SFAS No. 121. This statement establishes financial accounting and reporting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to these assets to be held and used, and for long-lived assets and certain identifiable intangibles to be disposed of. The Company reviews long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the fair value of the asset. If other events or changes in circumstances indicate that the carrying amount of an asset that the Company expects to hold and use may not be recoverable, the Company will estimate the undiscounted future cash flows expected to result from the use of the asset and its eventual disposition, and recognize an impairment loss. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

26. Additionally, in the 1999 Amended 10-K, Xceed set forth its accounting policy for Goodwill and other intangible assets which affirmatively represented that the amortizing of intangible assets associated with the customer base, workforce and contacts would be amortized over seven years:

Goodwill and other intangible assets— Goodwill, which represents the excess of the

purchase price over the fair value of the net assets acquired, is being amortized over a period of seven to twelve years, on a straight-line basis. Other identifiable intangible assets are associated with customer base, workforce and industry contacts are being amortized over a seven-year period on a straight-line basis... (Emphasis added).

27. On April 11, 2000, Xceed filed its Form 10-Q/A for the quarter ended November 30, 1999 (“First Quarter Amended 10-Q”) with the SEC, which was signed by defendant Haase. The First Quarter Amended 10-Q reported that Xceed had revenues of \$15,495,000 and a net loss of \$4,081,000 for the three months ended November 30, 1999.

28. On April 14, 2000, Xceed filed its Form 10-Q for the quarter ended February 20, 2000 (“Second Quarter 10-Q”) with the SEC, which was signed by defendant Haase. The Second Quarter 10-Q reported that Xceed had revenues of \$25,543,000 and \$41,038,000 and a net loss of \$3,968,000 and \$8,048,000 for the three and six months ended February 29, 2000, respectively.

29. The net losses reported in the First Quarter 10-Q and the Second Quarter 10-Q were materially false and misleading because the net losses were materially understated in violation of GAAP. The understatement of the net losses resulted from, among other things, a materially inadequate “Allowance for Uncollectible Receivables” and the concurrent material understatement of the “Provision of Doubtful Accounts” in violation of GAAP Statements of Financial Accounting Standards (“SFAS”) No.5-Accounting for Contingencies, as set forth more fully below.

30. Xceed filed its Form 10-Q for the quarter ended May 31, 2000 (“Third Quarter 10-Q”) with the SEC on July 13, 2000, which was signed by defendant Gandolfo. The Third Quarter 10-Q reported that Xceed had revenues of \$33,663,000 and \$74,701,000

and a net loss of \$7,528,000 and \$15,576,000 for the three and nine months ended May 31, 2000, respectively.

31. Xceed filed its Form 10-K for the fiscal year ended August 31, 2000 (“2000 10-K”) with the SEC on November 15, 2000, which was signed by defendants Haase and Mednick, among others. The 2000 10-K reported that Xceed had revenues of \$108,441,000 and a net loss of \$154,450,000 for the fiscal year ended August 31, 2000.

32. Xceed’s 1999 10-K, 1999 Amended 10-K, First Quarter 10-Q, First Quarter Amended 10-Q, Second Quarter 10-Q, Third Quarter 10-Q and 2000 10-K are hereinafter, collectively, referred to as “XCEED’S FILINGS.”

XCEED’S FALSE FINANCIAL STATEMENTS

33. Pursuant to GAAP, a company's financial statements are required to state the net realizable value of its accounts receivable. That is accomplished by reducing the accounts receivable by estimated uncollectible amounts.

34. As described below, Xceed substantially underreported the allowance for uncollectible accounts receivable. Then, suddenly, in the quarter ending August 31, 2000, Xceed took a substantial adjustment which jumped to as much as 44.64% of its accounts receivable, to belatedly attempt to compensate for its improper underreporting in the prior quarters (e.g., the quarters ending February 29, 2000 and May 31, 2000).

