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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 10039

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EB2B COMMERCE, INC.
(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

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| NEW JERSEY | 22-2267658 |
|---|---|
| (STATE OR OTHER JURISDICTION OF INCORPORATION) | (I.R.S. EMPLOYER IDENTIFICATION NO.) |

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757 THIRD AVENUE
NEW YORK, NY 10017
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

ISSUER'S TELEPHONE NUMBER: (212) 703-2000

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SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT:
None

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT:

COMMON STOCK, PAR VALUE $.0001 PER SHARE
(TITLE OF CLASS)

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Issuer's revenues for fiscal year ended December 31, 2001: $6,816,000

As of March 20, 2002, the aggregate market value of our company's common stock (based upon the closing sales price on such date) of the Registrant held by non-affiliates was $1,388,466

Number of shares of our company's common stock outstanding at March 20, 2002: 1,862,443

Transitional Small Business Disclosure Format: Yes [ ] No [x]

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

We utilize proprietary software to provide services that create more

efficient business relationships between trading partners (i.e. buyers and suppliers). Our technology platform allows trading partners to electronically automate the process of business document communication and turn-around, regardless of what type of computer system the partners use. Through our service offerings, our technology platform has the capability of receiving business documents in any technology format, translating the document into any other format readable by the respective trading partners and transmitting the document to the respective trading partner. We provide access via the Internet to our proprietary software, which we maintain on our hardware and on hosted hardware. We also provide professional services and other consulting services to tailor our software to our customers' specific needs with regard to automating the customers' transactions with their suppliers. In some instances, we allow customers who are also resellers of our services to take delivery of our proprietary software on a licensed basis.

The business relationship between a buyer and a supplier is not created within our platform; it is one which already exists. Our services enhance the previously existing relationship as documents can be transmitted between a buyer and a supplier in an electronic automated format utilizing our technology platform. These documents include, but are not limited to, purchase orders, purchase order acknowledgments, advanced shipping notices and invoices. Our customers utilize our services for business documents primarily in the direct goods area, which encompasses purchasing of finished goods for ultimate sale to an end user, be that a consumer or a business.

In many cases, the automation of the exchange of business documents is occurring between a large buyer or supplier and their smaller trading partners. In the past, these trading partners communicated with each other via phone, fax or mail. Our services permit efficiencies among trading partners by significantly reducing or eliminating the process of manual communications. This electronic automation allows each trading partner to leverage their investment in technology (hardware and software) by integrating business document transactions directly into their back-end systems. These technologies include, but are not limited to, Electronic Data Interchange, Point of Sale, Enterprise Resource Planning, Accounting, Inventory, Supply Chain and/or Order Management. The resulting efficiencies often reduce cost of staffing and cut error rates typically associated with manual processing of the respective business documents.

In addition to the integration and automation capabilities of our services, buyers and suppliers can also exchange documents and conduct business via a catalog-based environment. This environment supports the needs of both buyer and supplier throughout the trading life cycle. These include requisitions, order management, fulfillment and settlement. This is especially useful to support the trading needs of specific business partners in order to ensure products are ordered and delivered in the most efficient and least expensive means available.

We also provide professional services to the same client base, as well as to businesses that wish to build, operate or outsource the transaction management of their business-to-business trading partner relationships and infrastructure.

In addition, we provide authorized technical education services and training seminars to corporate computer professionals.

RECENT DEVELOPMENTS

In December 2001, we completed a bridge financing consisting of convertible notes and warrants. The gross proceeds of $2,000,000 were used for general corporate purposes and for the acquisition described below. Pursuant to the December 2001 financing, we issued $2,000,000 of principal amount of 7% senior subordinated secured notes, having a 90 day maturity, which notes were automatically convertible into securities issued in our next private placement financing (subject to certain parameters),



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and warrants to purchase an aggregate of 266,667 shares of common stock at an exercise price of $1.80 per share.

In January 2002, the December 2001 bridge financing notes were converted into five-year 7% senior subordinated secured notes, convertible into 826,444 shares of common stock at a conversion price of $2.42 per share, and two-year warrants exercisable to purchase an aggregate of 826,439 shares of common stock at an exercise price of $2.90 per share. We received no cash in this transaction.

During the fourth quarter of 2001, we entered into agreements to settle certain liabilities including: (i) the settlement of certain vendor obligations resulting in debt forgiveness of approximately $400,000; and (ii) agreements to settle approximately $425,000 of severance and other contractual obligations through the issuance of 188,401 shares of common stock. In the first quarter of 2002, we restructured an accrued liability of $262,500 on our balance sheet at December 31, 2001 through the issuance of a five year 7% senior subordinated secured convertible note convertible into 108,472 shares of common stock. In addition, in December 2001, we agreed to issue up to 266,667 shares of common

stock to one creditor to offset any deficiency in net proceeds received by that creditor on the sale of previously issued common stock and pay one-half of the remaining balance owing to this creditor in cash (with the remaining one-half to be forgiven).

Effective January 2, 2002, we acquired Bac-Tech Systems, Inc., a New York City-based privately-held e-commerce business, through a merger. Pursuant to the merger agreement, we paid an aggregate of $250,000 in cash and issued an aggregate of 200,000 shares of common stock and 95,000 shares of Series D preferred stock to the two stockholders of Bac-Tech. The Series D preferred stock, inclusive of any accrued dividend, is automatically convertible into an aggregate of 333,334 shares of common stock upon our stockholders' approval of the acquisition and/or the issuance of the Series D preferred stock in connection with the acquisition. If such approval is not obtained by November 30, 2002, the Series D preferred stock becomes redeemable, at the option of the holders, for $10 per share in cash, plus accrued dividends. We expect this vote to occur before the end of the third quarter of 2002. If the vote to convert does not occur, a cash payment of approximately $980,000 would be required to be paid to the Bac-Tech shareholders. We also issued secured notes to the Bac-Tech stockholders in the aggregate amount of $600,000, payable in three equal annual installments in 2003, 2004 and 2005. We have agreed to register for resale all shares of common stock issued, and underlying the shares of Series D preferred stock issued, to Bac-Tech's stockholders although such holders have a lock-up restriction on the sale of their shares for a period of one year. In connection with the acquisition, we employed the two Bac-Tech stockholders for a period of three years. Robert Bacchi now serves as our chief operating officer and Michael Dodier now serves as Executive Vice President -- Sales. Bac-Tech offers comprehensive EDI and web-based services to a growing portfolio of nationally known suppliers, including O-Cedar Brands, Peregrine Outfitters, Schott Glass and Ross Products, a division of Abbott Labs. We believe this acquisition broadens our customer base and distribution channels, leverages our revenue model and adds depth to our management team.

At our 2001 annual meeting of stockholders, held in October 17, 2001, our stockholders gave the board authority to effect a reverse stock split in any of the following ratios: one-for-five (1:5), one-for-seven (1:7), one-for-ten (1:10), one-for-twelve (1:12) and one-for-fifteen (1:15). On January 3, 2002, our board of directors approved a one-for-fifteen (1:15) reverse stock split of our common stock. The intent of our board in approving the reverse stock split was to increase the long-term manageability and liquidity of our common stock. The Board approved the 1:15 reverse stock split in part in an effort to maintain compliance with Nasdaq's continued listing maintenance requirements which require that our common stock maintain a $1.00 per share minimum bid price. The record date for the reverse stock split was January 10, 2002. All share and per share amounts in this Form 10-KSB have been adjusted to reflect the one for fifteen reverse stock split.

HISTORY AND ORGANIZATION

DynamicWeb Enterprises, Inc. was incorporated in the state of New Jersey on July 26, 1979.

eB2B Commerce, Inc. was incorporated in the state of Delaware on November 6, 1998.



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On April 18, 2000, eB2B Commerce, Inc., a Delaware corporation, merged with and into DynamicWeb Enterprises, Inc., a New Jersey corporation and a SEC registrant. The surviving company changed its name from DynamicWeb Enterprises, Inc. to eB2B Commerce, Inc. Pursuant to the agreement and plan of merger between DynamicWeb and former eB2B, the shareholders of DynamicWeb retained their shares in our company, while the shareholders of former eB2B received shares, or securities convertible into shares, of common stock of our company representing approximately 89% of our equity, on a fully diluted basis. At the time of the merger, (i) DynamicWeb was engaged in the provision of services and software that facilitated business-to-business e-commerce between buyers and sellers of direct goods and (ii) former eB2B was a development stage company formed to provide Internet-based business-to-business e-commerce services for manufacturers and retailers to conduct cost-effective electronic commerce transactions. Prior to the merger, former eB2B primarily devoted its operations to recruiting and training of employees, development of its business strategy, design of a business system to implement its strategy, and development of business relationships with retailers and suppliers.

The April 2000 merger was accounted for as a reverse acquisition, a 'purchase business combination' in which former eB2B was the accounting acquirer and DynamicWeb was the legal acquirer. The management of former eB2B remained as our management. As a result of the April 2000 merger, (i) the financial statements of former eB2B are our historical financial statements; (ii) the results of our operations include the results of DynamicWeb after the date of the merger; (iii) acquired assets and assumed liabilities were recorded at their estimated fair market value at the date of the merger; (iv) all references to our financial statements apply to the historical financial statements of former eB2B prior to the April 2000 merger and to our consolidated financial statements

subsequent to the April 2000 merger; (v) any reference to former eB2B applies solely to eB2B Commerce, Inc., a Delaware corporation, and its financial statements prior to the merger, and (vi) our year-end is December 31, that of the accounting acquirer, former eB2B.

On February 22, 2000, prior to the April 2000 acquisition of DynamicWeb Enterprises, former eB2B completed its acquisition of Netlan Enterprises, Inc. and its subsidiaries. At the time of the acquisition, Netlan was engaged in website development for clients and software and other technical training for clients. Pursuant to the agreement and plan of merger, Netlan's stockholders exchanged 100% of their common stock for 8,334 shares of our common stock. Additionally, 13,334 shares of our common stock were issued, placed into an escrow account, and released to certain former shareholders of Netlan upon successful completion of escrow requirements. The purchase price of the Netlan acquisition was approximately $1.6 million. We recorded approximately $4,896,000 of goodwill and approximately $334,000 of other intangibles in connection with this transaction.

INDUSTRY BACKGROUND

Businesses are increasingly seeking to improve their operating efficiency with other businesses through electronically automated and integrated business to business solutions. Electronic Data Interchange, or EDI, is a specific form of business-to-business electronic commerce, consisting of a standard protocol for electronic transmission of data between a company and a third party. EDI has existed for over twenty years. It is a very expensive technology to both implement and maintain and is, therefore, typically utilized by the largest companies. In an EDI transaction, the computers of the buyer and the supplier communicate and exchange the relevant information using an agreed-upon or standard format. Until very recently, companies that wanted to conduct business electronically were required to have a special type of computer network called a value-added computer network or 'VAN'. For a significant fee, a VAN, often managed by a separate third party, was responsible for the guaranteed exchange of business documents between trading partners.

The emergence of the Internet as an alternative means of managing the transactional flow of business-to-business document exchange has revolutionized the way businesses operate and interact with their trading partners. The Internet coupled with a new breed of software solutions has created technology that supports highly efficient channels of communication and collaboration. The Internet gives small and medium-sized buyers and suppliers access to the same efficiencies associated with traditional EDI systems. In addition, the combination of the Internet and these new software




technologies enables buyers and suppliers of all sizes to electronically exchange business documents and interact with a greater number of potential trading partners.

Businesses are faced with the challenge of leveraging their existing investments in older EDI-based systems and software and converting to newer, Internet and Web-based alternatives. Decision-makers are interested in creating operating efficiencies and achieving return on investment in this complex evolution of systems and electronic trading relationships.

BUSINESS OVERVIEW

We use proprietary software to provide a technology platform for large buyers and large suppliers to transfer business documents via traditional EDI and the Internet to their small and medium-sized trading partners. These documents include, but are not limited to, purchase orders, purchase order acknowledgements, advanced shipping notices and invoices. We provide access via the Internet to our proprietary software, which we maintain on our hardware and on hosted hardware. In some instances, we allow customers who are also resellers of our services to take delivery of our proprietary software. In 2001, there was no revenue recognized from the licensing of our proprietary software.

Our technology platform has the capability of integrating trading partners, electronically automating the exchange of business documents between trading partners and supporting the collaboration of information across an enterprise's trading partner community. Integration encompasses the ability to translate documents from the buyer's required format to the supplier's required format (or vice versa). This 'any to any' capability ensures each organization is able to leverage their existing technology environment while supporting the specific needs of their trading partners. Automation allows trading partners to communicate with each other regardless of the type of computer system, hardware and software, each partner is utilizing. Collaboration supports the ability for trading partners to not only exchange business documents, but unlock the potential information these business documents provide. This includes, for example, product movement information and vendor performance.

Many large retailers and large suppliers transfer business documents between each other via EDI. Our platform, utilizing the Internet as a delivery mechanism, allows these large EDI enabled companies to transfer documents to

companies that are otherwise not EDI capable. Additionally, our services permit the transmission of documents between two trading partners even when neither is EDI capable.

According to recent research by AMR Research Corporation, it is estimated that currently less than 20% of all transactions between businesses in the United States of America are done with document transfer via EDI. The other 80% plus of transactions and the related transfer of documents are conducted via phone, fax and mail. This is our target market. Included in this 80% plus are over 100,000 retailers and over 2 million suppliers. On an annual basis, these retailers and their suppliers transact over $1 trillion in purchases. We provide services to automate currently existing business relationships. The simplicity of doing electronic automated transactions using our services can help create additional business among the trading partners, but it is not intended as a marketplace solution in that we do not intend to create new relationships for trading partners through our technology platform.

We are positioned to use the Internet to streamline business processes related to transmitting documents from one business to another. Using our hosted infrastructure as their technology platform, companies previously unable to afford the high cost and complexity of doing business with EDI can now electronically transact business among their trading partners in a more simple, cost effective manner. The benefits of this approach -- integration, automation and collaboration -- allow companies utilizing our services to trade more efficiently, accurately and inexpensively while complying with the trading requirements of their partners.

Large EDI enabled retailers can use our services as a means to electronically communicate and transfer business documents to their small and medium-sized suppliers. Likewise, large EDI enabled suppliers can use our services to electronically communicate and transfer business documents to their small and medium-sized retailers. Small and medium-sized retailers and suppliers can transfer business documents even when neither party is EDI enabled. Using our services reduces manual processing costs from each organization, thereby creating efficiencies for both trading partners, as this method of




transferring business documents is much less time consuming than transactions conducted through the phone, fax or mail. Additionally, our technology platform significantly reduces error rates normally associated with the processing of manual documents.

We also offer professional services, which provide consulting expertise to the same client base, as well as to other businesses that prefer to operate or outsource the transaction management and document exchange of their business-to-business relationships. As such, our consultants could reside at a large EDI enabled retailer or supplier with the objective of providing EDI expertise that does not exist on-site.

Our transaction processing technology platform and professional services make up one business unit defined as 'transaction processing and related services'.

We believe that our proprietary software provides the following advantages to trading partners:

BENEFIT TO SUPPLIERS

- Higher revenue by interacting with more buyers
- Significant reduction in order processing costs
- Reduced customer service costs
- Significant reduction in data transmission error rates
- Increased inventory turnover and decreased order-to-delivery cycle time
- Supplier-buyer demand collaboration
- Improved purchasing history and buying pattern information
- Increased ability to project demand cycles
- Predictable, low monthly payments

BENEFIT TO BUYERS

- Significant reduction in order management costs
- Substantially more convenient and efficient ordering
- Real-time information exchange, with access to order status, shipment timing and inventory availability

- Improved product information via online catalog access
- Faster delivery
- Significant reduction in order error rates
- Buyer-supplier demand collaboration
- Access to broader base of suppliers

We provide a complete solution, tailored for each customer and designed specifically for our business processes. By leveraging our expertise in EDI, business to business transaction management and document exchange, application development, and Internet networking, we are able to provide a suite of services that facilitate the transfer of business documents among trading partners. Customers can use our services not only to electronically send business documents to each other, but also to achieve demand chain transparency by having access, as appropriate, to their trading partners data systems via our proprietary software. Customers of any size or capability can communicate, exchange documents and transact business with their trading partners regardless of the type of integration, connectivity or data format. The ability for each trading partner to both leverage their existing investment in technology (hardware and software) while supporting the requirements of their trading partners is an important cost saving feature.

Our services integrate the entire trading process, from requisition to order management, to fulfillment and settlement. Automated transaction management across the trading lifecycle supports the synchronization of product movements through the demand chain. The higher efficiencies and cost savings are quantifiable to both sides of the trading equation.



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We are also an authorized provider of technical education to our clients for products of Citrix, Lotus Development Corporation, Microsoft Corporation, and Novell, Inc. We design and deliver custom technical education for the same client base and provide education through delivery of custom computer and Internet-based on-line training seminars. This is our second business unit defined as 'training and client educational services'.

MARKETS AND MARKETING

The marketing goals of transaction processing and related services business segment has been to attract and retain buyers and suppliers principally in the following vertical industries:

chain drug,

sporting goods,

toys,

general retail,

telecommunications, and

consumer electronics

These sizeable industries are characterized by certain operating inefficiencies. Our management believes that increasing margin pressures, a need to increase technological sophistication, and a low or average penetration of EDI make these industries attractive vertical markets for their transaction processing and related services.

While our sales focus is primarily directed toward specific targeted vertical markets, our proprietary software was built to operate across many verticals (a horizontal focus) without requiring significant enhancements. This will allow us to more easily expand into additional vertical markets in the future.

Key clients in the chain drug vertical include Rite Aid, Duane Reade, Eckerd, Brooks Pharmacy and CDI/Drug Fair. In the sporting goods vertical, major customers include the PGA, Bike, Adams and Carbite Golf. In the toys vertical, Toys R Us is our predominant customer. In the general retail vertical, our customers include Linens `N Things, Swatch and Disney. In the telecommunications vertical, customers include AT&T Wireless, Verizon Communications and Verizon Wireless, and in consumer electronics vertical, customers include Best Buy, Voicestream and Handspring. In the years ended December 31, 2001 and 2000, one customer, Toys R Us, accounted for approximately 21% and 17%, respectively, of our total revenue. We provide professional services to this customer in processing its EDI transactions. Revenue from this arrangement is recognized on a time and materials basis as services are performed.

We market and sell our services through a direct sales force in the United

States of America and indirectly through partnerships and reseller arrangements. To extend our vertical market reach and increase sales opportunities in the vertical industries we have selected, we participate in national trade shows and establish relationships with trading partners.

We anticipate that alliances with technology firms and other partnerships will continue to be integral to our success and increased effort will be made in pursuing these relationships. To continue to bring the best solution to market, we plan on further technology partnerships that extend our core solutions including reseller and other relationships. In order to leverage our current direct sales force and add new revenue streams, we also expect to establish alliances with other firms that have an established presence in our vertical markets or related ones. Likely companies for us to partner with would include software and services firms in our vertical markets and associations that play a key role in influencing buying behavior. For example, joint marketing or sales programs with alliance partners would be intended to gain access to several large buyers, enabling us to add connections to many of their small and medium-sized suppliers. Reseller relationships would generate royalty revenue to us for each sale made including a portion of ongoing recurring revenue.

As of December 31, 2001, we connected approximately 170 retail organizations and 1,110 supply organizations to their trading partners. As of December 31, 2001, we were processing in excess of 600,000 transactions per quarter, prior to the Bac-Tech acquisition.



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Major customers within our training and client educational services' business segment include AOL Time Warner, J.P. Morgan Chase, Prudential Securities, MTV/Viacom, PricewaterhouseCoopers and Teachers' Insurance -- TIAA -- CREF.

REVENUE RECOGNITION

We earn revenue from two business units:

- transaction processing and related services, and
- training and client educational services.

Revenue from transaction processing is recognized on a per transaction basis when a transaction occurs between a buyer and a supplier. The fee is based either on the volume of transactions processed during a specific period, typically one month, or calculated as a percentage of the dollar volume of the purchase related to the documents transmitted during a similar period. Revenue from related implementation, if any, annual subscription and monthly hosting fees are recognized on a straight-line basis over the term of the contract with the customer. Deferred income includes amounts billed for implementation, annual subscription and hosting fees, which have not been earned.

For related consulting arrangements on a time-and-materials basis, revenue is recognized as services are performed and costs are incurred, in accordance with the terms of the contract.

Revenues from related fixed price consulting arrangements are recognized using the percentage-of-completion method. Progress towards completion is measured using the efforts-expended method based upon management estimates. Fixed price consulting arrangements are mainly short-term in nature and we do not have a history of incurring losses on these types of contracts. If we were to incur a loss, a provision for the estimated loss on the uncompleted contract would be recognized in the period in which such loss becomes probable and estimable. Billings in excess of revenue recognized under the percentage-of-completion method on fixed price contracts is included in deferred income.

Revenue from training and client educational services is recognized upon the completion of the seminar and is based upon class attendance. If a seminar begins in one period and is completed in the next period, we recognize revenue based on the percentage-of-completion method for the applicable period. Deferred income includes amounts billed for training seminars and classes that have not been completed.

COMPETITION

Business-to-business electronic commerce is a new and rapidly evolving industry. Competition is intense and is expected to increase in the future. Our management believes that we provide a unique service in the business-to-business electronic commerce area, where a small to medium-sized retailer can process transactions with multiple suppliers, and small to medium-sized suppliers can process transactions with multiple retailers.

Our competition is primarily made of indirect horizontal competitors, which are focused on similar services but not in specific or multiple vertical industries. Others are focused in vertical markets unrelated to those pursued by us. Major publicly traded competitors include Marex, Inc., Neoforma.com, Inc.

and The viaLink Company. Major privately held competitors include Automated Data Exchange (ADX) (formerly known as The EC Company) and SPS Commerce, for which minimal public information is available on their efforts to date.

Also, we believe that competition may develop from four additional areas: EDI/electronic commerce companies, technology/software development companies, retailer purchasing organizations, and leading industry manufacturers. Additionally, large retailers and suppliers can create their own technology platform to automate the exchange of business documents with their small and medium-sized trading partners, thereby reducing the number of large retailers and suppliers in our target markets. However, we believe it will prove to be an inefficient use of resources for these large companies to build a technology platform for their internal use as compared to using our services.

INTELLECTUAL PROPERTY

Our success depends on our ability to maintain the proprietary aspects of our technology and operate without infringing the proprietary rights of others. We rely on a combination of trademarks, patents, trade secrets and copyright law, as well as contractual restrictions, to protect the proprietary




aspects of our technology. We seek to protect the source code for our proprietary software, documentation and other written materials under trade secret and copyright law.

We also seek to protect our intellectual property by requiring employees and consultants with access to proprietary information to execute confidentiality agreements with us and by restricting access to our source code.

Due to rapid technological change, our management believes that factors such as the technological and creative skills of our personnel and consultants, new product developments and enhancements to existing services are equally as important as the various legal protections of our technology to establish and maintain a technology leadership position.

GOVERNMENT REGULATION

Our services enable buyers and suppliers to transmit documents to their trading partners over dedicated and public telephone lines. These transmissions are governed by regulatory policies establishing charges and terms for communications. Our management believes that we are in compliance with applicable regulations.

In addition, due to the increasing popularity and use of the Internet, we might be subject to increased regulation. Such laws may regulate issues such as user privacy, defamation, network access, pricing, taxation, content, quality of products and services, and intellectual property and infringement.

These laws could expose us to liability, materially increase the cost of providing services, and decrease the growth and acceptance of the Internet in general, and access to the Internet over cable systems.

PRODUCT DEVELOPMENT

Our product development efforts for our proprietary software are directed toward the development of new complementary services and the enhancement and expansion of the capabilities of existing services. Product development expenses (exclusive of stock-based compensation) were approximately $2,024,000 and $2,698,000 for the years ended December 31, 2001 and 2000, respectively. We continue to make the product development expenditures that management believes are necessary to rapidly deliver new features and functions. As of December 31, 2001, six employees were engaged in product development activities. In addition, based on our specific needs to rapidly deliver new features and functions, we hire consultants who take part in product development activities. In accordance with American Institute of Certified Public Accountants Statement of Position 98-1, 'Accounting for Software Development Costs', the Company capitalizes some of these costs. They are amortized over a period of two years.

PERSONNEL

As of December 31, 2001, we employed 48 full-time employees. Many of our employees are highly skilled, with advanced degrees. Our continued success depends upon our ability to continue to attract and retain highly skilled employees. We have never had a work stoppage, and none of our employees are represented by a labor organization. We consider our employee relations to be good.

ITEM 2. DESCRIPTION OF PROPERTY

We operate out of two offices in New York, New York and added a third in January 2002 as a result of the acquisition of Bac-Tech Systems, Inc. The following table sets forth information on our properties:

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| PRINCIPAL ADDRESS | SQUARE FOOTAGE | OWNED/LEASED | PURPOSE |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| 757 Third Avenue | | | Corporate Headquarters |
| New York, NY 10017..... | 22,600 | Leased | Technology Center |
| 29 West 38th Street | | | Training Center |
| New York, NY 10018..... | 6,400 | Leased | |
| 665 Broadway | | | Offices |
| New York, NY 10003..... | 5,000 | Leased | |

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The lease for our premises at 757 Third Avenue expires in April 2007. Pursuant to the 757 Third Avenue lease we pay fixed annual rent of $1,197,694 in monthly payments of $99,808 until July 2004 and a fixed annual rent of $1,242,890 in monthly payments of $103,574 thereafter. We are currently in negotiations with the landlord to terminate our lease at 757 Third Avenue. Based on an oral understanding with our landlord, we have not paid our rent from October 2001 to date. It is anticipated that if a new tenant is found for our space, the landlord would deduct prior months' rents from our security deposit, together with any further amounts that may be owing by us, such as brokers' commissions or rent differential resulting from potentially lower rent payments from a new tenant.

As a result of the current status of the negotiations with the landlord, we recorded a charge of $1.8 million in the fourth quarter for the expected costs to terminate the lease facility at 757 Third Avenue. This includes (i) approximately $1.2 million in the security deposit, which we expect to surrender (inclusive of accrued rent of approximately $300,000); (ii) approximately $700,000 in additional stock and/or cash consideration to account for the short-fall between our rent terms and current market price of the lease facility; and (iii) write-off of approximately $162,000 in leasehold improvements. The estimated liability to terminate the lease of approximately $1.9 million, which includes approximately $300,000 in accrued rent for the period October 2001 to December 2001, is recorded on our balance sheet at December 31, 2001

The lease for our premises at 665 Broadway, which was assumed as part of the Bac-Tech acquisition in January 2002, expires in February 2008. It calls for annual rent payments of $95,614, in monthly payments of $7,968 through February 28, 2002; and payments of $98,482 in monthly payments of $8,207 through February 28, 2003 with annual rent escalating approximately five percent per annum thereafter through February 28, 2008.

ITEM 3. LEGAL PROCEEDINGS

We are party to certain legal proceedings and claims, which arise in the ordinary course of business. In the opinion of our management, the amount of an ultimate liability with respect to these actions will not materially affect our financial position, results of operations or cash flows.

In October 2000, Cintra Software & Services Inc. commenced a civil action against our company in New York Supreme Court, New York County. The complaint alleges that we acquired certain software from Cintra upon the authorization of our former Chief Information Officer. Cintra is seeking damages of approximately $856,000. We have filed an answer denying the material allegations of the complaint. We believe that we have meritorious defenses to the allegations made in the complaint and intend to vigorously defend the action.

In March 2001, a former employee commenced a civil action against our company and two members of our management in New York Supreme Court, New York County, seeking, among other things, compensatory damages in the amount of $1.0 million and additional punitive damages of $1.0 million for alleged defamation in connection with his termination, as well as a declaratory judgment concerning his alleged entitlement to stock options to purchase 5,000 shares of our common stock. We subsequently filed a motion to dismiss, which was granted as to the defamation action on January 7, 2002. The former employee has a right to appeal the action. We dispute the remainder of these claims, which do not involve substantial amounts, and intend to defend the action.

In December 2001, a former officer of ours commenced a civil action against our company in New York Supreme Court, New York County, seeking $85,000, plus liquidated damages, attorneys' fees and costs, for alleged bonuses owed. We subsequently filed a motion to dismiss this action. We dispute this claim and intend to vigorously defend the action.

The Company is not currently a party to any other material legal proceeding.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of fiscal year

2001.



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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock has been quoted on the Nasdaq SmallCap Market under the symbol EBTB since August 15, 2000. Prior to such time, our common stock was quoted on the Over-the-Counter Bulletin Board maintained by the National Association of Securities Dealers. The volume of trading in our common stock has been limited during the period presented until August 15, 2000, the date the Nasdaq SmallCap Market began quoting our common stock and the closing sale prices reported may not be indicative of the value of our common stock or the existence of an active trading market prior to such date.

The following table sets forth the high and low closing sale prices for our common stock for the periods indicated as adjusted for the 1 for 15 reverse stock split effected January 10, 2002:

<Table>
<Caption>

| QUARTER ENDED | HIGH | LOW |
|---|---|---|
| <S> | <C> | <C> |
| March 31, 2000 | 277.50 | 148.20 |
| June 30, 2000 | 210 | 48.75 |
| September 30, 2000 | 81.60 | 30.90 |
| December 31, 2000 | 32.40 | 10.50 |
| March 31, 2001 | 36.56 | 10.31 |
| June 30, 2001 | 17.81 | 3 |
| September 30, 2001 | 3.90 | 1.50 |
| December 31, 2001 | 3.45 | 1.50 |

</Table>

As of March 15, 2002, we have approximately 3,000 record holders of our common stock.

