5B TECHNOLOGIES CORP
Form 10-Q
November 19, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

COMMISSION FILE NUMBER 0-27190

5B TECHNOLOGIES CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	11-3529387
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

100 SUNNYSIDE BOULEVARD, WOODBURY, NEW YORK	11797
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(516) 677-6100
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT: (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES /X/ NO / /

NUMBER OF SHARES OUTSTANDING AT NOVEMBER 7, 2001:

2,813,350 SHARES OF COMMON STOCK, PAR VALUE $0.04 PER SHARE.

5B TECHNOLOGIES CORPORATION

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SEPTEMBER 30, 2001

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

5B TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Septemb 200
ASSETS	(UNAU
Current assets:	
Cash and cash equivalents	$ 19
Investments available for sale (includes $0 and $298,000 respectively, restricted as collateral)	
Accounts receivable, net of allowance for doubtful accounts of $146,000	1,76
Note receivable for services provided	28
Other current assets	50
Total current assets	2,75
Goodwill, net	1,25

Intangibles, net	91
Software	1,40
Property, plant and equipment (net)	68
Net assets of discontinued operations	
Other assets	31
TOTAL ASSETS	$ 7,32
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Notes payable	$ 1,77
Accounts payable	1,06
Accrued expenses	57
Unearned sales revenue	9
Total current liabilities	3,51
Notes payable	34
TOTAL LIABILITIES	3,85
REDEEMABLE PREFERRED STOCK	1,25
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY:	
Preferred stock, Series C, D, E, F and G, $.01 par value; 5,000,000 shares authorized, 420,000 and 0 shares issued and outstanding, respectively	
Common stock, $.04 par value, 17,500,000 shares authorized, 2,837,850 and 2,165,036 shares issued and outstanding, respectively	11
Additional paid-in capital	17,28
Stock subscription receivable	
Accumulated deficit	(15,13
Treasury stock at cost, 24,500 shares	(5
TOTAL STOCKHOLDERS' EQUITY	2,21
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,32

See accompanying notes to consolidated financial statements.

5B TECHNOLOGIES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000

	(UNAUDITED)	(UNAUDITED)
Net sales	$ 1,546,008	$ 3,057,947
Cost of sales	1,393,398	1,961,762
Gross profit	152,610	1,096,185
Expenses:		
Selling	181,426	205,622
General and administrative expenses	1,047,941	645,520
Total expenses	1,229,367	851,142
(Loss) income from continuing operations	(1,076,757)	245,043
Other income (expense):		
Settlement of lawsuit (note 3)	--	--
Other, net	--	17,228
Interest expense	(10,729)	(26,536)
Interest income	444	26,815
(Loss) income before provision for income taxes and discontinued operations	(1,087,042)	262,550
State and local taxes	--	14,364
(Loss) income from continuing operations	(1,087,042)	248,186
Discontinued operations:		
Income (loss) from discontinued operations, net of income taxes of $0 and $80,892 respectively	--	(139,209)
Gain (loss) on disposal of discontinued operations	--	--
Net (loss) income	$ (1,087,042)	$ 108,977
Preferred dividends	(18,750)	(18,750)
Net (loss) income attributable to common shareholders	$ (1,105,792)	$ 90,227
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	2,328,890	2,138,634
Diluted	2,328,890	2,951,774
BASIC LOSS PER COMMON SHARE:		
Continuing operations	$ (0.47)	$ 0.12
Discontinued operations	$ (0.00)	$ (0.07)
Net loss per share	$ (0.47)	$ 0.04
DILUTED LOSS PER COMMON SHARE:		
Continuing operations	$ (0.47)	$ 0.08
Discontinued operations	$ (0.00)	$ (0.05)
Net loss per share	$ (0.47)	$ 0.03

See accompanying notes to consolidated financial statements.

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5B TECHNOLOGIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30,
UNAUDITED

CASH FLOWS FROM OPERATING ACTIVITIES:
Net loss
Adjustments to reconcile net loss to net cash provided by operating activities:
Loss from discontinued operations
(Gain) loss from disposal of discontinued operations
Bad debt
Depreciation and amortization
Warrants issued in connection with lawsuit settlement
Notes payable issued in connection with lawsuit settlement (net of payments)
Issuance of options and warrants for services
Changes in operating assets and liabilities:
Accounts receivable
Other assets
Accounts payable
Accrued expenses

NET CASH USED IN OPERATING ACTIVITIES FROM CONTINUING OPERATIONS

NET CASH PROVIDED BY OPERATING ACTIVITIES FROM DISCONTINUED OPERATIONS

NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES

CASH FLOWS FROM INVESTING ACTIVITIES:
Purchases of investments
Proceeds from sale of investments
Payments for acquisitions
Purchase of equipment

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES FROM CONTINUING OPERATIONS

NET CASH PROVIDED BY INVESTING ACTIVITIES OF DISCONTINUED OPERATIONS

NET CASH PROVIDED BY INVESTING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES:
Proceeds from issuance of common stock
Proceeds from issuance of preferred stock
Proceeds from exercise of stock options by employees and warrants
Proceeds/repayment from notes payable (net)
Payment of bank fees

NET CASH PROVIDED BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS

NET CASH USED IN FINANCING ACTIVITIES FROM DISCONTINUED OPERATIONS

NET CASH USED IN FINANCING ACTIVITIES

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS, END OF PERIOD

Supplemental non cash financing information:

Rescission of Stock Subscription receivable in connection with lawsuit settlement

Common stock issued to redeem notes payable

Cash paid for income taxes
Cash paid for income taxes for discontinued operations
Cash paid for interest
Cash paid for interest for discontinued operations

See accompanying notes to consolidated financial statements.

5B TECHNOLOGIES CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and Regulation S-X related to interim period financial statements and, therefore, do not include all information and footnotes required by generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the financial position of 5B Technologies Corporation and subsidiaries (the "Company") at September 30, 2001 and its results of operations and cash flows for the three and nine months ended September 30, 2001 and 2000, respectively, have been included (See Note 2).

The financial statements for the three and nine months ended September 30, 2001 include the results of the Company and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated.

The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the entire year. In addition, our auditors included in their report on our financial statements for the year ended December 31, 2000 in our Form 10-K, an explanatory paragraph about our ability to continue as a going concern.

Reference should be made to the annual financial statements, including footnotes thereto, included in the Company's Form 10-K for the fiscal year ended December 31, 2000.

2. DISCONTINUED OPERATION

On May 14, 2001, the Company sold its legal staffing business, which was maintained through a wholly owned subsidiary, Deltaforce Personnel Services, Inc. ("DeltaGroup"), for approximately $1,500,000, plus 50% of revenue in excess of $7.25 million and $7.5 million in the first and second years after closing.

