RATEXCHANGE CORP
Form S-1/A
February 12, 2001

As Filed With the Securities and Exchange Commission on February 12, 2001

Registration Statement No. 333-53316

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

RATEXCHANGE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	11-2936371
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7370
(Primary Standard Industrial Classification Code Number)

185 Berry Street, Suite 3515
San Francisco, California 94107
(415) 371-9800
(Address, including zip code, and telephone number, including area code, of principal executive offices)

D. Jonathan Merriman
President and Chief Executive Officer
RateXchange Corporation
185 Berry Street, Suite 3515
San Francisco, California 94107
(415) 371-9800
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:
George P. Barsness
Hogan & Hartson L.L.P.
555 Thirteenth St., N.W.
Washington, D.C. 20004
(202) 637-5600

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box. | X |

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the

Securities Act registration statement number of the earlier effective registration statement for the same offering. | |

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. | |

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. | |

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. | |

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered (1)	Amount to be Registered (2)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Re
Common Stock, $.0001 par value	4,319,532	$9.59(3)	$41,424,311.88(3)	$1
	117,630	$6.00(4)	$ 705,780 (4)	$
	497,000	$2.00(5)	$ 994,000 (5)	$

This registration statement constitutes a combined prospectus as such term is used in Rule 429 under the Securities Act of 1933, as amended. The earlier filed registration statement to which this registration statement relates in Registration No. 333-37004.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Prospectus

185 Berry Street, Suite 3515
San Francisco, California 94107
(415) 371-9800

RATEXCHANGE
CORPORATION

4,934,162 SHARES OF COMMON STOCK

With this prospectus, the selling stockholders identified in this prospectus are offering up to 4,934,162 shares of our common stock.

The selling stockholders may sell these shares through public or private transactions, at prevailing market prices or at privately negotiated prices. The selling stockholders will receive all of the net proceeds from the sale of the shares offered with this prospectus. The selling stockholders will pay all underwriting discounts and selling commissions, if any, applicable to the sale of those shares. We will not receive any proceeds from the sale of the shares.

Before purchasing any of the shares, you should consider very carefully the information presented under the caption "Risk Factors" beginning on page 3 of this prospectus.

Our common stock is traded on the American Stock Exchange under the symbol "RTX." On February 2, 2000, the closing price for our common stock on the American Stock Exchange was $2.90.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is February 13, 2001.

PROSPECTUS SUMMARY

You should read this summary together with the more detailed information and financial statements and notes appearing elsewhere in this prospectus. You should carefully consider, among other things, the matters set forth in "Risk Factors."

The Company

We operate a trading system, the RateXchange Trading System, that allows market participants to trade bandwidth. We provide global trading solutions to telecommunications companies, energy marketers and merchants, financial institutions and commodity traders, with our advanced technological system providing users with an efficient, centralized marketplace to bring buyers and sellers together. Through the development of marketplaces for financial instruments related to telecommunications products, we are bringing risk management tools and practices to the communications industry. We provide participants on our trading system with access to a secure infrastructure for facilitating the delivery of traded bandwidth over any platform. By providing market participants with an advanced trading system, financial products and an independent physical delivery mechanism, we are enabling the creation of a liquid bandwidth trading market.

We were incorporated in Delaware in 1987. Our principal executive offices are located at 185 Berry Street, Suite 3515, San Francisco, California 94107, and our telephone number is (415) 371-9800.

The Offering

Common stock offered by RateXchange Corporation........................	0 shares
Common stock offered by the selling stockholders........................	4,934,162 shares

Common stock to be outstanding after this offering......................	17,783,174 shares
Use of proceeds..	We will not receiv of common stock by
American Stock Exchange symbol...	RTX

The foregoing information is based upon shares of common stock outstanding as of February 2, 2001. The common stock offered by the selling stockholders includes 1,919,119 shares that were previously acquired by the selling stockholders and 3,015,043 shares that may be acquired by the selling stockholders upon exercise of presently outstanding warrants and/or options to purchase common stock. Except as otherwise noted, the shares outstanding on February 2, 2001 do not include shares issuable upon exercise of any additional outstanding stock options and warrants.

We are registering the shares offered hereby to satisfy various obligations to the selling stockholders to register their resale of our common stock.

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(1) Assuming outstanding warrants and options are not exercised.

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RISK FACTORS

You should carefully consider the following risks before you decide to buy our securities. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. As a result, the trading price of our securities could decline, and you may lose all or part of the money you paid to buy our securities.

As a development stage company with a limited operating history in a new and rapidly changing industry, it is difficult to evaluate our business and prospects.

We are a development stage company. Our activities to date have concentrated primarily on planning and developing our electronic trading system for trading bandwidth and other telecommunications products. In September 2000, we began operating the RateXchange Trading System for trading bandwidth. Accordingly, we have a limited operating history on which to base an evaluation of our business and prospects. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets such as online commerce. There can be no assurance that we will be successful in addressing these risks, and our failure to do so could have a material adverse effect on our business and results of operations.

Our success depends on our ability to secure participation in the RateXchange Trading System and the development of a neutral marketplace where participants can transact trades.

The success of the RateXchange Trading System depends in part upon the creation of a network of physically interconnected users. To facilitate the creation of such a network we have deployed switching capacity in nine major metropolitan areas in the United States and one in London, England. While we have identified target users, we cannot assure you that we will be able to secure their participation in the RateXchange Trading System. There is a risk that we may not be able to enter into sufficient contractual arrangements on favorable terms with such participants.

We have a history of losses and expect to incur losses in the future, and we may never achieve profitability.

At September 30, 2000, our accumulated deficit since inception was $49,943,702, including $27,926,732 related to stock grants and warrants. For the first nine months of 2000, we incurred a net loss of $37,279,048, including $23,582,015 related to stock grants and warrants. We have incurred a net loss in each year of our existence, and have financed our development stage operations primarily through sales of equity securities. We have recorded nominal revenues from operations. We expect to incur net losses for the foreseeable future. We may never achieve or sustain significant revenues or profitability on a quarterly or annual basis.

If the RateXchange Trading System does not achieve commercial acceptance, our results will suffer.

We expect to rely largely on a single revenue source, made up of fees and commissions from transactions facilitated on the RateXchange Trading System and related consulting services, for the foreseeable future. Online trading of telecommunications bandwidth and minutes currently has only limited market acceptance. As a result, our future ability to gain commercial acceptance of the RateXchange Trading System is critical to our success. Any failure to successfully gain commercial acceptance of the RateXchange Trading System would not only have a material adverse effect on our business and results of operation but also on our ability to seek additional revenue opportunities.

We depend on the efforts of the Amerex Bandwith, Ltd. brokers who execute trades on our trading system to generate revenues for us.

In September 2000, we entered into a strategic alliance with Amerex Bandwith, Ltd., a leading energy and power broker. Under our agreement with Amerex, Amerex brokers execute trades for the sale or purchase of telecommunications capacity, Internet protocol products and/or other telecommunications-related products on our trading system, and we share with Amerex the revenues generated by these trades. As a result, we depend on the efforts of the Amerex brokers who execute those trades to generate revenues for us. There can be no assurance that these brokers will be successful in expanding our business.

We may need additional capital in the future and it may not be available on acceptable terms.

We may need additional working capital for enhancement of the RateXchange Trading System, software development, marketing and general and administrative costs and to fund losses before achieving profitability. We may need to raise additional funds through additional equity and/or debt financing to meet our capital requirements. We will need to raise additional funds if we have underestimated our capital needs or if we incur unexpected expenses. We cannot assure you that such financings will be available in amounts or on terms needed to meet our requirements, or at all. Further, our lack of tangible assets to pledge could prevent us from establishing a source of financing. The inability to raise all needed funding would adversely affect our ability to successfully implement the objectives of our business plan.

We may not be able to compete successfully against current and future competitors.

The market for online bandwidth and minutes trading services is new, rapidly evolving and highly competitive, as are the online commerce and business-to-business markets generally. We expect competition in this market to intensify in the future. Several of the existing online exchanges, such as E-Speed, Intercontinental Exchange and Altra currently operate online marketplaces in commodities and have large established customer bases. These companies may start bandwidth trading marketplaces. Our ability to compete with them will depend largely upon our ability to capture market share by obtaining sufficient participants for the RateXchange Trading System.

In addition, we compete with companies who trade, broker or otherwise assist in the buying and selling of telecommunications bandwidth and minutes. Therefore, we currently or potentially compete with a variety of other companies, including lead-generation services and traditional offline brokers. Many companies, such as Band-X, the GTX, Arbinet, and Asia Capacity Exchange, offer services to buyers and sellers of bandwidth and other telecommunications products. The increased use and acceptance of any other method of facilitating the buying and selling of excess telecommunications bandwidth and minutes may adversely impact the commercial viability of the RateXchange Trading System.

Large telecommunications companies have the ability and resources to compete in the online bandwidth and minutes trading services market if they choose to do so, including launching their own online exchanges or other trading services. Many of our competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships in the industry than we have. In addition, a number of these competitors may combine or form strategic partnerships. As a result, our competitors may be able to offer, or bring to market earlier, products and services that are superior to our own in terms of features, quality, pricing or other factors. Our failure to compete successfully with any of these companies could have a material adverse effect on our business and results of operations.