We have never paid cash dividends on our capital stock and do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain any future earnings for reinvestment in our business. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements and other relevant factors.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

FORWARD LOOKING STATEMENTS

The statements contained in this Form 10-KSB that are not historical facts may be 'forward-looking statements,' as defined in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, that contain risks and uncertainty. Such statements can be identified by the use of forward-looking terminology such as 'estimates,' 'projects,' 'anticipates,' 'expects,' 'intends,' 'believes,' or the negative of each of these terms or other variations thereon or comparable terminology or by discussions of strategy that involve risks and uncertainties. Although we believe that our expectations are reasonable within the bounds of our knowledge of our business operations, there can be no assurance that actual results will not differ materially from our expectations. The uncertainties and risks include, among other things, our plans, beliefs and goals, estimates of future operating results, our limited operating history, the ability to raise additional capital, if needed, the risks and uncertainties associated with rapidly changing technologies such as the Internet, the risks of technology development and the risks of competition that can cause actual results to differ materially from those in the forward-looking statements.

Forward-looking statements are only estimates or predictions and should not be relied upon. We can give you no assurance that future results will be achieved. Actual events or results may differ materially as a result of risks facing us or actual results differing from the assumptions underlying such statements. These risks and assumptions could cause actual results to vary materially from the future results indicated, expressed or implied in the forward-looking statements included in this Form 10-KSB.

All forward-looking statements made in this Form 10-KSB that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the factors listed below in the section

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captioned Risk Factors and other cautionary statements included in this prospectus. We undertake no obligation to update information contained in any forward-looking statement.

GENERAL

The following discussion and analysis should be read with the financial statements and accompanying notes, included elsewhere in this prospectus. It is intended to assist the reader in understanding and evaluating our financial position.

On April 18, 2000, eB2B Commerce, Inc., a Delaware corporation, merged with DynamicWeb, which is a New Jersey corporation, which was the surviving legal entity. Following the merger, although the merged company maintained the corporate and legal identity of DynamicWeb, we changed our name from DynamicWeb Enterprises, Inc. to eB2B Commerce, Inc. and assumed the accounting history of the former eB2B Commerce, Inc. (i.e. the Delaware corporation).

OVERVIEW

We are a provider of business-to-business transaction management services designed to simplify trading partner integration, automation and collaboration. We utilize proprietary software to provide a technology platform for large buyers and large suppliers to transfer business documents via the Internet to their small and medium-sized trading partners. These documents include, but are not limited to, purchase orders, purchase order acknowledgments, advanced shipping notices and invoices. We provide access via the Internet to our proprietary software, which is maintained on our hardware and on hosted hardware. In some instances, we will allow customers who are also resellers of our services to take delivery of our proprietary software on a licensed basis as a result of the Bac-Tech acquisition in January 2002.

We also offer professional services, which provide consulting and technical expertise to the same client base, as well as to other businesses that prefer to operate or outsource the transaction management and document exchange of their business-to-business relationships. In addition, we are an authorized provider of technical education to our clients for products of Citrix, Lotus Development Corporation, Microsoft Corporation, and Novell, Inc.

Revenue from transaction processing is recognized on a per transaction basis when a transaction occurs between a buyer and a supplier. The fee is based either on the volume of transactions processed during a specific period, typically one month, or calculated as a percentage of the dollar volume of the purchase related to the documents transmitted during a similar period. Revenue from related implementation, if any, annual subscription and monthly hosting fees are recognized on a straight-line basis over the term of the contract with the customer. Deferred income includes amounts billed for implementation, annual subscription and hosting fees, which have not been earned. For related consulting arrangements on a time-and-materials basis, revenue is recognized as services are performed and costs are incurred in accordance with the terms of the contract. Revenues from related fixed-price consulting arrangements are recognized using the percentage-of-completion method. Fixed-price consulting arrangements are mainly short-term in nature and we do not have a history of incurring losses on these types of contracts. If we were to incur a loss, a provision for the estimated loss on the uncompleted contract would be recognized in the period in which such loss becomes probable and estimable. Billings in excess of revenue recognized under the percentage-of-completion method on fixed-price contracts is included in deferred income.

Revenue from training and client educational services is recognized upon the completion of the seminar and is based upon class attendance. If a seminar begins in one period and is completed in the next period, we recognize revenue based on the percentage-of-completion method for the applicable period. Deferred income includes amounts billed for training seminars and classes that have not been completed.

On February 22, 2000, former eB2B completed its acquisition of Netlan Enterprises, Inc. Pursuant to the agreement and plan of merger, Netlan's stockholders exchanged 100% of their common stock for 46,992 shares of former eB2B common stock (equivalent to 8,334 shares of our common stock). Additionally, 75,188 shares of former eB2B common stock (equivalent to 13,334 shares of our common stock) were issued, placed into an escrow account, and released to certain former shareholders of



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Netlan upon successful completion of escrow requirements. The purchase price of the Netlan acquisition was approximately $1.6 million. We recorded approximately $4,896,000 of goodwill and approximately $334,000 of other intangibles in connection with this transaction.

On April 18, 2000, former eB2B merged with and into DynamicWeb, with the surviving company changing its name from 'DynamicWeb Enterprises, Inc.' to 'eB2B

Commerce, Inc.' Pursuant to our agreement and plan of merger with former eB2B, the DynamicWeb shareholders retained their shares in our company, while the shareholders of former eB2B received shares, or securities convertible into shares, of common stock of DynamicWeb representing approximately 89% of our equity, on a fully diluted basis.

The April 2000 merger was accounted for as a purchase business combination in which former eB2B was the accounting acquirer and DynamicWeb was the legal acquirer. As a result of the reverse acquisition, (i) the financial statements of former eB2B are our historical financial statements; (ii) the results of operations include the results of eB2B and DynamicWeb after the date of the April 2000 merger; (iii) the acquired assets and assumed liabilities were recorded at their estimated fair market value at the date of the April 2000 merger; and (iv) all references to our financial statements apply to the historical financial statements of former eB2B prior to the April 2000 merger and to our consolidated financial statements subsequent to the April 2000 merger. The purchase price of the April 2000 merger was approximately $59.1 million, of which approximately $1.9 million was allocated to identifiable net liabilities assumed, $58.1 million was allocated to goodwill and $2.9 million was allocated to other intangibles.

The goodwill resulting from the above business combinations was being amortized over five years and other intangibles are being amortized over a three-year period. For the year ended December 31, 2000, amortization related to the goodwill and other intangibles acquired in the Netlan Enterprises, Inc. acquisition and April 2000 merger with DynamicWeb totaled approximately $9.8 million. Through September 30, 2001, amortization related to these transactions amounted to approximately $10.2 million. As of September 30, 2001, we determined the goodwill and other intangibles to be impaired based on the projected future discounted cash flows that these assets were expected to generate and we recorded an impairment charge of approximately $43.4 million. As of December 31, 2001, there were no indications of any further potential impairment. We also recorded amortization expense of approximately $448,000 in the fourth quarter against the $1.6 million and $951,000 that remained in goodwill and other intangibles, respectively, after the impairment review in September 2001.

Our financial condition and results of operations were dramatically different during the years ended December 31, 2001 and 2000. For the year ended December 31, 2001, our results reflect the operations of Netlan and the operations of DynamicWeb for a full year. For the year ended December 31, 2000, our results reflect the operations of Netlan from March 1, 2000 and the operations of DynamicWeb from April 19, 2000; the dates of the respective acquisitions. Former eB2B was a development stage company, which primarily devoted its operations to recruiting and training of employees, development of its business strategy, design of a business system to implement its strategy, and development of business relationships with buyers and suppliers. As a result, we believe that the results of operations for the year ended December 31, 2001 are not comparable to the results of operations for the same period in 2000, and our anticipated financial condition and results of operations going forward. Furthermore, our limited operating history makes the prediction of future operating results very difficult. We believe that period-to-period comparisons of operating results should not be relied upon as predictive of future performance. Our prospects must be considered in light of the risks, expenses and difficulties encountered by companies at an early stage of development, particularly companies in new and rapidly evolving markets. We may not be successful in addressing such risks and difficulties.

YEARS ENDED DECEMBER 31, 2001 AND 2000

Revenue for the year ended December 31, 2001 increased $1,348,000 or 25% to $6,816,000 as compared to $5,468,000 for the year ended December 31, 2000. The increase in revenues reflects a full year of the results of operations from Netlan and DynamicWeb in 2001, compared to ten months and eight and one-half months, respectively, in 2000. On a pro-forma basis, assuming the acquisitions of Netlan and DynamicWeb were completed on January 1, 2000, revenues declined by $257,000 or 4% to




$6,816,000 in 2001 from $7,073,000 in 2000. The slight decline in revenues on a pro-forma basis is primarily due to (i) the impact of September 11, 2001, particularly on our training business which experienced cancellations and deferrals of training sessions; (ii) sluggish economic conditions in the B2B sector and (iii) elimination of certain consulting services acquired from Netlan during the latter part of 2000.

Our transaction processing and related services business segment generated revenue of $4,333,000 for year ended December 31, 2001 as compared to $3,039,000 for the year December 31, 2000, an increase of $1,294,000 or 43% for year ended December 31, 2001 as compared to the prior year. This increase in revenue for the period is principally due to the following:

(i) Increased revenue in 2001 as a result of the full twelve months of operations acquired from DynamicWeb on April 18, 2000 and included from

April 19, 2000. On a pro forma basis had we acquired DynamicWeb on January 1, 2000, the revenue from transaction processing and related services for the year ended December 31, 2000 would have been $897,300 higher than the revenue reported by us in the period;

(ii) Increased revenue in 2001 ($675,000) as a result of an increase in the average fee paid per customer for transaction processing services as well as additions of new customers to our service, net of cancellations of this service by certain inactive or very low volume customers;

(iii) Decreased revenue in 2001 ($625,000) in relation to consulting services acquired from Netlan on February 22, 2000 and reflected from March 1, 2000, which have been eliminated during the latter part of 2000.

Our training and client educational services' business segment generated revenue of $2,483,000 for the year ended December 31, 2001 as compared to $2,429,000 for the year ended December 31, 2000. The $54,000 or 2% increase in the year ended December 30, 2001 as compared to the comparable period in the previous year is chiefly associated with the full year of operations of Netlan in the 2001 period versus ten months of operations in the 2000 period as these operations were reflected from March 1, 2000, offset by the negative effect of the terrorist attacks in New York. We believe the September 11, 2001 terrorist attacks resulted in lost revenues of approximately $125,000, net of the recovery of $36,000 in business interruption insurance for cancellations on that day. We believe the remainder of lost revenues was caused by cancellations in the following weeks. Since November 2001, the training center business has started to return to its normal monthly revenue prior to the September 11, 2001 terrorist attacks. Had we acquired Netlan on January 1, 2000, the revenue from training and client educational services for the year ended December 31, 2000 would have been approximately $275,000 higher than the revenue reported in the year ended December 31, 2001.

In the year ended December 31, 2001, one customer accounted for approximately 21% of our total revenue. In the year ended December 31, 2000, this customer accounted for 17% of our revenue. No other customer accounted for 10% or more of our total revenue for these periods. As our transaction business continues to grow, we expect the percentage of overall revenue coming from this customer to decline, although there can be no assurance in this regard.

Cost of revenue consists primarily of (i) salaries and benefits for employees providing technical support, (ii) salaries and benefits of personnel and consultants providing consulting and training services to clients and (iii) communication and hosting expenses associated with the transmittal and hosting of our transaction data. Total cost of revenue for the year ended December 31, 2001 amounted to $3,070,000, as compared to $2,839,000 for the year ended December 31, 2000, an increase of $231,000 or 8%. The increase in cost of revenue for the year ended December 31, 2001 compared to the prior year period reflected a full year of the operations of Netlan and DynamicWeb.

Marketing and selling expenses consist primarily of employee salaries, benefits and commissions, and the costs of promotional materials, trade shows and other sales and marketing programs. Marketing and selling expenses (exclusive of stock-based compensation) for the year ended December 31, 2001 amounted to $1,739,000 as compared to $2,804,000 for the year ended December 31, 2000, a decrease of $1,065,000 or 38%. The decrease is chiefly associated with the reorganization plan implemented by us prior to and during 2001 by which we (i) eliminated approximately $125,000 in monthly salaries and




benefits on a recurring basis and (ii) reduced or eliminated expenses related to trade shows and other marketing programs, offset by the full year of operations of both Netlan and DynamicWeb in 2001.

Product development costs mainly represent payments to outside contractors and personnel and related costs associated with the development of our technological infrastructure necessary to process transactions, including the amortization of certain capitalized costs. Product development costs (exclusive of stock-based compensation) were approximately $2,024,000 for the year ended December 31, 2001 as compared to $2,698,000 for the year ended December 31, 2000, a decrease of $674,000 or 25%. On April 16, 2001, we put our new technology platform in service and started amortizing the related capitalized costs. During the first quarter of 2001, we had expensed approximately $910,000 in relation to costs chiefly associated with the transition of certain of our existing customers to this new technology platform. In 2000, we were amortizing the prior version of our technology platform. We capitalize qualifying computer software costs incurred during the application development stage. Accordingly, we anticipate that product development expenses will fluctuate from year to year as various milestones in the development are reached and future versions are implemented.

General and administrative expenses consist primarily of employee salaries and related expenses for executives, administrative and finance personnel, as well as other consulting, legal and professional fees and, to a lesser extent,

facility and communication costs. During the year ended December 31, 2001, total general and administrative expenses (exclusive of stock-based compensation) amounted to $11,168,000 as compared to $13,438,000 for the year ended December 31, 2000, a decrease of $2,270,000 or 17%. The decrease in general and administrative expenses for the year is principally due to the following:

(i) consulting fees in relation to the design and the implementation of our strategy, business model and management structure of approximately $1,257,000 in the year ended in 2000 that did not exist in 2001

(ii) a reduction of monthly salaries and benefits of approximately $190,000 on a recurring basis as a result of the cost cutting measures implemented by us during and prior to the second and third quarters of 2001, partially offset by

(iii) our different scope of operations in 2001 and increased expenses to manage and operate the companies acquired during 2000.

As a result of the reorganization plan implemented, we recorded a total restructuring charge of $3,327,000 in 2001. This restructuring charge consisted of (i) lease termination costs of $1,765,000; (ii) severance totaling $1,145,000 and (iii) contract termination costs of $417,000. The lease termination costs represent the expected costs to terminate our office lease at 757 Third Avenue. The lease termination costs consist of (i) approximately $1.2 million in security deposit (inclusive of approximately $300,000 in accrued rent); (ii) approximately $700,000 in additional cash or stock consideration to account for the short fall between our rental rate and current market rates; and (iii) the write-off of approximately $162,000 in leasehold improvements. The severance costs related to the elimination of 40 full-time positions representing approximately 46% of our workforce, which was completed in 2001. As of December 31, 2001, we paid approximately $1,065,000 of the severance costs and approximately $238,000 of the contract termination costs accrued as part of the restructuring charge. We expect to pay the remaining severance costs in the first and second quarters of 2002. The remaining contract termination costs were paid in the first quarter of 2002.

Amortization of goodwill and other intangibles are non-cash charges associated with the DynamicWeb and Netlan business combinations. Such amortization expense was $10,654,000 for the year ended December 31, 2001 as compared to $9,829,000 for the year ended December 31, 2000, an increase of $825,000 or 8%. This increase is due to the timing of the Netlan and the DynamicWeb acquisitions, which took place on February 22, 2000 and April 18, 2000, respectively, and the resulting full year of amortization of the related goodwill and other intangibles in 2001 versus partial year of amortization in 2000 as the operations of Netlan and DynamicWeb were reflected from March 1, 2000 and April 19, 2000, respectively. This income is partially offset by lower amortization expense in the fourth quarter of 2001 as a result of the impairment charge taken at September 30, 2001.



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Based upon our history of recurring operating losses and our market capitalization being less than our stockholders' equity as of September 30, 2001, management assessed the carrying value of goodwill and other intangibles and determined that such value may not be recoverable. If the sum of the expected undiscounted future cash flows were less than the carrying amount of the assets, we would recognize an impairment loss. The impairment loss is measured as the amount by which the carrying amount of the goodwill and other intangibles exceeds the fair value of the assets, as calculated utilizing the discounted future cash flows. In accordance with this policy, we recorded an impairment charge of $43,375,000 and changed the amortization period of goodwill from five years to three years for the remainder of 2001. Commencing on January 1, 2002, goodwill will no longer be amortized, but will be reviewed periodically for impairment in accordance with Statement of Financial Accounting Standards No. 142. Other intangibles will continue to be amortized over the expected period of income benefit.

During the year ended December 31, 2001, stock-based compensation expense amounted to $1,922,000 as compared to $16,027,000 for the year ended December 31, 2000, a decrease of $14,105,000 or 88%. During the second quarter of 2000, the Company recorded a one-time charge of approximately $8.8 million related to warrants to purchase 88,667 shares of our common stock, which vested upon the completion of the April 18, 2000 merger. The deferred stock compensation is principally being amortized over the vesting periods of the related options and warrants contingent upon continued employment of the respective option or warrant holders. The vesting period of the options and warrants ranges principally from two to four years. The balance of unearned stock-based compensation at December 31, 2001 was approximately $768,000. This balance will be amortized at approximately $81,000 per quarter through September 2003.

We define Earnings Before Interest, Taxes, Depreciation and Amortization ('EBITDA') as net income (loss) adjusted to exclude: (i) provision (benefit) for income taxes, (ii) interest income and expense, (iii) depreciation, amortization and impairment charges of long-lived assets, and (iv) stock-based compensation.

EBITDA is discussed because management considers it an important indicator of the operational strength and performance of its business based in part on the significant level of non-cash expenses recorded by us to date, coupled with the fact that these non-cash items are managed at the corporate level. EBITDA, however, should not be considered an alternative to operating or net income as an indicator of our performance, or as an alternative to cash flows from operating activities as a measure of liquidity, in each case determined in accordance with accounting principles generally accepted in the United States of America. See Liquidity and Capital Resources for a discussion of cash flow information.

For the year ended December 31, 2001, EBITDA was a loss of $11,517,000 as compared to a loss of $13,104,000 for the year ended December 31, 2000, a decrease of $1,587,000 or 12%. Excluding the impact of the $3,327,000 restructuring charge recorded in 2001, the EBITDA loss was $8,190,000, which represents a decrease of $4,769,000 or 38% from the prior year. The improvement in EBITDA reflects the significant reductions in costs effected by us, in 2001 without a corresponding decrease in revenues.

Interest and other, net was an expense of $3,031,000 for the year ended December 30, 2001 as compared to income of $832,000 for the year ended December 31, 2000. During 2001, this expense was primarily a total of $3,190,000 amortization expense associated with debt issuance costs on the convertible notes issued in April/May 2001, and related discount, non-cash interest and conversion option. In 2000, this income, net of other expenses, related primarily to interest earned on cash balances and available-for-sale marketable securities during the period.

Net loss for the year ended December 30, 2001 was $73,494,000 as compared to $41,335,000 for the year ended December 31, 2000, an increase of $32,159,000 or 78%. The increased net loss in 2001 from 2000 reflects the items described above, the primary cause of which was the $43,375,000 impairment charge recorded against goodwill recorded in the third quarter. This was partially offset by cost savings related to the restructuring.



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LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2001, our principal source of liquidity was approximately $2.2 million of cash and cash equivalents. This excludes restricted cash of approximately $1.4 million against which a bank held a custody account with approximately $1,441,000 as security on a $1,300,000 line of credit with the bank, the equivalent of 109% of the line of credit. The line of credit secures approximately $1,441,000 of letters of credit that were outstanding at December 31, 2001 in relation to our leased facilities and certain other equipment. This line of credit is not available to fund operating and working capital requirements. Our cash resources will be reduced by virtue of our net loss and negative cash flow from operations in the first quarter of 2002. The report of our independent auditors on our financial statements as of and for the year ended December 31, 2001 contains an explanatory paragraph which states that our recurring losses from operations and negative cash flows from operations raise substantial doubt about our ability to continue as a going concern. We are prepared to take the following actions to improve our cash position and fund our operating losses during 2002:

- additional cost reduction measures, which we believe will further reduce annual salaries by approximately $1,000,000; in this respect, in April 2002, our staff was reduced by five employees;

- sell our training business, subject to finding a suitable buyer; and

- raise additional capital, for which there can be no assurance of obtaining.

In December 2001, we raised gross proceeds of $2,000,000 through the sale of 90-day, 7% senior subordinated secured notes and common stock purchase warrants to purchase an aggregate of 266,667 shares of common stock at $1.80 per share. These warrants were valued using the Black-Scholes model at approximately $218,875. This amount will be amortized over the life of the debt and charged to interest expense in 2002. In connection with this financing, we paid a cash-private placement fee amounting to $200,000 and incurred approximately $85,000 in indirect expenses, consisting primarily of legal fees. The proceeds of this financing are being used to fund general working capital needs in 2002 and to fund the upfront cash portion of the Bac-Tech acquisition, which was approximately $250,000, completed in January 2002. In January 2002, these notes, in the aggregate principal amount of $2,000,000, were automatically converted into $2,000,000 principal amount of five-year, 7% senior subordinated secured convertible notes and common stock purchase warrants to purchase an aggregate of 826,439 shares at $2.90 per share. Management believes our current cash resources, which includes the proceeds from our most recent financing in December 2001, together with the improvement of our working capital as a result of the following actions, may be sufficient to continue operations through 2002 and thereafter if our operations are cash flow positive, as we anticipate:

Our entering into agreements to settle approximately $425,000 in severance and other contractual obligations through the issuance of shares of our common stock during the fourth quarter of 2001 and the restructuring of a liability of $262,500 through the issuance a five year 7% senior subordinated secured convertible notes during January 2002, based on an agreement reached in December 2001.

The settlement of certain liabilities in December 2001 for approximately $400,000 less than what was previously owed.

The average savings of approximately $475,000 in monthly cash expenses as a result of a restructuring plan we initiated during the second quarter of 2001, which included principally staffing reductions and discretionary spending reductions in selling, marketing, general and administrative expenses.

We may seek additional capital in order to fund our internal growth, for possible acquisitions, or, if positive cash flow from operations is not generated, revenue growth does not materialize positively or there are unanticipated expenses.

In January 2002, utilizing a portion of the proceeds of the December 2001 financing, we acquired Bac-Tech Systems, Inc., a privately-held New York City-based e-commerce company. As a result of the Bac-Tech acquisition, the Series D preferred stock transaction requires shareholders approval by November 30, 2002. If such approval is not obtained by November 30, 2002, the Series D preferred stock becomes redeemable, at the option of the holders, for $10 per share in cash, plus accrued dividends. The Company expects this vote to occur before the end of the third quarter of 2002. If the vote to convert does not occur, a cash payment of approximately $980,000 would be required to be paid to the Bac-Tech shareholders. We may seek to grow by additional acquisitions. There can be no assurances provided that an additional funding will be concluded, or that, if concluded, will be concluded on acceptable terms or be adequate to accomplish our goals. There can be no assurance that any other additional acquisitions can be concluded or, if




concluded, will achieve the results desired by us. We anticipate spending approximately $0.7 million on capital expenditures over the next twelve months, primarily on capitalized product development costs.

As a result of the significant cost cutting measures carried out as part of our 2001 restructuring plan, our ongoing quarterly cash expenses more closely approximate our quarterly revenues, although we still reported negative cash flows from operations and an EBITDA loss for both the fourth quarter and the year ended December 31, 2001. We also expect to report negative cash flow from operations and an EBITDA loss in the first quarter of 2002 due to the integration of our operations with Bac-Tech Systems and the fact that the first quarter is historically slow for Bac-Tech's business. At our current quarterly expense rates, including the impact of the Bac-tech acquisition, we will require approximately $2.3 million in quarterly revenues and cash collections to report positive EBITDA and cash flow from operations. To the extent our quarterly revenues and cash collections are below this amount, we are prepared to take additional actions, including further cost reduction measures. We expect to generate positive cash flow from ongoing operations on a recurring basis, at some point during 2002, although there can be no assurance in this regard. Reference is made to 'Risk Factors' for a description of certain risks that may affect the achievement of our objectives and results discussed herein.

Currently, we are also seeking to exit approximately 22,000 square feet of leased space in New York City that we use for our corporate headquarters and back office operations. In this respect, we are seeking to utilize significantly smaller space, which would result in reduced rental and security obligations. Our current monthly rental cost is approximately $100,000 and we have a letter of credit of approximately $1.2 million securing this lease. As a result of the current status of the negotiations with the landlord, we recorded a charge of $1.8 million in the fourth quarter for the expected costs to terminate the lease at 757 Third Avenue. This includes (i) approximately $1.2 million in the security deposit which we expect to surrender (inclusive of accrued rent of approximately $300,000 through December 31, 2001); (ii) approximately $700,000 in additional stock or cash consideration to account for the short fall between our rent terms and the current market price of the lease facility and (iii) the write-off of approximately $162,000 in leasehold improvements. The estimated liability to terminate the lease of approximately $1.9 million, which includes approximately $300,000 in accrued rent for the period October 2001 to December 2001, is recorded on our balance sheet at December 31, 2001.

At December 31, 2001, we accrued approximately $229,000 potentially owing to a creditor. We had previously issued shares of our common stock to this party for payment of obligations then owing, and had agreed that in the event it received gross proceeds from the sale of these shares less than the amount originally owing of $1,200,000, then we would issue additional shares to cover the shortfall. In December 2001, we amended our agreement with this creditor

whereby the creditor agreed to be issued up to 266,667 shares of our common stock to offset any deficiency, and to the extent such amount is insufficient, then to be paid one-half of the remaining balance in cash no earlier than April 2003, with the other one-half to be forgiven.

Since our inception on November 6, 1998, we have incurred significant operating losses, net losses and negative cash flows from operations, due in large part to the start-up and development of our operations and the development of proprietary software and technological infrastructure for our platform to process transactions. We expect that our net losses will continue as we implement our growth strategy. There can be no assurance that revenue will improve, that expenses will not increase in 2002, that net losses will be reduced or that we will generate positive cash flow from operations in 2002 as currently projected. Historically, we have funded our losses and capital expenditures through borrowings and the net proceeds of prior securities offerings. From inception through December 31, 2001, net proceeds from private sales of securities and issuance of convertible notes totaled approximately $38.1 million.

Management has addressed the costs of providing transaction management and document exchange services throughout 2000 and 2001. While we continue to add customers to our service and this remains a critical factor for future growth, it is equally important for us to focus on adding trading partners who transact business with our largest existing customers.

From April 16 through May 2, 2001, we received gross proceeds of $7.5 million from a private placement of convertible notes and warrants to certain accredited investors. Pursuant to the financing, we issued $7,500,000 of principal amount of 7% convertible notes, convertible into an aggregate of




1,000,000 shares of our common stock ($7.50 per share), and warrants to purchase an aggregate 1,000,000 shares of our common stock at $13.95 per share. The convertible notes had a term of 18 months. Interest was payable quarterly in cash, in identical convertible notes or in shares of common stock, at our option. In addition, the convertible notes were automatically convertible into Series C preferred stock if we received the required consent of the holders of our Series B preferred stock for the issuance of this new series. The convertible notes were converted into the Series C preferred stock on September 28, 2001 when we received the required consents from the holders of our Series B preferred stock. The Series C preferred stock is convertible into common stock on the same basis as the convertible notes were. The private warrants are exercisable through October 17, 2003.

In connection with the closing of the April/May 2001 financing, we canceled a $2,250,000 line of credit issued in April 2001, pursuant to which we had not borrowed any funds. We incurred a cash fee amounting to $61,500 in consideration of the availability of the line of credit. In addition, the issuer of the line of credit was issued warrants to purchase 60,000 shares of our common stock at $7.50 per share for a period of five years in consideration of the availability of such line. These warrants were valued using the Black-Scholes option-pricing model at $548,000.

In connection with the April/May 2001 financing and as compensation to the placement agents, we incurred a cash fee amounting to $750,000 and issued (i) warrants to purchase 150,000 shares of our common stock with an exercise price of $13.95 for a period of five years and (ii) unit purchase options to purchase Series C preferred stock convertible into an aggregate of 150,000 shares of common stock with an exercise price of $7.50 per share for a period of five years. These warrants and unit purchase options were valued using the Black-Scholes option-pricing model at $675,000 and $810,000, respectively. Additionally, other expenses directly related the April/May 2001 financing, principally legal and accounting fees, amounted to approximately $309,000.