Accordingly, DeltaGroup has been presented as a discontinued operation for the nine months ended September 30, 2001. The balance sheet as of December 31, 2000 and the statements of operations and cash flows for the three and nine months ended September 30, 2001 and 2000, respectively, have been restated to conform to such presentation. The loss on disposal of DeltaGroup includes provisions for estimated losses of approximately $681,000 and a gain on sale, exclusive of contingent consideration, of approximately $473,000, for a total loss of approximately $208,000. The provision for estimated losses of approximately $681,000 is based on management's estimate of future expenses relating to contractual obligations and other expenses related to the staffing business. Net sales for DeltaGroup were approximately $2,636,000 and $5,813,000 for the nine months ended September 30, 2001 and 2000, respectively.

On May 2, 2000, the Company sold the majority of its lease portfolio (the "Assets"), which was maintained through a wholly owned subsidiary, Paramount Operations Inc.

("Paramount"), for approximately $700,000 and the assumption of approximately $6,117,000 of indebtedness related to the Assets. Accordingly, Paramount has been presented as a discontinued operation as of September 30, 2001 and December 31, 2000 and for the three and nine months ended September 30, 2001 and 2000, respectively. The loss on disposal of Paramount includes provisions for estimated losses of approximately $602,000 and a loss on sale of approximately $254,000, for a total loss of approximately $856,000. The provision for estimated losses of approximately $602,000 is based on management's estimate of future income and expenses relating to the remaining lease portfolio and write-downs of certain related assets. Net sales for Paramount were approximately $406,000 and $5,807,000 for the nine months ended September 30, 2001 and 2000, respectively.

The components of net assets of discontinued operation included in the Company's Consolidated Balance Sheets at September 30, 2001 and December 31, 2000, are as follows:

	2001	
DELTAFORCE PERSONNEL SERVICES, INC		
Accounts receivable	$ 21,846	$
Note receivable	300,000	
Other assets	134,303	
Goodwill and intangibles	--	1
Accounts payable	(253,998)	
Accrued expenses	(28,626)	
Notes payable	--	
	173,525	1
PARAMOUNT OPERATIONS INC		
Accounts receivable	23,734	
Net investment in direct finance and sales-type leases	3,089,847	3
Assets held under operating leases, net of accumulated depreciation	161,174	
Other assets	--	
Accrued expenses	(306,405)	

Notes payable	(24,417)	
Obligations for financed equipment - non-recourse	(3,116,374)	(3
	(172,441)	
	$ 1,084	$ 1

3. ACQUISITIONS

(a) On August 16, 2001, the Company acquired the operating assets of Knowledge Strategies Group, Inc. ("KSG"), a privately held New York City based e-commerce web site development and hosting company, in exchange for 150,000 shares of the Company's common stock and the assumption by the Company of certain indebtedness of KSG, including KSG's indebtedness to the Connecticut Bank of Commerce ("CBC"). The Company issued to CBC 140,193 shares of common stock and 4,000, 5,000 and 10,000 shares of the Company's Series C, Series D and Series E 6% Convertible Preferred Stock (the "CBC Preferred Stock"), respectively, in satisfaction of the Company's obligations with respect to such CBC indebtedness. The CBC Preferred Stock is convertible into an aggregate of 648,486 shares of the Company's

common stock at exercise prices, which on that date were greater than the fair market value of the underlying common stock of $2.00, $2.75 and $3.25, respectively; provided, however, that to the extent such CBC Preferred Stock will be converted into shares of common stock that exceeds 19.9% of the Company's outstanding common stock (calculated as of the date of issuance of the CBC Preferred Stock), the Company must first obtain the approval of the Company's stockholders prior to such issuance. The Company has undertaken to obtain such stockholder approval at the annual meeting of stockholders scheduled for 2002. Additionally, the Company has granted certain registration rights with respect to the shares of common stock issuable upon conversion of the CBC Preferred Stock and has undertaken to register the 140,193 shares of common stock issued to CBC within 120 business days of the date of issuance. The terms of the CBC Preferred Stock also contains certain anti-dilution protections, including with respect to issuances of securities by the Company below the market price per share. In connection with the KSG transaction, CBC has amended its credit arrangement with the Company making such arrangement with respect to the mezzanine facility less restrictive (See Note 5).

(b) On August 31, 2001, the Company acquired certain assets, consisting primarily of the customer list, of Anadig Network Solutions, a privately-held consultative network, security, and infrastructure solutions provider. The Company acquired Anadig's client base and key staff in the marketing, engineering, project management and support areas. The Company will pay a percentage of revenues received from the Anadig client based at various rates, depending on the nature of the product and the identity of the client. The payments made to Anadig will terminate on December 31, 2002, except for payments attributable to one client which will extinguish upon termination existing contracts. Anadig's revenues for the 7 months ended June 31, 2001 were approximately $3,000,000.

(c) On September 14, 2001, the Company acquired certain assets of Galt Corporation ("Galt"), a privately held New York based company engaged in the business of application development, web site hosting and the integration of information technology solutions, for 300,000 shares of 5B common stock, 300,000 shares of Series F 6% Convertible Preferred Stock, convertible at $3.33 per share, which on that date was greater than the fair value of the underlying common stock, warrants to acquire 300,000 shares of 5B Common Stock at $1.00 per share and the assumption of certain liabilities. The Series F Preferred Stock will be convertible into an aggregate of 300,000 shares of the Company's common stock (subject to a prohibition on the issuance of shares in excess of 19.9% of the outstanding common stock of the Company (calculated as of the date of issuance of the Series F Preferred Stock) without first obtaining stockholder approval, which the Company will undertake to obtain at the 2002 annual meeting of stockholders). The warrants have an expiration term of five years. In connection with this acquisition the Company entered into employment agreements, through December 31, 2002, with three key executives for an aggregate consideration of $380,000 annually.

The following unaudited pro forma consolidated results of operations for the three and nine months ended September 30, 2001 and 2000 assume that the acquisitions occurred as of January 1, 2000:

Three months ended September 30,	2001	2000
Net revenues	$ 2,189,235	$ 6,652,152
Net loss from continuing operations	1,426,474	366,329
Loss per common share: basic and diluted	$ (0.61)	$ (0.13)

Nine months ended September 30,	2001	2000
Net revenues	$ 8,861,273	$ 22,992,351
Net loss from continuing operations	5,733,618	1,157,082
Loss per common share: basic and diluted	$ (2.46)	$ (0.42)

4. SALE OF SECURITIES

The Company, in September 2001, issued 100,000 shares of Series G Convertible Preferred Stock to Galt Asset Management for $100,000. The Series G Preferred Stock may be converted into Common Stock of the Company at any time after 270 calendar days from the filing date of the Certificate of Designations. Each share of Series G Preferred shall be convertible into a number of fully paid and nonassessable shares of Common Stock at the price per share of Common Stock equal to 100% of the ten (10) calendar day average closing price (the "Average Closing Price") as reported on the NASDAQ Small Cap. Market or if the Common Stock is not trading on such market, on such other market as the Common

Stock most actively trades (subject to a prohibition on the issuance of shares in excess of 19.9% of the outstanding common stock of the Company (calculated as of the date of issuance of the Series G Convertible Preferred Stock) without first obtaining stockholder approval, which the Company will undertake to obtain at the 2002 annual meeting of stockholders). The Series G Convertible Preferred Stock will not pay dividends.