Increased pressure created by any present or future competitors, or by our competitors collectively, could have a material adverse effect on our business and results of operations. Increased competition may result in reduced commissions and loss of market share. Further, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service or marketing decisions or acquisitions that could have a material adverse effect on our business and results of operations. There can be no assurance that we will be able to compete successfully against current and future competitors. In addition, new technologies and the expansion of existing technologies may increase the competitive pressures on us.

We may become subject to regulation by the Commodity Futures Trading Commission depending on the types of products and services we eventually introduce.

We have developed an electronic trading system for trading futures contracts, options on futures contracts and swaps for the purchase or sale of bandwidth and other telecommunications products. Futures contracts and options on futures contracts are within the jurisdiction of the CFTC. Presently, the Commodity Exchange Act provides that futures contracts may be entered into only on a board of trade that has been designated by the CFTC as a contract market. The CFTC has never determined whether some or all swap agreements are futures or options contracts subject to regulation under the Commodity Exchange Act and the

CFTC's regulations. The CFTC has, however, issued a policy statement stating that most swap transactions are not appropriately regulated as futures or options contracts under the Commodity Exchange Act or the CFTC's regulations. The CFTC has also issued rules exempting swap agreements from most provisions of the Commodity Exchange Act and the CFTC's regulations provided certain conditions were met. The exemptive rules do not permit swaps to be traded on traditional exchanges. Both the CFTC's policy statement, which is limited in its application to cash-settled swaps, and the CFTC's exemptive rules do not permit swaps to be cleared and impose other restrictions on swaps. As a result, under the currently statutory and regulatory scheme applicable to swaps, should we elect in the future to list for trading or clear swap agreements, we may need to request an exemption from the CFTC to do so. The CFTC is under no obligation to reach a decision within a certain period or to grant an exemption.

Legislation that would make sweeping changes to the Commodity Exchange Act is presently awaiting Presidential approval. If the legislation becomes law, it may remove some of the regulatory requirements applicable to our providing trading and/or clearing services for futures contracts, options on futures contracts and swaps involving telecommunications products. Even if the legislation does become law, some of the services we may provide could still be subject to CFTC regulation. We are unable to predict at this time, however, whether the legislation, if enacted, would have a material effect on our ability to offer trading and/or clearing services for futures contracts and options on futures contracts involving telecommunications products.

We are dependent on the continued growth of online commerce and the acceptance by users of the Internet as a means for trading excess bandwidth and minutes.

Our future revenues and profits are substantially dependent upon the widespread acceptance and use of the Internet and online services as an effective medium of commerce by businesses. Rapid growth in the use of and interest in the Internet and online services is a recent phenomenon, and there can be no assurance that acceptance and use will continue to develop or that a sufficiently broad base of businesses or customers will adopt, and continue to use, the Internet and online services as a medium of commerce.

Demand and market acceptance for recently introduced services and products over the Internet are subject to a high level of uncertainty. We will rely on customers who have historically used traditional offline means of commerce to buy and sell excess telecommunications bandwidth and minutes. For us to be successful, these customers must accept and utilize novel ways of conducting business and exchanging information over the Internet.

Critical issues concerning the commercial use of the Internet, such as ease of access, security, reliability, cost and quality of service, remain unresolved and may affect the growth of Internet use or the attractiveness of conducting commerce online. In addition, the Internet and online services may not be accepted as a viable commercial marketplace for a number of reasons, including potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies and performance improvements. To the extent that the Internet and online services continue to experience significant growth, there can be no assurance that the infrastructure of the Internet and online services will prove adequate to support increased user demands. In addition, the Internet or online services could lose their viability due to delays in the development or adoption of new standards and protocols required to handle increased levels of Internet or online service activity. Changes in or insufficient availability of telecommunications services to support the Internet or online services could also result in slower response times and adversely affect usage of the Internet and online services generally and our services in particular. If use of the Internet and online services does not continue to grow or grows more slowly than expected, if the infrastructure for the Internet and online services does not effectively support growth that may occur, or if the Internet and online services do not become a viable commercial marketplace, we would be materially and adversely affected.

We face online commerce security risks.

We rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information, such as bank account or credit information. There can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments will not result in a compromise or breach of the algorithms used by us to protect transaction data. Any compromise of our security could have a material adverse effect on our reputation and us. A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. We may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. To the extent that our activities or those of third party contractors involve the storage and transmission of proprietary information, such as bank account or credit information, security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability which could have a material adverse effect on our business and results of operations.

Our operating results could be impaired if we are or become subject to burdensome governmental regulation of online commerce.

We are not currently subject to direct regulation by any domestic or foreign governmental agency, other than regulations applicable to businesses generally, including online companies. However, due to the increasing popularity and use of the Internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as:

- User privacy;
- Pricing;
- Content;
- Intellectual property;
- Distribution; and
- Characteristics and quality of products and services.

The adoption of any additional laws or regulations may decrease the growth of the Internet or other online services, which could, in turn, decrease the demand for our products and services and increase our cost of doing business, or otherwise have an adverse effect on our business and results of operations. Moreover, the applicability of existing law to the Internet and other online services governing issues such as property ownership, sales and other taxes and personal privacy to the Internet and other online services is uncertain and may take years to resolve.

We plan to facilitate transactions between numerous customers residing in various states and foreign countries, and such jurisdictions may claim that we are required to qualify to do business as a foreign corporation in each such state and foreign country. Our failure to qualify as a foreign corporation in a jurisdiction where it is required to do so could subject us to taxes and penalties. Any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could have a material adverse effect on our business and results of operations.

We may face liability for information retrieved from our portal.

Due to the fact that material may be downloaded from our portal and subsequently distributed to others, there is a potential that claims may be made against us for negligence, copyright or trademark infringement or other theories based on the nature and content of such material. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed. Any costs or imposition of liability that is not covered by insurance or in excess of insurance coverage could have a material adverse effect on our business and results of operations.

We are at risk of capacity constraints and face system development risks.

The satisfactory performance, reliability and availability of the RateXchange Trading System is critical to our reputation and our ability to attract and retain users and maintain adequate customer service levels. Our revenues depend on the number of users of our trading system and the volume of trading that is facilitated. Any system interruptions that result in the unavailability of our portal or reduced performance of the RateXchange Trading System could reduce the volume of bandwidth traded and the attractiveness of our portal as a means for such trading.

There may be a significant need to upgrade the capacity of our portal and the RateXchange Trading System in order to handle thousands of simultaneous users and transactions. Our inability to add additional software and hardware or to develop and upgrade further our existing technology, transaction-processing systems or physical infrastructure to accommodate increased traffic on the RateXchange Trading System or increased trading volume through our online trading or transaction-processing systems may cause unanticipated system disruptions, slower response times, degradation in levels of customer service and impaired quality and speed of trade processing, any of which could have a material adverse effect on our business and results of operations.

Our business and operations would suffer in the event of system failures.

Our success, in particular our ability to successfully facilitate bandwidth trades and provide high-quality customer service, largely depends on the efficient and uninterrupted operation of our computer and communications hardware systems. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunication failures, break-ins, earthquake and similar events. Despite the implementation of network security measures, our servers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays, loss of data or the inability to accept and fulfill customer orders.

If we do not respond effectively to technological change, our service could become obsolete and our business will suffer.

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of the RateXchange Trading System. The Internet and the online commerce industry are characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render our existing RateXchange Trading System, proprietary technology and systems obsolete. Our success will depend, in part, on our ability to license leading technologies useful in our business, enhance our existing services, develop new services and technology that address the increasingly sophisticated and varied needs of our prospective customers, and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

The development of the RateXchange Trading System and other proprietary technology entails significant technical and business risks. There can be no assurance that we will successfully use new technologies effectively or adapt the RateXchange Trading System and proprietary technology to user requirements or emerging industry standards. Our failure to adapt in a timely manner for technical, legal, financial or other reasons, to changing market conditions or customer requirements, could have a material adverse effect on our business and results of operations.

If we do not effectively manage growth, our ability to provide trading services will suffer.

To manage the expected growth of our operations and personnel, we will be required to improve existing, and implement new, transaction-processing, operational and financial systems, procedures and controls, and to expand, train and manage a growing employee base. Further, we will be required to maintain and expand our relationships with various hardware and software vendors, Internet and other online service providers and other third parties necessary to our business. If we are unable to manage growth effectively, we will be materially adversely affected.

We need to hire and retain qualified personnel to sustain our business.

We are currently managed by a small number of key management and operating personnel. We do not maintain "key man" insurance on any employee. Our future success depends, in part, on the continued service of our key executive, management and technical personnel, many of whom have only recently been hired, and our ability to attract highly skilled employees. If any key officer or employee were unable or unwilling to continue in his or her present position, our business could be harmed. From time to time we have experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees. Competition for employees in our industry is intense, particularly in the San Francisco Bay area where we are located. If we are unable to retain our key employees or attract, assimilate or retain other highly qualified employees in the future, that may have a material adverse effect on our business and results of operations.

Our success is dependent on our ability to protect our intellectual property.

Our performance and ability to compete is dependent to a significant degree on our proprietary technology, including, but not limited to the design of the RateXchange Trading System and physical delivery hubs. We regard our copyrighted material, software design, trade secrets and similar intellectual property as critical to our success, and we rely on trademark and copyright laws, trade secret protection and confidentiality and/or license agreements with our employees, customers, partners and others to protect our proprietary rights. We cannot assure you that we will be able to secure significant protection for any of our intellectual property. It is possible that our competitors or others will adopt product or service names similar to our marks, thereby inhibiting our ability to build brand identity and possibly leading to customer confusion.