Net cash used in operating activities totaled approximately $9,529,000 for the year ended December 31, 2001 as compared to net cash used in operating activities of approximately $9,416,000 for the same period in 2000. Net cash used in operating activities for the year ended December 31, 2001 resulted primarily from (i) the $73,494,000 net loss in the period and (ii) a $990,000 use of cash from operating assets and liabilities, offset by (iii) an aggregate of $62,975,000 of non-cash charges consisting primarily of depreciation, amortization, stock-based compensation expense, restructuring charges and the impairment of goodwill. Net cash used in operating activities for the year ended December 31, 2000 resulted primarily from (i) the $41,335,000 net loss in the period, offset by (ii) $2,749,000 of cash provided by operating assets and liabilities, and (iii) an aggregate of $29,170,000 of non-cash charges consisting primarily of depreciation, amortization and stock-based compensation expense.

Net cash used in investing activities totaled approximately $2,291,000 for the year ended December 31, 2001 as compared to net cash provided by investing activities of approximately $9,075,000 for the same period in 2000. Net cash used in investing activities for the year ended December 31, 2001 resulted from (i) the purchase of capital assets for $596,000, and (ii) $1,695,000 in product

development costs consisting of fees of outside contractors and capitalized salaries. Net cash provided by investing activities for the year ended December 31, 2000 resulted from (i) $15,986,000 net proceeds from maturity of investments available-for-sale offset by (ii) the purchase of capital assets for $978,000, (ii) $2,331,000 in product development costs consisting of fees of outside contractors and capitalized salaries, (iii) the $2,527,000 for the increase in capitalized software costs, and (vi) the $978,000 net cash effect of the DynamicWeb merger and Netlan acquisition.

Net cash provided by financing activities totaled approximately $5,851,000 for the year ended December 31, 2001 as compared to a use of approximately $1,357,000 for the same period in 2000. On May 2, 2001, we completed our $7.5 million financing. In connection with that financing, we paid a cash fee amounting to $750,000 and incurred direct expenses, principally legal and accounting fees, aggregating $309,000. In February 2000, we obtained a $2,500,000 term loan from a bank. The proceeds from the term loan were primarily used to refinance the $2,116,000 debt of Netlan paid by us in connection with the Netlan acquisition. Beginning December 1, 2000, the term loan required ten quarterly principal payments of $250,000. On March 1, 2001, we made a $250,000 quarterly payment. In addition, we paid the $2.0 million outstanding balance of the loan in full on April 2, 2001 using cash held in the custodial cash account.



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IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ('FASB') issued SFAS No. 141, 'Business Combinations'. SFAS No. 141 applies prospectively to all business combinations initiated after June 30, 2001 and to all business combinations accounted using the purchase method for which the date of acquisition if July 1, 2001, or later. This statement requires all business combinations to be accounted for using one method, the purchase method. Under previously existing accounting rules, business combinations were accounted for using one of two methods, the pooling of interests method or the purchase method.

In June 2001, the FASB issued SFAS No. 142, 'Goodwill and Other Intangible Assets'. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill and intangible assets with indefinite lives will no longer be amortized but rather reviewed for impairment on a periodic basis. The provisions of this Statement are required be applied at the beginning of our fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statement at that date. Impairment losses for goodwill and certain intangible assets that arise due to the initial application of this Statement are to be reported as resulting from a change in accounting principle. Goodwill and intangible assets acquired after June 30, 2001, will be subject immediately to the provisions of this Statement. We are currently evaluating the impact of the new accounting standard on existing goodwill and other intangible assets and plan to adopt the new accounting standard in its financial statements for the fiscal year ending December 2002. We are required to complete the initial step of the transitional impairment test within six months of adoption of SFAS 142, and to complete the step of the transitional impairment test by the end of the fiscal year.

In June 2001, the FASB issued SFAS No. 143, 'Accounting for Asset Retirement Obligations'. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of long-lived assets, except for certain obligations of lessees. The provisions of this Statement are required to be applied starting with fiscal years beginning after June 15, 2001. Earlier application is encouraged. We are currently evaluating the impact of the new accounting standard and plan to adopt the new accounting standard in its financial statements for the fiscal year ending December 2002.

In August 2001, the FASB issued SFAS No. 144, 'Accounting for the Impairment or Disposal of Long-Lived Assets'. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes FASB Statement No. 121, 'Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of', and the accounting and reporting provisions of APB Opinion No. 30, 'Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions', for the disposal of a segment of a business. This Statement also amends ARB No. 51, 'Consolidated Financial Statements', to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. We are currently evaluating the impact of the new accounting standard on existing long-lived assets and plan to adopt the new accounting standard in its financial statements for the fiscal year ending December 2002.

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## RISK FACTORS

You should carefully consider the risks and uncertainties described below, as well as the discussion of risks and other information contained or incorporated by reference in this Form 10-KSB. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

If any of the following risks actually occur, our business, financial condition or operating results could be materially adversely affected. In such case, the trading price of our common stock could decline and you may lose part or all of your investment.

DynamicWeb was incorporated on July 26, 1979 in the State of New Jersey, and has been engaged in electronic commerce since 1996. On April 18, 2000, eB2B Commerce, Inc., a Delaware corporation, merged with and into DynamicWeb in a reverse acquisition, and our name was changed at that time from DynamicWeb Enterprises, Inc. to eB2B Commerce, Inc. In that the securityholders of former eB2B received the majority of the voting securities of the combined company, former eB2B was deemed to be the accounting acquiror. Accordingly, the financial results discussed in Risk Factors and throughout this prospectus prior to April 18, 2000 are those of former eB2B, unless otherwise specified.

## RISKS RELATING TO OUR BUSINESS

### WE HAVE A LIMITED OPERATING HISTORY, HAVE INCURRED SIGNIFICANT LOSSES AND CAN GIVE NO ASSURANCE THAT WE CAN EVER ATTAIN PROFITABILITY.

We have a limited operating history in the business-to-business electronic commerce industry. For the year ended December 31, 2000, we generated revenues of $5,468,000 and incurred a net loss attributable to common stockholders of $41,335,000. For the year ended December 31, 2001, we generated revenues of $6,816,000, incurred a net loss of $73,494,000, inclusive of a goodwill impairment charge of $43,375,000, and our accumulated deficit on December 31, 2001 was $152,498,000.

We cannot give assurances that we will soon make a profit or that we will ever make a profit. Sales are expected to increase due to the increasing number of companies joining our trading communities. We expect this increase to come from (i) the Bac-Tech acquisition; (ii) an increase in the suppliers transacting with a large existing customer; (iii) and continued growth in signing up target retailers, in our key vertical markets. Among other things, to achieve profitability, we must market and sell substantially more services, hire and retain qualified and experienced employees and be able to manage our expected growth. We may not be successful in these efforts. Our business plan currently contemplates that we achieve positive EBITDA (earnings before interest, taxes, depreciation and amortization) on a recurring basis at some point in 2002. There can be no assurance that positive EBITDA can be achieved in this timeframe or at all, and all of the risk factors described herein may negatively effect our operating results. We expect to have substantial non-cash expenses that we exclude when determining EBITDA, including depreciation of software assets, amortization of intangibles other than goodwill and stock-based compensation expenses. EBITDA also excludes amortization of software development costs, which we capitalize and amortize over a period of two years. In addition, we will be required to pay interest on recently issued notes. Accordingly, we do not expect to report net income as determined by generally accepted accounting principles in 2002.

### WE RECEIVED A GOING CONCERN OPINION FROM OUR INDEPENDENT AUDITORS AND MAY NEED ADDITIONAL CAPITAL WHICH, IF NOT OBTAINED, COULD REQUIRE US TO CEASE OPERATIONS.

As of December 31, 2001, we had approximately $3,700,000 in cash, of which approximately $2,240,000 was available to fund operating and working capital requirements. Our cash resources will be further reduced by virtue of our net loss and negative cash flow from operations in the first quarter of 2002. The report of our independent accountants on our financial statements as of and for the year ended December 31, 2001 contains an explanatory paragraph that states that our recurring losses from operations and negative cash flows from operations raise substantial doubt about our ability to continue as a going concern. We are prepared to take the following actions to improve our cash position and fund our operating losses:



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- additional cost reduction measures, which we believe will further reduce annual salaries by approximately $1,000,000; in this respect, in April 2002, our staff was reduced by five employees;

- sell our training business, subject to finding a suitable buyer; and

- raise additional capital, for which there can be no assurance of obtaining.

Due to the significant cost cutting measures and the settlement of certain outstanding obligations for shares rather than cash, or at reduced amounts, carried on a quarterly basis in 2001 and based upon current expectations, we anticipate generating positive cash flow from ongoing operations on a recurring basis by the end of 2002, although there can be no assurance in this regard. We would need approximately $2.3 million in quarterly revenues and collections to report positive cash flow from operations based on our quarterly expense run rate as of March 31, 2002. As stated above, we may need additional financing. We may not be able to obtain such additional financing, or, if available, the terms of the financing may not be favorable to us or our shareholders. Such inability to raise additional financing would have a material adverse effect on our business, prospects, operating results and financial condition and may require us to cease operations. We may also seek to raise funds to finance the acquisition of other businesses, or to otherwise increase our revenue levels. Further, if we issue equity securities, shareholders may experience substantial dilution or the new equity securities may have rights and preferences senior to our common stock and outstanding preferred stock.

OUR BUSINESS MODEL IS UNPROVEN AND MAY NOT BE SUCCESSFUL.

Our business-to-business electronic commerce model is based on the general activity in trading communities for the purchase and sale of goods between buyers and suppliers. While we have signed several participants into our networks, none of the participants are required to conduct a minimum level of business. If our business strategy is flawed or if we fail to execute our strategy effectively, our business, operating results and financial condition will be substantially harmed. We do not have substantial experience in developing and operating trading communities. The success of our business model will depend upon a number of factors, including:

- the addition of significantly more buyers and suppliers in our trading communities, particularly those who already conduct business among themselves;

- an increased volume of transactions conducted by buyers and suppliers;

- our ability to maintain customer satisfaction;

- our ability to upgrade, develop and maintain the technology necessary for our operations;

- the introduction of new or enhanced services by our competitors;

- the pricing policies of competitors;

- our ability to attract personnel with Internet industry expertise; and

- the satisfactory performance, reliability and availability of our systems and network infrastructure.

IF WE DO NOT SUCCEED IN EXPANDING MARKET ACCEPTANCE FOR INTERNET BUSINESS-TO-BUSINESS ELECTRONIC COMMERCE OUR OPERATIONS WILL BE NEGATIVELY EFFECTED.

Our future revenues and any future profits depend upon the widespread acceptance and use of the Internet as an effective medium of business-to-business electronic commerce, particularly as a medium to perform goods procurement and fulfillment functions in our targeted markets. If the use of the Internet in electronic commerce in such markets does not grow or if it grows more slowly than expected, our business will suffer. A number of factors could prevent such growth, including:

- Internet electronic commerce is at an early stage and buyers may be unwilling to shift their transmission of business documents from traditional methods to electronic methods;

- Internet electronic commerce may not be perceived as offering a cost saving to users;

- the necessary network infrastructure for substantial growth in usage of the Internet may not be adequately developed;





- increased governmental regulation or taxation may adversely affect the viability of electronic commerce;

- any shift from flat rate pricing to usage based pricing for Internet access may adversely impact the viability of the business models;

- insufficient availability of telecommunication services or changes in

telecommunication services could result in slower response times;

- technical difficulties; and

- concerns regarding the security of electronic commerce transactions.

WE MUST ENROLL A SIGNIFICANT NUMBER OF ADDITIONAL BUYERS AND SUPPLIERS IN OUR TRADING COMMUNITIES IN ORDER TO ACHIEVE AND MAINTAIN PROFITABILITY.

As of December 31, 2001, we connected approximately 170 retail organizations and 1,100 supplier organizations within our trading communities. We currently anticipate that the number of buyers and suppliers would have to increase to approximately 1,800 on an annual basis in order for us to achieve sustained profitability without carrying out additional operating expense reductions or without increases in other types of revenue, including our training center and transaction revenues from professional services and consulting operations. Over the last several months, we have added approximately 7,000 suppliers as potential customers to our backlog. This represents supplier lists provided by retailers on our service, which need to be sold our services. We estimate that we can sign and implement between 15% and 30% of these suppliers to our service in 2002 based on our expectation that several of our retailers, including one of our largest customers, will require their suppliers to transact electronically and our current forecast. Our business model depends in large part on our ability to create a network effect of buyers and suppliers. Buyers may not perceive value in the communities if there is an insufficient number of major suppliers within the communities. Similarly, suppliers may not be attracted to the network trading communities if there is an insufficient number of major buyers within the communities. If we are unable to increase either the number of buyers or suppliers, we will not be able to benefit from any network effect. As a result, the overall value of the trading communities would be diminished, which could harm our business, operating results and financial condition.

THE LOSS OF ONE OR A SMALL NUMBER OF CUSTOMERS COULD SUBSTANTIALLY REDUCE OUR REVENUES.

In the year ended December 31, 2001, one customer accounted for approximately 21% of our total revenue. In the year ended December 31, 2000, this customer accounted for approximately 17% of our total revenue. We expect a slight increase in revenues from the customer and, therefore, expect that such percentage will decline over the long-term. If this customer were to substantially reduce or stop its use of our services, our business, operating results and financial condition would be harmed. Principal customers in our transaction processing and related services include Toys R Us, Rite Aid, Verizon, Best Buy and Linens 'N Things. Principal customers in our training and client educational services include AOL Time Warner, J.P. Morgan Chase, PricewaterhouseCoopers and Teachers Insurance -- TIAA CREF. Generally, we do not have any long-term contractual commitments from any of our current customers, and customers may terminate their contracts with us with little or no advance notice and without significant penalty. As a result, we cannot assure that any of our current customers will continue to use our services in future periods.

THE INTERNET-BASED BUSINESS-TO-BUSINESS INDUSTRY IS HIGHLY COMPETITIVE AND WE MAY NOT ATTAIN SUFFICIENT MARKET SHARE TO SUCCEED.

The market for Internet-based, business-to-business electronic commerce solutions is extremely competitive and has low barriers to entry. Our competition is expected to intensify as current competitors expand their service offerings and new competitors -- including larger, more established companies with more resources -- enter the market. The evolution of technology in our market is rapid and we must adapt to remain competitive. We may not be able to compete successfully against current



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or future competitors and such competitive pressures could harm our business, operating results or financial condition.

Our competition is primarily made of indirect horizontal competitors, which are focused on similar services but not in specific or multiple vertical industries or those in unrelated vertical markets. Major publicly traded competitors include Marex, Inc., Neoforma.com, Inc. and The viaLink Company. Major privately held competitors include Automated Data Exchange (ADX) (formerly known as The EC Company) and SPS Commerce for which minimal public information is available on their efforts to date. Also, we believe that competition may develop from four additional areas: EDI/electronic commerce companies, technology/software development companies, retailer purchasing organizations, and leading industry manufacturers. Additionally, large retailers and suppliers can create their own technology platform to automate the exchange of business documents with their small and medium sized trading partners, thereby reducing the number of large retailers and suppliers in our target markets.

THE FAILURE TO SECURE OUR INTELLECTUAL PROPERTY RIGHTS COULD COMPROMISE THE VALUE OF OUR SERVICES AND RESULT IN A LOSS OF BUSINESS.

To protect our proprietary products, we rely on a combination of copyright,

trade secret and trademark laws, as well as contractual provisions relating to confidentiality and related matters. We also rely on common law protection relating to unfair business practices. Our primary software is licensed from Interworld Corporation, and has been modified by us to perform the tasks specific to our business. Such software is run on our computers, thereby avoiding third party access. Our software license agreement with InterWorld Corporation, dated as of December 11, 1998, as amended, grants us a non-exclusive, non-transferable license to use certain software on a designated platform for (i) internal data processing at designated locations, and (ii) enabling on-line users to access information about, and to order electronically, products and services offered through our web site. The agreement requires us to pay InterWorld a non-refundable net fee of $2,200,000, which amount has been paid in full through a combination of cash and shares of our common stock. Additionally, to the extent our annual revenue exceeds $250,000,000 through the use of the software, we are obligated to pay InterWorld .01% of the overage as an additional license fee and .08% of the overage as an additional support and maintenance fee. This agreement may be terminated by InterWorld at any time for our failure to pay any license fees within fifteen days of receipt of notification that payment is past due or by either party if the other party fails to cure a material breach of any term of the agreement within sixty days of receipt of notice. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Moreover, we cannot assure you that our means of protecting our proprietary rights will be adequate or that competitors will not independently develop similar or superior technology.

WE MAY NOT HAVE FEDERAL TRADEMARK PROTECTION FOR OUR NAME AND THEREFORE MAY NOT BE ABLE TO ADEQUATELY ADDRESS THIRD PARTY INFRINGEMENT.

Our principal trademark is 'eB2B', for which we are seeking a federal registration. The United States Patent and Trademark Office issued an initial objection to the registration application based upon the descriptiveness of the trademark. We have filed a response with the USPTO challenging the objection, which response was denied by the USPTO. An additional response was filed by us to clarify our position, which is currently pending review by the USPTO. There can be no assurance that a trademark will be granted by the USPTO. If a federal trademark is not obtained then there can be no assurance that the mark can be adequately protected against any third party infringement, which could adversely affect our business. We have not made filings in any states with respect to obtaining state trademark protection.

WE ARE DEPENDENT ON ONE DATA CENTER.

We operate our primary data center at Exodus Communications' Internet Data Center facility in Jersey City, New Jersey. This data center operates twenty-four hours a day, seven days a week, and is connected to the Internet and the electronic data interchange networks via AT&T and IBM Global




Network. The data center consist primarily of servers, storage subsystems, and other peripheral technology to provide on-line, batch and back-up operations. Customers' data is backed-up daily and stored off-site. We rely on Exodus Communications to provide us with Internet capacity, security personnel and fire protection, and to maintain the facilities, power and climate control necessary to operate our servers. Additionally, we rely on redundant subsystems, such as multiple fiber trunks from multiple sources, fully redundant power on the premises and multiple back-up generators. If Exodus Communications fails to adequately host or maintain our servers, our services could be disrupted and our business and operating results could be significantly harmed. We can make no assurances regarding our recourse against Exodus Communications in the event of such failure.

In September 2001, Exodus Communications publicly announced that it filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. In January 2002, Exodus Communications announced that the proposed sale of a substantial portion of its business and assets, including those relating to portions which conduct business with us, to Cable & Wireless PLC was approved by the bankruptcy court. We expect that normal services will continue to be provided. There can be no assurance that Exodus Communications or its successor can effectively provide and manage the aforementioned infrastructure and services in a reliable fashion.

CERTAIN LEGAL RISKS AND UNCERTAINTIES RELATING TO OUR SERVICES COULD SUBJECT US TO CLAIMS FOR DAMAGES.

In the course of our business, we will be exposed to certain legal risks and uncertainties relating to information transmitted in transactions conducted by our customers. The services provided to customers may include access to confidential or proprietary information. Any unauthorized disclosure of such information could result in a claim against us for substantial damages. In addition, our services include managing the collection and publication of catalog content. The failure to publish accurate catalog content could deter users from participating in trading communities, damage our business reputation

and potentially expose us to legal liability. From time to time, some of our suppliers may submit inaccurate pricing or other catalog information. Even though such inaccuracies may not be caused by us and are not within our control, we could be exposed to legal liability. Although we believe that we have implemented and will continue to implement adequate policies to prevent disclosure of confidential or inaccurate information, claims alleging such matters may still be brought against us. Any such claim may be time-consuming and costly and may harm our business and financial condition. We maintain insurance for many of the risks encountered in our business, however, there can be no assurance that the claims will be substantially covered by our insurance.

OUR RESOURCES MAY BE ADVERSELY EFFECTED BY THE COSTS AND ANY DAMAGE AWARDS RESULTING FROM CURRENT AND POSSIBLE FUTURE LITIGATION.

In October 2000, Cintra Software & Services Inc. commenced a civil action against us in New York Supreme Court, New York County. The complaint alleges that we acquired certain software from Cintra upon the authorization of our former Chief Information Officer. Cintra is seeking damages of approximately $856,000. We have filed an answer denying the material allegations of the complaint. We believe we have meritorious defenses to the allegations made in the complaint and intend to defend the action vigorously.

In March 2001, a former employee commenced a civil action against our company and two members of our management in New York Supreme Court, New York County, seeking, among other things, compensatory damages in the amount of $1.0 million and additional punitive damages of $1.0 million for alleged defamation in connection with his termination, as well as a declaratory judgment concerning his alleged entitlement to stock options to purchase 5,000 shares of our common stock. We subsequently filed a motion to dismiss, which was granted as to the defamation action on January 7, 2002. The former employee has a right to appeal. We dispute the remainder of his claims, which do not involve substantial amounts, and intend to defend the action.

In December 2001, a former officer of ours commenced a civil action against our company in New York Supreme Court, New York County seeking $85,000, plus liquidated damages, attorneys fees and




costs, for alleged bonuses owing to her. We subsequently filed a motion to dismiss this action. We dispute this claim and intend to vigorously defend the action.

More generally, some of our engagements involve the design and development of customized e-commerce systems that are important to our clients' businesses. Failure or inability to meet a client's expectations in the performance of services could result in a diminished business reputation or a claim for substantial damages regardless of which party is responsible for such failure. In addition, the services provided to clients may provide us with access to confidential or proprietary client information. Although we have policies in place to prevent such client information from being disclosed to unauthorized parties or used inappropriately, any unauthorized disclosure or use could result in a claim against us for substantial damages. Contractual provisions attempting to limit such damages may not be enforceable in all instances or may otherwise fail to protect us from liability.

In addition, there is always the possibility that our shareholders will blame us for taking an alleged inappropriate action that causes the loss of their investment. In the past, following periods of volatility in the market price of a company's securities, class action litigation often has been instituted against a company experiencing stock price declines. Similar litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources. As a result, your investment in our stock may become illiquid and you may lose your entire investment.

WE MAY BE FACED WITH A SIGNIFICANT NON-OPERATIVE STOCK AND CASH LIABILITY.

During 2001, we issued one of our vendors an aggregate of 145,986 shares of currently unregistered common stock in lieu of the $1,200,000 balance due this vendor for software license fees. In the event that within two years this vendor receives gross proceeds (less brokerage commissions) of less than $1,200,000 from selling its shares in the open market, we agreed to issue this vendor additional shares of common stock in an amount equal to the difference between gross proceeds (less brokerage commissions) received by this vendor from the sale of the shares of common stock and the balance due to it divided by the average closing price of the common stock for the five trading days ending on the last sale date, up to a maximum of 266,667 shares of common stock. If the maximum number of shares is insufficient to pay the balance due this vendor, we have agreed to pay this vendor in cash, no earlier than April 2003, an amount equal to one-half of the remaining balance (with the remaining one-half to be forgiven). Fluctuations in the market price of the common stock will increase or decrease the actual cash payment we will be required to pay and, accordingly, we may be faced with a significant non-operative stock and cash liability. As of December 31, 2001, we have accrued approximately $229,000 relating to the

potential cash shortfall for this amount in long term liabilties as the cash short fall could not be triggered before April 2003.

## RISKS RELATING TO OUR COMMON STOCK

### OUR DIRECTORS AND EXECUTIVE OFFICERS HAVE SIGNIFICANT CONTROL AND INFLUENCE OVER OUR COMPANY AND HOLDERS OF SECURITIES ISSUED IN OUR PRIVATE PLACEMENTS MAY ALSO HAVE SIGNIFICANT INFLUENCE.

As a group, on January 15, 2002 our directors and executive officers beneficially owned approximately 81.4% (31.5% on a fully diluted basis) of our outstanding voting stock. If they vote together, the directors and executive officers will be able to exercise significant influence over all matters requiring shareholder approval, including the election of directors. The interests of our directors and executive officers may conflict with the interests of our other shareholders. Commonwealth Associates, L.P., a placement agent for our December 1999, April/May 2001, December 2001 and January 2002 private placements, and the beneficial owner of 38.7% (6.2% on a fully diluted basis) of our common stock as of January 15, 2002, has designated two members of our board of directors and may have the right to designate a third in the future. In addition, holders of Series B preferred stock, as well as related warrants (excluding agent's warrants), as of January 15, 2002, had the ability to obtain 3,581,250 shares of common stock. Holders of Series C preferred stock, as well as related warrants (excluding agent's warrants), issued in our April/May 2001 private placement, as of January 15, 2002, had the ability to obtain 6,311,524 shares of our common stock. Holders of our 7% senior subordinated secured convertible notes, as well as related warrants, issued in our December 2001 and January 2002




financings, had the ability to obtain 2,028,031 shares of our common stock. All of the holders of such notes, except for one holder who has the ability to convert into 108,472 shares, also own Series C preferred stock and many of the holders of Series C preferred stock also own Series B preferred stock. As a result, if such holders choose to act together, they could assert significant influence over our company.

### WE DO NOT ANTICIPATE PAYING DIVIDENDS ON OUR COMMON STOCK.

We have never paid dividends on our common stock and we do not anticipate paying dividends in the foreseeable future. We intend to reinvest any funds that might otherwise be available for the payment of dividends in further development of our business.

### THE EXERCISE OF OPTIONS AND WARRANTS AND CONVERSION OF CONVERTIBLE SECURITIES MAY DILUTE THE PERCENTAGE OWNERSHIP OF OUR SHAREHOLDERS AND THE POTENTIAL OR ACTUAL EXERCISE OR CONVERSION HAS NEGATIVELY AFFECTED, AND MAY CONTINUE TO NEGATIVELY AFFECT, THE PRICE OF OUR COMMON STOCK AND MAY IMPEDE OUR ABILITY TO RAISE CAPITAL.

A substantial number of our shares of common stock underly outstanding shares of convertible preferred stock, convertible notes and outstanding options and warrants. As of January 15, 2002, there are outstanding shares of convertible preferred stock and convertible notes to purchase an aggregate of approximately 8.1 million shares of our common stock and options and warrants to purchase an aggregate of approximately 9.0 million shares of our common stock. If a significant number of these options or warrants were exercised, or a significant amount of preferred stock or notes was converted to common stock, the percentage ownership of our common stock would be materially diluted. For example, if all outstanding options and warrants were exercised and if all convertible securities were converted to common stock as of January 15, 2002, there would have been approximately 930% more common stock outstanding at such time. We believe that the potential exercise or conversion may have an adverse impact on the price of our common stock and therefore on our ability to raise capital. The actual conversion or exercise of convertible securities, and the sale of the underlying common stock into the open market, could further substantially negatively affect the price of our common stock.

### THERE IS POTENTIAL EXPOSURE TO US IN THAT CERTAIN SHARES OF COMMON STOCK UNDERLYING OUR PREFERRED STOCK HAVE BEEN SOLD PRIOR TO THE EFFECTIVE DATE OF A REGISTRATION STATEMENT WHICH WE HAVE FILED, BUT WHICH IS NOT YET EFFECTIVE.

From December 2, 2000 until January 11, 2001, certain shares of our common stock, which were issued by virtue of conversion of shares of preferred stock, were sold by our shareholders in the open market. Such shareholders believed that their shares were registered pursuant to a previous registration statement of ours. The Securities and Exchange Commission has advised us of their opinion that such shares were not covered by the prior registration statement. While we believe that such sales were made in conformance with applicable securities laws and regulations, a different determination may result in our having liability. Commencing January 25, 2001, we advised such converting shareholders to resell their shares pursuant to Rule 144 promulgated under the Securities Act of 1933. We estimate that approximately 195,534 shares of our common stock were issued to such shareholders on or prior to January 11, 2001. Such shares may have

potentially been sold in the open market on or prior to January 11, 2001, at prices that may have ranged from $7.50 to $18.75 per share. It is possible that the selling securityholders will seek to include us in any action for recission taken against them by third parties who purchased the common stock. The measure of damages could be the purchase price paid, plus interest. We are unable to assess the amount of damages, in the event that there is any liability.

BECAUSE OF THE DECLINE IN THE MARKET PRICE OF OUR COMMON STOCK RELATIVE TO THE STOCK PRICES AT THE TIME OF OUR PRIOR SECURITIES OFFERINGS, OUR COMMON SHAREHOLDERS HAVE BEEN SIGNIFICANTLY DILUTED DUE TO PREFERENCES INCLUDED IN OUR OUTSTANDING PREFERRED SHARES AND WARRANTS.

We have a substantial number of outstanding shares of convertible preferred stock, a significant amount of convertible notes and a substantial number of outstanding warrants to purchase shares of our common stock. The preferred shareholders and convertible note holders are entitled to an adjusted




conversion price, which results in their receiving additional shares of common stock upon conversion, if we raise capital at a price below the then current conversion price or market price. Similarly, many of our warrant holders are entitled to a reduced exercise price on their warrants if we raise capital at a price below the then current exercise price or market price. The number of shares of common stock underlying these shares of preferred stock and warrants have significantly increased as a result of the offering price for our securities in our private financings concluded in 2001 and January 2002. If we raise additional capital at a price below these amounts, our common shareholders' percentage of ownership will be further diluted by the additional common stock required to underlie the preferred shares, convertible notes and warrants.

THE PRICE OF OUR COMMON STOCK IS VOLATILE, WHICH COULD RESULT IN SUBSTANTIAL LOSSES FOR INVESTORS.

Our stock price has been and is likely to continue to be volatile. For example, from January 1, 2001 through December 31, 2001, our common stock traded as high as $36.56 per share and as low as $1.50 per share (which prices reflect a 1 for 15 reverse stock split effected in January 2002).