5. LEGAL PROCEEDINGS

In August 2000, Robert Klein commenced a lawsuit against the Company and Deltaforce Personnel Services Inc. in the Supreme Court of New York. The Complaint alleged that the Company breached an agreement to timely register Mr. Klein's stock. In July 2001, a settlement was reached and the Company agreed to pay Mr. Klein $875,000 in cash to be paid over a 3-year period (which has a present value of $820,000), and to issue to Mr. Klein a warrant to purchase 400,000 shares of the Company's common stock, which warrant expires in July 2005, and has an exercise price of $0.75 per share (which warrant is valued at $250,000 based on the Black-Scholes valuation model). Of the cash settlement amount, $500,000 is payable as follows: $150,000 upon execution of the settlement in July 2001, $100,000 on August 1, 2001, $50,000 on September 1, 2001, $100,000 on January 2, 2002 and $100,000 on January 2, 2003; and $375,000 is payable at the rate of $12,500 per month over a period of 30 months commencing on

October 1, 2001. In addition, the stock subscription receivable of $812,500 was rescinded in connection with the settlement. Legal fees relating to the lawsuit approximated $165,000 for the nine months ended September 30, 2001.

On January 4, 2001, La Vista Investors, LLC ("La Vista") commenced an action against the Company. The action seeks compensatory and other damages and equitable relief. Among the remedies La Vista has demanded are the redemption of the preferred stock at a redemption price of $1,250,000, and liquidated damages of $100,000 relating to delays in effectuating the registration statement. On February 6, 2001, the Company responded to the Complaint denying liability for the relief sought and pleading certain affirmative defenses. On February 28, 2001, La Vista made a motion to strike the Company's defenses and for summary judgment. In March 2001, the Company made a motion to amend its Answer to, among other things, plead additional affirmative defenses. The Company also opposed La Vista's motion for summary judgment. On October 1, 2001, the Court issued a decision (i) partially granting the Company's motion to mend its Answer, (ii) partially denying La Vista's motion to strike affirmative defenses and (iii) denying La Vista's motion for summary judgment. The Company believes that it has strong legal defenses and other legal rights and intends to continue to vigorously defend this Action.

Larry Kagan, a former employee of Delta, was terminated for cause on October 14, 1999. In June 2000, Mr. Kagan commenced an arbitration alleging that Delta breached his employment agreement by terminating his employment and that the Company breached a related stock purchase agreement. The arbitration panel reached a decision in September 2001 awarding Mr. Kagan $111,000.00 plus interest and a portion of the costs. The Company intends to bring a proceeding to vacate the arbitration award, however $111,000 has been accrued as of September 30, 2001 relating to the arbiters decision.

6. LINES OF CREDIT

At September 30, 2001, the Company had two credit lines available with Connecticut Bank of Commerce ("CBC"):

5B GROUP REVOLVING CREDIT FACILITY: On May 24, 2001, the Company entered into a revolving credit facility secured by eligible accounts receivable (as defined in the credit facility). The term of the credit facility is two years from the date of closing. Borrowings are limited to 75% of eligible accounts receivable. The rate of interest charged on the facility will be 1 1/2% above the Wall Street prime commercial lending rate, which approximated 6.5% as of September 30, 2001. As of September 30, 2001, 5B Group had $602,000 outstanding under this line. As of September 30, 2001, the Company was not in compliance with its minimum tangible net worth requirements, but has obtained a waiver from CBC for the aforementioned covenant.

MEZZANINE FACILITY: On May 24, 2001, the Company obtained a maximum mezzanine facility of $1,500,000, to be used for future acquisitions and other agreed to purposes. The maximum amount of the mezzanine facility will be limited to the lesser of $1,500,000 and 110% of the total cash, cash equivalents, marketable securities and accounts receivable of the Company less the outstanding amount of the revolving credit facility. The mezzanine facility will mature within two years, or be rolled into the 5B

Group revolving credit facility. The rate of interest charged on the facility will be 2% above the Wall Street prime commercial lending rate, which approximated 6.5% as of September 30, 2001. As of September 30, 2001, 5B Group had approximately $873,000 outstanding under this line, however, in connection with the KSG asset acquisition (See Note 3(a)), CBC has relaxed certain of the above requirements and the Company believes that, subject to CBC's approval, it will be able to use this mezzanine facility for future acquisitions.

The two credit lines also have a requirement to maintain a minimum of $1,000,000 with CBC at all times. If this requirement is not met there is a fee of 2%, which is based on the shortfall. 5B did not meet this cash requirement and has been charged the aforementioned fee.

7. REDEEMABLE PREFERRED STOCK

On April 17, 2000, the Company received an equity investment of $874,465 ($1,000,000 less transaction costs of $125,535) from La Vista Investors, LLC, a fund managed by WEC Asset Management LLC, a New York-based investment company.

In connection with its investment, La Vista received (i) 1,000 shares of the Company's Series A 6% Convertible Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock"), and (ii) a warrant convertible into 100,000 shares of the Company's Common Stock at an exercise price of $10.00 per share of Common Stock (which was deemed to have an immaterial value), subject to certain anti-dilution adjustments. Each share of Series A Preferred Stock is convertible into such number of shares of Common Stock as is determined by dividing $1,000, plus the amount of any accrued and unpaid dividends, by the lower of (i) nine dollars ($9.00) or (ii) 80% of the average of the three lowest Closing Bid Prices (as defined in the Certificate of Designations of the Series A Preferred Stock) of the Company's Common Stock during the thirty (30) trading days immediately preceding the date of notice from a holder of the Series A Preferred Stock of any such conversion. On the commitment date, the conversion price exceeded the market price of the Company's common stock. In August 2000, the Company and the holders of the Company's Series A Preferred Stock agreed to exchange the Series A Preferred Stock for the Series B Preferred Stock on a one-for-one basis. The terms of the Series A Preferred Stock were identical to

those of the Series B Preferred except that the holders of the Series A Preferred Stock had the right to vote together with the holders of Common Stock as a single class.

In addition to the right of the selling stockholder to voluntarily convert its Series B Preferred Stock into shares of the Company's common stock, all unconverted shares of the Series B Preferred Stock will automatically convert into shares of common stock, at the then-applicable conversion formula, on April 17, 2003.