We generally have entered into agreements containing confidentiality and non-disclosure provisions with our employees and consultants who have limited access to and distribution of our software, documentation and other proprietary information. We cannot assure you that the steps we take will prevent misappropriation of our technology or that agreements entered into for that purpose will be enforceable. Notwithstanding the precautions we have taken, it might be possible for a third party to copy or otherwise obtain and use our software independently. Policing unauthorized use of our technology is difficult, particularly because the global nature of the Internet makes it difficult to control the ultimate destination or security of software or other data transmitted. The laws of other countries may afford us little or no effective protection of our intellectual property.

Effective trademark, service mark, copyright and trade secret protection may not be available in every country where our services are made available online. In the future, we may also need to file lawsuits to enforce our intellectual property rights, protect our trade secrets and determine the validity and scope of the proprietary rights of others. Such litigation, whether successful or unsuccessful, could result in substantial costs and diversion of resources, which could have a material adverse effect on our business and results of operations.

We may not be able to secure licenses for technology from third parties on commercially reasonable terms.

We rely on a variety of software and hardware technologies that we license from third parties, including our database and Internet server software, components of our online trading software and transaction-processing software which is used in the RateXchange Trading System to perform key functions. We cannot assure you that these third party technology licenses will continue to be available to us on commercially reasonable terms. The loss of our ability to maintain or obtain upgrades to any of these technology licenses could result in delays in completing any proprietary software enhancements and new developments until equivalent technology could be identified, licensed or developed and integrated. Any such delays could have a material adverse effect on our business and results of operations.

The volatility of our securities prices may increase.

The market price of our common stock has in the past been, and may in the future continue to be, volatile. A variety of events may cause the market price of our common stock to fluctuate significantly, including:

- Quarter to quarter variations in operating results;
- Adverse news announcements;
- The introduction of new products and services;
- Market conditions in the telecommunications industry in general, Internet-based services and e-commerce; and
- General market conditions.

In addition, the stock market in recent years has experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many companies in our business and that often have been unrelated to the operating performance of such companies. These market fluctuations have adversely impacted the price of our common stock and may do so in the future.

Any exercise of outstanding options and warrants will dilute then-existing stockholders' percentage of ownership of our common stock.

We have a significant number of outstanding options and warrants. The exercise of all of the outstanding options and warrants would dilute the then-existing stockholders' percentage ownership of our common stock. Any sales resulting from the exercise of options and warrants in the public market could adversely affect prevailing market prices for our common stock. Moreover, our ability to obtain additional equity capital could be adversely affected since the holders of outstanding options and warrants may exercise their options and warrants at a time when we would also wish to enter the market to obtain capital on terms more favorable than those provided by the options. We lack control over the timing of any exercise or the number of shares issued or sold if exercises occur.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that address numerous matters, including the following:

- Trends we believe may affect our business, financial condition or results of operations;
- Factors that determine demand for our products;
- Advantages we believe will help us compete effectively; and
- Our strategies concerning the expansion of our operations.

In some cases you can identify forward-looking statements by terminology we use, including "believes," "anticipates," "expects," "estimates," "may," "should," "could," "plans," "predicts," "potential," "continue" or similar terms.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results expressed or implied by the forward-looking statements. These factors include those listed under "Risk Factors" and elsewhere in this prospectus. All forward-looking statements contained in this prospectus are expressly qualified in their entirety by this cautionary notice.

USE OF PROCEEDS

We will not receive any proceeds from the sale of any shares offered by this prospectus. We may, however, receive proceeds when the selling stockholders pay to exercise their warrants and/or options. Selling stockholders are not obligated to exercise their warrants or options, and there can be no assurance that they will choose to exercise all or any of these warrants or options. Our gross proceeds, assuming all warrants and options are exercised for cash, would be $33,471,342. However, we are unable to predict the exact amount of cash we will receive upon exercise of the warrants because some warrants have a cashless exercise provision, which allows the holder to pay for the warrant by reducing the number of shares received upon exercise. We will use any proceeds we receive for the exercise of warrants and options to augment our working capital for general corporate purposes.

SELLING STOCKHOLDERS

The table below lists the selling stockholders and other information regarding the beneficial ownership of our common stock by each of the selling stockholders. This prospectus relates to a total of 4,934,162 shares of common stock, 3,015,043 of which are not currently outstanding but may be acquired by the selling stockholders upon exercise of outstanding options and/or warrants held by individual stockholders. The first column provides the name of each selling stockholder and describes the stockholder's position, office or other material relationship with us, if any, as well as any other material relationship the stockholder has had within the past three years with us, our predecessors or any affiliate of ours. The second column lists the number of shares of common stock beneficially owned by each selling stockholder on February 2, 2001. The selling stockholders are offering only the shares of common stock indicated in the third column. The fourth and fifth columns assume the selling stockholders dispose of all the shares offered by this prospectus and that the selling stockholders do not acquire any additional stock.

We are registering the shares for resale by the selling stockholders in accordance with registration rights granted or offered to some of the selling stockholders. We will pay the registration and filing fees, printing expenses, listing fees, blue-sky fees, if any, and fees and disbursements of our counsel, but the selling stockholders will pay any underwriting discounts, selling commissions and similar expenses relating to the sale of the shares. In addition, we have agreed to indemnify some of the selling stockholders, as well as certain affiliated parties, against specific liabilities, including liabilities under the Securities Act of 1933, as amended, in connection with this offering. Those selling stockholders we have agreed to indemnify have agreed to indemnify us and our directors and officers, as well as any person that controls us, against specific liabilities, including liabilities under the Securities Act.

The information provided in the table below has been obtained from the selling stockholders. To our knowledge, the selling stockholders have sole voting and investment power with respect to these securities, except as otherwise indicated in the first column. The selling stockholders may sell all, some or none of their shares in this offering.

Name of Selling Stockholder and Material Relationship, if any, with RateXchange	Shares Beneficially Owned Prior to Offering	Maximum Number of Shares to be Sold in Offering	Shares Beneficially after Offeri (assuming a shares offere actually so

ACDC Bookfront & Co. (AIM Equity Funds, Inc. on behalf of its portfolio, AIM Capital Development Fund)	82,300	82,300	0
Altar Rock Fund, LP	836	836	0
American Masters Fund (Hilspen Series)	2,800	2,800	0
Apodaca Investment Offshore Ltd.	25,000	25,000	0
Apodaca Investment Partners, L.P.	16,667	16,667	0
Arzumanov, Valeriy	2,083	2,083	0
Bald Eagle Fund, Ltd.	750	750	0
Band and Co., Nominee for Firstar	20,833	20,833	0
Barr, Alison A.	18,750	18,750	0
Betje Partners, LP	24,125	24,125	0
Bi Coastal Consulting Corp.	25,000	25,000	0
Cannell, Carlo J.	33,750	33,750	0
Cohanzick Partners, LP	4,167	4,167	0
Cole, Douglas Consultant and Former Director and Executive Officer of RateXchange Corporation	868,151	100,000	768,151
Columbia Avenue Advisors	25,000	25,000	0
Counterpoint Master L.L.C. Andrew Brown shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus	237,500	237,500	0
Cypress VI Partners Leonard Eber, as Managing Partner for the Eber Family Living Trust and the Eber Family Trusts Numbered One through Four, shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus	12,500	12,500	0
Donaghy Sales, Inc. Gruber & McBain Capital Management L.L.C. shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus	23,000	21,000	2,000
Edward O. Thorp & Associates, L.P.	4,167	4,167	0
Elbaz, Elliott S.	6,250	6,250	0
Ellis, Ian P.	6,250	6,250	0
First Security Van Kasper Placement Agent for RateXchange I, Inc. January 2, 2000 Bridge Loan; Co-Underwriter for RateXchange Corporation March 2000 Private Placement; D. Jonathan Merriman, Former Senior Managing Director of First Security Van Kasper, is a Director and President and Chief Executive Officer of RateXchange Corporation	459,020	459,020	0
Five Points Fund, L.P.	75,000	75,000	0
Five Points Offshore Fund, Ltd.	50,000	50,000	0
Forsythe McArthur Associates, Inc. Lessor of RateXchange	69,500	69,500	0
Gerard, Klauer, Mattison & Co., Inc. Placement Agent for RateXchange I, Inc. January 2, 2000 Bridge Loan	3,975	3,975	0
Germanotta, Joe Former Consultant to RateXchange	2,852	2,852	0

Gilston Corporation, Ltd.	20,833	20,833	0
Golby, Wesley	4,500	4,500	0
Grange, Richard C. Former Director of predecessor of RateXchange I, Inc.	84,404	84,404	0
Gruber Family Foundation Gruber & McBain Capital Management L.L.C. shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus	3,806	3,806	0
Gruber-McBaine International Gruber & McBain Capital Management L.L.C. shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus	46,094	46,094	8,500