35. It was not until Xceed filed its 2000 10-K that the Company abruptly recorded a Fourth Quarter Adjustment that:

. . . increased the provision for the allowance of uncollectible accounts receivable in the amount of \$9,267 as a result of certain customers experiencing

cash flow difficulties as a result of a decline in the economic marketplace for start up and dot-com companies that began to occur during the fourth quarter. (Dollars in thousands)

36. Neither the 1999 10-K nor the 1999 Amended 10-K disclosed Xceed's accounting policy pertaining to its "Allowance for Uncollectible Accounts".

37. Xceed's 2000 10-K disclosed Xceed's accounting policy pertaining to its "Allowance for Uncollectible Accounts" by stating in its Summary of Significant Accounting Policies the following:

The Company evaluates the need for an allowance of uncollectible accounts receivable based on the customer's ability to pay and history of past payments. Recoveries of previously written off accounts are recorded as an increase in the allowance. During the years ended August 31, 2000, 1999 and 1998, the Company recorded a provision for estimated uncollectibles of \$9,267, \$1,000 and \$4 respectively, which was offset by write-offs of uncollectible accounts of \$1,098, \$0, and \$133, respectively. During the year ended August 31, 1999, \$165 of recoveries on previously written off accounts were recorded. (Dollars in thousands)

38. Xceed's First Quarter 10-Q, First Quarter Amended 10-Q, Second Quarter 10-Q and Third Quarter 10-Q each stated that the financial statements included in the respective filings reflected all adjustments which were necessary to fairly present the results for the reported periods. Each of the aforementioned Form 10-Qs also stated that the Form 10-Q should be read in conjunction with the financial statements and footnotes included in the effective Form 10-K.

39. An analysis of data pertaining to Accounts Receivable, Allowance of Uncollectible Accounts contained in XCEED'S FILINGS appears below:

For Quarter Ended	Accounts Receivables	Allowance	Allowance
8/31/99	\$11,058,000	\$1,190,000	10.76%
11/30/99	\$13,984,000	\$1,790,000	12.80%
2/29/00	\$21,589,000	\$1,790,000	8.29%
5/31/00	\$25,242,000	\$1,597,000	6.33%
8/31/00	\$20,966,000	\$9,359,000	44.64%

40. The allowances in the quarters ending 2/29/00 and 5/31/00 were substantially lower than the prior two quarters. In light of this disparity and the huge increase in the allowance taken in the quarter ending August 31, 2000, defendants' understatement of the allowances for the 2/29/00 and 5/31/00 quarters was intentional or in reckless disregard of Xceed's own stated accounting policy and the principles of GAAP. Not until August 31, 2000 did Xceed's allowance for uncollected accounts receivables suddenly increase to \$9,350,000, which represented as much as 44.64% of accounts receivable at August 31, 2000. Thus, in the fourth quarter, Xceed attempted to compensate for its understatement in the prior quarters by recording a provision of \$8,060,000 for doubtful accounts.

41. The increase in the Provisions for Doubtful Accounts should have been recorded earlier pursuant to SFAS No. 5 because (a) it was probable that receivables recorded at the earlier financial statement dates would not be collected; and (b) the uncollectible amounts could have been reasonably identified or at minimum estimated even if

specific uncollectible receivables could not have been identified.

42. Defendants knew, or, but for their reckless disregard, should have known that receivables recorded in the earlier financial statements (at dates prior to the financial statements contained in the 2000 10-K) would not be collected, because:

- (a) The decline in the economic marketplace began to occur prior to the fourth quarter;
- (b) Xceed's collection terms were short and, therefore, delinquencies were apparent early on; and
- (c) Xceed's client base from acquisitions began to erode from the date of the acquisition.

43. The above demonstrates that the Allowance for Uncollectible Accounts migrated from 10.76% of accounts receivable on August 1, 1999 down to 6.33% of accounts receivable at May 31, 2000 and then up to 44.64% at August 31, 2000, demonstrating that Xceed improperly waited until August 31, 2000, its fiscal year end, to apply SFAS No. 5, rather than applying SFAS No. 5 in each interim period for which financial statements were filed with the SEC.