Redemption Rights of Redeemable Preferred Stock

The Company may be obligated to redeem the Series B Preferred Stock if: (1) the number of shares issued upon conversion of the Series B Preferred Stock were to exceed 19.9% of our outstanding common stock, or (2) we fail to conclude certain required actions or if certain enumerated events (as described below) were to occur.

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The Company will be required to redeem the outstanding Series B Preferred Stock at a price equal to 125% of the Liquidation Preference (as defined in the Certificate of Designations) if any of the following events (among others) were to happen: (i) the registration statement registering the shares of common stock into which the Series B Preferred Stock is convertible is not effective by September 27, 2000, (ii) the Company breaches the terms of the Series B Preferred Stock and does not cure such breach within 10 days of notice to us of such breach, (iii) the Company becomes bankrupt by court order or if we voluntarily institute bankruptcy proceedings or if other similar events occur (iv) the Company defaults under any of our material contracts in our businesses or lose a final judgment, where the default or judgment is in excess of $250,000, or (v) there is a Change of Control (as defined in the Certificate of Designations).

Additionally, if the number of shares of common stock issued upon conversion of the Series B Preferred Stock exceeds 19.9% of our outstanding common stock, the Company must take, at its option, one of two actions: (i) redeem all of the remaining shares of Series B Preferred Stock at a price equal to 120% of the Liquidation Preference or (ii) call a special meeting of the Company's stockholders to approve of the issuance of the common stock and use the Company's best efforts to obtain such approval.

The Company's ability to elect the first alternative (i.e., redeem at 120% of the Liquidation Preference) will depend on numerous factors in the future, including whether it has sufficient funds to make such redemption. At September 30, 2001, the Series B Preferred Stock was convertible into 1,262,626 shares of Common Stock, which exceeded the 19.9% limitation.

On September 28, 2000, the Company received notification from La Vista demanding redemption of the outstanding Series B Preferred Stock in accordance with the terms of the Series B Preferred Stock due to the Company's failure to have a registration statement declared effective by September 27, 2000. Although the Company filed a registration statement relating to the Series B Preferred Stock, which was declared effective on February 16, 2001, La Vista instituted a lawsuit against the Company on January 4, 2001. The action seeks compensatory and other damages and equitable relief. Among the remedies La Vista has demanded are the redemption of the preferred stock at a redemption price of $1,250,000, and liquidated damages of $100,000 relating to delays in effectuating the registration statement. On February 6, 2001, the Company responded to the Complaint denying liability for the relief sought and pleading certain

affirmative defenses. On February 28, 2001, La Vista made a motion to strike the Company's defenses and for summary judgment. In March 2001, the Company made a motion to amend its Answer to, among other things, plead additional affirmative defenses. The Company also opposed La Vista's motion for summary judgment. On October 1, 2001, the Court issued a decision (i) partially granting the Company's motion to amend its Answer, (ii) partially denying La Vista's motion to strike affirmative defenses and (iii) denying La Vista's motion for summary judgment. The Company believes that it has strong legal defenses and other legal rights and intends to continue to vigorously defend this Action.

8. NASDAQ REGISTRATION REQUIREMENTS

On July 6, 2001, the Company received a correspondence from the NASDAQ Stock Market in connection with a determination by NASDAQ that the Company did not meet the net

tangible assets and proposed shareholders equity maintenance criteria for continued listing as set forth in Marketplace Rule 4310(c)(2)(B) and the proposed amendment to Marketplace Rule 4310(c)(2)(B)(i), respectively. Although NASDAQ had determined to delist the Company's securities on July 16, 2001, the Company requested a hearing before the NASDAQ Listing Qualifications Panel to appeal the delisting determination, which will stay such delisting pending the outcome of the hearing. The Company appeared at the hearing on August 23, 2001. The panel found that the Company failed to meet the NASDAQ requirement as of June 30, 2001; however the panel granted the Company a temporary exception subject to the Company meeting certain conditions as follows: (1) On or before November 9, 2001 the Company submitted to NASDAQ executed final documentation in connection with the recently completed acquisitions of Knowledge Strategies Group, Inc., Anadig Corp. and Galt Corporation and (2) on or before November 15, 2001, the Company must file the Form 10-Q for the quarter ending September 30, 2001 evidencing shareholders' equity of at least $2,500,000. In the event that the Company is deemed to have met the terms of the exception, it shall continue to be listed on The NASDAQ Small Cap Market. The Company can not make any assurances it will meet these requirements.

9. NET LOSS PER COMMON SHARE

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding. Diluted loss per share reflects, in periods in which they have a dilutive effect, the effect of common shares issuable upon exercise of stock options and warrants. Income attributable to common stockholders is computed by increasing net loss by dividends on preferred stock and other adjustments.

Options to purchase approximately 771,583 shares of common stock at exercise prices ranging from $0.85 to $12.00 per share and warrants to purchase approximately 460,000 shares of common stock at exercise prices ranging from $0.85 to $2.34 per share were outstanding during the nine months ended September 30, 2001. Options to purchase approximately 524,550 shares of common stock at exercise prices ranging from $0.44 to $13.25 per share and warrants to purchase approximately 110,000 shares of common stock at prices ranging from $0.85 to $2.34 per share were outstanding during a portion of 2000. These options and warrants expire through 2011 and 2004, respectively.

10. SEGMENT INFORMATION

The Company's results of operations are reviewed and managed through two segments (i) corporate overhead ("5B") and (ii) Internet, e-commerce and systems

integration ("5B Group"). The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies, which can be found on pages F-7 through F-11 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000. The following represents selected financial information for the Company's segments for the three and nine months ended September 30, 2001 and 2000:

11

	5B	5B Group	Total
Three months ended September 30, 2001			
Revenues	$ --	$ 1,546,008	$ 1,546,008
Cost of sales	--	1,393,398	1,393,398
Selling	17,417	164,009	181,426
General and Administrative	120,718	927,223	1,047,941
Interest expense	1,115	9,614	10,729
Pre-tax loss	(43,297)	(1,043,745)	(1,087,042)
Assets	$ 454,975	$ 6,870,913	$ 7,325,888
Three months ended September 30, 2000			
Revenues	$ --	$ 3,057,947	$ 3,057,947
Cost of sales	--	1,961,762	1,961,762
Selling	13,220	192,402	205,622
General and Administrative	13,531	631,989	645,520
Interest expense	6,148	20,388	26,536
Pre-tax (loss) income	(9,556)	272,106	262,550
Assets	$ 4,149,543	$ 4,697,659	$ 8,847,202
Nine months ended September 30, 2001			
Revenues	$ --	$ 4,308,400	$ 4,308,400
Cost of sales	--	3,508,307	3,508,307
Selling	84,580	739,351	823,931
General and Administrative	301,856	2,226,222	2,484,520
Interest expense	10,729	37,866	53,090
Pre-tax loss	(1,554,688)	(2,141,996)	(3,696,684)
Assets	$ 454,975	$ 6,870,913	$ 7,325,888
Nine months ended September 30, 2000			
Revenues	$ --	$ 12,476,578	$ 12,476,578
Cost of sales	--	9,520,048	9,520,048
Selling	61,437	567,289	628,726
General and Administrative	598,659	1,728,767	2,327,426
Interest expense	27,237	67,155	94,392
Pre-tax (loss) income	(656,759)	635,489	(21,470)
Assets	$ 4,149,543	$ 4,697,659	$ 8,847,202