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Grunewald, Brad K.	73,601	73,601	0
Guarantee & Trust Company TTEE FBO, Paul Dwork Sep IRA	12,500	12,500	0
Hare & Co. 651653 (Hamilton College) Gruber & McBain Capital Management L.L.C. shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus	17,351	17,351	0
Hare & Co. 705286 (L-3 Communications Corp.) Gruber & McBain Capital Management L.L.C. shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus	7,784	5,784	2,000
Hart, Patti S. and Milledge A.	4,167	4,167	0
Hicks, Ian and Anna	15,000	5,000	10,000
Hilspen Capital Partners	4,350	4,350	0
Hilspen Capital Partners, II	24,750	24,750	0
Intercoastal Financial Services Corp.	100,000	100,000	0
Interra Ventures	45,000	45,000	0
Irvine Capital Partners, II LP	25,000	25,000	0
Kalia, Paul	33,417	33,417	0
The Kaufmann Fund	20,833	20,833	0
Kensington Partners, L.P.	3,229	3,229	0
Kensington Partners II, L.P.	188	188	0
Khadar, Mohammad	4,167	4,167	0
Kingdon Associates	12,500	12,500	0
Kingdon Family Partnership, L.P.	3,125	3,125	0
Kingdon Partners	7,197	7,197	0
Lagunitas Partners, L.P. Gruber & McBain Capital Management L.L.C. shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus	238,882	225,882	13,000
Liberty-Stein Roe Small Company Growth Fund	12,500	12,500	0
Maroon Bells Capital Partners Significant Stockholder and Party to Financial Advisory Agreement with	531,375	531,375	0

RateXchange Corporation			
Mayfield, Ross	230,738	16,675	214,063
Former Executive Officer of RateXchange Corporation			
Mehra, Raj	417	417	0
Metzman, Mitch A.	12,500	12,500	0
MJE Partners	2,083	2,083	0
M. Kingdon Offshore, N.V.	59,792	59,792	0
Mooney, Edward	576,667	100,000	476,667
Former Executive Officer and Director of RateXchange Corporation, Currently a consultant to RateXchange; Party to Severance Agreement with RateXchange			
New-Day Investment Partnership, L.P.	12,500	12,500	0
North Olmsted Partners, LP	4,167	4,167	0
Omni Resources, LLC	12,500	12,500	0
Ozada, Erinch R.	6,250	6,250	0
Pequot Scout Fund, L.P.	83,334	83,334	0
Pequot Capital Management, Inc., as investment advisor to this stockholder, shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus			
Phaeton, B.V.I.	49,625	49,625	0
Phoenix Partners, L.P.	51,250	51,250	0
Pilgrim Baxter Hybrid Partners I, L.P.	37,500	37,500	0
Pilgrim Baxter & Assoc., Ltd., as investment advisor to this stockholder, shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus			
Pilgrim Baxter Hybrid Partners II, L.P.	4,167	4,167	0
Pilgrim Baxter & Assoc., Ltd., as investment advisor to this stockholder, shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus			
Poe, Fred W.	25,000	25,000	0
Prism Partners I, L.P.	75,000	52,500	22,500
Prism Partners II Offshore Fund	75,000	15,000	60,000
Prism Partners Offshore Fund	75,000	7,500	67,500

Quantum Partners LDC	166,667	166,667	0
Soros Fund Management LLC, as Principal Investment Manager to this stockholder, shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus			
Raptor Global Portfolio Ltd.	186,665	186,665	0
Rawitser, Michael	12,500	12,500	0
Retirement Plan of Space Systems/Loral Inc. - Kane & Co. P51455	5,784	5,784	0
Gruber & McBain Capital Management L.L.C. shares voting and disposition power over the securities held by this			

stockholder and offered pursuant to this prospectus			
Rice, Philip	27,500	12,500	15,000
Executive Officer of RateXchange Corporation			
Robb, Larry F.	215,625	93,750	121,875
Rogers, Malcolm	808,000	43,000	765,000
Significant Stockholder Janet L. Rogers shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus			
Scheele, Michael J.	381,313	121,313	260,000
Consultant to RateXchange Corporation			
Schottenfeld Associates, LP	20,833	20,833	0
Schow Family Trust	119,250	119,250	0
Sidana, Annupreet	11,250	11,250	0
Smith, Raymond M.; IRA Rollover Custodian	31,250	31,250	0
Special Situations Cayman Fund, L.P.	27,083	27,083	0
Special Situations Fund III, L.P.	91,667	91,667	0
Special Situations Private Equity Fund, L.P.	27,083	27,083	0
Special Situations Technology Fund, L.P.	20,833	20,833	0
Spirit Fund, Ltd.	8,333	8,333	0
Stein Roe Variable Investment Trust Small Company Growth, Var Series	37,500	37,500	0
Suyama, Roger, Pacific Century	12,500	12,500	0
Swindells, Theodore	839,969	45,000	794,969
Talisman Capital Opportunity Fund	225,000	225,000	0
The Timken Living Trust U/A/D 9/14/99	20,833	20,833	0
Tirman Family Limited Partnership	6,250	6,250	0
Geoffrey Tirman, General Partner of Tirman Family Limited Partnership, shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus			
Tonga Partners, LP	10,417	10,417	0
Cannell Capital Management shares voting and disposition power over the securities held by this stockholder and offered pursuant to this prospectus			
Trinity Fund, Ltd.	33,333	33,333	0
Ultimate Markets, Inc.	350,000	175,000	175,000
VICD Bipod & Co.	1,033	1,033	0
(AIM Variable Insurance Funds, Inc. on behalf of its portfolio, AIM Capital Development Fund)			
Warren, Robin	13,342	13,342	0
Wescott, Jr, Paul A.	82,250	6,250	76,000
Former Executive Officer of RateXchange Corporation			
Wheeler, William	12,333	12,333	0
Whelan, Sean	25,805	25,805	0
Founder and Former President of RateXchange I, Inc., a subsidiary of RateXchange Corporation			
Windy Hill Investments NAMI, LLC	12,500	12,500	0
WPG Institutional Networking Fund, L.P.	1,250	1,250	0
WPG Institutional Software Fund, L.P.	18,859	18,859	0
WPG Networking Fund, L.P.	10,304	10,304	0
WPG Raytheon Networking Fund, L.P.	29,696	29,696	0
WPG Raytheon Software Fund, L.P.	14,371	14,371	0

WPG Software Fund, L.P.	8,437	8,437	0

PLAN OF DISTRIBUTION

The selling stockholders, or, subject to applicable law, their pledgees, donees, distributees, transferees or other successors in interest, may sell all or portions of the shares from time to time while the registration statement of which this prospectus is a part remains effective. The selling stockholders may sell shares in public transactions, on or off the American Stock Exchange or any exchange with which we register or in private transactions. The selling stockholders may sell the shares at any price and in different types of transactions including, but not limited to, one or any combination of the following:

- o Ordinary brokers transactions and transactions in which the broker solicits purchasers;
- o Transactions involving cross or block trades or otherwise;
- o Purchases by brokers, dealers or underwriters as principals and resale by such purchasers for their own accounts pursuant to this prospectus;
- o "At the market" to or through market makers or into an existing market for the common stock;
- o In other ways not involving market makers or established trading markets, including direct sales to purchasers or sales effected through agents; or
- o In privately negotiated transactions.

Selling stockholders may also sell shares pursuant to Rule 144 of the Securities Act if available.

Sales of the shares at less than market prices may depress the market price of our common stock. Moreover, generally the selling stockholders are not restricted as to the number of shares, which may be sold at any one time, and it is possible that a significant number of shares could be sold at the same time.

In effecting sales, brokers or dealers engaged by the selling stockholders may arrange for other brokers or dealers to participate in the resales. The selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, and in connection with those transactions, the broker-dealers or other financial institutions may engage in short sales of the shares. The selling stockholders may also sell shares short and deliver the shares to close out such short positions. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions that require delivery to the broker-dealers or other financial institutions of the shares, which the broker-dealers or other financial institutions may resell pursuant to this prospectus.

Broker-dealers may agree with the selling stockholders to sell a specified number of shares at a stipulated price per share and, to the extent the broker-dealers are unable to do so acting as agents for the selling stockholders, to purchase as principals any unsold shares at the price required to fulfill the broker-dealers' commitments to the selling stockholders. Broker-dealers who acquire shares as principals may thereafter resell such shares from time to time in transactions, which may involve block transactions and sales to and through other broker-dealers, including transactions of the nature described above, in the over-the-counter market or otherwise at prices and on terms prevailing at the time of the sale, at prices then related to the then-current market price or in negotiated transactions and, in connection with such resales, may pay to or receive from the purchasers of such shares commissions as described above. The selling stockholders may also pledge the shares to broker-dealers or other financial institutions, and upon a default, the broker-dealers or other financial institutions may affect sales of the pledged shares pursuant to this prospectus.

Brokers, dealers or agents may receive compensation in the form of commissions, discounts or concessions from the selling stockholders or purchasers in amounts to be negotiated in connection with the sale. The selling stockholders and any participating brokers or dealers may be deemed "underwriters" within the meaning of the Securities Act in connection with such sales, and any such commission, discount or concession may be deemed underwriting compensation.

Information as to whether any underwriter that the selling stockholders may select, or any other broker-dealers, are acting as principals or agents for the selling stockholders, the compensation to be received by any underwriters that the selling stockholders may select or by any broker-dealers acting as principals or agents for the selling stockholders, and the compensation to be paid to other broker-dealers, in the event the compensation of such other broker-dealers is in excess of usual and customary commissions, will, to the extent required, be set forth in a supplement to this prospectus. Any broker-dealers participating in any distribution of the shares may be required to deliver a copy of this prospectus, including a prospectus supplement, if any, to any person who purchases any of the shares from or through such broker-dealers.