Volatility in the future may be due to a variety of factors, including:

- volatility of stock prices of Internet and electronic commerce companies generally;
- variations in our operating results and/or our revenue growth rates;
- changes in securities analysts' estimates of our financial performance, or for the performance of our industry as a whole;
- announcements of technological innovations;
- the introduction of new products or services by us or our competitors;
- change in market valuations of similar companies;
- market conditions in the industry generally;
- announcements of additional business combinations in the industry or by us;
- issuances or the potential issuances of additional shares;
- additions or departures of key personnel; and
- general economic conditions.

The stock market has experienced extreme price and volume fluctuations that have particularly affected the market prices of securities of Internet-related companies. These fluctuations may adversely affect the market price of our common stock.

WE MAY BE DELISTED FROM THE NASDAQ SMALLCAP MARKET.

Our common stock is traded on the Nasdaq SmallCap Market under the symbol 'EBTB'. Nasdaq requires a bid price of at least $1.00 as a requirement for continued listing. The bid price of our common stock was below $1.00 continuously from April 9, 2001 to January 9, 2002. In September 2001, Nasdaq announced that it was implementing a moratorium on the $1.00 minimum bid requirement. This moratorium expired on January 2, 2002. However, Nasdaq extended the 90-day bid price grace period for companies whose securities are traded on the Nasdaq SmallCap market to 180 days. Following this grace period, companies that demonstrate compliance with the core initial listing standards of the SmallCap market will be afforded an additional 180-day grace period within which to regain compliance. On January 10, 2002, we effected a one-for-fifteen reserve stock split. The board of directors believed that this reverse stock

split of the common stock may enable our common stock to meet Nasdaq's minimum $1.00 bid price requirement for continued listing. There is a risk, however, that the dilutive effect of the conversion of our preferred stock and convertible notes and the exercise of outstanding warrants, together with the sale of a significant number of shares of our common stock, may unravel the effects of the reverse stock split by providing downward pressure on our stock price. Although our common stock traded well above $1.00 per share immediately after the reverse stock split, it has recently been trading in the $1.00 per share range. In addition, to maintain a Nasdaq listing, a net worth of $2,500,000 is required. At December 31, 2001, our net worth was $2,636,000. In the event we



<Page>
suffer losses or fail to take other corrective actions, we may fail to meet these requirements. If our common stock is eventually delisted from the Nasdaq SmallCap Market, trading in the securities may then continue to be conducted on the non-Nasdaq over-the-counter market in what are commonly referred to as the electronic bulletin board and the 'pink sheets'. As a result, an investor may find it more difficult to dispose of or obtain accurate quotations as to the market value of the securities.

OUR SHARES COULD BECOME A 'PENNY STOCK', IN WHICH CASE IT WOULD BE MORE DIFFICULT FOR INVESTORS TO SELL THEIR SHARES.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in 'penny stocks'. Penny stocks generally are equity securities with a price of less than $5.00, other than securities registered on national securities exchanges or quoted on Nasdaq, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. Prior to a transaction in a penny stock, a broker-dealer is required to:

- deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market;
- provide the customer with current bid and offer quotations for the penny stock;
- explain the compensation of the broker-dealer and its salesperson in the transaction;
- provide monthly account statements showing the market value of each penny stock held in the customer's account; and
- make a special written determination that the penny stock is a suitable investment for the purchase and receive the purchaser's written agreement to the transaction.

These requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. If our shares become subject to the penny stock rules, investors may find it more difficult to sell their shares.



<Page>
ITEM 7. FINANCIAL STATEMENTS

EB2B COMMERCE, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<Table>
<Caption>



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders' of eB2B Commerce, Inc.:

We have audited the accompanying consolidated balance sheets of eB2B Commerce, Inc. (the 'Company') as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's recurring losses from operations and negative cash flows from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Deloitte & Touche LLP

New York, New York
April 15, 2002



<Page>

EB2B COMMERCE, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

<Table>
<Caption>

| | DECEMBER 31, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| <S> | <C> | <C> |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 2,240 | $ 8,209 |
| Restricted Cash | 1,441 | 1,441 |
| Accounts receivable, net of allowance of $147 and $113 in 2001 and 2000, respectively | 993 | 1,530 |
| Other current assets | 276 | 409 |
| Total current assets | 4,950 | 11,589 |
| Property and equipment, net | 1,960 | 4,272 |
| Goodwill, net of accumulated amortization of $314 and $8,852 in 2001 and 2000, respectively | 1,557 | 54,104 |
| Other intangibles, net of accumulated amortization of $159 and $977 in 2001 and 2000 respectively | 815 | 2,259 |
| Other assets | 1,787 | 995 |
| Total assets | $ 11,069 | $ 73,219 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | $ 1,562 | $ 1,806 |
| Accrued expenses and other current liabilities | 1,872 | 4,892 |
| Lease termination costs | 1,299 | -- |
| Short-term debt | -- | 1,000 |
| Deferred income | 227 | 592 |
| Total current liabilities | 4,960 | 8,290 |

| | | |
|---|---|---|
| Long-term debt, less current maturities | 1,781 | 1,250 |
| Lease termination costs | 595 | -- |
| Capital lease obligations, less current maturities | 104 | 212 |
| Other | 991 | 381 |
| Total liabilities | 8,431 | 10,133 |
| Commitments and contingencies (Note 10) | | |
| Stockholders' Equity | | |
| Preferred stock, convertible Series A -- $.0001 par value; 2,000 shares authorized; 7 shares issued and outstanding at December 31, 2001 and 2000, respectively | -- | -- |
| Preferred stock, convertible Series B -- $.0001 par value; 4,000,000 shares authorized; 2,477,053 and 2,803,198 shares issued and outstanding at December 31, 2001 and 2000, respectively | -- | -- |
| Preferred stock, convertible Series C -- $.0001 par value; 1,750,000 shares authorized; 763,125 shares outstanding at December 31, 2001 | | |
| Common stock -- $.0001 par value; 200,000,000 shares authorized; 1,603,137 and 1,025,601 shares issued and outstanding at December 31, 2001 and 2000, respectively | | 0 |
| Additional paid-in capital | 155,905 | 144,459 |
| Unearned stock-based compensation | (768) | (2,368) |
| Accumulated deficit | (152,499) | (79,005) |
| Total stockholders' equity | 2,638 | 63,086 |
| Total liabilities and stockholders' equity | $ 11,069 | $ 73,219 |

</Table>

See accompanying notes to consolidated financial statements. All share and per share amounts have been adjusted to reflect the 1 for 15 reverse split completed in January 2002.



<Page>

EB2B COMMERCE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

<Table>
<Caption>

| | YEAR ENDED DECEMBER 31 | |
|---|---|---|
| | 2001 | 2000 |
| <S> | <C> | <C> |
| Revenue | $ 6,816 | $ 5,468 |
| Costs and expenses: | | |
| Cost of revenue | 3,070 | 2,839 |
| Marketing and selling (exclusive of stock-based compensation expense of $469 and $1,412 for the years ended December 31, 2001 and 2000, respectively) | 1,739 | 2,804 |
| Product development costs (exclusive of stock-based compensation expense of $9 and $362 for the years ended December 31, 2001 and 2000, respectively) | 2,024 | 2,698 |
| General and administrative (exclusive of stock-based compensation expense of $1,444 and $14,253 for the years ended December 31, 2001 and 2000, respectively) | 11,168 | 13,438 |
| Amortization of goodwill and other Intangibles | 10,654 | 9,829 |
| Stock-based compensation expense | 1,922 | 16,027 |
| Restructuring charge | 3,327 | -- |
| Impairment of goodwill and other intangible assets | 43,375 | -- |
| Total costs and expenses | 77,279 | 47,635 |
| Loss from operations | (70,463) | (42,167) |
| Interest income | 172 | 1,130 |
| Interest expense (including deferred financing costs of $3,178 in 2001) | (3,203) | (191) |
| Other, net | -- | (107) |
| Net loss | $ (73,494) | $(41,335) |
| Basic and diluted net loss per common share | $ (58.88) | $ (54.15) |

| | | |
|---|---|---|
| Weighted average number of common shares outstanding..... | 1,248,164 | 764,100 |

</Table>

See accompanying notes to consolidated financial statements. All share and per share amounts have been adjusted to reflect the 1 for 15 reverse stock split in January 2002.



<Page>

EB2B COMMERCE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS EXCEPT SHARE DATA)

<Table>
<Caption>

| | PREFERRED STOCK SERIES A | | PREFERRED STOCK SERIES B | | PREFERRED STOCK SERIES C | | COMMON STOCK | | ADDITIONAL PAID IN |
|---|---|---|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | SHARES | AMOUNT | SHARES | AMOUNT | SHARES | AMOUNT | CAPITAL |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Balance at January 1, 2000.... | 300 | $ -- | 3,299,999 | $ -- | -- | $ -- | 483,588 | 0 | $ 67,501 |
| Netlan merger..... | -- | -- | -- | -- | -- | -- | 21,667 | 0 | 3,347 |
| DynamicWeb reverse acquisition..... | -- | -- | -- | -- | -- | -- | 320,798 | 0 | 58,648 |
| Conversion of Series A preferred stock..... | (293) | -- | -- | -- | -- | -- | 25,980 | -- | -- |
| Conversion of Series B preferred stock..... | -- | -- | (496,801) | -- | -- | -- | 160,181 | -- | -- |
| Exercise of stock options and warrants..... | -- | -- | -- | -- | -- | -- | 7,847 | -- | 144 |
| Unearned stock-based compensation..... | -- | -- | -- | -- | -- | -- | -- | -- | 14,523 |
| Amortization of unearned stock-based compensation..... | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Other..... | -- | -- | -- | -- | -- | -- | 5,543 | -- | 296 |
| Net loss..... | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Balance at December 31, 2000..... | 7 | $ -- | 2,803,198 | $ -- | -- | -- | 1,025,604 | $ 0 | $144,459 |
| Conversion of Series B Preferred..... | -- | -- | (326,145) | -- | -- | -- | 146,728 | -- | -- |
| April & May private placement..... | -- | -- | -- | -- | -- | -- | -- | -- | 7,884 |
| Conversion of convertible notes..... | -- | -- | -- | -- | 763,125 | -- | -- | -- | 1,531 |
| Unearned stock-based compensation..... | -- | -- | -- | -- | -- | -- | -- | -- | 322 |
| Amortization of unearned stock-based compensation..... | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Issuance of common stock to settle vendor and other obligations..... | -- | -- | -- | -- | -- | -- | 398,738 | -- | 1,624 |
| Issuance of stock in lieu of interest payment on convertible notes..... | -- | -- | -- | -- | -- | -- | 30,339 | -- | 85 |
| Other issuances of common..... | -- | -- | -- | -- | -- | -- | 1,728 | -- | -- |
| Net loss..... | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Balance at December 31, 2001..... | 7 | $ -- | 2,477,053 | $ -- | 763,125 | $ -- | 1,603,137 | $ 0 | $155,905 |

<Caption>

| | UNEARNED STOCK BASED COMPENSATION | ACCUMULATED DEFICIT | TOTAL EQUITY |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Balance at January 1, 2000.... | $ (1,822) | $ (37,670) | $28,009 |
| Netlan merger..... | (2,050) | -- | 1,297 |
| DynamicWeb reverse acquisition..... | -- | -- | 58,649 |
| Conversion of Series A preferred stock..... | -- | -- | -- |
| Conversion of Series B preferred stock..... | -- | -- | -- |
| Exercise of stock options and warrants..... | -- | -- | 144 |
| Unearned stock-based compensation..... | (14,523) | -- | -- |
| Amortization of unearned | | | |

| | | | |
|---|---|---|---|
| stock-based compensation..... | 16,027 | -- | 16,027 |
| Other..... | -- | -- | 296 |
| Net loss..... | -- | (41,335) | (41,335) |
| Balance at December 31, 2000..... | $ (2,368) | $ (79,005) | $63,086 |
| Conversion of Series B Preferred..... | -- | -- | -- |
| April & May private placement..... | -- | -- | 7,884 |
| Conversion of convertible notes..... | -- | -- | 1,531 |
| Unearned stock-based compensation..... | (322) | -- | -- |
| Amortization of unearned stock-based compensation..... | 1,922 | -- | 1,922 |
| Issuance of common stock to settle vendor and other obligations..... | -- | -- | 1,624 |
| Issuance of stock in lieu of interest payment on convertible notes..... | -- | -- | 85 |
| Other issuances of common..... | -- | -- | -- |
| Net loss..... | -- | (73,494) | (73,494) |
| Balance at December 31, 2001..... | $ (768) | $(152,499) | $ 2,638 |

</Table>

See accompanying notes to Consolidated Financial Statements. All share and per share amounts have been adjusted to reflect the 1 for 15 reserve stock split completed in January 2002.



<Page>

EB2B COMMERCE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<Table>
<Caption>

| | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | 2001 | 2000 |
| | (IN THOUSANDS) | |
| <S> | <C> | <C> |
| Operating Activities | | |
| Net loss..... | $(73,494) | $(41,335) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Impairment of goodwill and other intangibles..... | 43,375 | -- |
| Depreciation and amortization..... | 14,558 | 13,086 |
| Stock-based compensation expense..... | 1,922 | 15,991 |
| Non-cash interest for amortization of deferred financing terms..... | 3,120 | |
| Other..... | -- | 57 |
| Shares, options and warrants issued for services..... | -- | 36 |
| Management of operating assets and liabilities | | |
| Accounts receivable, net..... | 537 | (277) |
| Accounts payable..... | (242) | (327) |
| Accrued expenses and other liabilities..... | (1,459) | 3,645 |
| Lease termination..... | 1,894 | -- |
| Other..... | 260 | (292) |
| Net cash used in operating activities..... | (9,529) | (9,416) |
| Investing Activities | | |
| Acquisitions, net of cash acquired..... | -- | (978) |
| Proceeds (purchases) of investments available-for-sale, net..... | -- | 15,986 |
| Purchase of software..... | -- | (2,527) |
| Purchase of property and equipment..... | (596) | (1,075) |
| Product development expenditures..... | (1,695) | (2,331) |
| Other investing activities..... | -- | -- |
| Net cash provided by (used in) investing activities..... | (2,291) | 9,075 |
| Financing Activities | | |
| Proceeds from borrowings and issuance of convertible notes, net..... | 6,467 | 2,500 |
| Repayment of borrowings..... | (2,250) | (2,366) |

| | | |
|---|---|---|
| Proceeds from bridge notes, net | 1,743 | -- |
| Payment of capital lease obligations | (108) | (194) |
| Restriction of cash in line of credit for security deposits | -- | (1,441) |
| Proceeds from exercise of options and warrants | -- | 144 |
| Net cash provided by financing activities | 5,851 | (1,357) |
| Net (decrease) increase in cash and cash equivalents | (5,969) | (257) |
| Cash and cash equivalents at beginning of year | 8,209 | 9,907 |
| Cash and cash equivalents at end of year | $ 2,240 | $ 8,209 |
| Supplemental Disclosures of Non-Cash Activities: | | |
| Common stock, options and warrants issued or exchanged in connection with acquisitions | $ -- | $ 61,996 |
| Shares, options and warrants issued for services | $ -- | $ 398 |
| Equipment acquired under capital lease | $ -- | $ 346 |
| Preferred stock issued in exchange for note payable | $ -- | $ -- |
| Common stock issued to settle liabilities | $ 2,081 | $ -- |
| Common stock issued in exchange for domain name | $ -- | $ -- |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid for interest | $ 136 | $ 148 |

</Table>

See accompanying notes to consolidated financial statements. All share and per share amounts have been adjusted to reflect the 1 for 15 reverse stock split completed in January 2002



<Page>

EB2B COMMERCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE 1. ORGANIZATION AND PLAN OF OPERATIONS

eB2B Commerce, Inc. (the 'Company') utilizes proprietary software to provide a technology platform for large buyers and large suppliers to transfer business documents via the Internet to their small and medium-sized trading partners. These documents include, but are not limited to, purchase orders, purchase order acknowledgements, advanced shipping notices and invoices. The Company provides access via the Internet to its proprietary software, which is maintained on its hardware and on hosted hardware. The Company also offers professional services, which provide consulting expertise to the same client base, as well as to other businesses that prefer to operate or outsource the transaction management and document exchange of their business-to-business relationships. In addition, the Company provides authorized technical education to its client base, and also designs and delivers custom computer and Internet-based training seminars.

Since its inception, the Company has experienced significant losses from operations and negative cash flows from operations, which raises substantial doubt about its ability to continue as a going concern. For the years ended December 31, 2001 and 2000, the Company incurred losses of approximately $73.5 million and $41.3 million, respectively. During 2001 and 2000, the Company generated negative cash flows from operations of approximately $9.5 million and $9.4 million, respectively.

To address the continuing loss from operations and negative cash flows from operations, management enacted a plan for the Company, which includes various cost cutting measures during the third and fourth quarter of 2000 and into 2001.

- Entering into agreements to settle approximately $425,000 in severance and other contractual obligations through the issuance of shares of our common stock during the fourth quarter of 2001 and the restructuring of a current accrued liability of $262,500 through the issuance a five year 7% senior subordinated secured convertible notes during January 2002, based on an agreement reached in December 2001;

- The settlement of certain liabilities in December 2001 for approximately $400,000 less than what was previously owed; and

- The average savings of approximately $475,000 in monthly cash expenses as a result of a restructuring plan we initiated during the second quarter of 2001, which included principally staffing reductions and discretionary spending reductions in selling, marketing, general and administrative expenses.

The Company is prepared to take the following actions to improve its cash position and fund its operating losses:

- additional cost reduction measures, which the Company believes will further reduce annual salaries by approximately $1,000,000; in this respect, in April 2002, the Company's staff was reduced by five employees;

- sell its training business, subject to finding a suitable buyer; and

- raise additional capital, for which there can be no assurance of obtaining.

NOTE 2. BASIS OF PRESENTATION AND OTHER MATTERS

On April 18, 2000, eB2B Commerce, Inc., a Delaware corporation ('eB2B'), merged with and into DynamicWeb Enterprises, Inc., a New Jersey corporation and an SEC registrant ('DWeb'), with the surviving company using the name 'eB2B Commerce, Inc.' (the 'Company'). Pursuant to the





Agreement and Plan of Merger between eB2B and DWeb (the 'Merger'), the shareholders of DWeb retained their shares in DWeb, while the shareholders of eB2B received shares, or securities convertible into shares, of common stock of DWeb representing approximately 89% of the equity of the Company, on a fully diluted basis. The transaction was accounted for as a reverse acquisition.

The reverse acquisition was accounted for as a 'purchase business combination' in which eB2B was the accounting acquirer and DWeb was the legal acquirer. The management of eB2B remained the management of the Company. As a result of the reverse acquisition, (i) the financial statements of eB2B are the historical financial statements of the Company; (ii) the results of the Company's operations include the results of DWeb after the date of the Merger; (iii) the acquired assets and assumed liabilities of DWeb were recorded at their estimated fair market value at the date of the Merger; (iv) all references to the financial statements of the 'Company' apply to the historical financial statements of eB2B prior to the Merger and to the consolidated financial statements of the Company subsequent to the Merger; (v) any reference to eB2B applies solely to eB2B Commerce, Inc., a Delaware corporation, and its financial statements prior to the Merger, and (vi) the Company's year-end is December 31, that of the accounting acquirer, eB2B.

In the opinion of management, all material adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included in the accompanying consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation. Certain other prior period balances have been reclassified to conform to the current year.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING PRINCIPLES

The consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ('generally accepted accounting principles').

USE OF ESTIMATES

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

REVENUE RECOGNITION

Revenue from transaction processing is recognized on a per transaction basis when a transaction occurs between a buyer and a supplier. The fee is based either on the volume of transactions processed during a specific period, typically one month, or calculated as a percentage of the dollar volume of the purchase related to the documents transmitted during a similar period. Revenue from related implementation, if any, annual subscription and monthly hosting fees are recognized on a straight-line basis over the term of the contract with the customer. Deferred income includes amounts billed for implementation, annual subscription and hosting fees, which have not been earned.

For related consulting arrangements on a time-and-materials basis, revenue is recognized as services are performed and costs are incurred in accordance with the billing terms of the contract. Revenues from related fixed price consulting arrangements are recognized using the percentage-of-completion method. Progress towards completion is measured using efforts-expended method based upon management estimates. Fixed price consulting arrangements are mainly short-term in nature and the Company does not have a history of incurring losses on these types of contracts. If the

<Page>


Company were to incur a loss, a provision for the estimated loss on the uncompleted contract would be recognized in the period in which such loss becomes probable and estimable. Billings in excess of revenue recognized under the percentage-of-completion method on fixed price contracts is included in deferred income.

Revenue from training and client educational services is recognized upon the completion of the seminar and is based upon class attendance. If a seminar begins in one period and is completed in the next period, the Company recognizes revenue based on the percentage of completion method for the applicable period. Deferred income includes amounts billed for training seminars and classes that have not been completed.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, money market investments and other highly liquid investments with original maturities of three months or less. As of both December 31, 2001 and 2000, the Company has also included approximately $1,441,000 of cash as security on a $1,300,000 line of credit with the banks, the equivalent of 109% of the line of credits. The line secures approximately $1,441,000 of letters of credit in relation to our leased facilities and other equipment at December 31, 2001 and 2000, which is included on its consolidated balance sheets as restricted cash. The Company is currently in negotiations with its landlord to terminate this lease and is in arrears for three months rent based on a verbal agreement with the landlord. It is expected that this security deposit will be used to offset the rent in arrears and potentially other costs that may be incurred to terminate the lease. (See Note 8).

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and amortization, and are depreciated or amortized using the straight-line method over the following estimated useful lives:

<Table>
<S> <C>

| | |
|---|---|
| Computer and communications equipment..... | 2 to 3 years |
| Purchased software..... | 2 years |
| Office equipment and furniture..... | 4 to 5 years |
| Leasehold improvements..... | Shorter of useful life or lease term |

</Table>

GOODWILL AND OTHER INTANGIBLES

During 2000, goodwill was amortized using the straight-line method from the date of acquisition over the period of expected benefit, or five years. Other intangibles resulting from the Company's purchase business combinations, including assembled workforce and customer list, are also amortized over the straight-line method from the date of acquisition over the period of expected benefit, or three years. In September 2001, the Company recorded an impairment charge to goodwill and reduced the related amortization period to three years to more appropriately reflect the expected period of benefit. (See Note 5).

IMPAIRMENT OF LONG-LIVED ASSETS

The Company's long-lived assets, including property and equipment, goodwill and other intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, the Company measures impairment by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from use of the assets and their eventual disposition. If the sum of the expected undiscounted future cash flows were less than the carrying amount of the assets, the Company would recognize an impairment loss. The impairment loss, if determined to be necessary, would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.



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PRODUCT DEVELOPMENT

In accordance with the provisions of Statement of Position ('SOP') 98-1, 'Accounting for the Costs of Computer Software Developed or Obtained for

Internal Use', the Company capitalizes qualifying computer software costs incurred during the application development stage. All other costs incurred in connection with internal use software are expensed as incurred. The useful life assigned to capitalized product development expenditures is based on the period such product is expected to provide future utility to the Company. As of December 31, 2001 and 2000, capitalized product development expenditures, which have classified as other assets in the Company's Balance Sheets were $1,631,000 and $905,000, respectively.

INCOME TAXES

The Company records income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and the tax effect of net operating loss carry-forwards. A valuation allowance is recorded against deferred tax assets if it is more likely than not that such assets will not be realized.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, deferred income and the current portion of long-term debt approximate fair value due to the short maturities of such instruments. The carrying value of the long-term debt and capital lease obligations approximate fair value based on current rates offered to the Company for debt with similar collateral and guarantees, if any, and maturities.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited with high credit quality financial institutions. The Company's accounts receivable are derived from revenue earned from customers located in the United States of America and are denominated in U.S. dollars. Portions of the Company's accounts receivable balances are settled either through customer credit cards or electronic fund transfers. The Company maintains an allowance for doubtful accounts based upon the estimated collectibility of accounts receivable. The Company recorded provisions (additions) to the allowance of $226,000 and $211,000, respectively, and write-offs (deductions) against the allowance of $192,000 and $98,000 during the years ended December 31, 2001 and 2000, respectively.

In the years ended December 31, 2001 and 2000, one customer from the Company's transaction processing and related services' segment accounted for approximately 21% and 17%, respectively, of the Company's total revenue. As of December 31, 2001 and 2000, the same customer accounted for approximately 22% and 14%, respectively, of accounts receivable.

NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is the same as basic net loss per common share since the assumed conversion of options, warrants and preferred shares would have been anti-dilutive. Had the Company reported net earnings at December 31, 2001 and 2000, options and warrants to purchase 9,076,210 and 1,436,807 common shares, and preferred shares convertible into 6,920,222 and 904,440 common shares, respectively, and debt convertible into 934,922 common shares would have been included in the computation of diluted earnings per common share, to the extent they were not anti-dilutive.



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Net loss per common share and the weighted average number of shares outstanding has been restated for all periods presented to give effect to the 1 for 15 reverse stock split completed in January 2002.

The unaudited pro forma net loss per common share presented in Note 4 herein has been computed in the same manner as net loss per common share.

The weighted-average number of shares outstanding for purposes of presenting net loss per common share on a comparative basis has been retroactively restated to the earliest period presented to reflect the 2.66 to 1 exchange ratio in the reverse acquisition described in Note 4 herein.

STOCK-BASED COMPENSATION

Stock-based compensation is recognized using the intrinsic value method in accordance with the provisions of Accounting Principles Board ('APB') Opinion No. 25, 'Accounting for Stock Issued to Employees'. For warrants issued to non

employees, the Company utilizes the fair value method prescribed within Statement of Financial Accounting Standards ('SFAS') No. 123, 'Accounting for Stock-Based Compensation.' The Company also utilizes the disclosure presentation prescribed within SFAS No. 123 as if the fair value method had been applied.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, SFAS No. 133, 'Accounting for Derivative Instruments and Hedging Activities', was issued. SFAS No. 133 established accounting and reporting for derivatives and for hedging activities. The Company adopted SFAS No. 133 on January 1, 2001 in accordance with SFAS No. 137, which delayed the required implementation of SFAS No. 133 for one year. Additionally, in June 2000, SFAS No. 138, 'Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS No. 133' was issued. The Company adopted SFAS No. 133 and 138 in fiscal 2001, and the impact on the Company's Consolidated Financial Statements was not material.

In March 2000, Emerging Issues Task Force ('EITF') No. 00-2, 'Accounting for Web Site Development Costs', and EITF No. 00-3, 'Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware', were issued. The Company adopted both EITF No. 002 and EITF No. 00-3, which did not have a material impact on the Company's consolidated financial statements.

In June 2001, the Financial Accounting Standards Board ('FASB') issued SFAS No. 141, 'Business Combinations'. SFAS No. 141 applies prospectively to all business combinations initiated after June 30, 2001 and to all business combinations accounted using the purchase method for which the date of acquisition is July 1, 2001, or later. This statement requires all business combinations to be accounted for using one method, the purchase method. Under previously existing accounting rules, business combinations were accounted for using one of two methods, the pooling of interests method or the purchase method.

In June 2001, the FASB issued SFAS No. 142, 'Goodwill and Other Intangible Assets'. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill and some intangible assets will no longer be amortized but rather reviewed for impairment on a periodic basis. The provisions of this Statement are required to be applied at the beginning of the Company's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statement at that date. Impairment losses for goodwill and certain intangible assets that arise due to the initial application of this Statement are to be reported as resulting from a change in accounting principle. Goodwill and intangible assets acquired after June 30, 2001, will be subject immediately to the provisions of this Statement. The Company is currently evaluating the impact of the new accounting standard on existing goodwill and other intangible assets





and plans to adopt the new accounting standard in its financial statements for the fiscal year ending December 2002. The Company is required to complete the initial step of a transitional impairment test within six months of adoption of SFAS 142, and to complete the final step of the transitional impairment test by the end of the fiscal year.

In June 2001, the FASB issued SFAS No. 143, 'Accounting for Asset Retirement Obligations', which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of long-lived assets, except for certain obligations of lessees. The provisions of this Statement are required to be applied starting with fiscal years beginning after June 15, 2001. Earlier application is encouraged. The Company is currently evaluating the impact of the new accounting standard and plans to adopt the new accounting standard in its financial statements for the fiscal year ending December 2002.

In August 2001, the FASB issued SFAS No. 144, 'Accounting for the Impairment or Disposal of Long-Lived Assets'. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes FASB Statement No. 121, 'Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of', and the accounting and reporting provisions of APB Opinion No. 30, 'Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions', for the disposal of a segment of a business. This Statement also amends ARB No. 51, 'Consolidated Financial Statements', to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. The Company is currently evaluating the impact of the

new accounting standard on existing long-lived assets and plans to adopt the new accounting standard in its financial statements for the fiscal year ending December 2002.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to current year Presentation.

NOTE 4. ACQUISITIONS

NETLAN ENTERPRISES, INC.