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11. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, BUSINESS COMBINATIONS (SFAS 141), and No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that the Company reclassify, if necessary, the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test nine months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The Company's previous business combinations were accounted for using the purchase method. As of June 30, 2001, the net carrying amount of goodwill is approximately $1,574,000, approximately $486,000 was recorded prior to June 30, 2001, and other intangible assets and software are $2,191,000. Amortization expense during the nine-month period ended September 30, 2001 was $190,000. At present, the Company is currently assessing but has not yet determined the impact the adoption of SFAS 141 and SFAS 142 will have on its financial position and results of operations.

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In August 2001, the FASB issued FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("FAS144"). This statement supercedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("FAS121") and Accounting Principles Board Opinion No. 30, Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. FAS144 retains the fundamental provisions of FAS 121 for recognition and measurement of impairment, but amends the accounting and reporting standards for segments of a business to be disposed of. FAS144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged.

The provisions of FAS144 generally are to be applied prospectively. The Company believes that the adoption of FAS144 will not have a material impact on the Company's financial position or results of operations.

12. SUBSEQUENT EVENTS

The financial statements and discussions contained in this Form 10-Q do not reflect the following transaction. Effective August 31, 2001, 5B Technologies Corporation, through a subsidiary, acquired certain assets of Anadig Corporation. On that date, Anadig Corporation received a letter of authorization from a customer (which letter was assigned by Anadig to 5B), to place an order for Cisco Systems infrastructure equipment totaling approximately $1,090,779 plus engineering services, for a total transaction value of $1,175,489. 5B's cost of the transaction was $889,973, producing a gross profit of $285,516. Signed purchase orders from such customer were received by 5B on September 21, 2001. Upon receipt of those purchase orders, 5B ordered the Cisco Systems equipment. 5B subsequently received letters from the customer (i) requesting that the Cisco equipment be delivered in October and (ii) confirming that title to and responsibility for the Cisco equipment transferred to the customer on September 30, 2001. If such transaction had been included in this form 10-Q, the shareholders equity would have been $2,505,044.

ITEM2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by, the unaudited financial statements, including the notes thereto, appearing elsewhere in this 10-Q.

RECENT DEVELOPMENTS

The third quarter of 2001 has represented a difficult time for the technology industry. Many technology companies have closed their doors while the remaining companies are competing for clients at all levels. 5B Technologies Corporation has not escaped this industry downturn, but is aggressively trying to maintain its clients and market share as well as grow its core business.

On July 6, 2001, the Company received a correspondence from the NASDAQ Stock Market in connection with a determination by NASDAQ that the Company did not meet the net tangible assets and proposed shareholders equity maintenance criteria for continued listing as set forth in Marketplace Rule 4310(c)(2)(B) and the proposed amendment to Marketplace Rule 4310(c)(2)(B)(i), respectively. Although NASDAQ had determined to delist the Company's securities on July 16, 2001, the Company requested a hearing before the NASDAQ Listing Qualifications Panel to appeal the delisting determination, which will stay such delisting pending the outcome of the hearing. The Company appeared at the hearing on August 23, 2001. The panel found that the Company failed to meet the NASDAQ requirement as of June 30, 2001; however the panel granted the Company a temporary exception subject to the Company meeting certain conditions as follows: (1) On or before November 9, 2001 the Company must submit to NASDAQ executed final documentation in connection with the recently completed acquisitions of Knowledge Strategies Group, Inc., Anadig Corp. and Galt Corporation and (2) on or before November 15, 2001, the Company must file the Form 10-Q for the quarter ending September 30, 2001 evidencing shareholders' equity of at least $2,500,000. In the event that the Company is deemed to have met the terms of the exception, it shall continue to be listed on The NASDAQ Small Cap Market. The Company can not make any assurances it will meet these

requirements.

While the Klein lawsuit and the potential NASDAQ delisting are negative matters, the Company is moving forward to expand its operations in a tight market. On August 16, 2001, the Company acquired the operating assets of Knowledge Strategies Group ("KSG"), a privately held New York City based e-commerce web site development and hosting company. Founded in 1995, Knowledge Strategies Group focuses on delivering innovative business solutions that leverage KSG's proprietary technology and design expertise. With a strong retail focus (which is a market that the Company is currently not competing in), KSG builds e-commerce enabled websites, business-to-business networks and intranets for the most respected names in the retail marketplace. KSG has developed a formidable roster of clients that transform and guide the digital marketplace, including Bloomingdale's, Ermenegildo Zegna, Ghurka, Arrow Shirts, Telebeam and Gold Toe Socks.

In March 2000, KSG acquired Eosk.com, the leader in e-commerce enabled kiosks, furthering the development of complete Omnitailing solutions. By utilizing multiple channels

including stores, Web sites, kiosks, handheld computers and wireless devices, Omnitailing allows businesses to connect to consumers in more ways than have ever before been possible.

On August 16, 2001, the Company acquired the operating assets of Knowledge Strategies Group, Inc. ("KSG"), a privately held New York City based e-commerce web site development and hosting company, in exchange for 150,000 shares of the Company's common stock and the assumption by the Company of certain indebtedness of KSG, including KSG's indebtedness Connecticut Bank of Commerce ("CBC"). The Company issued to CBC 140,193 shares of common stock and 4,000, 5,000 and 10,000 shares of the Company's Series C, Series D and Series E 6% Convertible Preferred Stock (the "CBC Preferred Stock"), respectively, in satisfaction of the Company's obligations with respect to such CBC indebtedness. The CBC Preferred Stock is convertible into an aggregate of 648,486 shares of the Company's common stock at exercise prices, which on that date were greater than the fair market value of the underlying common stock of $2.00, $2.75 and $3.25, respectively; provided, however, that to the extent such CBC Preferred Stock will be converted into shares of common stock that exceeds 19.9% of the Company's outstanding common stock (calculated as of the date of issuance of the CBC Preferred Stock), the Company must first obtain the approval of the Company's stockholders prior to such issuance. The Company has undertaken to obtain such stockholder approval at the annual meeting of stockholders scheduled for 2002. Additionally, the Company has granted certain registration rights with respect to the shares of common stock issuable upon conversion of the CBC Preferred Stock and has undertaken to register the 140,193 shares of common stock issued to CBC within 120 business days of the date of issuance. The terms of the CBC Preferred Stock also contains certain anti-dilution protections, including with respect to issuances of securities by the Company below the market price per share. In connection with the KSG transaction, CBC has amended its credit arrangement with the Company making such arrangement with respect to the mezzanine facility less restrictive (See Note 5).