During any time that the selling stockholders are engaged in a distribution of the shares, the selling stockholders will be required to comply with the Securities Exchange Act of 1934, as amended. With certain exceptions, the Exchange Act precludes the selling stockholders, any affiliated purchasers and any broker-dealers or other persons who participate in such distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security that is the subject of the distribution until the entire distribution is complete. The Exchange Act also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. All of the foregoing may affect the marketability of the common stock.

To comply with some state securities laws, the shares may be sold only through registered or licensed brokers or dealers. The shares may not be sold in some states unless the seller meets the applicable state notice and filing requirements.

DESCRIPTION OF CAPITAL STOCK

Authorized Shares

Our authorized capital stock consists of 300,000,000 common shares, $.0001 par value per share, and 60,000,000 shares of preferred stock. On February 2, 2001, 17,783,174 shares of our common stock and no shares of our preferred stock were issued and outstanding.

Common Stock

Holders of our common stock are entitled to receive dividends, when, and as, declared by our board of directors out of funds available therefore. Any such dividends may be paid in cash, property or shares of the common stock. The outstanding shares of common stock are validly issued, fully paid and non-assessable.

Each holder of our common stock is entitled to one vote per share on all matters submitted to the vote of stockholders, including the election of directors. Holders of common stock do not have cumulative voting rights. The absence of cumulative voting means that the holders of more than 50% of the shares voting for the election of directors can elect all directors if they so choose.

Holders of our common stock have no preemptive or conversion rights, no redemption or sinking fund provisions and are not liable to further call or assessment.

Holders of our common stock are entitled to share ratably in any assets available for distribution to holders of our equity securities upon liquidation of our company, subject to distribution of the preferential amount, if any, to be distributed to any holders of preferred stock.

Preferred Stock

Our certificate of incorporation authorizes our board, without any vote or action by the holders of common stock, to issue preferred stock from time to time in one or more series. Our board is authorized to determine the number of shares and to fix the powers, designations, preferences and relative, participating, optional or other special rights of any series of preferred stock. Issuances of our preferred stock, if convertible into common stock, would be subject to the applicable rules of the AMEX or other organizations on which our stock is then quoted or listed. Depending on the terms of preferred stock established by our board of directors, any or all series of preferred stock could have preference over our common stock with respect to dividends and other distributions and upon our liquidation. If any shares of preferred stock are issued with voting powers, or if additional shares of common stock are issued, the voting power of the outstanding common stock would be diluted.

We believe that the availability of preferred stock will provide increased flexibility to facilitate possible future financings and acquisitions and to meet other corporate needs that might arise.

Transfer Agent and Registrar

OTC Stock Transfer, Inc. is the transfer agent and registrar for our common stock.

BUSINESS

Overview

We operate a trading system, the RateXchange Trading System, which allows market participants to trade bandwidth. We provide global trading solutions to telecommunications companies, energy marketers and merchants, financial institutions and commodity traders, with our advanced technological system providing users with an efficient, centralized marketplace to bring buyers and sellers together. Through the development of marketplaces for financial instruments related to telecommunications products, we are bringing risk management tools and practices to the communications industry. We provide participants on our trading system with access to a secure infrastructure for facilitating the delivery of traded bandwidth over any platform. By providing market participants with an advanced trading system, financial products and an independent physical delivery mechanism, we are enabling the creation of a liquid bandwidth trading market.

Business Model

We expect to generate revenues by providing trading services to energy merchants, telecommunications companies, service providers, financial institutions and commodity traders. We also expect to derive revenues from bandwidth and risk management consulting services through our RateXlabs Technology Consulting, through CustomAuctions and other web-enabled transaction services, and as a result of our investment in independent delivery hubs for physical delivery of contracts traded on the electronic trading system.

RateXchange Trading System

Our software powers the only neutral, online trading system that allows companies to buy, sell and deliver standard wholesale bandwidth capacity globally. The trading system is similar to trading platforms that dominate on-line natural gas and electricity commodity trading. The trading system was developed in conjunction with leading energy, utility and telecommunications companies. The RateXchange Trading System enables bandwidth traders to pre-approve and manage counterparty credit. Before trading on the RateXchange Trading System, a company would check and pre-approve credit for a large number of potential counterparties. It would then enter the credit information in a credit matrix on the system that would limit its exposure to a particular counterparty to the pre-approved amount.

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Trades executed on the RateXchange Trading System can be delivered using our delivery hubs, other pooling points, or bilateral interconnection. Market participants are now able to trade a larger number of routes regardless of the presence of RateXchange delivery hubs. Trading will utilize the Master Bandwidth Purchase and Sale Agreement, based on the Bandwidth Trading Organization master agreement, but will support the trading of other standardized contracts. As the bandwidth trading market matures, we expect market participants will eventually adopt a standardized contract similar to what has occurred in other commodities. In the meantime, we provide the flexibility that market participants need.

The RateXchange Trading System contains features common in the leading electronic systems in other commodities markets. The RateXchange Trading System serves as a platform for bandwidth trading, but the system can also be used to trade other products. We have developed extensive intellectual property with regard to our trading system that may be applied to other telecommunications products and other trading markets.

The RateXchange Trading System offers the following features to the market:

Dynamic Counter-Party Credit Management System

We employ a counter-party credit management system that allows market participants to select, pre-approve and set credit limits for particular counter-parties. We have applied for a patent for this business process.

Real-Time Capability

The RateXchange Trading System software employs technology that makes our electronic trading system one of the fastest in the industry, providing traders on our system with updated information in real-time. We believe we have developed significant intellectual property regarding trading bandwidth and other telecommunications products in real-time.

Delivery Hubs

We have established delivery hubs in neutral co-location facilities connecting major domestic and international bandwidth routes. We believe this investment will help to accelerate development of a viable, liquid market for bandwidth traded as a commodity as these pooling points allow for physical delivery of traded contracts. Our delivery hub architecture and strategic technology partners provide us with a secure, scalable, high quality delivery infrastructure connecting buyers' and sellers' networks. Delivery hub equipment currently is engineered to support bandwidth trades at the OC-12, OC-3, DS-3 and DS-1 levels domestically and at the STM-4, STM-1, E-3 and E-1 levels internationally.

Interconnection to independent delivery hubs produces a number of benefits to market participants, including:

- Quality of service monitoring;
- Reduces interconnection time;
- Reduces interconnection costs;
- Enables carriers to quickly connect their traded bandwidth circuits;
- Allows equal access to market data for service demand and pricing; and
- Facilitates risk and yield management practices, including efficient trading of bandwidth assets.

We presently offer traders access to ten delivery hubs in service with two additional hubs scheduled to be in service by the end of 2000. These hubs provide market participants with the ability to trade and deliver bandwidth on 66 of the most liquid bandwidth routes in the world. Market participants that interconnect to our delivery hubs are charged an installation fee and a monthly port fee depending on the size of the connection. We will also charge additional fees to provision traded bandwidth and to channelize connected bandwidth. These fees, while providing a revenue stream to us, still greatly reduce a market participant's cost of interconnection.

We have an agreement with one of the largest energy merchants and marketing firms in which it will buy and deliver a circuit over two of our delivery hubs in the first quarter of 2001. We have agreed to work jointly with this firm to refine the already developed tagging (work flow) process and software and quality of service monitoring that has already been put

in place by SAIC and us. Upon successful completion of this testing process, we anticipate that this energy merchant will more extensively utilize our delivery hubs for buying and selling of bandwidth.

Bandwidth Consulting--RateXlabs

RateXlabs provides independent economic research and confidential risk management consulting regarding bandwidth trading. RateXlabs currently provides bandwidth consulting services to two Fortune 100 companies.

CustomAuctions

CustomAuctions, launched in March 2000, was developed to facilitate the trading of products with specific product, geographic or financial requirements that are not traded on the RateXchange Trading System. CustomAuction service benefits include:

- Provision of specialized products to a large and pre-qualified market;
- Significant reduction in time and cost of the transaction;
- "Book-building" process to assure matching of supply/demand to contract and market design; and
- Market and contract design to assure optimal price discovery in auction events.

Other Revenue Sources

As our business evolves and our online trading community grows, we expect to derive revenues from the operation of other related markets, such as financial and derivative contracts related to bandwidth, internet access, wireless spectrum and satellite bandwidth. We believe that the intellectual property associated with our trading system may also have applications in other trading markets and online exchanges.

Products and Markets

In the quarter ended September 30, 2000, we began generating revenue from:

- Transaction fees on trades executed through our trading system, typically generated as commissions paid by both the buyer and the seller upon each trade; and
- Consulting fees earned by RateXlabs, our bandwidth trading consulting division, providing independent economic research and confidential risk management education.

In addition to these revenue sources, we anticipate generating revenue in the future from:

- Service fees for RateXchange CustomAuctions paid by the offeror for holding an auction event;
- Installation fees and monthly port fees for utilization of our delivery hubs; and
- Membership fees that entitle members to trading privileges and web-based, marketplace information services.

Bandwidth Trading Overview

According to the Hoover's "Telecommunications Industry Summary," annual global spending on telecom services is currently $726 billion and is expected to grow to $1 trillion by 2001. Technology and deregulation continue to transform the telecommunications market from a closed industry made up of localized monopolies to an increasingly competitive marketplace. Formerly state-owned carriers must both defend their own markets and pursue opportunities abroad to remain competitive. New and legacy carriers are taking advantage of rapid advances in technology to build networks with drastically lower costs of operation. The number of carriers licensed to trade international voice traffic in the U.S. alone has doubled in each of the past three years to well over 1,200.