On February 22, 2000, eB2B completed its acquisition of Netlan Enterprises, Inc. and subsidiaries ('Netlan'). Pursuant to the Agreement and Plan of Merger (the 'Netlan Merger'), Netlan's stockholders exchanged 100% of their common stock for 8,334 shares of Company common stock, valued at the market value of DWeb's common stock on January 7, 2000, the date at which the parties signed the letter of intent. Additionally, 13,333 shares of Company common stock were issued, placed into an escrow account, and may be released to certain former shareholders of Netlan upon successful completion of escrow requirements, including continued employment with the Company. The aggregate value of such shares, or $2,050,000, was treated as stock-based compensation and was amortized over the one-year vesting period from the date of acquisition. In connection with this acquisition, eB2B incurred transaction costs consisting primarily of professional fees of approximately $332,000, which have been included in the purchase price of the Netlan Merger. In accordance with the purchase method of accounting, the purchase price was allocated to those assets acquired and liabilities assumed based on the estimated fair value of Netlan's net assets as of February 22, 2000. At that date, assets acquired and liabilities assumed had fair values that approximated their historic book values. A total of approximately $334,000 of the purchase consideration was allocated to other intangibles, including assembled workforce. The remaining purchase consideration, or approximately $4,896,000, was



<Page>


recorded as goodwill. The results of operations of Netlan have been included in the Company's results of operations since March 1, 2000.

The following is a summary of the allocation of the purchase price in the Netlan Merger (in thousands):

<Table>

| <S> | <C> |
|---|---|
| Purchase price | $ 1,297 |
| Acquisition costs | 332 |
| Total purchase price | $ 1,629 |
| Historical net liabilities assumed | $(2,490) |
| Write-down of property and equipment, and intangible assets | (753) |
| Liabilities for restructuring and integration costs | (358) |
| Identifiable intangible assets | 334 |
| Goodwill | 4,896 |
| Total purchase price | $ 1,629 |

</Table>

DYNAMICWEB ENTERPRISES, INC.

As described in Note 2 herein, the Merger of eB2B with and into DWeb was accounted for as a reverse acquisition, utilizing the purchase business combination method of accounting, in which eB2B acquired control of DWeb for accounting purposes and DWeb acquired eB2B for legal purposes. Each share of common stock of DWeb remained outstanding and each share of eB2B common stock was exchanged for the equivalent of 2.66 shares of DWeb's common stock. In addition, shares of eB2B preferred stock, warrants and options were exchanged for like securities of DWeb, reflective of the 2.66 to 1 exchange ratio.

The purchase price of the Merger was approximately $59.1 million, which primarily represents (i) the number of shares of DWeb's common stock outstanding as of April 18, 2000, the date of the Merger, valued based on the average quoted market price of DWeb's common stock in the three-day period before and after December 1, 1999, the date at which the parties signed the definitive merger agreement, or $31.9 million; (ii) the number of shares of DWeb's common stock

issuable under existing stock option and warrant agreements as of April 18, 2000 valued using the Black-Scholes option pricing model, or $6.4 million; (iii) the aggregate market value of the shares of common stock and warrants principally issued to a financial advisor (the 'Financial Advisor'), or $10.2 million; and (iv) the market value of warrants issued to the Financial Advisor in consideration for the advisory services rendered during the Merger, or $10.1 million. In connection with this acquisition, eB2B also incurred transaction costs consisting primarily of professional fees of approximately $363,000, which have been included in the purchase price of the Merger. The purchase price was allocated to those assets acquired and liabilities assumed based on the estimated fair value of DWeb's net assets as of April 18, 2000. At that date, assets acquired and liabilities assumed had fair values that approximated their historic book values. A total of approximately $2.9 million of the purchase consideration was allocated to other intangibles, including assembled workforce and customer list. Also, the Company recorded liabilities totaling $1.0 million principally in relation to severance provided to certain employees as well as the settlement of a claim existing at the time of the Merger. The remaining purchase consideration, or $58.1 million, was recorded as goodwill. The results of operations of DWeb have been included in the Company's results of operations since April 19, 2000.





The following is a summary of the allocation of the purchase price in the acquisition of DWeb (in thousands):

| | |
|---|---|
| Purchase price | $58,724 |
| Acquisition costs | 363 |
| Total purchase price | $59,087 |
| Historical net assets acquired | $ 10 |
| Write-down of property and equipment, and intangible assets | (838) |
| Liabilities for restructuring and integration costs | (1,047) |
| Identifiable intangible assets | 2,902 |
| Goodwill | 58,060 |
| Total purchase price | $59,087 |

At December 31, 2001 and 2000, accumulated amortization related to the goodwill and other intangibles acquired in the Netlan and DWeb acquisitions totaled approximately $465,000 and $9.8 million, respectively.

The following represents the summary unaudited pro forma condensed consolidated results of operations for the year ended December 31, 2000 as if the acquisitions had occurred at the beginning of the period presented (in thousands, except per share data):

| | YEAR ENDED DECEMBER 31, 2000 |
|---|---|
| Revenue | $ 7,073 |
| Net loss attributable to common stockholders | $(48,705) |
| Basic and diluted net loss per common share | $ (56.55) |

The pro forma results are not necessarily indicative of what would have occurred if the acquisitions had been in effect for the periods presented. In addition the pro forma results are not necessarily indicative of the results that will occur in the future and do not reflect any potential synergies that might arise from combined operations.

NOTE 5. IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLES

Based upon the Company's history of recurring operating losses and its market capitalization being less than its stockholders' equity as of September 30, 2001, management assessed the carrying value of goodwill and other intangibles and determined that such value may not be recoverable. The impairment loss is measured as the amount by which the carrying amount of the goodwill and other intangibles exceeds the fair value of the assets, as

calculated utilizing the discounted future cash flows. In accordance with this policy, the Company recorded an impairment charge of $43,375,000.

The net book values of goodwill and other intangibles associated with the Dweb and Netlan acquisitions as of the date of the impairment charge, September 30, 2001, were as follows (amounts in thousands):





<Table>
<Caption>

| | DWEB | NETLAN | TOTAL |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Goodwill | | | |
| Balance -- September 30, 2001..... | $ 41,283 | $ 3,380 | $ 44,663 |
| Reclass from other intangibles..... | 425 | 159 | 584 |
| Impairment charge..... | (40,088) | (3,287) | (43,375) |
| Adjusted Balance..... | $ 1,620 | $ 252 | $ 1,872 |
| Other Intangibles | | | |
| Balance -- September 30, 2001..... | $ 1,376 | $ 159 | $ 1,535 |
| Reclass of workforce as goodwill..... | (425) | (159) | (584) |
| Adjusted Balance..... | $ 951 | $ -- | $ 951 |

</Table>

Amortization expense related to goodwill for the nine-month period ended September 30, 2001 was approximately $9,441,000. The Company also changed the amortization period from five years to three years. The Company recorded goodwill amortization in the 4th quarter of 2001 of $314,000. Commencing January 1, 2002, goodwill will no longer be amortized, but rather reviewed for impairment in compliance with SFAS No. 142.

Remaining other intangibles after the impairment review relate to a customer list acquired in April 2000 of $2,188,000, a non-compete agreement of $75,000 and the cost of acquiring the Company's domain name and establishing the Company's web-site in 2000 and 2001 of $22,000. Amortization expense related to other intangibles for the nine-month period ended September 30, 2001 was $747,000 prior to the impairment review. In the fourth quarter, the Company recorded additional amortization expense related to other intangible assets of $151,000.

NOTE 6. RESTRUCTURING

To address the continuing loss from operations and negative cash flows from operations, management enacted a plan for the Company. During the third and fourth quarters of 2000 and continuing into 2001, the Company reduced discretionary spending in selling, marketing, general and administrative areas.

In the second and third quarters of 2001, the Company's Board of Directors approved and the Company announced a restructuring plan that streamlined the organizational structure and reduced monthly cash charges by approximately $475,000 and planned for the anticipated exit of its current corporate office lease to a more modest facility. The restructuring plan called for the following cost cutting measures (in thousands) on a per month basis:

<Table>
<Caption>

| | SELLING & MARKETING | GENERAL & ADMINISTRATIVE | OTHER | LEASE TERMINATION | TOTAL |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Salaries & benefits..... | $125 | $190 | $ -- | $ -- | $315 |
| Rent..... | -- | -- | -- | 95 | 95 |
| Fees to outside contractors(1)..... | -- | 50 | 70 | -- | 120 |
| Other expenses(2)..... | 20 | 15 | 5 | -- | 40 |
| Total..... | $145 | $255 | $ 75 | $ 95 | $570 |

</Table>

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(1) Including hosting, consulting, legal and recruiting.

(2) Including travel, entertainment, trade shows, advertising, dues & subscriptions and public relations.

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As a result of this reorganization the Company recorded a restructuring charge of $3,327,000 in the year ended December 31, 2001, consisting of (i) severance and contract termination costs totaling $1,145,000 and $418,000, respectively and (ii) lease termination costs of $1,765,000. The lease termination costs relate to (i) the expected surrender of the Company's security deposit of $1,200,000,





including unpaid rent of approximately $300,000 for October through December 2001; (ii) $770,000 in additional consideration expected to be paid to the landlord in cash or shares of the Company's common stock and (iii) the write-off of $162,000 in leaseheld improvements, net of accumulated amortization. The severance costs related to the elimination of 40 full-time positions representing approximately 40% of the Company's workforce. The contract termination costs related primarily to expenses incurred as part of the cancellation of certain long-term research subscription contracts and a contract with the Company's website hosting provider.

The following is a summary of the restructuring charge recognized in the year ended December 31, 2001 and the remaining accruals (in thousands):

<Table>
<Caption>

| | RESTRUCTURING CHARGE | WRITEOFF OF LEASEHOLD IMPROVEMENTS | AMOUNTS PAID AS OF DECEMBER 31, 2001 | BALANCE AT DECEMBER 31, 2001 |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Lease termination | $1,765 | $162 | $ 0 | $1,603 |
| Severance for 40 employees | 1,145 | -- | 1,065 | 80 |
| Contract termination Settlement | 417 | -- | 237 | 180 |
| Total Charges | $3,327 | $162 | $1,302 | $1,863 |

</Table>

The remaining restructuring liabilities above are included within lease termination costs and accrued expenses and other current liabilities.

In December 2001, the Company issued 156,667 shares to two former employees to satisfy $282,000 in severance claims. The remaining amount accrued for severance is based on written agreements. The remaining contract termination costs were paid in the first quarter of 2002.

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

<Table>
<Caption>

| | 2001 | 2000 |
|---|---|---|
| | (IN THOUSANDS) | |
| <S> | <C> | <C> |
| Computer and communications equipment | $ 2,166 | $ 2,420 |
| Purchased software | 2,564 | 2,014 |
| Office equipment and furniture | 647 | 614 |
| Leasehold improvements | 28 | 226 |
| | 5,405 | 6,174 |
| Accumulated depreciation and amortization | (3,445) | (1,902) |
| | $ 1,960 | $ 4,272 |

</Table>

As of December 31, 2001, the cost of assets under capital leases, principally computer and communications equipment, was approximately $725,000. The depreciation expense for 2001 and 2000 was $1,920,000 and $1,840,000, respectively.

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NOTE 8. ACCRUED EXPENSES, OTHER CURRENT LIABILITIES AND OTHER

Accrued expenses and other current liabilities consist of the following as of December 31:

<Table>
<Caption>

| | 2001 | 2000 |
|---|---|---|
| | (IN THOUSANDS) | |
| <S> | <C> | <C> |
| Accrued software development costs | $ 157 | $2,439 |
| Accrued severance | 206 | 748 |
| Accrued professional fees | 532 | 559 |
| Accrued compensation and related costs | 337 | 467 |
| Accrued purchases and sub-contractors costs | 180 | -- |
| Current maturities of capital lease obligations | 129 | 191 |
| Other | 331 | 488 |
| | $1,872 | $4,892 |

</Table>

During December 2001, the Company renegotiated a potential $1,200,000 liability with a creditor. The Company had previously issued 145,986 shares of common stock to this party for amounts then owing. The Company had agreed that in the event this party received gross proceeds less than the amount originally owed, the Company would reimburse this party for the shortfall. In December 2001, this agreement was amended whereby the creditor agreed to be issued up to 266,667 shares of the Company's common stock to offset any deficiency, and to the extent this amount is insufficient, the creditor would be paid one-half the remaining balance in cash no earlier than April 2003, with the other half forgiven. The Company has $228,614 recorded in accrued expenses for other long term liabilities as of December 31, 2001 to cover the potential cash shortfall to this vendor.

NOTE 9. BRIDGE FINANCING AND LONG-TERM DEBT

In February 2000, eB2B obtained a $2,500,000 term loan from a bank (the 'Bank'). The term loan had a term of three years, was interest-only until December 1, 2000, and bears interest at a rate equal to LIBOR plus 1%. Beginning December 1, 2000, the term loan required ten quarterly principal payments of $250,000. The proceeds from the term loan were primarily used to refinance the $2,116,000 debt of Netlan paid by eB2B in connection with the Netlan Merger.

On May 2, 2001, the Company completed a private placement of convertible notes and warrants (the 'Financing'). The gross proceeds of the Financing totaled $7.5 million. Pursuant to the Financing, the Company issued $7,500,000 of principal amount of 7% convertible notes (the 'Convertible Notes'), which was convertible into an aggregate of 1,000,000 shares of Company common stock at a price of $7,50, and warrants to purchase an aggregate 1,000,000 shares of Company common stock at $13.95 per share (the 'Private Warrants') prior to adjustment for dilutive financings.

The Convertible Notes had a term of 18 months, which period may be accelerated in certain events. Interest was payable quarterly in cash, in identical Convertible Notes or in shares of common stock, at the option of the Company. With respect to the initial quarterly interest payment related to the June 30, 2001 quarter, the Company elected to pay interest in the form of 30,355 shares of common stock valued at approximately $85,000. In September 2001, the Company issued additional Convertible Notes which was subsequently converted into Series C Preferred Stock of approximately $131,000 in relation to the quarterly interest due for the period from July 1, 2001 to September 28, 2001, the date the Convertible Notes were converted into Series C Preferred Stock as described in Note 11 below. The proceeds of this financing were used to pay off the balance outstanding on the $2,500,000 term loan.

In December 2001, the Company raised gross proceeds of $2,000,000 through the issuance of 90 day, 7% Senior Subordinated Secured Notes ('Bridge Notes') and warrants to purchase an aggregate of 266,670 shares of the Company's common stock at a price of $1.80 per share. These warrants were valued at $218,875 using the Black-Scholes model assuming an expected life of two years,



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volatility of 80 percent, and a risk free borrowing rate of 4.88 percent and will be charged to interest expense over the life of the debt commencing in 2002. In connection with this financing, the Company paid a cash private placement fee of $200,000 and incurred approximately $85,000 in indirect fees consisting of primarily legal expenses. This will also be amortized and charged to interest expense over the life of the debt.

In January 2002, the Bridge Notes were exchanged for five year 7% senior subordinated secured convertible notes ('7% Notes'), which are due to be repaid in January 2007. The Company also restructured a $263,000 long-term liability through the issuance of these 7% Notes. The 7% Notes are convertible into an aggregate of 934,922 shares of common stock at a price of $2.42 per share. The holders of the Bridge Notes also received, in exchange for the Bridge Notes, warrants to purchase 826,439 shares of our common stock at a price of $2.90 per share. The Company also issued warrants to purchase 165,289 shares of our common stock at a price of $2.90 per share to our placement agent in connection with the issuance of the 7% Notes. The warrants issued to our placement agent and to the investors will be valued in January 2002 using the Black-Scholes model and will be charged to interest expense over the life of the debt. The proceeds of this financings are being used to (i) fund operating and working capital needs and (ii) to fund the $250,000 upfront cash portion of the Bac-tech acquisition.

Since the $2,000,000 of Bridge Notes and $263,000 of a payable to a vendor were refinanced and exchanged for the 7% Notes, which are not due to be repaid until January 2007, the aggregate of $2,263,000, less $218,875 allocated to the warrants, has been reflected as long-term liability on the Company's Balance Sheet at December 31, 2001.

The 7% Notes mature in January 2007. No cash payments of principal is required prior to the maturity date. Interest on the 7% Notes is payable quarterly in either cash or shares of the Company's common stock.

NOTE 10. COMMITMENTS AND CONTINGENCIES

LEASES AND OTHER COMMITMENTS

The Company has several capital leases with various financial institutions for computer and communications equipment used in operations with lease terms ranging from 2 to 3 years. Also, during the third quarter of 2000, the Company entered into a lease for new office space that will expire in 2007. According to the terms of the lease agreements, the Company is required to maintain letters of credit in the aggregate amount of approximately $1.2 million. The line of credit with the Bank secures such letters of credit.

Future minimum rental commitments under noncancellable leases as of December 31, 2001 were as follows:

<Table>
<Caption>

| | CAPITAL LEASES | OPERATING LEASES |
|---|---|---|
| | (IN THOUSANDS) | |
| <S> | <C> | <C> |
| 2002 | 129 | 1,192 |
| 2003 | 101 | 1,162 |
| 2004 | -- | 1,166 |
| 2005 | -- | 1,175 |
| 2006 | -- | 1,183 |
| Thereafter | -- | 1,567 |
| Total | $ 230 | $7,729 |
| Less: amounts representing interest | (11) | |
| Less: current maturities | (115) | |
| Long-term capital lease obligations | $ 104 | |

</Table>



<Page>



For the years ended December 31, 2001 and 2000, the Company rent expense was $1,633,536, and $1,031,052, respectively.

EMPLOYMENT AGREEMENTS

The Company maintains employment agreements with four of its officers, including one director. These employment agreements provide for (i) minimum aggregate annual base salaries of $730,000 and (ii) minimum bonuses totaling $75,000 for each year of employment of these four individuals.

LITIGATION

The Company is party to certain legal proceedings and claims, which arise in the ordinary course of business. In the opinion of management, the amount of an ultimate liability with respect to these actions will not materially affect our financial position, results of operations or cash flows.

In October 2000, Cintra Software & Services Inc. commenced a civil action against the Company in New York Supreme Court, New York County. The complaint alleges that we acquired certain software from Cintra upon the authorization of the Company's former Chief Information Officer. Cintra is seeking damages of approximately $856,000. The Company has filed an answer denying the material allegations of the complaint. The Company believes it has meritorious defenses to the allegations made in the complaint and intends to vigorously defend the action.

In March 2001, a former employee commenced a civil action against the Company and two members of its management in New York Supreme Court, New York County, seeking, among other things, compensatory damages in the amount of $1.0 million and additional punitive damages of $1.0 million for alleged defamation in connection with his termination, as well as a declaratory judgment concerning his alleged entitlement to stock options to purchase 5,000 shares of the Company's common stock. The Company subsequently filed a motion to dismiss, which was granted as to the defamation action on January 7, 2002. The former employee has a right to appeal the action. The Company disputes the remainder of these claims, which do not involve substantial amounts and intends to defend the action.

In December 2001, a former officer of the Company commenced a civil action against our company in New York Supreme Court New York County, seeking $85,000, plus liquidated damages, attorneys' fees and costs, for alleged bonuses owing to her. The Company subsequently filed a motion to dismiss the action. The Company disputes this claim and intends to vigorously defend the action.

NOTE 11. PREFERRED STOCK

In April 1999, eB2B authorized 2,000 shares of Series A Convertible Preferred Stock ('Series A') with a par value of $.0001 per share, and issued 300 shares of Series A for $300,000. Each share of Series A is convertible into the number of shares of common stock by dividing the purchase price for the Series A by the conversion price in effect resulting in approximately 26,600 shares of Company common stock. The Series A have anti-dilution provisions, which can change the conversion price in certain circumstances if additional shares of common stock were to be issued by the Company. The holders have the right to convert the shares of Series A at any time into common stock. Upon liquidation, dissolution or winding up of the Company, the holders of the Series A are entitled to receive $1,000 per share plus any accrued and unpaid dividends before distributions to any holder of the Company's common stock. As of December 31, 2001, 293 shares of Series A issued in April 1999 had been converted into 25,980 shares of Company common stock.

In December 1999, eB2B authorized 4.0 million shares of Series B Convertible Preferred Stock ('Series B') with a par value of $.0001 per share, and issued approximately 3.3 million shares for $33.0 million in gross proceeds ($29.4 million in net proceeds), in a private placement conducted by eB2B.





Each share of Series B is convertible into the number of shares of common stock that results from dividing the purchase price by the conversion price per share in effect resulting in 1,066,667 shares of Company common stock valued at $124.4 million based on the average quoted market price of DWeb's common stock in the three-day period before and after December 1, 1999, the date at which the parties signed the definitive merger agreement. As this value was significantly greater than the net proceeds received in the private placement of Series B preferred stock, the net proceeds received were allocated to the convertible feature and amortized as a deemed dividend on preferred stock, resulting in a corresponding charge to retained earnings and a credit to additional paid-in capital within stockholders' equity as of December 31, 1999. The Series B have anti-dilution provisions, which can change the conversion price in certain circumstances if additional shares of common stock were to be issued by the Company. The holders have the right to convert the shares of Series B at any time into common stock. Upon liquidation, dissolution or winding up of the Company, the holders of the Series B are entitled to receive $10.00 per share

plus any accrued and unpaid dividends before distributions to any holder of the Company's common stock. As of December 31, 2001, 1,423,303 shares of Series B issued in December 1999 had been converted into 306,910 shares of Company common stock.

In the event the Company declares a cash dividend on the common stock, the Company will at the same time, declare a dividend to the Series A and B stockholders equal to the dividend which would have been payable if the Series A and B stock had been converted into common stock. The holders of the Series A and B are entitled to one vote for each share of the Company's common stock into which such share of Series A and B is then convertible. In addition, upon any liquidation of the Company, holders of shares of Series A and Series B shall be entitled to payment of the purchase price before distributions to any holder of the Company's common stock.

On September 28, 2001, the $7.5 million of Convertible Notes plus $131,000 in accrued interest were automatically converted into Series C preferred stock when the Company received the required consent from the holders of the Company's Series B preferred stock for the issuance of this new series. The Series C preferred stock is convertible into common stock on the same basis as the Convertible Notes. The Series C preferred stock has (i) full ratchet anti-dilution provisions until April 16, 2002 with weighted average anti-dilution protection thereafter, (ii) a liquidation preference and (iii) could be automatically converted by the Company in certain circumstances.

The Private Warrants will be exercisable for a period of two years from October 17, 2001.

In connection with the closing of the Financing, the Company cancelled a $2,050,000 line of credit used in April 2001 (the 'Line of Credit'), pursuant to which it had not borrowed any funds. In connection with the Line of Credit, the Company paid a cash fee amounting to $61,500 in consideration of the availability of the Line of Credit. In addition, the issuer of the Line of Credit was issued warrants to purchase 104,167 shares of Company common stock at $4.32 per share for a period of five years in consideration of the availability of such line (adjusted for subsequent anti-dilution events). These warrants were valued using the Black-Scholes option-pricing model at $549,000. The $61,500 cash fee paid and the non-cash amount related to the warrants of $549,000 were recorded as interest expense in the Company's statement of operations for the year ended December 31, 2001.

In connection with the Financing as compensation to the placement agents, the Company paid a cash fee amounting to $750,000 and issued (i) warrants to purchase 310,929 shares of the Company's common stock with an exercise price of $6.73 per share for a period of five years and (ii) unit purchase options to purchase Series C preferred stock convertible into an aggregate of 625,000 shares of Company common stock with an exercise price of $1.80 per share for a period of five years. These warrants have been adjusted for subsequent anti-dilution events. These warrants and unit purchase options were valued at the time of issuance using the Black-Scholes option-pricing model at $675,000 and $810,000, respectively. Additionally, other expenses directly related to the Financing, principally legal and accounting fees, were approximately $309,000. The $750,000 cash fee paid, the other direct





expenses of $309,000, and the non-cash amounts related to the warrants of $675,000 and the unit purchase options of $810,000 have been capitalized as debt issuance costs in the Company's balance sheet for an aggregate value of $2,554,000 and were amortized as interest expense in the Company's statement of operations over the term of the Convertible Notes. The remaining unamortized balance of $1,853,000 of debt issuance cost was charged to additional paid-in capital on September 30, 2001, at the date of the conversion of the Convertible Notes into Series C Preferred.

The Company allocated $2,400,000 of the $6,750,000 net proceeds from the Financing to the Private Warrants using the Black-Scholes option-pricing model and recorded such amount as a discount on the Convertible Notes. The discount on the Convertible Notes was accreted as interest expense in the Company's statement of operations over the term of the Convertible Notes. During 2001, the Company recorded interest expense of $658,000 related to such discount. The remaining unamortized balance of the discount on the Convertible Notes of $1,742,000, was charged to additional paid-in capital at September 28, 2001. The remaining unallocated portion of the proceeds was used to determine the value of the 4,238,900 shares of Company common stock underlying the Convertible Notes subsequently converted into Series C Preferred stock, or $4.35 per share. Since this value was $3.45 lower than the fair market value of the Company's share of common stock as listed on NASDAQ on May 2, 2001, the date at which the Financing was closed, the $3,450,000 intrinsic value of the conversion option resulted in an additional reduction to the carrying amount of the Convertible Notes and a credit to additional paid-in capital in the Company's stockholders' equity.

During 2001, the Company recorded amortization expense of $1,137,000 related to such conversion feature. The remaining unamortized balance of the conversion feature, $2,313,000, was charged to additional paid-in capital on September 28, 2001 at the date of the conversion of the Convertible Notes into Series C Preferred.

The assumptions used by the Company in determining the fair value of the above warrants and unit purchase options were as follows: dividend yield of 0%, risk-free interest of 6.5%, expected volatility of 80%, and expected life of 2 to 5 years.

NOTE 12. COMMON STOCK AND WARRANTS

As of December 31, 2001, there were 1,603,137 common shares outstanding.

In 2000, the Company issued 21,667 shares of its common stock in relation to the acquisition of Netlan and 320,798 shares of its common stock as part of the reverse acquisition of Dynamic Web.

In 2001, the Company issued 398,738 shares of its common stock to settle vendor and severance obligations with the former officers of the Company The Company also issued 30,339 shares of its common stock in consideration for an interest payment of $85,000 on the Convertible Notes prior to the September 28, 2001 conversion to Series C preferred stock.

On April 18, 2000, the number of shares of DWeb's common stock issuable under existing warrants agreements became warrants to purchase shares of the Company's common stock. As of December 31, 2001, 27,384 of such warrants were outstanding.

In 2000, the Company issued 20,000 warrants to purchase shares of Company common stock at an exercise price of $58.65 per share to a business partner, which vest in three equal installments, on each of the annual anniversary of the warrant agreement date (the 'Business Partner Warrants'). The Business Partner Warrants have been valued at $900,000 using the Black-Scholes option pricing model and their value will be amortized ratably over three years. During the years ended December 31, 2001 and 2000, the Company recognized business partner warrant expenses in the amount of $300,000 and $89,000, respectively, which have been classified as stock-based compensation expense in the Company's consolidated statement of operations.



<Page>



The assumptions used by the Company in determining the fair value of the above warrants were as follows: dividend yield of 0%, risk-free interest rate of 6.5% in 2000 and 2001, expected volatility of 80%, and expected life of 3 to 7 years depending on the actual life of the respective warrants.

The following table summarizes the status of the above warrants at December 31, 2001 as adjusted for anti-dilution events through January 11, 2002 (the conversion date of the Bridge Notes):

<Table>
<Caption>

| | WARRANTS OUTSTANDING | | | WARRANTS EXERCISABLE |
|---|---|---|---|---|
| | RANGE OF EXERCISE PRICE PER SHARE | NUMBER OF SHARES | WEIGHTED AVERAGE REMAINING LIFE (IN YEARS) | NUMBER OF SHARES |
| <S> | <C> | <C> | <C> | <C> |
| Original Bridge Warrants | $1.80 | 1,590,267 | 4.8 | 1,590,267 |
| Merger & Advisory Warrants | $31.05 | 123,691 | 2.8 | 123,691 |
| Credit Line Warrants | $4.32 | 104,167 | 4.0 | 104,167 |
| Series C Investor Warrants | $6.73 | 2,072,824 | 4.3 | 1,256,757 |
| Series C Agent Warrants -- Preferred | $1.80 | 625,009 | 4.3 | 625,009 |
| Series C Agent Warrants -- Common | $6.73 | 310,929 | 4.3 | 310,929 |
| December 2001 Bridge Warrants | $1.80 | 266,670 | 5.0 | 266,670 |
| Series B Investor Warrants | $8.55 | 964,850 | 3.0 | 964,850 |
| Series B Agent Warrants | $8.55 | 953,791 | 3.0 | 953,791 |
| Other | $15 - $58.65 | 137,362 | 5.3 | 137,362 |
| Total | | 7,149,560 | | 7,149,560 |

</Table>

In addition, in January 2002, the Company issued warrants to purchase common shares of 826,439 and 165,289 to the 7% Note holders and its Placement Agent,

respectively.

NOTE 13. STOCK OPTION AND DEFINED CONTRIBUTION PLANS

STOCK OPTIONS PLANS

The Company has stock-based compensation plans under which outside directors, certain employees and consultants received stock options and other equity-based awards. The shareholders of the Company approved the 2000 stock option plan. All options outstanding under either eB2B's or DWeb's prior plans at the time of the Merger remained in effect, but the plans have been retired as of April 18, 2000, the date of the Merger. Stock options under the Company's 2000 stock option plan are generally granted with an exercise price equal to 100% of the market value of a share of common on the date of the grant, have 10 year terms and vest within 2 to 4 years from the date of the grant. Subject to customary antidilution adjustments and certain exceptions, the total number of shares of common stock authorized for option grants under the plan was approximately 10.0 million shares at December 31, 2001. At that date, approximately 9.2 million shares were available for grant.