On August 31, 2001, the Company acquired certain assets, consisting primarily of the customer list, of Anadig Network Solutions, a privately-held consultative network, security, and infrastructure solutions provider. The Company acquired Anadig's client base and key staff in the marketing, engineering, project management and support areas. The Company will pay a percentage of revenues received from the Anadig client based at various rates,

depending on the nature of the product and the identity of the client. The payments made to Anadig will terminate on December 31, 2002, except for payments attributable to one client which will extinguish upon termination existing contracts. Anadig's revenues for the 7 months ended June 31, 2001 were approximately $3,000,000.

On September 14, 2001, the Company acquired certain assets of Galt Corporation ("Galt"), a privately held New York based company engaged in the business of application development, web site hosting and the integration of information technology solutions, for 300,000 shares of 5B common stock, 300,000 shares of Series F 6% Convertible Preferred Stock, convertible at $3.33 per share, which on that date was greater than the fair value of the underlying common stock, warrants to acquire 300,000 shares of 5B Common Stock at $1.00 per share and the assumption of certain liabilities. The Series F Preferred Stock will be convertible into an aggregate of 300,000 shares of the Company's common stock (subject to a prohibition on the issuance of shares in excess of 19.9% of the outstanding common stock of the Company (calculated as of the date of issuance of the Series F Preferred Stock) without first obtaining

stockholder approval, which the Company will undertake to obtain at the 2002 annual meeting of stockholders). The warrants have an expiration term of five years. In connection with this acquisition the Company entered into employment agreements, through December 31, 2002, with three key executives for an aggregate consideration of $380,000 annually.

The Company, in September 2001, issued 100,000 shares of Series G Convertible Preferred Stock to Galt Asset Management for $100,000. The Series G Preferred Stock may be converted into Common Stock of the Company at any time after 270 calendar days from the filing date of the Certificate of Designation. Each share of Series G Preferred shall be convertible into a number of fully paid and nonassessable shares of Common Stock at the price per share of Common Stock equal to 100% of the ten (10) calendar day average closing price (the "Average Closing Price") as reported on the NASDAQ Small Cap. Market or if the Common Stock is not trading on such market, on such other market as the Common Stock most actively trades (subject to a prohibition on the issuance of shares in excess of 19.9% of the outstanding common stock of the Company (calculated as of the date of issuance of the Series G Convertible Preferred Stock) without first obtaining stockholder approval, which the Company will undertake to obtain at the 2002 annual meeting of stockholders). The Series G Convertible Preferred Stock will not pay dividends.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2000

For the three months ended September 30, 2001, the Company recorded sales revenue of $1.6 million; a $1.5 million decrease from the $3.1 million recorded during the three months ended September 30, 2000. The decrease in sales at 5B Group is a result of the timing of new projects being authorized, which the Company believes is due to the economy, both nationally and regionally.

Cost of sales consists of all direct labor costs and other costs, such as payroll taxes, employee benefits, outside contractors and equipment purchases, related to each project or individual sale. For the three months ended September 30, 2001, the Company recorded cost of sales of $1.4 million; an increase of $568,000 compared to the $2.0 million recorded for the three months ended September 30, 2000. The reason for the increase is due to unassigned engineers

and an increasingly competitive market. The Company has had various lay-offs to reduce the amount of unassigned time and consolidate its workforce.

Selling expense consists of all sales force salaries, commissions and associated costs. Selling expense for the three months ended September 30, 2001 was $181,000, a 11% decrease over the $206,000 recorded in the comparable prior period. 5B Group reported selling expenses of $164,000, or 10% of revenue, for the three months ended September 30, 2001 compared to $192,000, or 6% of revenue for the three months ended September 30, 2000. The decrease in selling expenses for 5B Group is predominantly due to a restructuring of the sales force and lower commissions being paid, due to a reduction in sales.

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General and administrative expenses totaled $1.0 million, or 63% of revenue, for the three months ended September 30, 2001, representing an increase of $402,000 compared to the $645,000, or 21% of revenue, recorded during the three months ended September 30, 2000. 5B Group reported general and administrative expenses of $927,000, or 58% of revenue, for the three months ended September 30, 2001 compared to $632,000, or 21% of revenue, for the three months ended September 30, 2000. The increase is attributable to the various acquisitions which has led to additional operating expenses.

Net loss from continuing operations was $1.1 million for the three months ended September 30, 2001 compared to the $248,000 net income recorded in the comparable prior period.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000

For the nine months ended September 30, 2001, the Company recorded sales revenue of $4.3 million; a $8.2 million decrease from the $12.5 million recorded during the nine months ended September 30, 2000. $5.0 million, of the $7.1 million decrease related to a one-time sale of hardware/software sales associated with an internet infrastructure database build out in the fiscal 2000 period which was not replaced in the fiscal 2001 period. The remaining decrease in sales at 5B Group is a result of the timing of new projects being authorized, which the Company believes is due to the economy, both nationally and regionally.

For the nine months ended September 30, 2001, the Company recorded cost of sales of $3.5 million; a decrease of $5.2 million compared to the $6 million recorded for the nine months ended September 30, 2000, primarily as a result of a decrease in sales and implementation of cost reduction plans.

Selling expense for the nine months ended September 30, 2001 was $824,000, a 31% increase over the $629,000 recorded in the comparable prior period. 5B Group reported selling expenses of $739,000, or 17% of revenue, for the nine months ended September 30, 2001 compared to $567,000, or 5% of revenue, for the nine months ended September 30, 2000. The increase in selling expenses for 5B Group is due primarily to the addition of more salespeople.

General and administrative expenses totaled $2.5 million, or 58% of revenue, for the nine months ended September 30, 2001, representing an increase of $201,000 compared to the $2.3 million, or 19% of revenue, recorded during the nine months ended September 30, 2000. 5B Group reported general and administrative expenses of $2.1 million, or 49% of revenue, for the nine months ended September 30, 2001 compared to $1.7 million, or 14% of revenue, for the nine months ended September 30, 2000. The increase is attributable to the various acquisitions which has led to additional operating expenses.

Net loss from continuing operations was $3.7 million for the nine months ended September 30, 2001, which included $1,234,956 in settlement of the Klein lawsuit discussed above, which is included in other income (expense). The net loss for the nine months ended September 30, 2000 amounted to $42,175.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2001, the Company had $197,798 in cash and cash equivalents and investments available for sale. Substantially this entire amount was invested in interest-bearing savings accounts; money market accounts established by major commercial banks. Primarily as a result of the continued investment in 5B Group, the acquisitions it made in prior years and new financings, the Company experienced a decrease in net cash and investments available for sale during the nine months ended September 30, 2001 of $1,458,416 and a decrease of $714,940 for the three months ended September 30, 2001.