Traditionally, the telecommunications market has been fragmented and inefficient, with non-standard pricing and high interconnection and switching costs between carriers. As a result of market inefficiency:

- o Bandwidth trades are currently conducted bilaterally with imperfect market data and no central marketplace;

- o Establishing and managing multiple bilateral relationships to conduct bandwidth trades results in redundant costs, marked by fulfillment cycles that average 60-90 days;

- o As many as nine out of 10 transactions fail because of market changes, financial, contractual and quality issues and delivery delays; and

- o Significant price and volume exposure results in operational risks and costs for carriers of all sizes.

Carriers are expected to continue to aggressively use partnerships and outsource agreements to penetrate new markets and alleviate congestion in their current networks. These are the market factors behind the rapidly growing spot and forward markets in bandwidth. However, despite advances in hardware and software technologies and increasing network interconnection, the telecommunications bandwidth market remains inefficient due to static business processes that continue to be utilized by carriers of all sizes. In response, we have created an electronic trading system and a streamlined delivery mechanism. By offering a trading platform that effectively brings buyers and sellers together and a single standardized contract and marketplace, we believe we can provide significant economic value to both parties through:

- o Time Savings. We provide instantaneous access to bandwidth prices, thus facilitating information flow and transaction timing.

- o Cost Savings. The most readily quantifiable benefit to both purchasers and sellers of bandwidth is reduced costs from trading on an exchange. Specifically, cost reductions can be achieved by eliminating unnecessary costs and solving inefficiencies associated with existing buying processes among telecommunications carriers.

- o Scalability. Historically as a result of market inefficiencies, existing buying and selling practices have lacked scalability and have been unable to meet the growth in demand for bandwidth trading. Conversely, our online marketplace significantly reduces timing and costs of effecting trades and subsequently offers virtually unlimited scalability.

- o Network Optimization. By providing the communications industry with an alternative sales channel, we enable service providers to optimize the value of their network assets.

- o Strategic Risk Management. As a source of pricing information, we provide market participants the information needed to manage the risk associated with fluctuations in supply and demand.

The entrance of the leading energy companies into the communications industry expands the total market opportunity presented by bandwidth trading. The same companies that played a significant role in the development of actively traded energy and power commodity markets are playing a significant role in the development of the bandwidth market. The leading energy companies are at various stages of entering the bandwidth trading market. Enron, El Paso Energy and Williams are actively trading bandwidth today. Other companies such as Aquila, Reliant and Dynegy have made public announcements regarding their plans to trade bandwidth and are expected to enter the market soon.

Bandwidth as a Commodity

Our long-term success is dependent, in part, on the continued development of bandwidth as a tradeable commodity. In order for an active, liquid bandwidth market to develop, the following characteristics need to be present:

Standardized Product

The development of a commodity market requires a standard product so that participants from different industries can trade the same product. Bandwidth as traded on our electronic trading system is defined as the physical means of sending data over lines. The bandwidth traded is a unit of capacity (capacity) through which voice or data can be transmitted between two points (city pair) with predetermined quality of service levels (quality). With capacity, city pair and quality predetermined, the physical circuit is a standardized product. Physical circuits are the basic building block underlying all telecommunications products. All types of communications from voice to Internet Protocol flow over physical circuits.

Our electronic trading system supports the trading of this standardized product and is capable of supporting the trading of other standardized products as new markets develop. We believe the flexibility and scalability of our electronic trading system provides us an advantage in the development of additional trading markets.

Standardized Contract

The development of a liquid commodity market requires the adoption of a standardized contract. A standardized contract allows market participants to complete transactions quickly by eliminating the need to prepare and negotiate definitive documentation for each transaction. The standardized contract needs to have standardized terms and conditions that define quality of service, allow for orderly resolution of disputes and have remedies in place for failure to perform. A group of industry participants, including RateXchange and several energy/utility and telecommunications companies, have formed the Bandwidth Trading Organization and are working toward the development of an industry-wide standardized contract. The contract is called the Master Bandwidth Purchase and Sale Agreement.

We have adopted the Master Bandwidth Purchase and Sale Agreement as the default agreement for trading on the RateXchange Trading System, but the system also supports any number of different contracts. Eventually, the market will decide what the standardized contract is. Until the market coalesces around a standardized contract, we provide a platform that supports the trading of any contract.

In November 2000, we entered into contracts with eight carriers, including Tier 1 carriers headquartered in Asia, Europe and North America.

Interconnection

Market participants need a cost-effective and efficient way to make or take delivery of traded bandwidth. The development of efficient interconnection facilities should reduce the cost of bandwidth trading. If market participants were interconnected before trading the cost associated with each trade would be reduced to the cost of connecting and testing the circuit. This is in contrast to the present situation where the interconnection and testing of circuits is one of the most costly and time-consuming stages of the wholesale sales process.

In order to accelerate development of a liquid market for bandwidth, during 2000 we are establishing twelve "delivery hubs" in major metropolitan areas in order to provide the interconnection necessary to facilitate a physical delivery of traded contracts. We believe other companies such as Enron and LighTrade are also deploying pooling points to facilitate interconnection. The deployment of delivery hubs by RateXchange and other companies reduces the cost and the amount of time required for bandwidth trading.

We have an agreement with one of the top energy merchants and marketing firms in which it will buy and deliver a circuit over two of our delivery hubs in the first quarter of 2001. We have agreed to work jointly with this firm to refine the already developed tagging (work flow) process and software and quality of service monitoring that has already been put in place by SAIC and us. Upon successful completion of this testing process, we anticipate that this energy merchant will more extensively utilize our delivery hubs for buying and selling of bandwidth.

Need For Price Transparency and Risk Management

The communications industry has a strong need for price transparency and risk management tools, such as efficient trading of bandwidth assets. The rapid decline in bandwidth pricing, along with the creation of applications that use a lot of bandwidth, has created uncertainty for users and suppliers of bandwidth. A liquid, commodity market for bandwidth would provide both buyers and sellers the information needed to make sound decisions. The aggregation of buyers and sellers in the market will lead to a forward price for bandwidth. This forward pricing could be used when making purchasing decisions or when considering laying or lighting fiber optic cable.

The aggregation of buyers, sellers and transaction data on RateXchange's Trading System has provided the information needed to bring risk management tools and practices to the communications industry. We believe we have, and will continue to play, a leadership role in the emergence and validation of bandwidth as a tradable commodity.

Competitive Conditions

Products, services and geographic location define the competitive conditions for online bandwidth trading. At this stage in the telecommunications trading industry's development, we believe that being the first company to establish an electronic trading system for trading bandwidth is significant. Because participation in an electronic trading system may require physical connection to one of the system's interconnection locations, once a carrier is connected, the cost of moving operations to a new system would be significant. In addition, building a critical mass of connected carriers creates a network effect, with each new connection enhancing the value of the service to all customers and raising the barrier to competition. For these reasons, we are focused on attracting large numbers of users to our electronic trading system and in connecting significant numbers of carriers and other traders of bandwidth to our delivery hubs.

We believe we are well positioned to compete effectively in the bandwidth trading market for three reasons:

- Neutrality - We believe that some of our competitors intend to take positions in their own systems or exchanges as market makers. This will generate initial liquidity, but carrier reactions have been negative as these companies are perceived as competing with their own exchange customers.

- First-mover advantage - We believe that we are one of the first bandwidth electronic trading systems established in the United States and among the first in the world. We also believe that we are currently one of the only United States electronic trading systems that provides:

    - A neutral bandwidth electronic trading system with no other lines of business;

    - Delivery hubs domestically and internationally; and

    - A bid/ask market for bandwidth trading.

- Industry experience - Our management team's knowledge of key industry participants in the core market and expertise in telephony, energy and financial markets adds credibility and reduces time to market.

Competitors

The market for online bandwidth and minutes trading services is new, rapidly evolving and highly competitive, as are the online commerce and business-to-business markets generally. We expect competition in this market to intensify in the future. Several of the existing online exchanges, such as E-Speed, Intercontinental Exchange and Altra currently operate online marketplaces in commodities and have large established customer bases. These companies may start bandwidth trading marketplaces. Our ability to compete with them will depend largely upon our ability to capture market share by obtaining sufficient participants for our electronic trading system.

In addition, we compete with companies who trade, broker or otherwise assist in the buying and selling of telecommunications bandwidth and minutes. Therefore, we currently or potentially compete with a variety of other companies, including lead-generation services and traditional offline brokers. Many companies, such as Band-X, the GTX, Arbinet, and Asia Capacity Exchange, offer services to buyers and sellers of bandwidth and other telecommunications products. The increased use and acceptance of any other method of facilitating the buying and selling of excess telecommunications bandwidth and minutes may adversely impact the commercial viability of our electronic trading system.

Target Customers

The market for domestic and international bandwidth includes dominant major Tier 1 carriers, such as AT&T, WorldCom, NTT, Deutsche Telecom, Pangea, KDD and Teleglobe , as well as wholesale-only carriers, resellers, brokers, energy and utility companies and large multinational corporations. Customer interviews, surveys and a review of the industry press indicate:

- Customers have significant frustrations with the current process;
- Customers see benefits to trading with us;
- Customers have indicated willingness to interconnect with us and are willing to pay for our services; and
- In addition to carriers, large corporate users of bandwidth and telecom products may become direct users to purchase selected bandwidth on a domestic or international city-to-city basis.