44. Xceed also materially and falsely underreported and miscomputed the amortization of intangible assets relating to workforce, customer base, technical know-how and industry contacts in connection with its acquisition of Zabit & Associates, Inc., acquired in or about September 1998 (the "Zabit Acquisition"). As set forth below, in violation of its representation that the amortization would occur over seven years, Xceed improperly and in violation of its representations amortized such intangible assets over a more gradual twelve

years.

45. During the fiscal years ended August 31, 1999 and August 31, 2000, Xceed acquired several businesses. The acquisitions were accounted for under the purchase method of accounting.

46. The acquisitions included identifiable intangible assets such as customer base, workforce, technology know-how and industry contacts. The excess of the purchase prices over net assets acquired was recorded as “goodwill”.

47. Xceed’s 2000 10-K disclosed the aforementioned policy as follows:

Goodwill and Intangible Assets— Through August 31, 2000 Goodwill which represents the excess of the purchase price over the fair value of the net assets acquired, is being amortized over a period of seven to twelve years, on a straight-line basis. Other identifiable intangible assets associated with customer base, workforce and industry contacts are being amortized over a seven-year period on a straight-line basis. (Emphasis added).

48. In fact, the net losses represented in XCEED'S FILINGS were materially understated because Defendant Xceed failed to amortize identifiable intangible assets associated with customer base, workforce, technical know-how and industry contacts over seven years as represented. As such, Xceed did not apply its accounting policy as represented concerning the amortization of the identifiable intangible asset-workforce. Instead, such intangible assets were improperly amortized more gradually over twelve years.

49. According to Xceed’s accounting policy, the intangible assets, workforce, technical know-how and industry contacts were to be amortized over seven years as set forth in paragraphs 22 and 26 above. However, Xceed had been amortizing the customer base,

workforce, technical know-how and industry contacts obtained in the Zabit Acquisition in September 1998 over twelve years, instead of seven years.

50. In addition, Xceed used twelve years to amortize the Goodwill resulting from the Zabit Acquisition. Xceed knew, or in the absence of reckless disregard, should have known, that the twelve year amortization period was excessive and would result in the false and misleading material understatement of Xceed's losses during fiscal 1999 and fiscal 2000.

51. Subsequent to August 31, 2000, Xceed altered its Goodwill amortization period to seven years. In the 2000 10K, Xceed disclosed that:

---- Subsequent to August 31, 2000, all remaining goodwill will be amortized over a seven year period.

52. Pursuant to GAAP's Accounting Principles Board ("APB") No. 17 "Intangible Assets", the amortization period should be over the period to be benefitted. In September 1998 when Xceed acquired Zabit the amortization period was twelve years and less than two years later, the amortization period had been changed to seven years which should have been used from the outset.

53. Goodwill in excess of \$30,000,000 was recorded on Xceed's books in regard to the Zabit Acquisition and no identifiable intangible assets for workforce, customer base, technical know-how and industry contacts were recorded. Thus, by amortizing the Goodwill over twelve years instead of seven years, each income statement in XCEED'S FILINGS reported a net loss that was materially understated by approximately \$1.8 million on an annualized basis.

54. As detailed below, and pursuant to the required GAAP accounting for long-lived assets, a publicly traded company is required to review for impairment if the events or change in circumstances indicate that the carrying amount of the long-lived assets may not be recoverable. In fact, Xceed conceded this to be its own accounting policy which it represented it would follow. However, in fact, Xceed failed for a number of quarters to review, identify and/or take the appropriate charge for such assets resulting in an underreporting of net losses, as detailed below.

55. The 2000 10-K of Xceed contained the following disclosure:

Accounting for Long-Lived Assets- The Company reviews long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the fair value of the asset. If other events or changes in circumstances indicate that the carrying amount of an asset that the Company expects to hold and use may not be recoverable, the Company will estimate the undiscounted future cash flows expected to result from the use of the asset or its eventual disposition, and recognize an impairment loss. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. A similar evaluation is made in relation to Goodwill with any impairment loss measured as the amount by which the carrying value of such goodwill exceeds the expected undiscounted future cash flows.