The Company continues to use its cash balances to fund its operations. In order to expand its operations, which the Company is aggressively seeking to accomplish, the Company will need to utilize its cash balances to promote internal growth and fund potential future acquisitions. However, unless the Company is able in the future to raise significant additional financing, the Company will be limited to its current cash balances for funding such internal growth and add-on acquisitions. There can be no assurance that the Company will be able to raise any such financing or on terms that are acceptable to the Company. Further, the Company's cash funds for acquisitions might be limited to the extent that the Company's current operations or the operations of any future acquisitions require the funding of losses or the incurrence of significant capital expenditure.

At September 30, 2001, the Company had two credit lines available with Connecticut Bank of Commerce ("CBC"):

5B GROUP REVOLVING CREDIT FACILITY: On May 24, 2001, the Company entered into a revolving credit facility secured by eligible accounts receivable (as defined in the credit facility). The term of the credit facility is two years from the date of closing. Borrowings are limited to 75% of eligible accounts receivable. The rate of interest charged on the facility will be 1 1/2% above the Wall Street prime commercial lending rate, which approximated 6.5% as of September 30, 2001. As of September 30, 2001, 5B Group had $602,000 outstanding under this line. As of September 30, 2001, the Company was not in compliance with its minimum tangible net worth requirements, but has obtained a waiver from CBC for the aforementioned covenant.

MEZZANINE FACILITY: On May 24, 2001, the Company obtained a maximum mezzanine facility of $1,500,000, to be used for future acquisitions and other agreed to purposes. The maximum amount of the mezzanine facility will be limited to the lesser of $1,500,000 and 110% of the total cash, cash equivalents, marketable securities and accounts receivable of the Company less the outstanding amount of the revolving credit facility. The mezzanine facility will mature within two years, or be rolled into the 5B Group revolving credit facility. The rate of interest charged on the facility will be 2% above the Wall Street prime commercial lending rate, which approximated 6.5% as of September 30, 2001. As of September 30, 2001, 5B Group had approximately $873,000 outstanding under this line, however, in connection with the KSG asset acquisition (See Note 3(a)), CBC has relaxed certain of the above requirements and the Company believes

that, subject to CBC's approval, it will be able to use this mezzanine facility for future acquisitions.

The two credit lines also have a requirement to maintain a minimum of $1,000,000 with CBC at all times. If this requirement is not met there is a fee of 2%, which is based on the shortfall. 5B did not meet this cash requirement and has been charged the aforementioned fee.

On April 17, 2000, the Company received an equity investment of $874,465 ($1,000,000 less transaction costs of $125,535) from La Vista Investors, LLC, a fund managed by WEC Asset Management LLC, a New York-based investment company.

In connection with its investment, La Vista received (i) 1,000 shares of the Company's Series A 6% Convertible Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock"), and (ii) a warrant convertible into 100,000 shares of the Company's Common Stock at an exercise price of $10.00 per share of Common Stock (which was deemed to have an immaterial value), subject to certain anti-dilution adjustments. Each share of Series A Preferred Stock is convertible into such number of shares of Common Stock as is determined by dividing $1,000, plus the amount of any accrued and unpaid dividends, by the lower of (i) nine dollars ($9.00) or (ii) 80% of the average of the three lowest Closing Bid Prices (as defined in the Certificate of Designations of the Series A Preferred Stock) of the Company's Common Stock during the thirty (30) trading days immediately preceding the date of notice from a holder of the Series A Preferred Stock of any such conversion. In August 2000, the Company and the holders of the Company's Series A Preferred Stock agreed to exchange the Series A Preferred Stock for the Series B Preferred Stock on a one-for-one basis. The terms of the Series A Preferred Stock were identical to those of the Series B Preferred except that the holders of the Series A Preferred Stock had the right to vote together with the holders of Common Stock as a single class.

In addition to the right of the selling stockholder to voluntarily convert its Series B Preferred Stock into shares of our common stock, all unconverted shares of the Series B Preferred Stock will automatically convert into shares of common stock, at the then-applicable conversion formula, on April 17, 2003.

Redemption Rights of Redeemable Preferred Stock

The Company may be obligated to redeem the Series B Preferred Stock if: (1) the number of shares issued upon conversion of the Series B Preferred Stock were to exceed 19.9% of our outstanding common stock, or (2) we fail to conclude certain required actions or if certain enumerated events (as described below) were to occur.

The Company will be required to redeem the outstanding Series B Preferred Stock at a price equal to 125% of the Liquidation Preference (as defined in the Certificate of Designations) if any of the following events (among others) were to happen: (i) the registration statement registering the shares of common stock into which the Series B Preferred Stock is convertible is not effective by September 27, 2000, (ii) the Company breaches the terms of the Series B Preferred Stock and does not cure such breach within 10 days of notice to us of such breach, (iii) the Company becomes bankrupt by court order or if we voluntarily institute bankruptcy proceedings or if other similar events occur (iv) the Company defaults under any of our material

contracts in our businesses or lose a final judgment, where the default or judgment is in excess of $250,000, or (v) there is a Change of Control (as defined in the Certificate of Designations).

Additionally, if the number of shares of common stock issued upon conversion of the Series B Preferred Stock exceeds 19.9% of our outstanding common stock, we must take, at our option, one of two actions: (i) redeem all of the remaining shares of Series B Preferred Stock at a price equal to 120% of the Liquidation Preference or (ii) call a special meeting of the Company's stockholders to approve of the issuance of the common stock and use the Company's best efforts to obtain such approval.

The Company's ability to elect the first alternative (i.e., redeem at 120% of the Liquidation Preference) will depend on numerous factors in the future, including whether it has sufficient funds to make such redemption. At September 30, 2001, the Series B Preferred Stock was convertible into 1,262,626 shares of Common Stock, which exceeded the 19.9% limitation.

On September 28, 2000, the Company received notification from La Vista demanding redemption of the outstanding Series B Preferred Stock in accordance with the terms of the Series B Preferred Stock due to the Company's failure to have a registration statement declared effective by September 27, 2000. Although the Company filed a registration statement relating to the Series B Preferred Stock, which was declared effective on February 16, 2001, La Vista instituted a lawsuit against the Company on January 4, 2001. The action seeks compensatory and other damages and equitable relief. Among the remedies La Vista has demanded are the redemption of the preferred stock at a redemption price of $1,250,000, and liquidated damages of $100,000 relating to delays in effectuating the registration statement. On February 6, 2001, the Company responded to the Complaint denying liability for the relief sought and pleading certain affirmative defenses. On February 28, 2001, La Vista made a motion to strike the Company's defenses and for summary judgment. In March 2001, the Company made a motion to amend its Answer to, among other things, plead additional affirmative defenses. The Company also opposed La Vista's motion for summary judgment. On October 1, 2001, the Court issued a decision (i) partially granting the Company's motion to amend its Answer, (ii) partially denying La Vista's motion to strike affirmative defenses and (iii) denying La Vista's motion for summary judgment. The Company believes that it has strong legal defenses and other legal rights and intends to continue to vigorously defend this Action.