Intellectual Property

We have applied for several trademarks covering specific businesses and products offered on our Internet web site. We have also registered copyrights for the RateXchange trading system web page designs. Patent applications are pending for several processes of the RateXchange electronic trading system. We do not have any franchises.

General Development of Business

During the fourth quarter of 2000, we made certain additions to our management team to reflect our focus on trading bandwidth and telecommunications products among a wide range of market participants.

On October 5, 2000, D. Jonathan Merriman, formally Managing Director and Head of the Equity Capital Markets Group at First Security Van Kasper, was named as our President and Chief Executive Officer. On October 20, 2000, Steven Town, co-Chief Executive Officer of Amerex, was elected to our Board of Directors. On November 27, 2000, Dean Barr, the Global Chief Investment Officer of Deutche Asset Management, was elected to our Board of Directors.

On September 17, 2000, we announced that we had launched our new RateXchange Trading System, and the formalization of our strategic alliance with Amerex. The combination of the RateXchange Trading System with Amerex's brokering experience and market relationships is expected to help create a liquid bandwidth trading market. This electronic trading system should enable market participants of all sizes to participate in the rapidly evolving bandwidth market. The RateXchange Trading System is similar to trading platforms that have been successful in on-line natural gas and electricity commodity trading. The RateXchange Trading System enables bandwidth traders to pre-approve and manage counterparty credit. Trades executed over the RateXchange Trading System can be delivered using our delivery hubs, other pooling points or bilateral connections. Market participants are now able to trade a larger number of routes regardless of the presence of our delivery hubs. Trading on the RateXchange Trading System supports the master bandwidth purchase and sale agreement based on the bandwidth trading organization master agreement and also supports the trading of other standardized contracts.

Amerex has successfully completed several bandwidth trades since May 2000 and is currently quoting over 60 city-pair bandwidth markets using the Bandwidth Trading Organization master agreement. Amerex is a leading energy and power broker. Under our agreement with Amerex, Amerex brokers will execute trades for the sales or purchase of telecommunications capacity, Internet protocol products and/or other telecommunications-related products over our RateXchange trading system and we will share in the revenues generated by the RateXchange trading system. In connection with this agreement, we issued to Amerex five warrants for an aggregate of 2,300,000 shares of our common stock. One warrant for 300,000 shares with an exercise price of $4.47 per share, is currently exercisable by Amerex. The remaining four warrants, each for 500,000 shares and with exercise prices of $4.47 per share, $4.70 per share, $4.92 per share and $5.37 per share, will become exercisable upon the earlier of September 17, 2005 or Amerex executing a minimum of $1,000,000, $1,000,000, $3,000,000 and $5,000,000, of value of transactions over the RateXchange Trading System.

On September 15, 2000, RateXchange announced that our RateXlabs division had established a bandwidth trading consulting practice. Two Fortune 100 companies have engaged RateXlabs to provide the expertise needed to develop a competitive advantage in the emerging bandwidth trading industry. RateXlabs provides independent economic research and risk management consulting regarding bandwidth trading.

On August 23, 2000, we completed a Trans-Pacific bandwidth trade. The trade of capacity between Hong Kong and Los Angeles is the first Trans-Pacific trade completed by us.

On August 16, 2000, RateXchange and Amerex announced the signing of a letter of intent to form a strategic alliance to accelerate the trading of bandwidth products. The partnership will promote the use of our neutral RateXchange trading system as a vehicle for building liquidity in bandwidth trading.

On August 7, 2000, we completed the beta trial of the RateXchange trading system, a new market service for bandwidth trading designed with the assistance of several of our customers.

On July 31, 2000, we announced we would expand the deployment of our neutral delivery hubs under an agreement with TeleCity UK Limited, a leading European carrier-independent Internet infrastructure service provider.

On July 24, 2000, we announced that six of the 12 delivery hubs we expect to deploy this year are fully operational for immediate delivery of one-month spot and one-year forward contracts on 15 different city-pair routes. As of September 30, 2000, eight delivery hubs were fully operational.

On July 17, 2000, we announced that we had appointed a telecommunications industry consultant, Gordon (Don) Hutchins, Jr., to our board of directors.

On July 10, 2000, we announced we had received an American Stock Exchange listing. Our common stock commenced trading on the AMEX under the new symbol RTX on July 10, 2000.

Since March 2000, we have focused on the business of creating an electronic marketplace for telecommunication products. In March 2000 we closed a $32.8 million private placement, netting $30.1 million after expenses. These funds should be sufficient to cover our operations and working capital requirements for the next twelve months. On May 5, 2000, we changed our name to RateXchange Corporation to more accurately reflect our new business focus.

On July 6, 1999, we acquired 100% of the outstanding stock of Rate Exchange, Inc., a Colorado corporation, through a merger of Rate Exchange, Inc. into RateXchange I, Inc., our wholly owned Delaware subsidiary. The Delaware subsidiary was the surviving entity. We paid 574,998 shares of common stock and $450,000 in a note that was due one year from the date of closing. This note is now fully paid.

In 1999, we changed our name to NetAmerica.com Corporation. Shortly thereafter, we incorporated Telenisus Corporation, a Delaware corporation, as one of our wholly owned subsidiaries. Telenisus is a development stage company that is seeking to become a single source provider of secure and reliable Internet-based business-to-business services to corporate customers, carriers, Internet service providers and marketers of telecommunications services. Through acquisitions and internal business development, Telenisus seeks to develop a full suite of Internet and data network management tools that will enable customers to increase productivity, to reduce costs and to access a wide range of Internet, e-commerce, security and communication applications from a one-stop network service delivery provider.

In November 1999, Telenisus announced the closing of its first independent private placement financing. The common stock issued in this financing, together with stock issued in a Telenisus-subsidiary acquisition, reduced our percentage ownership interest in Telenisus to less than 10%. Telenisus used the proceeds of the financing to expand its management team and to accelerate development of its four service families: virtual private networks, managed firewall/security services, Web site and application hosting and e-commerce. Telenisus is focused on delivering its business Internet solutions to large and mid-sized corporate customers. Because of subsequent financings, our ownership in Telenisus is currently below 5%. Our investment is carried at cost on the balance sheet.

In September 1998, in connection with our strategy to acquire and consolidate Internet service providers, we also entered into an agreement with NetAmerica, Inc., a Washington corporation, under which we agreed to purchase the outstanding stock of Net America, Inc. Net America, Inc. subsequently agreed to be renamed A1 Internet, Inc. and agreed to assign and transfer to us all of its right, title and interest in the name "Net America." We determined in March 1999 that it was not in our best interest to complete the purchase of A1 Internet's stock after A1 Internet acknowledged that some representations made to us were inaccurate. Consequently, on March 16, 1999, we entered into an agreement with A1 Internet to abandon the stock purchase.

On September 30, 1998, we acquired PolarCap, Inc. As a result of this acquisition, PolarCap became our wholly owned subsidiary. PolarCap is a California corporation that was organized in April 1997 for the purpose of investing in and developing rights to a variety of software technologies related to multimedia, development tools and applications technologies.

We were originally incorporated as Venture World, Ltd. on May 6, 1987, under the laws of the State of Delaware, for the purpose of developing or acquiring general business opportunities. We had no material operations from 1992 to 1998.

Research and Development

We conduct on-going research in the areas of commoditization of telecommunications bandwidth in evolving pricing models for bandwidth and other telecommunications products and services, and we are developing future products and services based on this research. During 2000, we estimate that we have spent approximately $400,000 to commission proprietary university-based and private sector research in these areas. During 1999, we estimate that we spent approximately $100,000 to commission proprietary university-based and private sector research in these areas. Before 1999, we did not have any significant expenditures for research and development.

Employees

As of February 2, 2001, our subsidiaries and we employed approximately 35 people. We believe our relations with our employees are good. Our employees are not subject to any collective bargaining agreements.

PROPERTIES

Our principal facility is located at 185 Berry Street, Suite 3515, San Francisco, California. We hold a lease on this facility. We believe that this property is suitable for our immediate needs. However, we may expand our facilities or relocate in the future.

LEGAL PROCEEDINGS

On February 3, 2000, we filed a lawsuit against Wavve Telecommunications, Inc. in the San Francisco County Superior Court (Case No. 309608). Other defendants named in the lawsuit include Robert W. Ingraham, Gran Columbia Resources, Inc. (aka Wavve Telecommunications, Inc.) and Does One through Fifty. In July 2000 the case was transferred to Sacramento County Superior Court. The lawsuit involves claims for breach of contract, promissory estoppel, fraud and deceit, intentional interference with a contract and prospective economic advantage, and unfair and unlawful business practices. We are seeking in excess of $1 million in compensatory damages, exemplary damages, interest and attorneys' fees. The parties have completed the pleading stages and are currently engaged in discovery. No trial date has been set.

On February 24, 2000, Concentric Network Corporation filed a lawsuit against NetAmerica, Inc., aka A1 Internet, Inc., and us in the Superior Court of California for the County of Santa Clara (CV 784335). The lawsuit involves claims for breach of contract and common counts based on A1 Internet's nonperformance in a services agreement between A1 Internet and Concentric. Concentric is asking for compensatory damages of at least $167,794, restitution, costs and attorneys' fees. The matter is currently pending in the Superior Court and will soon proceed to arbitration. No arbitration date has been set.