56. Xceed also disclosed in its 2000 10-K that:

...During the fourth quarter of fiscal 2000, the Company evaluated the carrying value of the goodwill and other intangibles, related to their acquisitions. As a result, unamortized goodwill of \$87,055 related to certain of these acquisitions was written off. This write-off was the result of various factors including significant decrease in the number of employees that remained with Xceed following certain acquisitions, a significant decrease in the profit that could be generated from the remaining employees acquired, a loss of recurring projects from the clients assumed through certain acquisitions, and a decrease in fair value of similar type businesses in the current marketplace. (Emphasis added)

(dollars in thousands)

57. The net losses reported by Xceed in its First Quarter 10-Q, First Quarter Amended 10-Q, Second Quarter 10-Q and Third Quarter 10-Q were false and misleading because Xceed intentionally and/or recklessly failed to apply the required GAAP for Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed ("SFAS No.121") for the quarters ended November 30, 1999, February 29, 2000, and May 21, 2000 and, therefore, its net losses for those quarters were materially understated.

58. Pursuant to SFAS No.121 and Xceed's own accounting policy, as set forth in paragraph 25 above, Xceed was required to review long-lived assets whenever events or changes in circumstances indicate that the carrying amounts of the asset may not be recoverable. SFAS No.121 not only applies to tangible assets but also applies to intangible assets (i.e. trademarks, customer base, workforce, industry contacts and technology know-how) and goodwill.

59. Xceed disclosed that among the factors requiring a write-off of \$87,055,000 in the fourth quarter of fiscal 2000 were: (1) significant decreases in the number of employees that remained with Xceed after certain acquisitions; and (2) a loss of recurring projects from clients at acquisitions. In other words, the identifiable intangible assets that became impaired were workforce and customer base.

60. Neither the workforce impairment nor the loss of customers occurred only in the fourth quarter and therefore, pursuant to SFAS No. 121, each prior quarter that was affected by significant erosion required an impairment review and the appropriate charge.

61. Xceed knew, or but for its reckless disregard should have known, that impairment of the identifiable-workforce began prior to the fourth quarter because Xceed recognized in its 1999 10-K that its business was labor intensive; that there was an aggressive competition for employees; and that employees began leaving once the acquisition was made.

62. Concurrently, Xceed knew, or should have known, that impairment of the identifiable customer base began prior to the fourth quarter because Xceed recognized that if it could not retain qualified personnel, it could not retain projects existing at the time of its acquisitions.

63. Xceed, in its 1999 10-K, reported its accounting policy concerning Revenue Recognition. That policy included the following:

Revenues for internet and e-commerce programs and long-term performance improvement programs are recognized using primarily the percentage of completion method whereby revenue and related costs are recognized as work as the contract progresses. Provisions for contract adjustments and losses are recorded in the period such items are identified.

Billings and costs of performance programs are recorded on the balance sheets, as program costs and earnings, until the program is essentially complete, at which time the Company recognizes revenue and expenses. Performance program costs include the costs of goods and services incurred for award fulfillment.

Revenue from corporate travel management division is recognized upon the ticketing of the related flights.

64. Xceed, in its 1999 Amended 10-K, set forth its Revenue Recognition policy as follows:

The Company has historically earned revenues from three segments of its business:

- * Health products (Water-Jel division);
- * Travel management (Journey Corp. division:) and
- * Integrated corporate communications (including its Internet Professional Services and Performance Enhancement Business).

Revenues from the sale of health products are earned when goods are shipped to the customer and provision is made for the estimated returns on such shipments which is reflected as a reduction of revenue.

Revenues from the travel management business are recognized upon the ticking of flights.

Revenues for the Company's Internet Professional Services and Performance Enhancement Business are recognized based on the nature of the contract. Revenues from fixed price contracts are recognized using the percentage of completion method. Revenues from time-and-materials contracts are accounted for as time is incurred.