Because of our present stock price, it is highly unlikely that we will be able to raise funds through the sale of our equity securities, and our financial condition prevents us from issuing debt securities. In the event that we are unsuccessful in our litigation with the holder of our redeemable preferred stock, we cannot assure you that we will be able to generate funds to enable the Company to pay its financial obligations. In addition, our auditors included in their report on our financial statements for the year ended December 31, 2000 an explanatory paragraph about our ability to continue as a going concern

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, BUSINESS COMBINATIONS (SFAS 141), and No. 142, GOODWILL AND OTHER

INTANGIBLE ASSETS (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of

accounting for business combinations initiated after September 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after September 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that the Company reclassify, if necessary, the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test nine months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The Company's previous business combinations were accounted for using the purchase method. As of September 30, 2001, the net carrying amount of goodwill is approximately $1,574,000 and other intangible assets are $2,191,000. Amortization expense during the nine-month period ended September 30, 2001 was $190,000. At present, the Company is currently assessing but has not yet determined the impact the adoption of SFAS 141 and SFAS 142 will have on its financial position and results of operations.

In August 2001, the FASB issued FASB Statement No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS ("FAS144"). This statement supercedes FASB Statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF ("FAS121") and Accounting Principles Board Opinion No. 30, REPORTING RESULTS OF OPERATIONS - REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS. FAS144 retains the fundamental provisions of FAS 121 for recognition and measurement of impairment, but amends the accounting and reporting standards for segments of a business to be disposed of. FAS144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of FAS144 generally are to be applied prospectively. The Company believes that the adoption of FAS144 will not have a material impact on the Company's financial position or results of operations.

INFLATION

Management does not believe inflation had a material adverse effect on the financial statements for the periods presented.

FORWARD LOOKING STATEMENTS AND ASSOCIATED RISK

Statements contained in this Form 10-Q, which are not historical facts, are forwarding-looking statements. The forward-looking statements in this Form 10-Q are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements made herein contain a

number of risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties include, but are not limited to, specific factors impacting the Company's business, including increased competition; the ability of the Company to expand its operations and attract and retain qualified sales representatives and technically trained consultants experienced in the Internet and IT sectors; the ability of the Company to attract and retain Internet solutions and IT professionals skilled in specific applications; the ability of the Company to attract and retain qualified personnel in the legal staffing sector; the availability of computer equipment; competition in the Internet solutions and IT consulting sector and general economic conditions and the Company's need for additional capital to finance the growth of its operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

"Quantitative and Qualitative Disclosure About Market Risk", on page 24 of the Company's Annual Report on Form 10-K, is incorporated herein by reference. No material changes have occurred from the disclosure in Form 10-K, through the three and nine months ended September 30, 2001.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In August 2000, Robert Klein commenced a lawsuit against the Company and Deltaforce Personnel Services Inc. in the Supreme Court of New York. The Complaint alleged that the Company breached an agreement to timely register Mr. Klein's stock. In July 2001, a settlement was reached and the Company agreed to pay Mr. Klein $875,000 in cash to be paid over a 3-year period (which has a present value of $820,000), and to issue to Mr. Klein a warrant to purchase 400,000 shares of the Company's common stock, which warrant expires in July 2005, and has an exercise price of $0.75 per share (which warrant is valued at $250,000 based on the Black-Scholes valuation model). Of the cash settlement amount, $500,000 is payable as follows: $150,000 upon execution of the settlement in July 2001, $100,000 on August 1, 2001, $50,000 on September 1, 2001, $100,000 on January 2, 2002 and $100,000 on January 2, 2003; and $375,000 is payable at the rate of $12,500 per month over a period of 30 months commencing on October 1, 2001. In addition, the stock subscription receivable of $812,500 was rescinded in connection with the settlement. Legal fees relating to the lawsuit approximated $165,000 for the nine months ended September 30, 2001.

On September 28, 2000, the Company received notification from La Vista demanding redemption of the outstanding Series B Preferred Stock in accordance with the terms of the Series B Preferred Stock due to the Company's failure to have a registration statement declared effective by September 27, 2000. Although the Company filed a registration statement relating to the Series B Preferred Stock, which was declared effective on February 16, 2001, La Vista instituted a lawsuit against the Company on January 4, 2001. The action seeks compensatory and other damages and equitable relief. Among the remedies La Vista has demanded are the redemption of the preferred stock at a redemption price of $1,250,000, and liquidated damages of $100,000 relating to delays in effectuating the registration statement. On February 6, 2001, the Company responded to the Complaint denying liability for the relief sought and pleading certain affirmative defenses. On February 28, 2001, La Vista made a motion to strike the Company's defenses and for summary judgment. In March 2001, the Company made a motion to amend its Answer to, among other things, plead additional affirmative defenses. The Company also opposed La Vista's motion for summary judgment. On

October 1, 2001, the Court issued a decision (i) partially granting the Company's motion to amend its Answer, (ii) partially denying La Vista's motion to strike affirmative defenses and (iii) denying La Vista's motion for summary judgment. The Company believes that it has strong legal defenses and other legal rights and intends to continue to vigorously defend this Action.

Larry Kagan, a former employee of Delta, was terminated for cause on October 14, 1999. In June 2000, Mr. Kagan commenced an arbitration alleging that Delta breached his employment agreement by terminating his employment and that the Company breached a related stock purchase agreement. The arbitration panel reached a decision in October 2001 awarding Mr. Kagan $111,000.00 plus interest and a portion of the costs. The Company intends to bring a proceeding to vacate the arbitration award, however $111,000 has been accrued as of September 30, 2001 relating to the arbiters decision.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The information contained in Footnotes 3- Acquisitions and Footnote 4 - Sale of Securities, set forth in Notes to Unaudited Consolidated Financial Statements herein, is hereby incorporated by reference into this Item 2. The securities described in each of Footnotes 3 and 4 were sold in reliance upon Section 4(2) of the Securities Act of 1933, as amended, which provides an exemption for sales of securities by an issuer not involving a public offering.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS:

None.

(b) REPORTS ON FORM 8-K:

The Company filed the following Current Reports on Form 8-K during the three month period ended September 30, 2001:

Current Report on Form 8-K dated July 6, 2001 reporting under Item 5. a hearing before the NASDAQ Listing Qualifications Panel to appeal a determination by NASDAQ to delist the Company.

SIGNATURES

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

5B TECHNOLOGIES CORPORATION

Date: November 16, 2001

By: /s/ Glenn Nortman

Glenn Nortman, Chief Executive Officer