From time to time, we are a party to various legal proceedings incidental to our business. Other than the proceedings mentioned above, none of these proceedings is material to the conduct of our business, operations or financial condition.

MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock

Our common stock trades on the American Stock Exchange under the symbol "RTX." The closing price of our common stock on February 2, 2001 was $2.90 per share. Before July 10, 2000, our stock traded on the OTC Bulletin Board. The following table sets forth the range of the high and low sales prices per share of our common stock for the fiscal quarters indicated, as reported by the American Stock Exchange or OTC, as applicable. Before December 18, 1998, there was no public trading market for our common stock.

	High	Low
2001		
First Quarter (through February 1, 2001)	$ 2 11/16	$ 1 7/8
2000		

Fourth Quarter	$ 4 1/8	$ 1 1/4
Third Quarter	6 3/8	3
Second Quarter	22 1/8	5 3/16
First Quarter	43 1/4	5 5/8
1999		
Fourth Quarter	$ 8 7/8	$ 3 3/4
Third Quarter	6 3/4	4 3/8
Second Quarter	7 1/4	5 1/2
First Quarter	6 7/8	4 1/2

Approximate Number of Equity Security Holders

On February 2, 2001, there were 316 stockholders of record of our common stock. Because brokers and other institutions on behalf of stockholders hold many of such shares, we are unable to estimate the total number of stockholders represented by these record holders.

Dividends

We have never paid dividends on our common stock. We intend for the foreseeable future to continue the policy of retaining our earnings to finance the development and growth of our business.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

STATEMENTS OF OPERATIONS DATA

	Nine Months Ended Sept. 30,	Year Ended December 3		
	2000	1999	1998	1997
	(unaudited)	(As restated)	(As restated)	
Revenue	$ 57,255	$ --	$ --	$ --
Net Loss	$(37,279,048)	$ (9,298,789)	$(3,144,522)	$ (200)
Basic and Diluted loss per share	$ (2.28)	$ (0.72)	$ (1.92)	$ --
Weighted average number of common stock:	16,334,695	12,863,020	1,636,919	200,000

BALANCE SHEET DATA

	As of Sept. 30,	As of December 31,		
	2000	1999	1998	1997

	(unaudited)	(As restated)	(As restated)	
Total assets	$20,503,277	$ 3,043,885	$ 830,154	$ --
Long-term debt, less current portion	$ --	$ --	$ --	$ --
Stockholders' equity	$18,391,869	$ 318,829	$ 700,654	$ (200)

SUPPLEMENTARY FINANCIAL INFORMATION

	For the quarter ended September 30, 2000	For the quarter ended June 30, 2000	For the quarter ended March 31, 2000	For the quarter ended December 31, 1999
				(As restated)
			(unaudited)	
Revenue	$ 52,755	$ 5,000	$ --	$ --
Net Loss	$(17,857,390)	$ (8,346,587)	$(11,075,071)	$(4,186,311)
Per Share Net Loss				
Basic	$ (1.03)	$ (0.49)	$ (0.75)	$ (0.28)
Diluted	$ (1.03)	$ (0.49)	$ (0.75)	$ (0.28)

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	For the quarter ended March 31, 1999	For the quarter ended December 31, 1998	For the quarter ended September 30, 1998	For th e Jun 1
	(As restated)	(As restated)		
			(unaudited)	
Revenue	$ --	$ --	$ --	$
Net Loss	$ (2,599,966)	$(3,136,385)	$ (8,137)	$
Per Share Net Loss				
Basic	$ (0.27)	$ (1.92)	$ --	$
Diluted	$ (0.27)	$ (1.92)	$ --	$

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

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus.

	Nine Months Ended September 30,		Year End	
	2000	1999	1999	
	(unaudited)	(As restated)	(As restated)	(As
Revenue	$ 57,255	--	--	
Expenses (including selling, general and administrative)	$ 34,235,283	$ 5,312,169	$ 9,431,212	$
Net loss	$(37,279,048)	$(5,228,100)	$(9,298,789)	$(

Results of Operations

Nine Months Ended September 30, 2000 Compared to the Nine Months Ended September 30, 1999

Revenue

We generated revenue of $57,255 during the first nine months of 2000 from consulting, trading commissions and banner ads. We did not generate any revenue in the comparable period of 1999.

Expenses

Our total expenses were $34,235,283 in the first nine months of 2000 compared to $5,312,169 in the comparable period of 1999. The increase was primarily due to non-cash expenses associated with option grants and warrants. The major components of our expenses for the first nine months of 2000 were:

Non-cash Expenses

- $9,128,000 in expenses associated with below market stock option grants to employees;
- $7,368,000 associated with the warrants issued or to be issued in conjunction with the strategic alliance established with Amerex; and
- $3,561,000 for options granted to service providers;

Cash Expenses

- $3,880,000 in payroll costs;
- $2,584,000 in outside services;
- $1,140,000 in marketing costs; and
- $2,454,000 in delivery equipment costs.

Interest Income

Interest income for the first nine months of 2000 was $604,561 compared to $94,590 for the same period in 1999. The increase in interest income is due to interest earned on the net proceeds from our March 2000 private placement.

Interest and other expense

Interest and other expenses include non-cash charges related to:

- o $1,723,000 in stock and warrants to buy stock in settlement of a dispute; and

- o $1,801,775 fair value adjustment classified as interest expense associated with conversion of our bridge notes into stock and warrants.

Net Loss

During the first nine months of 2000, we incurred a net loss of $37,279,048 compared to a net loss of $5,228,100 during the same period in 1999. The major components of the net loss comprised non cash expenses for stock options and warrants to purchase company stock of $23,582,015 for the first nine months of 2000 and expenditures associated with developing the business of $13,697,033 for the first nine months of 2000. Because we are developing a unique electronic trading system, we anticipate that we will continue to incur operating losses and cash flow deficiencies for the foreseeable future.

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

Revenue

We did not generate any operating revenues in 1999.

Expenses

Our total expenses for 1999 increased substantially compared to 1998 because we did not begin operations until September 30, 1998. As a result, during 1998 we incurred expenses for three months of that year compared to a full year of expenses for 1999. Incurred expenses relate to finding and funding a development stage enterprise. We investigated many potential acquisition targets and succeeded in creating one entity, Telenisus Corporation, and acquiring another entity, RateXchange I, Inc.

We funded Telenisus Corporation only to the extent of original capitalization of $75,000. Any further funding of Telenisus was completed on its own and did not affect our operations.

RateXchange I, Inc. is now our only operating subsidiary and it relies on our financing activities for its operations.

Total expenses for 1999 were $9,431,212, of which the principal components were:

- o $3,158,415 of common stock, warrants or op]tions to purchase our common stock issued in exchange for various services;

- o $2,034,893 for legal, accounting, consulting and other operational expenses related to business development;

- o $1,507,408 expensed in the purchase of the outstanding common stock of

RateXchange;

- $1,325,106 for payroll and payroll taxes;

- $501,839 for office and other administrative expenses;

- $413,681 due to write-off of advances to A1 Internet, Inc.; and

- $342,762 for travel.

Total expenses for 1998 related to operations since September 30, 1998 and included our activity and that of our subsidiary PolarCap Inc. See "Year Ended December 31, 1998 Compared to Year Ended December 31, 1997" below.

Interest Income

The only income we generated during 1999 and 1998 was interest income on our subscription receivables. Interest income for 1999 was $151,496 compared to $2,214 for 1998. The increase in interest income is attributable to the amount of subscription receivables carried during 1999 compared to 1998. Most of the receivables have been collected and interest income from this source will be substantially less in future periods.

Net Loss

Net loss totaled $9,298,789 for 1999 compared to $3,144,522 for 1998, reflecting the greater expenses in 1999 compared to 1998.

Year Ended December 31, 1998 Compared with Year Ended December 31, 1997

Revenue

We did not generate any operating revenues in 1998.

Expenses

Total expenses for 1998 were $3,135,963, of which the principal components were:

- $2,020,376 of common stock or warrants to purchase common stock of the Company issued in exchange for various services;

- $885,000 due to write off of advances to A1 Internet, Inc.; and

- $89,710 expensed in the purchase of the outstanding common stock of PolarCap, Inc.

Total expenses for 1997 were $200 for miscellaneous expenses.

Interest Income

The only income we recorded in 1998 was interest of $2,214 on subscriptions receivable. There was no interest income for 1997.

Net Loss

Net loss totaled $3,144,522 in 1998 compared to $200 for 1997, reflecting the greater expenses in 1998 compared to 1997.

Liquidity and Capital Resources

We have financed our operations to date primarily through the sale of equity securities. We have been unprofitable since inception and we have incurred net losses in each year.

We had working capital of $17,378,239 at September 30, 2000 compared to negative working capital of $48,367 on December 31, 1999. At December 31, 1999, we had common stock subscription receivables in the amount of $1,590,319, which were paid off in the first quarter of 2000. In March 2000 we closed a $32.8 million private placement, netting $30.1 million after expenses. These funds should be sufficient to cover our operations and working capital requirements for the next twelve months. Nevertheless, we may be forced to seek additional financing sooner than expected.

Our operating activities used $13,821,658 during the first nine months of 2000 due primarily to our:

o Increased marketing a