In connection with the Merger, outstanding options held by DWeb employees became exercisable, according to their terms, for Company common stock effective at the acquisition date. These options did not reduce the shares available for grant under the 2000 stock option plan. The fair value of these options, valued using the Black-Scholes pricing model, were included in the purchase price of the Merger. There were no unvested options held by employees of companies acquired in a purchase combination.

The former Chief Executive Officer and current Chairman of the Board of Directors of the Company was granted options to purchase 88,667 shares of the Company's common stock at an exercise price of $31.05 per share. These options vested upon the completion of the Merger on April 18, 2000. In connection with such options, the Company recorded a one-time charge classified as stock-based





compensation expense of approximately $8.8 million in the year ended December 31, 2000. There was no charge related to this item in 2001.

In connection with certain consulting services rendered during 2000, the Company granted 4,334 stock options in exchange for services. These options were valued, utilizing the Black-Scholes option pricing model, at approximately $70,000, of which $36,000 was charged to stock-based compensation expense in the year ended December 31, 2000. The assumptions used by the Company in determining the fair value of these options were consistent with the assumptions described in Notes 9, 11 and 12.

The Company has adopted the disclosure requirements of SFAS No. 123 and, as permitted under SFAS 123, applies APB 25 and related interpretations in accounting for its plans. Compensation expense recorded under APB 25 was approximately $2 million and $16.0 million for the years ended December 31, 2001 and 2000, respectively. If the Company had elected to adopt optional recognition provisions of SFAS 123 for its stock option plans, net loss and net loss per share would have been changed to the pro forma amounts indicated below:

<Table>
<Caption>

| | YEARS ENDED DECEMBER 31, | |
|---|---|---|
| | 2001 | 2000 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | |
| <S> | <C> | <C> |
| Net loss attributable to common stockholders | | |
| As reported | $(73,494) | $(41,335) |
| Pro forma | $(76,288) | $(50,909) |
| Net loss per common share -- basic and diluted | | |
| As reported | $ (54.88) | $ (54.15) |
| Pro forma | $ (61.12) | $ (66.63) |

</Table>

The fair value of stock options used to compute pro forma net loss and net loss per common share disclosures is the estimated fair value at grant date using the Black-Scholes pricing model with the following assumptions:

<Table>
<Caption>

| | YEARS ENDED DECEMBER 31, |
|---|---|

| WEIGHTED-AVERAGE ASSUMPTIONS | 2001 | 2000 |
|---|---|---|
| Dividend yield | 0% | 0% |
| Expected volatility | 80% | 80% |
| Risk-free interest rate | 4.8% - 6.5% | 6.5% |

Presented below is a summary of the status of the Company employee and director stock options and the related transactions for the years ended December 31, 2001 and 2000:

| | SHARES (IN THOUSANDS) | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE |
|---|---|---|
| Options outstanding at January 1, 2000 | 137 | $11.70 |
| Granted/assumed(1) | 519 | $41.70 |
| Exercised | 5 | $40.35 |
| Forfeited/expired | 76 | $39.60 |
| Options outstanding at December 31, 2000 | 575 | $34.80 |
| Granted | 513 | $ 5.97 |
| Exercised | -- | -- |
| Forfeited/expired | 322 | $39.88 |
| Options outstanding at December 31, 2001 | 766 | $15.49 |

- ---------

(1) Includes options converted in DWeb acquisition.





DEFINED CONTRIBUTION PLAN

The Company has a defined contribution savings plan (the 'Plan'), which qualifies under Section 401(k) of the Internal Revenue Code. Participants may contribute up to 20%, which is currently $10,500 of their gross wages, not to exceed, in any given year, a limitation set by Internal Revenue Service regulations. The Plan provides for discretionary contributions to be made by the Company as determined by its Board of Directors. As of December 31, 2001, the Company has not made any contributions to the Plan.

NOTE 14. INCOME TAXES

The components of the net deferred tax asset as of December 31, 2001 and 2000 consist of the following:

| | 2001 | 2000 |
|---|---|---|
| | (IN THOUSANDS) | |
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 13,700 | $ 6,900 |
| Stock-based compensation | 8,200 | 7,500 |
| Other miscellaneous | 600 | -- |
| | 22,500 | 14,400 |
| Valuation allowance | (22,500) | (14,400) |
| Net deferred tax asset | $ -- | $ -- |

Deferred income taxes reflect the net effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary

differences representing net future deductible amounts become deductible. Due to the uncertainty on the Company's ability to realize the benefit of the deferred tax assets, the deferred tax assets are fully offset by a valuation allowance at December 31, 2001 and 2000.

As of December 31, 2001, the Company had approximately $30 million of net operating loss (NOL) carryforwards for federal income tax purposes. The NOL carryforwards will begin expiring in 2019 if not utilized. During 2000, the Company may have experienced an ownership change as that term is defined in Section 382 of the Internal Revenue Code. Under that section, when there is an ownership change, the pre-ownership-change loss carryforwards are subject to an annual limitation which could reduce or defer the utilization of these losses. Therefore, the Company's pre-ownership change tax losses may be severely limited and may expire without being utilized.

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before provision for income taxes. The sources and tax effects of the differences are as follows:

<Table>
<Caption>

| | YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | 2001 | 2000 |
| | (IN THOUSANDS) | |
| <S> | <C> | <C> |
| Federal income tax, at statutory rate | $(24,400) | $(14,400) |
| State income tax, net of federal benefit | (2,100) | (2,400) |
| Non-deductible expenditures, including goodwill amortization and other | 18,400 | 4,083 |
| Change in valuation allowance | 8,100 | 12,317 |
| Income taxes, as recorded | $ -- | $ -- |

</Table>



<Page>



NOTE 15. SEGMENT REPORTING

The Company has two reportable operating segments. The Company utilizes proprietary software to provide a technology platform for large buyers and large suppliers to transfer business documents via the Internet to their small and medium-sized trading partners. The Company also offers professional services, which provide consulting expertise to the same client base, as well as to other businesses that prefer to operate or outsource the transaction management and document exchange of their business-to-business relationships. The Company's transaction processing technology platform and professional services comprise one reportable segment defined as 'transaction processing and related services.' In addition, the Company designs and delivers custom technical education through delivery of custom computer and Internet-based on line training seminars. This second reportable segment is defined as 'training and client educational services.'

The following information is presented in accordance with SFAS No. 131, 'Disclosures about Segments of an Enterprise and Related Information', which established standards for reporting information about operating segments in the Company's financial statements:

<Table>
<Caption>

| | YEARS ENDED DECEMBER 31, | |
|---|---|---|
| | 2001 | 2000 |
| | (IN THOUSANDS) | |
| <S> | <C> | <C> |
| Revenue from external customers | | |
| Transaction processing and related services | $ 4,333 | $ 3,039 |
| Training and client educational services | 2,483 | 2,429 |
| | $ 6,816 | $ 5,468 |
| EBITDA (excluding restructuring and impairment charges)(1) | | |
| Transaction processing and related services | $ (8,108) | $(13,467) |
| Training and client educational services | (15) | 363 |

| | | |
|---|---|---|
| EBITDA | (8,123) | (13,104) |
| Depreciation and amortization | (13,644) | (10,445) |
| Stock-related compensation | (1,922) | (16,027) |
| Interest, net | (3,031) | 939 |
| Restructuring Charge | (1,563) | -- |
| Impairment Charge | (43,375) | -- |
| Net Loss | $(71,628) | $(41,335) |
| Identifiable assets | | |
| Transaction processing and related services | $ 8,030 | $ 15,201 |
| Training and client educational services | 818 | 1,310 |
| Corporate, mainly goodwill and other intangibles | 2,637 | 56,708 |
| | $ 11,485 | $ 73,219 |
| Capital expenditures, including product development | | |
| Transaction processing and related services | $ 2,253 | $ 5,892 |
| Training and client educational services | 38 | 41 |
| | $ 2,291 | $ 5,933 |

</Table>

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(1) EBITDA is defined as net income (loss) adjusted to exclude: (i) provision (benefit) for income taxes, (ii) interest income and expense, (iii) depreciation, amortization and write-down of assets, (iv) stock-related compensation, and (v) product development costs.



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EBITDA is presented because management considers it an important indicator of the operational strength and performance of its business. The Company evaluates the performance of its operating segments without considering the effects of (i) debt financing interest expense and investment interest income, and (ii) non-cash charges related to depreciation, amortization and stock-related compensation, which are managed at the corporate level.

NOTE 16. SUBSEQUENT EVENTS

In January 2002, the Company completed a one-for-fifteen reverse stock split. All shares and per share amounts have been adjusted to reflect this reverse stock split.

In January 2002, the Company acquired Bac-Tech Systems, Inc., a New York City-based privately-held e-commerce business, through a merger. Pursuant to the merger agreement, the Company paid an aggregate of $250,000 in cash and issued an aggregate of 200,000 shares of common stock and 95,000 shares of Series D preferred stock to the two stockholders of Bac-Tech. The Series D preferred stock, inclusive for any accrued dividend, is automatically convertible into an aggregate of 333,334 shares of common stock upon stockholders approval of the acquisition and/or the issuance of the Series D preferred stock in connection with the acquisition. If such approval is not obtained by November 30, 2002, the Series D preferred stock is redeemable, at the option of the holders, for $10 per share in cash, plus accrued dividends. The Company expects this vote to occur before the end of the third quarter of 2002. If the vote to convert does not occur, a cash payment of approximately $980,000 would be required to be paid to the Bac-Tech shareholders. The Company also issued secured notes to the Bac-Tech stockholders in the aggregate amount of $600,000, payable in three equal installments in 2003, 2004 and 2005.



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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9.DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE

WITH SECTION 16(a) OF THE EXCHANGE ACT

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information regarding our directors and executive officers:

<Table>
<Caption>

| NAME | AGE | POSITION |
|---|---|---|
| <S> | <C> | <C> |
| Richard S. Cohan | 49 | Chief Executive Officer and President |
| Peter J. Fiorillo | 42 | Chief Financial Officer and Chairman of the Board of Directors |
| Robert Bacchi | 47 | Chief Operating Officer |
| Michael Dodier | 44 | Executive Vice President -- Sales |
| Steven Rabin | 46 | Chief Technology Officer |
| Michael S. Falk | 40 | Director |
| Timothy P. Flynn | 51 | Director |
| Stephen J. Warner | 61 | Director |
| Harold S. Blue | 40 | Director |
| Bruce J. Haber | 49 | Director |
| Mark Reichenbaum | 51 | Director |

</Table>

Richard S. Cohan joined our company in May 2001 as president and chief operating officer. In July 2001, he became chief executive officer of our company, and relinquished his position as chief operating officer. Mr. Cohan served as senior vice president of CareInsite, a health information technology company (which merged with WebMD in September 2000), from June 1998 to January 2001. He was also president of The Health Information Network Company, an e-health consortium of major New York health insurers and associations of which CareInsite was the managing partner, from 1998 to 2001. Prior to joining CareInsite, Mr. Cohan spent 15 years at National Data Corporation, with various titles including executive vice president.

Peter J. Fiorillo founded the former eB2B Commerce, Inc, in November 1998. He served as president, chief executive officer and chairman of the board of directors of former eB2B from November 1998 until April 2000, and, upon completion of the April 2000 merger, assumed these positions with our company until November 2000. In November 2000, he relinquished his positions as chief executive officer and president of our company and remained as chairman of the board. From April 2001 until May 2001 he again served as president, and since May 2001, has served as chairman and chief financial officer. He has also served as director of former eB2B from its inception until the April 2000 merger, and has since been a director of our company. From October 1991 until September 1998, Mr. Fiorillo held various positions with FIND/SVP, Inc., a publicly held consulting and business advisory company, including chief operating officer and director. From September 1987 until September 1991, Mr. Fiorillo held various positions with Robert Half/Accountemps of New York, Inc., an employment recruiting and temporary placement firm, including president. As a certified public accountant licensed in New York State, Mr. Fiorillo began his career with Ernst & Young, LLP.

Robert Bacchi joined our company in January 2002 as chief operating officer following our acquisition of Bac-Tech Systems, Inc., a privately-held New York City based e-commerce company. Mr. Bacchi founded Bac-Tech in 1981 and served as its President since such date.

Michael Dodier joined our company in January 2002 as executive vice president -- sales following our acquisition of Bac-Tech. Mr. Dodier joined Bac-Tech in 1993 and served as its executive vice president-sales since such date.

Steven Rabin has served as our chief technology officer since November 2000. Prior to joining our company, Mr. Rabin was the chief technology officer for InterWorld Corporation from May 1997 to



<Page>
September 2000. From February 1995 to May 1997, Mr. Rabin worked as chief technologist at Logility, Inc., a division of American Software Inc., a publicly held company, where he designed and developed a variety of supply chain management and business-to-business e-commerce solutions.

Michael S. Falk has been a director of our company since April 2000, and prior to the April 2000 merger was a director of former eB2B since January 2000. Mr. Falk is the co-founder and, since 1988, chairman and chief executive officer of Commonwealth Associates, L.P., a New York-based merchant bank and investment bank. Mr. Falk is also a member of the board of directors of the following public companies: IntraWare, Inc., a provider of Internet-enabled software delivery and information technology management solutions; U.S. Wireless Data, Inc., a provider of technology for wireless point of sale and ATM transactions; and ProxyMed, Inc., a provider of healthcare transaction processing services.

Timothy P. Flynn has been a director of our company since April 2000, and prior to the April 2000 merger was a director of former eB2B since January 2000. Mr. Flynn is a principal of Flynn Gallagher Associates, LLC. Mr. Flynn is also a director of MCG Communications, Inc., a publicly held telecommunications company. Mr. Flynn has served on the board of directors of PurchasePro.com, Inc., a publicly held business-to-business e-commerce company. From 1993 until 1997, Mr. Flynn served as a director of ValuJet Airlines. Prior to that, he served as a senior executive and director of WestAir Holdings, Inc., a company which operated WestAir, a California-based commuter airline affiliated with United Airlines.

Stephen J. Warner has been a director of our company since May 2001. Mr. Warner has been chief executive officer of Crossbow Ventures, Inc., a venture capital firm, since January 1999. He was chairman of Bioform Inc., a consulting firm, from 1994 to 1999. From 1991 to 1994, he was a director of Commonwealth Associates, L.P. Mr. Warner served as president of Merrill Lynch Venture Capital from 1981 to 1990.

Harold S. Blue has been a director of our company since May 2001. Mr. Blue has been the chief operating officer of Commonwealth Associates, L.P. since July 2001 and was an executive vice president from January 2001 to July 2001. He served as chairman and chief executive officer of ProxyMed, Inc. from 1993 to December 2000. Mr. Blue previously served as president and chief executive officer of Health Services, Inc., a physician practice management company, from 1990 to 1993. In 1984 he founded Best Generics, a major generic drug distribution company that was acquired by Ivax Corp. and served on Ivax's board of directors. He also currently serves as a director of the following public companies: Futurelink Corporation; Healthwatch, Inc., a healthcare information technology company; ProxyMed, Inc.; and MonsterDaata, Inc., an information infrastructure utility company.

Bruce J. Haber has been a director of our company since July 2001. Mr. Haber served as president and chief executive officer of MedConduit.com, Inc., a healthcare e-commerce company, from March 2000 to June 2001. From 1997 until 1999, Mr. Haber was executive vice president and director of Henry Schein, Inc., a healthcare distribution company, and president of such company'smedical group. From 1981 until 1997, Mr. Haber served as president, chief executive officer and director of Micro Bio-Medics, Inc., a medical supply distributor which merged into Henry Schein, Inc. in 1997.

Mark Reichenbaum has been a director of our company since July 2001. Mr. Reichenbaum has served as president of HAJA Capital Corporation, an investment firm, since 1997. Prior to such time, Mr. Reichenbaum served as president of Medo Industries, Inc., a manufacturer and distributor of consumer products, from 1972 until 1997. From 1996 to 1997, he was Vice President of Quaker State Corporation. Mr. Reichenbaum has also served as co-chairman of Clean Rite Centers, a retail chain of laundry serving super stores, since 1999.

All of the above directors will hold office until the next annual meeting of the stockholders and until their successors have been duly elected and qualified. All of the above executive officers serve at the discretion of our board of directors.

Commonwealth Associates, L.P. currently has the right to designate two members of our board of directors, and has designated Harold S. Blue and Michael S. Falk. The holders of our Series B preferred stock, voting as a class, have the right to designate one member of our board of directors, and have designated Timothy P. Flynn. When the holders of the Series B preferred stock no longer have the right




to designate a director, Commonwealth shall receive the right to designate such member. Commonwealth's right to designate this third member of the board and one of its two other designees shall expire when the Series C preferred stock has converted into shares of common stock or there is otherwise less than 20% of the originally issued shares of Series C preferred stock outstanding.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon a review of Forms 3, 4 and 5 and amendments to these forms furnished to us, all parties subject to the reporting requirements of Section 16(a) of the Exchange Act filed on a timely basis all such required reports with respect to transactions during our fiscal year ended December 31, 2001, except that Commonwealth Associates, L.P., Commonwealth Associates Management Company, Michael S. Falk, RMC Capital LLC and Robert Priddy, reporting as a group, failed to timely file a Form 4 for five transactions in May 2001. This information was included in a Form 4 filed on September 28, 2001.

Section 16(a) ('Section 16(a)') of the Securities Exchange Act of 1934, as amended (the 'Exchange Act'), requires executive officers and directors and persons who beneficially own more than ten percent (10%) of the Company's common stock to file initial reports of ownership on Form 3 and reports of changes in ownership on Form 4 with the Securities and Exchange Commission and any national

securities exchange on which the Company's securities are registered.

ITEM 10. EXECUTIVE COMPENSATION

The following table provides information concerning the annual and long-term compensation earned or paid to our chief executive officer and to each of our most highly compensated named executive officers other than the chief executive officer, whose compensation exceeded $100,000 during 2001 . For the period prior to April 18, 2000, the date of the merger of former eB2B with and into DynamicWeb, the following table includes compensation earned at former eB2B, but excludes the compensation earned or paid to DynamicWeb's executives in such capacity prior to the April 2000 merger.

<Table>
<Caption>

| | | ANNUAL COMPENSATION | | LONG-TERM COMPENSATION | | |
|---|---|---|---|---|---|---|
| NAME AND PRINCIPAL POSITION | YEAR | SALARY | BONUS | RESTRICTED STOCK AWARD | NUMBER OF SECURITIES UNDERLYING OPTIONS | ALL OTHER COMPENSATION |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Peter J. Fiorillo, ..... | 2001 | $225,000 | $ 25,000 | -- | 173,000 | -- |
| Chief Financial Officer(1) | 2000 | $219,000 | $ 50,000 | -- | -- | -- |
| | 1999 | $195,000(2) | $110,000 | | 133,000 | |
| Richard S. Cohan ..... | 2001 | $114,086 | $ 8,333 | -- | 166,667 | -- |
| Chief Executive Officer and President(3) | | | | | | |
| Alan J. Andreini, ..... | 2001 | $102,083 | -- | -- | 66,667 | $20,833(5) |
| Chief Executive Officer(1)(4) | 2000 | $112,500 | | | 100,000 | |
| John J. Hughes, ..... | 2001 | $105,729 | $ 18,750 | | 17,734 | $88,542(5) |
| Executive Vice President and General Counsel(6) | 2000 | $102,000 | $ 60,000(7) | | | -- |
| Steve Rabin, ..... | 2001 | $131,250 | $ 22,500 | 3,334 | 36,667 | |
| Chief Technology Officer(8) | 2000 | $ 61,500(9) | $ 72,500(10) | | | |

</Table>

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(1) Mr. Fiorillo was the chief executive officer of former eB2B prior to the April 2000 merger and of our company from April 2000 until November 2000, at which point Mr. Andreini became our chief executive officer. From April 2001 until May 2001 he served as president and, since May 2001, has served as chief financial officer.

(2) From January 1, 1999 to September 30, 1999, former eB2B elected, in accordance with the right it was granted under each employment agreement, to accrue the base salary for each of the executive

(footnotes continued on next page)



<Page>
(footnotes continued from previous page)
officers of former eB2B. In January 2000, the accrued salary for each officer (which represented approximately 75% of the total salary for each officer) was converted at the election of the officers, into common stock of former eB2B.

(3) Mr. Cohan has been employed by our company since May 1, 2001.

(4) Mr. Andreini was employed by our company from July 2000 until July 2001.

(5) Represents severance payments.

(6) Mr. Hughes was employed by our company from June 2000 until July 2001. In connection with his cessation of employment, Mr. Hughes received severance payments, over a six month period, aggregating $106,250.

(7) Includes a $35,000 signing bonus.

(8) Mr. Rabin commenced employment with our company in November 2000.

(9) Includes $32,500 paid as consulting fees to a company whose majority shareholder is Mr. Rabin.

(10) Includes a $50,000 signing bonus.

OPTION GRANTS IN 2001

The following table provides information concerning individual grants of stock options made during 2001 to each of our named executive officers.

<Table>
<Caption>

| NAME | NUMBER OF SECURITIES UNDERLYING OPTIONS | PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 2001 | EXERCISE OR BASE PRICE (IN $ PER SHARE) | EXPIRATION DATE |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Peter J. Fiorillo..... | 66,667 | 17.4% | $ 8.25 | May 2011 |
| Richard S. Cohan..... | 133,334 | 34.8% | $ 8.25 | May 2011 |
| John J. Hughes..... | 17,734 | 4.7% | $ 3.45 | June 2010(2) |
| Steven Rabin..... | 36,667 | 9.8% | $ 3.45 | November 2010 |
| Alan Andreini..... | 66,667 | 17.4% | $11.25 | January 2011(1) |

</Table>

AGGREGATED OPTION EXERCISES IN 2001 AND YEAR END VALUES

The following table provides information concerning the exercise of stock options during 2001, and the value of unexercised options owned, by each of our named executive officers:

<Table>
<Caption>

| NAME | SHARES ACQUIRED ON EXERCISE | VALUE REALIZED | NUMBER OF SECURITIES UNDERLYING UNEXERCISED(1) | | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS(2) | |
|---|---|---|---|---|---|---|
| | | | EXERCISABLE | UNEXERCISABLE | EXERCISABLE | UNEXERCISABLE |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Peter J. Fiorillo..... | -- | -- | 133,000 | -- | -- | -- |
| Richard S. Cohan..... | -- | -- | -- | 133,334 | -- | -- |
| Steven Rabin..... | -- | -- | 12,223 | 38,666 | -- | -- |
| Alan Andreini..... | -- | -- | -- | -- | -- | -- |
| John J. Hughes, Jr. ..... | -- | -- | -- | -- | -- | -- |

</Table>

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(1) Includes ownership of options as of December 31, 2001.

(2) Based on closing price of our common stock as reported on Nasdaq on December 31, 2001 as adjusted for the 1:15 reverse stock split effective January 10, 2002.



<Page>

EMPLOYMENT AGREEMENTS

Our company and Richard S. Cohan, our chief executive officer and president, are parties to an employment agreement, dated May 4, 2001. The initial term of the agreement expires on May 3, 2004, but the agreement automatically renews for successive one-year terms unless terminated by either party prior to renewal. The agreement provides for an annual base salary of $175,000 with a minimum annual bonus of $50,000. Mr. Cohan was also granted options to purchase 133,334 shares of common stock pursuant to our amended 2000 stock option plan. In the event Mr. Cohan's employment is terminated, for reason other than 'cause' (as defined in the agreement), including the resignation of Mr. Cohan for good reason, the termination of Mr. Cohan's employment for our own convenience or upon Mr. Cohan's death or disability, the agreement provides that we are required to pay Mr. Cohan an amount equal to his annual base salary and bonus for a period of six months following the date of the event that resulted in the termination of employment and his options shall accelerate and immediately vest as provided in the agreement.

Our company and Peter J. Fiorillo, our chairman of the board of directors and chief financial officer, are parties to an employment agreement, dated December 1, 1998, as amended April 2001. The initial term of the agreement expires in December 2002, but the agreement automatically renews for successive one-year terms unless terminated by either party prior to renewal. The agreement provides for an annual base salary of $225,000 with a minimum annual bonus of $25,000. Under the terms of the agreement, we may terminate Mr. Fiorillo's employment for reasons other than 'cause' (as defined in the agreement) including for our own convenience or upon Mr. Fiorillo's death or disability, or in the event of a 'change of control' involving our company. Upon such termination other than for cause or in the event of a change in control, we are required to pay Mr. Fiorillo an amount equal to 75% of his annual base salary and bonus. The employment agreement provides that a change of control is deemed to occur if we have a net worth of at least $1,000,000 and either (i) a third party becomes the beneficial owner of our shares having 30% or more of the voting power toward the election of directors or (ii) as a result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing, the persons who were our directors cease to constitute a majority of

our Board or any successor. The payments are to be made over a nine-month period following the date of the event that resulted in the termination of employment or the 'change of control.'

Our company and Steven Rabin, our chief technology officer, are parties to an employment agreement, dated as of October 31, 2000, as amended December 31, 2001. The initial term expires on December 31, 2003, but the agreement automatically renews for successive one-year terms unless terminated by either party prior to renewal. The agreement permits Mr. Rabin to determine the allocation of his business time between our offices and his home in Massachusetts. As amended, the agreement provides for an annual base salary of $87,500 and an annual minimum bonus of $22,500 in exchange for Mr. Rabin working half time. In the event the agreement is terminated for reasons other than 'cause' (as defined in the agreement), including the resignation of Mr. Rabin for good reason, the termination of Mr. Rabin's employment for convenience or upon Mr. Rabin's death or disability, we are required to pay Mr. Rabin an amount equal to 50% of his annual base salary, with such sum payable over a period of six months.

In connection with the acquisition of their company Bac-Tech Systems, Inc., our company entered into employment agreements, dated January 2, 2002, with each of Robert Bacchi and Michael Dodier pursuant to which they were employed as our chief operating officer and executive vice president -- sales, respectively. The initial term of the agreements expires on January 1, 2005, but the agreements automatically renew for successive one-year terms unless terminated by either party prior to renewal. The employment agreements each provide for an annual base salary of $165,000. Messrs. Bacchi and Dodier were each also granted options to purchase 33,334 shares of common stock pursuant to our amended 2000 stock option plan. In the event the employment of Mr. Bacchi or Mr. Dodier is terminated by us during the first year for reasons other than 'cause' (as defined in the agreements), including termination of employment for our convenience, we are required to pay the terminated employee an amount equal to his annual base salary for the remainder of the year plus an additional six months. If either employee is terminated without cause or for our convenience after the first year or in




the event of their respective deaths or disabilities at any time, he or his estate would be entitled to his base salary for a period of six months from termination.

PROVISIONS OF OUR CHARTER AND BY-LAWS

Our amended and restated certificate of incorporation provides that we will indemnify any person who is or was our director, officer, employee or agent to the fullest extent permitted by the New Jersey Business Corporation Act, and to the fullest extent otherwise permitted by law. The New Jersey law permits a New Jersey corporation to indemnify its directors, officers, employees and agents against liabilities and expenses they may incur in such capacities in connection with any proceeding in which they may be involved, unless a judgment or other final adjudication adverse to the director, officer, employee or agent in question establishes that his or her acts or omissions (a) were in breach of his or her duty of loyalty (as defined in the New Jersey law) to our company or our stockholders, (b) were not in good faith or involved a knowing violation of law or (c) resulted in the receipt by the director, officer, employee or agent of an improper personal benefit.

Pursuant to our amended and restated certificate of incorporation and the New Jersey law, no director or officer of our company will be personally liable to us or to any of our stockholders for damages for breach of any duty owed to us or our stockholders, except for liabilities arising from any breach of duty based upon an act or omission (i) in breach of such director's or officer's duty of loyalty (as defined in the New Jersey law) to us or our stockholders, (ii) not in good faith or involving a knowing violation of law or (iii) resulting in receipt by such director or officer of an improper personal benefit.

In addition, our bylaws include provisions to indemnify our officers and directors and other persons against expenses, judgments, fines and amounts incurred or paid in settlement in connection with civil or criminal claims, actions, suits or proceedings against such persons by reason of serving or having served as officers, directors, or in other capacities, if such person acted in good faith, and in a manner such person reasonably believed to be in or not opposed to our best interests and, in a criminal action or proceeding, if he or she had no reasonable cause to believe that his/her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent will not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to our best interests or that he or she had reasonable cause to believe his or her conduct was unlawful. Indemnification as provided in the bylaws will be made only as authorized in a specific case and upon a determination that the person met the applicable standards of conduct.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the common stock owned by our directors and named executive officers, by persons known by us to beneficially own, individually, or as a group, more than 5% of our outstanding common stock as of January 15, 2002 and all of our current directors and executive officers as a group. Included as shares beneficially owned are shares of convertible preferred stock, which preferred shares have the equivalent voting rights of the underlying common shares. Such preferred shares are included to the extent of the number of underlying shares of common stock. Also included are shares of common stock underlying convertible notes.