65. Xceed's 2000 10-K reported its Revenue Recognition Policy as follows:

The Company has historically earned revenues from three segments of its business, (1) Health products (Water-Jel division); (2) Travel Management (JourneyCorp division); and (3) Integrated corporate communications (including its Internet Professional Services and Performance Enhancement Business).

Revenues from the sale of health products are earned when goods are shipped to the customer. A provision is made for estimated returns on such shipments, which is reflected as a reduction of revenue.

Revenues from the travel management business are recognized upon the ticketing of flights.

Revenues from the Company's Internet Professional Services and Performance Enhancement Business are recognized based on the nature of the contract. Revenues from fixed price contracts are recognized using the percentages of completion method. Revenues from time-and-materials contracts are

accounted for as time is incurred, with the exception of certain projects in the Performance Enhancement Business, for which revenue is recognized on a completed contract basis.

66. Xceed knew, or should have known, but for their reckless disregard, that the Revenues reported in XCEED'S FILINGS were materially overstated and that the Net Losses reported in XCEED'S FILINGS were understated because Xceed used the "percentage of completion" method of reporting revenues for "fixed price contracts" in violation of GAAP.

67. GAAP's Statement of Position 81-1 - Accounting for Performance of Construction-Type and Certain Production-Type Contracts ("SOP 81-1") requires that in order to use the percentage-of-completion method of accounting (a) a company must have the ability to make reasonably dependable estimates of (1) progress toward completion; (2) contract revenue and (3) contract costs and (b) contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement; and (c) the buyer can be expected to satisfy his obligations under the contract; and the contractor can be expected to perform his contractual obligations.

68. For the reasons set forth below, Xceed had not met all the requirements of SOP 81-1 pertaining to fixed price contracts and therefore was prohibited from using the percentage of completion method of reporting revenues. For example, Xceed reported in its 1999 Amended 10-K, filed April 11, 2000, that:

.... in the past, we have been required to commit unanticipated additional resources to complete projects... (emphasis added)

69. Xceed also disclosed in the Risk Factors Section of its 2000 10-K that

...Failure to anticipate technical problems, estimate costs accurately or control costs during performance of fixed-price contracts may reduce our profits or cause a loss....

70. In addition, because Xceed had an erosion of the workforce which it acquired through acquisitions, Xceed's ability to project the labor costs of fixed-price contracts was impaired.

71. The Allowance for Uncollectible Receivables as of August 31, 2000 exceeded 44% of Accounts Receivable and was itself an indication that Xceed knew that the buyers could not be expected to satisfy their obligations. In addition, contracts were cancellable on thirty (30) days notice.

72. For the reasons stated above, the percentage of completion method of accounting for revenue was patently inappropriate, could not be used by defendants and was used by defendants in violation of GAAP.

COUNT I

AGAINST ALL DEFENDANTS FOR VIOLATIONS OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5

73. Plaintiff incorporates ¶¶ 1 through 72 by reference.

74. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not

misleading.

75. Defendants violated § 10(b) of the 1934 Act and Rule 10b-5, promulgated thereunder, in that they:

- (a) Employed devices, schemes, and artifices to defraud;
- (b) Made untrue statements of material facts or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which there 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 others similarly situated in connection with their purchases of Xceed common stock during the Class Period.

76. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Xceed stock. Plaintiff and the Class would not have purchased Xceed stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

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

COUNT II

AGAINST ALL DEFENDANTS FOR VIOLATION OF § 20(A) OF THE EXCHANGE ACT

78. Plaintiff incorporates ¶¶ 1 through 77 by reference.

79. The Individual Defendants acted as controlling persons of Xceed within the meaning of § 20(a) of the Exchange Act. By reason of their positions with Xceed and ownership of Xceed stock, the Individual Defendants had the power and authority to cause Xceed to engage in the wrongful conduct complained of herein. Xceed controlled each of the Individual Defendants and all of its employees. By reason of such conduct, the Individual Defendants and Xceed are liable pursuant to § 20(a) of the Exchange Act.

PRAYER FOR RELIEF

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

- A. Declaring this action to be a class action properly maintained 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 28, 2001

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