<Page>

<Table>
<Caption>

| NAME AND ADDRESS OF BENEFICIAL OWNER(1) | BENEFICIAL OWNERSHIP OF CAPITAL STOCK(2) | PERCENT OF COMMON STOCK(3) | PERCENT OF COMMON STOCK ON A FULLY DILUTED BASIS(4) |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Alan J. Andreini(5) | 33,334(6) | 1.8% | * |
| John J. Hughes(7) | 23,431(8) | 1.3% | * |
| Steven Rabin | 13,376(9) | * | * |
| Peter J. Fiorillo | 310,790(10) | 16.0% | 1.6% |
| Michael S. Falk(11) | 2,873,373(12) | 61.7% | 15.2% |
| Timothy P. Flynn(13) | 389,825(14) | 17.5% | 2.1% |
| Bruce J. Haber | -- | * | * |
| Mark Reichenbaum(15) | 223,266(16) | 10.9% | 1.2% |
| Richard S. Cohan | 3,447 | * | * |
| Stephen J. Warner(17) | 1,579,321(18) | 46.3% | 8.4% |
| Harold S. Blue(19) | 18,731(20) | 1.0% | * |
| Commonwealth Associates LP(21) | 1,159,116(22) | 38.7% | 6.2% |
| Robert Priddy(23) | 2,580,096(24) | 58.6% | 13.5% |
| All directors and officers as a group (11 persons) | 5,945,463(25) | 81.4% | 31.5% |

</Table>

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* Less than 1%

(1) The address of each person who is a 5% holder, except as otherwise noted, is c/o eB2B Commerce, Inc., 757 Third Avenue, New York, New York 10017.

(2) Except as otherwise noted, each individual or entity has sole voting and investment power over the securities listed. Includes ownership of only those options and warrants that are exercisable within 60 days of the date of this prospectus.

(3) The ownership percentages in this column for each person listed in this table are calculated assuming the exercise of all options and warrants held by such person exercisable within 60 days of the date of January 15, 2002 and conversion of all convertible notes held by such person convertible within such time period and giving effect to the shares of common stock underlying the Series A preferred stock, the Series B preferred stock, the Series C preferred stock and the Series D preferred stock held by such person.

(4) The ownership percentages in this column are calculated for each person listed in this table on a fully diluted basis, assuming the exercise of all options and warrants, exercisable within 60 days, held by such person and all of our other securityholders and conversion of all preferred stock and convertible notes regardless of whether or not convertible within 60 days held by such person and all of our other securityholders.

(5) Mr. Andreini is no longer an officer or employee of our company as of August 2001.

(6) Includes 33,334 shares underlying warrants.

(7) Mr. Hughes is no longer an officer or employee of our company as of July 2001.

(8) Includes 21,067 shares underlying options or warrants.

(9) Includes 10,042 shares underlying options and 3,334 shares of restricted stock.

(10) Includes 106,333 shares underlying options and 2,838 shares of common stock owned by family members.

(11) The address of Mr. Falk is c/o Commonwealth Associates, L.P., 830 Third

Avenue, New York, New York 10022.

(12) In addition to the aggregate of 1,159,116 shares beneficially owned by Commonwealth Associates L.P., which may be deemed to be beneficially owned by Mr. Falk, Mr. Falk's holdings include 12,056 shares of common stock, and the right to acquire (i) 645,180 shares underlying warrants and options, (ii) 24,672 shares underlying convertible preferred stock. In his capacity as chairman and controlling equity owner of Commonwealth Associates Management Corp., Mr. Falk shares voting

(footnotes continued on next page)



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(footnotes continued from previous page)
and dispositive power with respect to the securities beneficially owned by Commonwealth Associates L.P. and may be deemed to be the beneficial owner of such securities. In addition, Mr. Falk (i) as sole member of the general partner of ComVest Venture Partners, LP, Mr. Falk may be deemed to own the 104,167 shares underlying warrants owned by such entity, and (ii) as a manager and principal member of ComVest Capital Partners, LLC, Mr. Falk may be deemed to beneficially own the 928,182 shares beneficially owned by such entity, which is inclusive of 895,287 shares underlying warrants and 32,895 underlying convertible preferred stock. With respect to the entities mentioned in this note, Mr. Falk may be deemed to share indirect voting and dispositive power with respect to such entities' shares and may therefore be deemed to be the beneficial owner of such securities.

(13) The address of Mr. Flynn is c/o Flynn Gallagher Associates, 3291 North Buffalo Drive, Las Vegas, Nevada 89129.

(14) Includes (i) 254,383 shares underlying convertible preferred stock, (ii) 5,911 shares underlying options and (iii) 128,516 shares underlying warrants.

(15) The address of Mr. Reichenbaum is c/o HAJA Capital Corp., 323 Railroad Avenue, Greenwich, Connecticut 06830.

(16) Includes (i) 137,559 shares underlying convertible preferred stock and (ii) 81,250 shares underlying warrants.

(17) The address of Mr. Warner is One N. Clematis Street, West Palm Beach, Florida 33401.

(18) Includes 734,723 shares underlying convertible preferred stock, 206,612 shares underlying convertible notes and 632,564 shares underlying warrants owned by Alpine Venture Capital Partners L.P. Mr. Warner is the chief executive officer of Crossbow Ventures Inc., the management company for Alpine Venture Capital Partners L.P.

(19) The address of Mr. Blue is c/o Commonwealth Associates, L.P., 830 Third Avenue, New York, New York 10022.

(20) Includes 5,450 shares underlying convertible preferred stock and 13,163 shares underlying warrants.

(21) The address of Commonwealth Associates, L.P. is 830 Third Avenue, New York, New York 10022.

(22) Commonwealth Associates, L.P.'s holding includes 2,686 shares underlying convertible preferred stock and 1,116,759 shares underlying warrants and unit purchase options. The address for ComVest Capital Management LLC is 830 Third Avenue, New York, New York 10022.

(23) The address of Mr. Priddy is 830 Third Avenue, New York, New York 10022.

(24) Mr. Priddy may be deemed to beneficially own (i) 1,689,802 shares beneficially owned by RMC Capital, LLC ('RMC'), of which Mr. Priddy is a manager and principal member, (ii) 451,541 shares underlying warrants, (iii) 149,397 shares underlying convertible preferred stock and (iv) 289,256 shares underlying convertible notes. RMC's beneficial holdings include 8,341 shares of common stock and (i) 551,111 shares underlying warrants and (ii) 1,130,350 shares underlying preferred stock.

(25) Includes (i) 1,525,702 shares underlying convertible preferred stock, (ii) 3,616,886 underlying warrants, (iii) 206,612 shares underlying convertible notes and (iv) 122,286 shares under stock options.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In October 1999, former eB2B entered into a finder's agreement with Commonwealth, which provided that upon completion of a merger, sale or other similar transaction, Commonwealth would earn a finder's fee equal to three percent of the total compensation received in the transaction. Upon the completion of the April 2000 merger, we issued Commonwealth 3% of the total number of securities received by former eB2B's stockholders in the merger,

consisting of 48,019 shares of our



<Page>
common stock and seven-year warrants to purchase 33,493 shares of our common stock at an exercise price of $31.05.

In November 1999, in connection with Commonwealth providing advisory services to former eB2B during the merger, former eB2B granted to Commonwealth five-year warrants to purchase 470,000 shares of former eB2B common stock (equivalent to 83,347 shares of our common stock at an exercise price equivalent to $31.05 per share). The warrants vested upon the closing of the April 2000 merger.

In April and May 2001, we issued to Commonwealth (and its designees), for providing services as the placement agent in a private placement of convertible notes and warrants, five year 'agents options' to purchase Series C preferred stock, convertible into an aggregate of 125,000 shares of our common stock at an exercise price of $7.50 and warrants to purchase 125,000 shares of our common stock at an exercise price of $13.95 per share. We also paid Commonwealth a fee of $637,500 plus reimbursement of its expenses in connection with such services.

In connection with the closing of the April/May 2001 financing, we canceled a $2,050,000 line of credit issued to us in April 2001 by ComVest Venture Partners L.P., an affiliate of Commonwealth, pursuant to which we did not borrow any funds. We incurred a cash fee amounting to $61,500 in consideration of the availability of the line of credit. In addition, ComVest Venture Partners L.P. was issued warrants to purchase 60,000 shares of our common stock at an exercise price of $1.80 per share for a period of five years.

In December 2001, Commonwealth acted as the placement agent in our bridge financing and we paid Commonwealth a placement fee of $200,000 plus reimbursement of its expenses in connection with such services.

In January 2002, we issued Commonwealth (and its designees) for providing services as the placement agent in the private placement of convertible notes and warrants, five year warrants to purchase 165,288 shares of our common stock at an exercise price of $2.42 per share.

All of the above share numbers for our common stock have been adjusted to reflect the one-for-fifteen reverse stock split effected in January 2002, but do not reflect anti-dilution adjustments subsequent to their issuance.

Commonwealth currently beneficially owns 38.7% of our voting securities 6.2% on a fully diluted basis).



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## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

April 15, 2002 EB2B COMMERCE, INC.

By /s/ RICHARD S. COHAN
.....
RICHARD S. COHAN
CHIEF EXECUTIVE OFFICER & PRESIDENT

April 15, 2002 EB2B COMMERCE, INC.

By /s/ PETER J. FIORILLO
.....
PETER J. FIORILLO
CHIEF FINANCIAL OFFICER

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<Table>
<Caption>

| SIGNATURE | TITLE | DATE |
|---|---|---|
| <C> | <S> | <C> |
| /s/ PETER J. FIORILLO<br>.....<br>(PETER J. FIORILLO) | Director | April 15, 2002 |

| | | |
|---|---|---|
| /s/ MICHAEL S. FALK<br>(MICHAEL S. FALK) | Director | April 15, 2002 |
| /s/ STEPHEN J. WARNER<br>(STEPHEN J. WARNER) | Director | April 15, 2002 |
| /s/ HAROLD S. BLUE<br>(HAROLD S. BLUE) | Director | April 15, 2002 |
| /s/ MARK REICHENBAUM<br>(MARK REICHENBAUM) | Director | April 15, 2002 |



<Page>
ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

| NUMBER | DESCRIPTION |
|---|---|
| 2.1 | Agreement and Plan of Merger by and between eB2B Commerce, Inc. and DynamicWeb Enterprises, Inc., dated December 1, 1999, and as amended, dated February 29, 2000 (incorporated by reference to Exhibit 2.1 and Exhibit 2.2 filed with the Registrant's Registration Statement on Form S-4 filed on January 24, 2000 and amended on March 20, 2000 ('Form S-4')). |
| 2.2 | Agreement and Plan of Merger by and between eB2B Commerce, Inc., Netlan Merger Corporation and Netlan Enterprises, Inc., dated February 22, 2000 (incorporated by reference to Exhibit 2.5 filed with the Registrant's Form S-4). |
| 2.3 | Agreement and Plan of Merger among eB2B Commerce, Inc., Bac-Tech Systems, Inc., Robert Bacchi and Michael Dodier, dated as of January 2, 2002 (incorporated by reference to Exhibit 2.1 as filed with the Registrant's Form 8-K, dated January 2, 2002). |
| 3.1 | Certificate of Incorporation, as filed with the Secretary of State of New Jersey on August 7, 1979 together with subsequently filed Amendments and Restatements through April 2001, inclusive of terms and designations for Series A and Series B preferred stock (incorporated by reference to Exhibits 3.1.1 through Exhibit 3.1.13 filed with the Registrant's Form S-4) and Amendments filed from May 2001 through January 2002, inclusive of terms and designations of Series C and Series D preferred stock. |
| 3.2 | Bylaws adopted August 7, 1979 including all subsequently filed Amendments and Restatements (incorporated by reference to Exhibit 3.2.1 through Exhibit 3.2.4 filed with the Registrant's Form S-4). |
| 10.1 | Agreement of Sub-Lease between 757 Third Avenue LLC and eB2B Commerce, Inc., dated July 28 2000 (incorporated by reference to Exhibit 10.1 filed with the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2000 ('2000 Form 10-KSB'). |
| 10.2 | Employment Agreement between Peter J. Fiorillo and eB2B Commerce, Inc., dated effective as of December 1, 1998 (incorporated by reference to Exhibit 10.3 filed with the Registrant's Form S-4) and amendment thereto effective as of April 2001 (incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form SB-2). |
| 10.3 | Employment Agreement between Richard S. Cohan and eB2B Commerce, Inc., dated effective as of May 4, 2001 (incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form SB-2). |
| 10.4 | Employment Agreement between eB2B Commerce, Inc. and Steven Rabin, dated effective as of October 31, 2000 (incorporated by reference to Exhibit 10.6 as filed with the Registrant's 2000 Form 10-KSB) and amendment thereto effective as of April 2001 (incorporated by reference to Amendment No. 1 the Registrant's Registration Statement on Form SB-2). |
| 10.5 | Form of Series A Preferred Stock Subscription Agreement (incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form SB-2)and schedule related thereto. |
| 10.6 | Form of Unit Subscription Agreement relating to Series B preferred stock and warrants (incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form SB-2)and schedule related thereto. |
| 10.7 | Form of Unit Subscription Agreement relating to convertible notes and warrants issued in April/May 2001 (incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form SB-2)and schedule related thereto. |
| 10.8 | Form of Unit subscription relating to convertible notes and warrants issued in December 2001 and schedule related thereto. |
| 10.9 | Form of Unit Subscription Agreement relating to convertible notes and warrants issued in January 2002 and schedule related thereto. |
| 10.10 | Form of 7% Senior Subordinated Secured Convertible Note. |



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| NUMBER | DESCRIPTION |
|---|---|
| <C> | <S> |
| 10.11-- | Software License Agreement between InterWorld Corporation and eChannel Ventures Inc., dated December 11, 1998, Addendum thereto dated September 30, 1999, Letter Agreement amending the Addendum, dated February 21, 2001, Amendment No. 1, dated April 12, 2001 and Amendment No. 2, dated December 24, 2001. |
| 10.12-- | eB2B Commerce, Inc. 2000 Stock Option Plan, as amended July 3, 2001. |
| 10.13-- | Promissory Note, dated January 2, 2002, issued by eB2B Commerce, Inc. in favor of Robert Bacchi (incorporated by reference to Exhibit 10.1 as filed with the Registrant's Form 8-K, dated January 2, 2002). |
| 10.14-- | Promissory Note, dated January 2, 2002, issued by eB2B Commerce, Inc. in favor of Michael Dodier (incorporated by reference to Exhibit 10.2 as filed with the Registrant's Form 8-K, dated January 2, 2002). |
| 10.15-- | Security Agreement, dated January 2, 2002, between eB2B Commerce, Inc. and each of Robert Bacchi and Michael Dodier (incorporated by reference to Exhibit 10.3 as filed with the Registrant's Form 8-K, dated January 2, 2002). |
| 10.16-- | Registration Rights Agreement, dated January 2, 2002, between eB2B Commerce, Inc. and each of Robert Bacchi and Michael Dodier (incorporated by reference to Exhibit 10.4 as filed with the Registrant's Form 8-K, dated January 2, 2002). |
| 10.17-- | Employment Agreement, dated January 2, 2002, between eB2B Commerce, Inc., and Robert Bacchi (incorporated by reference to Exhibit 10.5 as filed with the Registrant's Form 8-K, dated January 2, 2002). |
| 10.18-- | Employment Agreement, dated January 2, 2002, between eB2B Commerce, Inc. and Michael Dodier (incorporated by reference to Exhibit 10.6 as filed with the Registrant's Form 8-K, dated January 2, 2002). |
| 10.19-- | Non-Competition Agreement, dated January 2, 2002, between eB2B Commerce, Inc. and Robert Bacchi (incorporated by reference to Exhibit 10.7 as filed with Registrant's Form 8-K, dated January 2, 2002). |
| 10.20-- | Non-Competition Agreement, dated January 2, 2002, between eB2B Commerce, Inc. and Michael Dodier (incorporated by reference to Exhibit 10.8 as filed with Registrant's Form 8-K, dated January 2, 2002). |

</Table>



STATEMENT OF DIFFERENCES

The trademark symbol shall be expressed as ..... 'TM'

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Exhibit 3.1

CERTIFICATE OF
AMENDMENT TO THE
CERTIFICATE OF INCORPORATION
OF
EB2B COMMERCE, INC.

To: The Department of the Treasury
State of New Jersey

Pursuant to the provisions of Section 14: 7-2(2) of the New Jersey Business Corporation Act, the undersigned corporation, for the purpose of amending its Certificate of Incorporation, hereby certifies as follows:

(a) The name of the 'Corporation' is eB2B Commerce, Inc.

(b) Article Sixth of the Corporation's Certificate of Incorporation is hereby amended by adding, as Exhibit C to such Article Sixth, the terms of Series C Convertible Preferred Stock set forth in the resolution duly adopted by the Corporation's Board of Directors which is attached hereto as Exhibit A and made part hereof.

(c) The resolution was adopted by the Board of Directors at a special meeting of the Board of Directors on April 9, 2001.

(d) The Certificate of Incorporation is amended so that the designation and number of shares of each class and series acted upon in the resolution, and the relative rights, preferences and limitations of each such class and series, are stated in the resolution.

IN TESTIMONY WHEREOF, the Corporation has caused this Certificate of Amendment to the Certificate of Incorporation to be executed by a duly authorized officer as of the 28th day of September 2001.

EB2B COMMERCE, INC.

By: Richard S. Cohan
.....
Richard S. Cohan
Chief Executive Officer and
President

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EXHIBIT A

TERMS OF
SERIES C CONVERTIBLE PREFERRED STOCK
OF
EB2B COMMERCE, INC.

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of this Corporation (the 'Board of Directors' or the 'Board') in accordance with the provisions of its Certificate of Incorporation, as amended, the Board of Directors hereby authorizes a series of the Corporation's previously authorized Preferred Stock, par value $.0001 per share (the 'Preferred Stock'), and hereby states the designation and number of shares, and fixes the relative rights, preferences, privileges, powers and restrictions thereof as follows:

EXHIBIT C

Series C: Convertible Preferred Stock:

1. Number of Shares and Designations, 1,750,000 (One Million Seven Hundred Fifty Thousand) shares of the preferred stock at an issuance price of $10.00 per share (the 'Original Purchase Price') of the Company are hereby constituted as a series of preferred stock of the Company designated as Series C Convertible Preferred Stock (the 'Series C Preferred Stock').

2. Dividend Provisions. Subject to the rights of any other series of Preferred Stock that may from time to time come into existence, the holders of shares of Series C Preferred Stock shall be entitled to receive dividends, out of any assets legally available therefor, ratably with any declaration or payment of any dividend with holders of the Common Stock of the Company, when, as and if declared by the Board of Directors, based on the number of shares of Common Stock into which each share of Series C Convertible Preferred Stock is then convertible.

3. Rank. The Series C Preferred Stock shall rank: (i) junior to any other class or series of capital stock of the Company hereafter created specifically ranking by its terms senior to the Series C Preferred Stock (the 'Senior Securities'); (ii) prior to all of the Company's common stock, $.0001 par value per share (the 'Common Stock'), the Company's Series B Convertible Preferred Stock (the 'Series B Preferred Stock'), and any class or series of capital stock of the Company hereafter created not specifically ranking by its terms senior to or on parity with the Series C Preferred Stock (collectively, with the Common Stock and the Series B Preferred Stock, 'Junior Securities'); and (iii) on parity with any class or series of capital stock of the Company hereafter created specifically ranking by its terms on parity with the Series C Preferred Stock (the 'Parity



Securities'), in each case as to the distribution of assets upon liquidation, dissolution or winding up of the Company.

4. Liquidation Preference.

(a) Upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary ('Liquidation'), the holders of record of the shares of the Series C Preferred Stock shall be entitled to receive, immediately after any distributions to Senior Securities required by the Company's Certificate of Incorporation and any certificate(s) of designation, powers, preferences and rights, and before and in preference to any distribution or payment of assets of the Company or the proceeds thereof may be made or set apart for the holders of Junior Securities, an amount in cash equal to (i) $13.33 per share (subject to adjustment in the event of stock splits, combinations or similar events), representing the Original Purchase Price plus a 33% premium (the 'Liquidation Preference Amount'), and (ii) any declared but unpaid dividends. If, upon such Liquidation, the assets of the Company available for distribution to the holders of Series C Preferred Stock and any Parity Securities shall be insufficient to permit payment in full to the holders of the Series C Preferred Stock and Parity Securities, then the entire assets and funds of the Company legally available for distribution to such holders and the holders of the Parity Securities then outstanding shall be distributed ratably among the holders of the Series C Preferred Stock and Parity Securities based upon the proportion the total amount distributable on each share upon Liquidation bears to the aggregate amount available for distribution on all shares of the Series C Preferred Stock and of such Parity Securities, if any.

(b) For purposes of this Section 4, a merger or consolidation of the Company where the stockholders of the Company own, on a fully-diluted basis, less than a majority of the equity securities of the merged or combined entity, a sale of all or substantially all of the assets of the Company, or an acquisition of 50% or more of the shares of the Company's voting capital stock shall be considered a Liquidation except in the event that in such a transaction, the holders of the Series C Preferred Stock receive securities of the surviving corporation having substantially similar rights as the Series C Preferred Stock. Notwithstanding Section 7 hereof, such provision may be waived in writing by a majority of the holders of the then outstanding Series C Preferred Stock.

5. Redemption. The Series C Preferred Stock is not redeemable except as set forth in Section 6(c) hereof.

6. Conversion. The holders of the Series C Preferred Stock shall be convertible into Common Stock as follows:

(a) Voluntary Conversion. Subject to the provisions of Section 6(c) below, each share of Series C Preferred Stock shall be convertible, at the option of the holder thereof, at any time after issuance at the office of the Company or any transfer agent for such stock, or if there is none, then at the office of the transfer agent for the Common Stock, or if there is no such transfer agent, at the principal executive office of the Company, into that number of fully paid and non-assessable shares of Common Stock

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of the Company equal to the Original Purchase Price divided by the conversion price in effect at the time of conversion (the 'Conversion Price'), determined as hereinafter provided. The Conversion Price shall initially he $0.50, but shall be subject to adjustment as set forth in Section 6(e). The number of shares of Common Stock into which each share of Preferred Stock is convertible is hereinafter collectively referred to as the 'Conversion Rate.' The shares of Common Stock to be issued upon such conversion are herein referred to as the 'Conversion Shares' For purposes of this Section 6(a), such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series C Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date.

(b) Automatic Conversion.

(i) Automatic Conversion Upon Qualified Public Offering. In the event the Company completes a public offering of its Common Stock or securities convertible into its Common Stock resulting in gross proceeds of not less than $25,000,000 at a per share price or having a conversion price per share in excess of 400% of the then Conversion Price, each share of Series C Preferred Stock then outstanding shall, by virtue of such conditions and without any action on the part of the holder thereof, be deemed automatically converted into that number of shares of Common Stock into which the Series C Preferred Stock would then be converted at the then elective Conversion Rate; provided that (A) the Common Stock is then trading on the Nasdaq SmallCap, Nasdaq National Market or a national securities exchange, (B) either (x) a registration statement covering the Conversion Shares has been declared effective by the Securities and Exchange Commission (the 'SEC') and remains effective or (y) Rule 144(k) is available for resale of the Conversion Shares; and (C) the Conversion Shares arc not subject to more than a six-month lock-up agreement by the Company or its underwriter.

(ii) Automatic Conversion by the Company. The Company shall have the right, at its sole discretion, to convert the outstanding shares of Series C Preferred Stock, together with accrued but unpaid dividends, into Common Stock at the Conversion Price if (i) the closing bid price per share of the Company's Common Stock equals or exceeds 200% of the then Conversion Price for twenty (20) consecutive trading days ending within five days of each notice to the holders of conversion pursuant to this Section 6 (the '20-day trailing period'); (ii) the Common Stock is then trading on the Nasdaq SmallCap, the Nasdaq National Market or a national securities exchange; and (iii) either a registration statement covering the resale of the Conversion Shares has been declared effective by the SEC and remains effective or at least two years has elapsed since issuance date of the Series C Preferred Stock and the Conversion Shares are not subject to any contractual restrictions on transferability required by the Company or its underwriter or agent; provided, however, that the aggregate number of shares that may be converted by the Company during any thirty (30) day period shall not exceed the amount that would convert into the number of Conversion Shares equal to ten (10) times the average trading volume of the Common Stock during the 20-day trailing period.

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(c) Conversion Limitation.

(i) In order to comply with rules of the Nasdaq Stock Market relating to shareholder approval of a transaction by an issuer other than in a public offering, the Series C Preferred Stock is not convertible into the number of shares of Common Stock that, in the aggregate, would result in the issuance of more than 19.9% of the shares of Common Stock outstanding immediately prior to the Bridge Financing (as defined herein) (the 'Conversion Limitation') until such time as the Company receives shareholder approval of the transaction (the 'Approval'). The Company agrees to seek the Approval at its next special or annual meeting of shareholders, which meeting shall occur no later than October 31, 2001. In the case of any conversion into a number of shares equal to or less than the Conversion Limitation, the conversion shall be applied on a pro rata basis among the registered holders of the Series C Preferred Stock.

(ii) If the Company shall fail to hold an annual or special meeting of shareholders on or before October 31, 2001 or to obtain at such meeting the Approval contemplated in Section 6(c)(i), then Commonwealth Associates, L. P. ('Commonwealth') and a committee to be designated by Commonwealth whose members hold in the aggregate not less than 50% of the shares of Series C Preferred Stack, may, by delivery of written notice to the Company, elect to cause the Company to redeem all of the Series C Preferred Stock at a price per share equal to 115% of the Original Purchase Price plus accrued interest, if any. Such amount shall be payable, at the option of the Company, in cash or in shares of Common Stock at the then current market price; provided, that (i) a registration statement covering the Conversion Shares filed under the Securities Act has been declared effective and remains effective or at least two years elapsed since the issuance of the Series C Preferred Stock and (ii) no lock-up agreement with the Company or its underwriter or agent would prohibit the sale or transfer of the Conversion Shares.

(d) Mechanics of Conversion.

(i) Voluntary Conversion. Before any holder of Series C Preferred Stock shall be entitled to convert the same into shares of Common Stock pursuant to the provisions of Section 6(a) hereof, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Company or of any transfer agent for the Series C Preferred Stock, and shall give written notice to the Company at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. The Company shall, as soon as practicable thereafter, issue and deliver to such holder of Series C Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business an the date of such surrender of the shares of Series C Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date.

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(ii) Automatic Conversion. In the event of a conversion pursuant to the provisions of Section 6(b)(i) hereof, or if the Company determines to force conversion of the shares pursuant to the provisions of Section 6(b)(ii) hereof, the Company shall deliver to each such holder at its address appearing on the records of the Company a written notice of the imminent conversion of the shares (the 'Conversion Notice'), requesting surrender of the holder's certificate or certificates therefor for cancellation and written instructions regarding the registration and delivery of a certificate for the Conversion Shares. In the event the holder receives a Conversion Notice, the holder shall be required to surrender such certificate or certificates for the shares for cancellation within five business days of the Conversion Notice (the 'Conversion Date'), but the failure of the holder so to surrender the certificates shall not affect the conversion of the shares into Conversion Shares, provided that if the certificate or certificates are not surrendered, an affidavit of lost certificate(s) shall be provided. No holder of the shares shall be entitled upon conversion of such shares to have the Conversion Shares registered in the name of another person or entity without first complying with all applicable

restrictions on the transfer of the shares. In the event the holder does not provide the Company with written instructions regarding the registration and delivery of certificates for the Conversion Shares, the Company shall issue such shares in the name of the holder and shall forward such certificates to the holder at its address appearing on the records of the Company. The person entitled to receive the Conversion Shares shall be deemed to have become the holder of record of such Shares at the close of business on the Conversion Date and the person entitled to receive a share certificate for the Conversion Shares shall be regarded for all corporate purposes after the Conversion Date as the record holder of the number of Conversion Shares to which it is entitled upon the conversion. The Company may rely on record ownership of the shares for all corporate purposes, notwithstanding any contrary notice. After the Conversion Date, the certificates shall, until surrendered to the Company, represent the right to receive the Conversion Shares through, but excluding the Conversion Date.

(e) Conversion Price Adjustments. The Conversion Price of the Series C Preferred Stock shall be subject to adjustment from time to time as set forth below.

(i) In case the Company shall hereafter (a) declare a dividend or make a distribution on its outstanding shares of Common Stock in shares of Common Stock, (b) subdivide or reclassify its outstanding shares of Common Stock into a greater number of shares, or (c) combine or reclassify its outstanding shares of Common Stock into a smaller number of shares, the Conversion Price in effect at the time of such dividend or distribution or of the effective date of such subdivision, combination or reclassification shall be adjusted so that it shall equal the price determined by multiplying the Conversion Price by a fraction, the denominator of which shall be the number of shares of Common Stock outstanding after giving effect to such action, and the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such action. Such adjustment shall be made successively whenever any event listed above shall occur;

(ii) Subject to the provisions of Subsection (x) below, in case the Company shall fix a record date for the issuance of rights or warrants to all holders of



its Common Stock entitling them to subscribe for or purchase shares of Common Stock (or securities convertible into Common Stock) at a price (the 'Subscription Price') (or having a conversion price per share) less than the current market price on such record date or less than the Conversion Price on such record date, the Conversion Price shall be adjusted so that the same shall equal the lower of (i) the price determined by multiplying the Conversion Price in effect immediately prior to the date of such issuance by a fraction, the numerator of which shall be the sum of (x) the number of shares of Common Stock outstanding on the record date mentioned below and (y) the number of additional shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered (or the aggregate conversion price of the convertible securities so offered) would purchase at such current market price per share of the Common Stock, and the denominator of which shall be the sum of (x) the number of shares of Common Stock outstanding on such record date and (y) the number of additional shares of Common Stock offered for subscription or purchase (or into which the convertible securities so offered are convertible) and (ii) in the event the Subscription Price is equal to or higher than the current market price but is less than the Conversion Price, the price determined by multiplying the Conversion Price in effect immediately prior to the date of issuance by a fraction, the numerator of which shall be the sum of the (x) number of shares outstanding on the record date mentioned below and (y) the number of additional shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered (or the aggregate conversion price of the convertible securities so offered) would purchase at the Conversion Price in effect immediately prior to the date of such issuance, and the denominator of which shall be the sum of (x) the number of shares of Common Stock outstanding on the record date mentioned below and (y) the number of additional shares of Common Stock offered for subscription or purchase (or into which the convertible securities so offered are convertible). Such adjustment shall be made successively whenever such rights or warrants are issued and shall

become effective immediately after the record date for the determination of shareholders entitled to receive such rights or warrants; and to the extent that shares of Common Stock are not delivered (or securities convertible into Common Stock are not delivered) after the expiration of such rights or warrants the Conversion Price shall be readjusted to the Conversion Price which would then he in effect had the adjustments made upon the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of Common Stock (or securities convertible into Common Stock) actually delivered;

(iii) In case the Company shall hereafter distribute to the holders of its Common Stock evidences of its indebtedness or assets (excluding cash dividends or distributions and dividends or distributions referred to in Subsection (i) above) or subscription rights or warrants (excluding those referred to in Subsection (ii) above), then in each such case the Conversion Price in effect thereafter shall be determined by multiplying the Conversion Price in effect immediately prior thereto by a fraction, the numerator of which shall be (x) the total number of shares of Common Stock outstanding multiplied by the current market price per share of Common Stock, less (y) the fair market value (as determined by the Company's Board of Directors) of said assets or evidences of indebtedness so distributed or of such rights or warrants, and the denominator of which shall be the total number of shares of Common Stock outstanding

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multiplied by such current market price per share of Common Stock. Such adjustment shall be effective at the time any such distribution is made;

(iv) Subject to the provisions of Subsection (x) below, in case the Company shall hereafter issue shares of its Common Stock (excluding shares issued (a) in any of the transactions described in Subsection (i) above, (b) upon exercise of options granted to the Company's officers, directors, employees and consultants under a plan or plans adopted by the Company's Board of Directors and approved by its shareholders, if such shares would otherwise be included in this Subsection (iv) (but only to the extent that the aggregate number of shares excluded hereby and issued after the date hereof shall not exceed 5% of the Company's Common Stock outstanding, on a fully diluted basis, at the time of any issuance unless such excess issuances are approved by the independent (i.e., non-employee) members of the Company's Board of Directors), (c) upon exercise of options, rights, warrants, convertible securities and convertible debentures outstanding as of the date of the filing of this Designation by the New Jersey Secretary of State, issued in transactions described in Subsection (ii) above or upon issuance of, subsequent exercise or conversion of, or payment of in-kind interest or dividends on, any securities issued to investors or placement agents (the 'Agents') and/or their designees in connection with the bridge financing (the 'Bridge Financing') in. connection with which the Designation was filed or upon conversion or exercise of such securities, (d) to shareholders of any corporation which merges into the Company in proportion to their stock holdings of such corporation immediately prior to such merger, upon such merger, (e) issued in a private placement where the Offering Price (as defined below) is at least 85% of the current market price, (f) issued in a bona fide public offering pursuant to a firm commitment underwriting, or (g) issued in connection with an acquisition of a business or technology which has been approved by the Company's Board of Directors but only if no adjustment is required pursuant to any other specific subsection of this Section 6 with respect to the transaction giving rise to such rights) for a consideration per share (the 'Offering Price') less than the current market price or less than the Conversion Price, the Conversion Price shall be adjusted immediately thereafter so that it shall equal the lower of (i) the price determined by multiplying the Conversion Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum of (x) the number of shares of Common Stock outstanding immediately prior to the issuance of such additional shares and (y) the number of shares of Common Stock which the aggregate consideration received for the issuance of such additional shares would purchase at such current market price per share of Common Stock, and the denominator of which shall be the number of shares of Common Stock outstanding immediately after the issuance of such additional shares or (ii) in the event the Offering Price is equal to or higher than the current market price per share but less than the Conversion Price, the price determined by multiplying the Conversion Price in effect immediately prior to the date of issuance by a fraction, the numerator of which shall be (x) the number of shares of Common

Stock outstanding immediately prior to the issuance of such additional shares and (y) the number of shares of Common Stock which the aggregate consideration received (determined as provided in Subsection (h) below) for the issuance of such additional shares would purchase at the Conversion Price in effect immediately prior to the date of such issuance, and the denominator of which shall be the number of shares of Common Stock outstanding immediately after the issuance of such

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additional shares. Such adjustment shall be made successively whenever such an issuance is made;

(v) Subject to the provisions of Subsection (x) below, in case the Company shall hereafter issue any securities convertible into or exercisable or exchangeable for its Common Stock (excluding securities issued in transactions described in Subsections (ii), (iii) and (iv)(a) through (g) above) for a consideration per share of Common Stock (the 'Exchange Price') initially deliverable upon conversion, exercise or exchange of such securities (determined as provided in Subsection (vii) below) less than the current market price or less than the Conversion Price, the Conversion Price shall be adjusted immediately thereafter so that it shall equal the lower of (i) the price determined by multiplying the Exercise Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum of (x) the number of shares of Common Stock outstanding immediately prior to the issuance of such securities and (y) the number of shares of Common Stock which the aggregate consideration paid for such securities (or the aggregate exercise price if such convertible securities are options or warrants) would purchase at such current market price per share of Common Stock, and the denominator of which shall be the sum of (x) the number of shares of Common Stock outstanding immediately prior to such issuance and (y) the maximum number of shares of Common Stock of the Company deliverable upon conversion, exercise or exchange of such securities at the initial Exchange Price or (ii) in the event the Exchange Price is equal to or higher than the current market price per share but less than the Conversion Price, the price determined by multiplying the Conversion Price in effect immediately prior to the date of issuance by a fraction, the numerator of which shall be the sum of (x) the number of shares outstanding immediately prior to the issuance of such securities and (y) the number of shares of Stock which the aggregate consideration received (determined as provided in Subsection (h) below) for such securities would purchase at the Conversion Price in effect immediately prior to the date of such issuance, and the denominator of which shall be the sum of (x) the number of shares of Common Stock outstanding immediately prior to the issuance of such securities and (y) the maximum number of shares of Common Stock of the Company deliverable upon conversion of or in exchange for such securities at the initial conversion or exchange price or rate. Such adjustment shall be made successively whenever such an issuance is made;

(vi) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least five cents ($0.05) in such price; provided, however, that any adjustments which by reason of this Section 6 are not required to be made shall be carried forward and taken into account in any subsequent adjustment required to be made hereunder;

(vii) For purposes of any computation respecting consideration received pursuant to Subsections (iv) and (v) above, the following shall apply:

(1) in the case of the issuance of shares of Common Stock for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions, discounts or other expenses

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incurred by the Company for any underwriting of the issue or otherwise in connection therewith;

(2) in the case of the issuance of shares of Common Stock for a consideration in whole or in part other than cash, the consideration other than

cash shall be deemed to be the fair market value thereof as determined in good faith by the Board of Directors of the Company (irrespective of the accounting treatment thereof), whose determination shall be conclusive; and

(3) in the case of the issuance of securities convertible into or exchangeable for shares of Common Stock, the aggregate consideration received therefor shall be deemed to be the consideration received by the Company for the issuance of such securities plus the additional minimum consideration, if any, to be received by the Company upon the conversion or exchange thereof (the consideration in each case to be determined in the same manner as provided in clauses (1) and (2) of this Subsection (vii)).

(viii) For the purpose of any computation under Subsections (ii), (iii), (iv) and (v) above or Section 6(c), the current market price per share of Common Stock at any date shall be deemed to be the higher of (x) the average of the prices for 30 consecutive business days before such date or (y) the average of the prices for the five business days immediately preceding such date determined as follows:

(1) If the Common Stock is listed on a national securities exchange or admitted to unlisted trading privileges on such exchange or listed for trading on the Nasdaq National Market, the current market value shall be the last reported sale price of the Common Stock on such exchange or market on such business day or if no such sale is made on such day, the average closing bid and asked prices for such day on such exchange or market;

(2) If the Common Stock is not so listed or admitted to unlisted trading privileges, but is traded on the Nasdaq SmallCap Market, the current market value shall be the closing price for such day on such market and if the Common Stock is not so traded, the current market value shall be the mean of the last reported bid and asked prices reported by the National Quotation Bureau, Inc. for such business day; or

(3) If the Common Stock is not so listed or admitted to unlisted trading privileges and bid and asked prices are not so reported, the current market value shall be an amount, not less than book value thereof as at the end of the most recent fiscal year of the Company ending prior to such business day, determined in such reasonable manner as may be prescribed by the Board of Directors of the Company.

(ix) All calculations under this Section 6 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be. Anything in this Section 6 to the contrary notwithstanding, the Company shall be entitled, but shall not be required, to make such changes in the Conversion Price, in addition to those



required by this Section 6, as it shall determine, in its sole discretion, to be advisable in order that any dividend or distribution in shares of Common Stock, or any subdivision, reclassification or combination of Common Stock, hereafter made by the Company shall not result in any Federal Income tax liability to the holders of Common Stock or securities convertible into Common Stock (including the Notes and the Warrants);

(x) Notwithstanding the provisions of this Section 6, in the event that the Company shall at any time prior to the first anniversary of the initial closing of the Bridge Financing issue securities under Subsections (ii), (iv) or (v) (but subject to the exemptions specified therein and subject to a de minimus exception of an aggregate of 50,000 shares of Common Stock issued or underlying the securities) having an Offering Price, Subscription Price or conversion price less than the Conversion Price (whether initially or due to provisions in such securities requiring price reductions as a result of anti-dilution adjustments, the passage of time, 'discount to market' or similar provisions), then the Conversion Price shall be immediately reset to equal such lower Offering Price, Subscription Price or conversion price;

(xi) No adjustment under Subsections (ii), (iii), (iv) and (v) shall be required for issuances below the current market price if (a) the current market price is at least 200% of the Conversion Price then in effect and (b) either a registration statement covering the shares of Common Stock issuable

upon such conversion is in effect and remains in effect for the 90 days after such issuance, or Rule 144(k) under the Securities Act of 1933, as amended (the 'Act') is available for resale of all of such conversion shares;

(xii) In the event that at any time, as a result of an adjustment made pursuant to Subsection (i) above, the holder thereafter shall become entitled to receive any shares of the Company, other than Common Stock, thereafter the number of such other shares so receivable upon conversion of this Note shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in Subsections (i) to (xi), inclusive above; or

(xiii) In case of any reclassification or capital reorganization, the Company shall, as a condition precedent to such transaction, cause effective provisions to be made so that the holders of the Series C Preferred Stock shall have the right thereafter upon conversion of the Series C Preferred Stock in accordance with the provisions of this Section 6, to purchase the kind and amount of shares of stock and other securities and property receivable upon such reclassification or capital reorganization by a holder of the number of shares of Common Stock which might have been received upon conversion of the Series C Preferred Stock immediately prior to such reclassification. Any such provision shall include provision for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for herein. The above provisions of this Section shall similarly apply to successive reorganizations and reclassifications.

(f) Reservation of Shares. The Company shall at all times reserve and keep available, out of its authorized but unissued shares of Common Stock or out of

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shares of Common Stock held in its treasury, solely for the purpose of effecting the conversion of the shares of the Series C Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all shares of the Series C Preferred Stock from time to time outstanding.

(g) Fractional Shares.

(i) No fractional shares or scrip representing fractional shares of Common Stock shall be issued upon the conversion of the Series C Preferred Stock. In lieu of any fractional shares to which a holder would otherwise be entitled, the Company shall pay cash, equal to such fraction multiplied by the closing price (determined as provided in Subsection (ii) of this Section 6(f) of the Common Stock on the day of conversion.

(ii) For the purposes of any computation under Subsection 6(g)(i), the current market price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for the 30 consecutive business days prior to the day in question. The closing price for each day shall be the last sales price regular way or in case no sale takes place on such day, the average of the closing high bid and low asked prices regular way, in either case (a) as officially quoted by the Nasdaq SmallCap Market or the Nasdaq National Market or such other market on which the Common Stock is then listed for trading, or (b) if, in the reasonable judgment of the Board of Directors of the Company, the Nasdaq SmallCap Market or the Nasdaq National Market is no longer the principal United States market for the Common Stock, then as quoted on the principal United Stales market for the Common Stock, as determined by the Board of Directors of the Company, or (c) if, in the reasonable judgment of the Board of Directors of the Company, there exists no principal United States market for the Common Stock, then as reasonably determined by the Board of Directors of the Company.

(h) Taxes, Etc. The Company will pay any taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of shares of the Series C Preferred Stock, However, the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock upon conversion in a name other than that in which the shares of the Series C Preferred Stock so converted were registered, and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to the Company the amount of any such tax, or has established, to the satisfaction of the Company, that

such tax has been paid.

(i) Assurances. The Company will not, by amendment of its Articles of Incorporation, as amended, or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 6 and in the

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taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the holders of the Series C Preferred Stock against impairment.

(j) Reissuance. No shares of Series C Preferred Stock which have been converted to Common Stock shall be reissued by the Company, provided, however, that any such share, upon being converted and canceled, shall be restored to the status of an authorized but unissued share of preferred stock without designation as to series, rights or preferences and may thereafter be issued as a share of preferred stock not designated as Series C Preferred Stock.

7. Voting Rights.

(a) In addition to any other rights provided for herein or by law, the holders of Series C Preferred Stock shall be entitled to vote, together with the holders of Common Stock as one class, on all matters as to which holders of Common Stock shall be entitled to vote, in the same manner and with the same effect as such Common Stock holder. In any such vote each share of Series C Preferred Stock shall entitle the holder thereof to the number of votes per share that equals the number of whole shares of Common Stock into which each such share of Series C Preferred Stock is then convertible, calculated to the nearest whole share.

(b) So long as 20% of the shares of the Series C Preferred Stock remain outstanding, the consent of the holders of not less than one-half of the then outstanding Series C Preferred Stock, voting as one class, either expressed in writing or at a meeting called for that purpose, shall be necessary to permit, effect or validate the creation and issuance of any series of preferred stock or other equity security of the Company which is senior as to liquidation and/or dividend rights to the Series C Preferred Stock.

(c) So long as 20% of the shares of the Series C Preferred Stock remain outstanding, the consent of not less than one-half of the holders of the then outstanding Series C Preferred Stock, voting as one class, either expressed in writing or at a meeting called for that purpose, shall be necessary to repeal, amend or otherwise change this Designation or the Articles of Incorporation of the Company, as amended, in a manner which would alter or change the powers, preferences, rights privileges, restrictions and conditions of the Series C Preferred Stock so as to adversely affect the Series C Preferred Stock.

(d) Each share of the Series C Preferred Stock shall entitle the holder thereof to one vote on all matters to be voted on by the holders of the Series C Preferred Stock, other than as set forth in Section 7(a).

(e) In the event that the holders of the Series C Preferred Stock are required to vote as a class on any other matter, the affirmative vote of holders of not less than fifty percent (50%) of the outstanding shares of Series C Preferred Stock shall be required to approve each such matter to be voted upon, and if any matter is approved by

<Page>

such requisite percentage of holders of Series C Preferred Stock, such matter shall bind all holders of Series C Preferred Stock.

8. Status of Converted Stock. In the event any shares of Series C Preferred Stock shall be converted pursuant to Section 6 hereof, the shares so converted

shall be cancelled and shall not be issuable by the Company. The Articles of Incorporation of the Company, as amended, may be appropriately amended from time to time to effect the corresponding reduction in the Company's authorized capital stock.

9. Negative Covenants.

(a) Transactions with Affiliates. The Company will not, without the prior consent of holders of not less than fifty percent (50%) of the outstanding shares of Series C Preferred Stock, enter into any transaction, including, without limitation, the purchase, sale, lease or exchange of property, real or personal, the purchase or sale of any security, the borrowing or lending of any money, or the rendering of any service, with any person or entity affiliated with the Company (including officers, directors and shareholders owning 3% or more of the Company's outstanding capital stock), except upon terms not less favorable than would be obtained in a comparable arms-length transaction with any other person or entity not affiliated with the Company except (a) transactions valued at less than $25,000 entered into in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms not less favorable than would be obtained in a comparable arms-length transaction with any other person or entity not affiliated with the Company, (b) transactions with the Agents or (c) transactions approved by the majority of the independent members of the Board of Directors;

(b) Incurrence of Debt. The Company will not create, incur, assume or suffer to exist, contingently or otherwise, any indebtedness for borrowed money that is senior in right of payment to the Series C Preferred Stock or if such indebtedness would render the Company unable to pay its debts as they become due; provided, however, that the Company may incur senior debt in an amount not to exceed two times the preceding 12 months' EBITDA.

10. Put Option.

(a) At any time after April 16, 2004, each holder of the Series C Preferred Stock may, at any time or from time to time, cause the Company to repurchase any or all of its shares of Series C Preferred stock outstanding (each date being set for repurchase being referred to herein as a 'Put Date') at a price equal to the Liquidation Preference Amount payable, at the option of the Company, in cash or in shares of Common Stock (so long as the Company has a sufficient number of authorized shares of Common Stock) (the 'Put Price'). For purposes of this Section 10, the shares of Common Stock to be delivered in payment of the Put Price (the 'Put Shares') shall be deemed to have a value equal to the average of the closing bid or sales prices, as applicable, for the ten consecutive trading days preceding the Put Date.

<Page>

(b) Notice and Repurchase. Each holder seeking to cause the Company to repurchase shares of Series C Preferred Stock (a 'Requesting Holder') shall deliver to the Company a written notice (a 'Put Notice') setting forth the number of shares of Series C Preferred Stock to be repurchased from such Requesting Holder. The Company shall deliver to the Requesting Holder the Put Price within thirty (30) days after receipt of the Put Notice. The date the Put Price is received by the Requesting Holder is referred to herein as the 'Payment Date'.

(e) Deliveries of Certificates for Cancellation. Prior to the Payment Date, the Requesting Holder shall surrender to the Company the certificate or certificates representing such shares of Series C Preferred Stock to be repurchased, duly endorsed, to the principal executive office of the Company or any transfer agent for the Series C Preferred Stock, and each surrendered certificate shall be canceled and retired. In the event that less than all of the shares represented by any such certificate are repurchased, a new certificate shall be issued representing the balance of the shares.

(d) Cessation of Dividend Accrual. After the Payment Date, notwithstanding that certificates evidencing any of the shares of Series C Preferred Stock so elected to be repurchased shall not have been surrendered, all rights with respect to the repurchased shares of Series C Preferred Stock shall forthwith after the Payment Date terminate. If the Company shall default in the payment of the Put Price, then, with respect to all shares of Series C

Preferred Stock for which the Put Price shall not have been paid, all rights shall remain in effect with respect to such shares until the Company shall pay the Put Price on all such shares.

(e) Compliance. The Company shall comply with all securities laws and regulations, to the extent such laws and relations are applicable, in connection with any repurchase pursuant to this Section 10.

(f) Registration of Put Shares. The Company agrees to promptly register for resale under the Securities Act any Put Shares which are not eligible for immediate resale pursuant to Rule 144(k).

11. Miscellaneous.

(a) There is no sinking fund with respect to the Series C Preferred Stock.

(b) The shares of the Series C Preferred Stock shall not have any preferences, voting powers or relative, participating, optional, preemptive or other special rights except as set forth above in this Designation and in the Articles of Incorporation of the Company, as amended.

(c) The holders of the Series C Preferred Stock shall be entitled to receive all communications sent by the Company to the holders of the Common Stock.

IN WITNESS WHEREOF, eB2B Commerce, Inc. has caused this Certificate of Amendment to be executed this 28th day of September, 2001.

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eB2B COMMERCE, INC.

By: Richard S. Cohan
.....
Name:
Title:

Attest:

By: illegible
.....
Name:
Title:

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CERTIFICATE OF
AMENDMENT TO THE
CERTIFICATE OF INCORPORATION
OF
EB2B COMMERCE, INC.

To: The Department of the Treasury
State of New Jersey

Pursuant to the provisions of Section 14A: 7-2(2) of the New Jersey Business Corporation Act, the undersigned corporation, for the purpose of amending its Certificate of Incorporation, hereby certifies as follows:

(a) The name of the 'Corporation' is eB2B Commerce, Inc.

(b) Article Sixth of the Corporation's Certificate of Incorporation is hereby amended by adding, as Exhibit D to such Article Sixth, the terms of Series D Convertible Preferred Stock set forth in the resolution duly adopted by the Corporation's Board of Directors which is attached hereto as Exhibit A and made part hereof.

(c) The resolution was adopted by the Board of Directors at a special

meeting of the Board of Directors on December 19, 2001.

(d) The Certificate of Incorporation is amended so that the designation and number of shares of each class and series acted upon in the resolution, and the relative rights, preferences and limitations of each such class and series, are stated in the resolution.

IN TESTIMONY WHEREOF, the Corporation has caused this Certificate of Amendment to the Certificate of Incorporation to be executed by a duly authorized officer as of the 2nd day of January 2002.

EB2B COMMERCE, INC.

By: Richard S. Cohan
.....
Richard S. Cohan
Chief Executive Officer and President



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EXHIBIT A

TERMS OF
SERIES D CONVERTIBLE PREFERRED STOCK
OF
EB2B COMMERCE, INC.

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of this Corporation (the 'Board of Directors' or the 'Board') in accordance with the provisions of its Certificate of Incorporation, as amended (the 'Certificate of Incorporation'), the Board of Directors hereby authorizes a series of the Corporation's previously authorized preferred stock, par value $.0001 per share (the 'Preferred Stock', and hereby states the designation and number of shares, and fixes the relative rights, preferences, privileges, powers and restrictions thereof as follows:

EXHIBIT D

Series D Convertible Preferred Stock:

1. Number of Shares and Designations. Ninety-Five Thousand (95,000) shares of the Preferred Stock at an issuance price of $10.00 per share (the 'Original Purchase Price') of the Company are hereby constituted as a series of Preferred Stock of the Company designated as Series D Convertible Preferred Stock (the 'Series D Preferred Stock').

2. Dividend Provisions.

(a) Subject to the rights of any other series of Preferred Stock that may from time to time come into existence, the holders of shares of Series D Preferred Stock shall be entitled to receive dividends, out of any assets legally available therefor, ratably with any declaration or payment of any dividend with holders of the Common Stock of the Company, when, as and if declared by the Board of Directors, based on the number of shares of Common Stock into which each share of Series D Preferred Stock is then convertible.

(b) The dividend rate on the Series D Preferred Stock shall be $1.20 per share per annum. Such dividends shall be cumulative on each share of Series D Preferred Stock from the date of issuance.

3. Rank. The Series D Preferred Stock shall rank: (i) junior to each of the Company's Series B Convertible Preferred Stock, par value $.0001 per share (the 'Series B Preferred Stock'), and Series C Convertible Preferred Stock, par value $.0001 per share (the 'Series C Preferred Stock'), and any other class or series of capital stock of the

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Company hereafter created specifically ranking by its terms senior to the Series D Preferred Stock (collectively, with the Series B Preferred Stock and Series C Preferred Stock, the 'Senior Securities'); (ii) prior to all of the Company's Common Stock, par value $,0001 per share (the 'Common Stock'), and any class or series of capital stock of the Company hereafter created not specifically ranking by its terms senior to or on parity with the Series D Preferred Stock (collectively, with the Common Stock, the 'Junior Securities'); and (iii) on parity with any class or series of capital stock of the Company hereafter created specifically ranking by its terms on parity with the Series D Preferred Stock (the 'Parity Securities'), in each case as to the distribution of assets upon liquidation, dissolution or winding up of the Company.

4. Liquidation Preference; Sale of Company

(a) Upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary ('Liquidation'), the holders of record of the shares of the Series D Preferred Stock shall be entitled to receive, immediately after any distributions to Senior Securities required by the Company's Certificate of Incorporation and any certificate(s) of designation, powers, preferences and rights, and before and in preference to any distribution or payment of assets of the Company or the proceeds thereof may be made or set apart for the holders of Junior Securities, an amount in cash equal to (i) $10.00 per share, representing the Original Purchase Price (the 'Liquidation Preference Amount'), (ii) the dividend described in Section 2(a) whether declared or not and (iii) any other declared but unpaid dividends. If, upon such Liquidation, the assets of the Company available for distribution to the holders of Series D Preferred Stock and any Parity Securities shall be insufficient to permit payment in full to the holders of the Series D Preferred Stock and Parity Securities, then the entire assets and funds of the Company legally available for distribution to such holders and the holders of the Parity Securities then outstanding shall be distributed ratably among the holders of the Series D Preferred Stock and Parity Securities based upon the proportion the total amount distributable on each share upon Liquidation bears to the aggregate amount available for distribution on all shares of the Series D Preferred Stock and of such Parity Securities, if any.

(b) Upon the occurrence of a merger or consolidation of the Company where the stockholders of the Company own, on a fully diluted basis, less than a majority of the equity securities of the merged or combined entity, a sale of all or substantially all of the assets of the Company, or an acquisition of 50% or more of the Company's voting capital stock, the holders of the Series D Preferred Stock shall share in the proceeds of any such transaction, pro rata, with all holders of the Company's Common Stock, calculated on 'as converted' basis.

5. Redemption. If by November 30, 2002 (the 'Redemption Date'), the Company does not obtain the Approval (as hereinafter defined in Section 6(a) below), each share of Series D Preferred Stock shall be redeemable, at the option of the holder thereof, for $10.00 per share in cash, plus all accrued and unpaid dividends from the date of issuance through the Redemption Date (the 'Redemption Amount'). In the event of such a redemption, the holders shall be required to surrender such certificate or certificates for the shares for cancellation within 30 days of the Redemption Date in order



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to receive the Redemption Amount; however, failure of the holder to so surrender the certificate(s) shall not affect the redemption of the shares, provided an affidavit of lost certificate(s) shall be presented to the Company.

6. Conversion. The Series D Preferred Stock shall be convertible into Common Stock only as follows.

(a) Automatic Conversion. Upon stockholder approval of the acquisition of

Bac-Tech Systems, Inc. and/or the issuance of shares of Series D Preferred Stock in connection therewith (the 'Approval'), each share of Series D Preferred Stock outstanding shall, inclusive of any dividend accrued on such share, without any action on the part of the holder thereof, be deemed automatically converted into 52.631578 shares of fully paid and non-assessable shares of Common Stock of the Company, subject to adjustment as provided below. The Company agrees to seek such Approval at its next annual or special meeting of stockholder. The number of shares of Common stock into which each share of Series D Preferred Stock is convertible is hereinafter referred to as the 'Conversion Rate.' The shares of Common Stock to be issued upon such conversion are hereinafter referred to as the 'Conversion Shares.'

(b) Mechanics of Conversion. Upon receiving Approval pursuant to the provisions of Section 6(a), the Company shall deliver to each such holder at its address appearing on the records of the Company a written notice of the conversion of the shares (the 'Conversion Notice') requesting surrender of the holder's certificate or certificates therefor for cancellation and written instructions regarding the registration and delivery of a certificate for the Conversion Shares. In the event the holder receives a Conversion Notice, the holder shall be required to surrender such certificate or certificates for the shares for cancellation within five business days of the Conversion Notice (the 'Conversion Date') but the failure of the holder to so surrender the certificates shall not affect the conversion of the shares into Conversion Shares, provided that if the certificate or certificates are not surrendered, an affidavit of lost certificate(s) shall be provided. No holder of the shares shall be entitled upon conversion of such shares to have the Conversion Shares registered in the name of another person or entity without first complying with all applicable restrictions on the transfer of the shares. In the event the holder does not provide the Company with written instructions regarding the registration and delivery of certificates for the Conversion Shares, the Company shall issue such shares in the name of the holder and shall forward such certificates to the holder at its address appearing on the records of the Company. The person entitled to receive the Conversion Shares shall be deemed to have become the holder of record of such shares at the close of business on the Conversion Date and the person entitled to receive a share certificate for the Conversion Shares shall be regarded for all corporate purposes after the Conversion Date as the record holder of the number of Conversion Shares to which it is entitled upon the conversion. The Company may rely on record ownership of the shares for all corporate purposes, notwithstanding any contrary notice. After the Conversion Date, the certificates shall, until surrendered to the Company, represent the right to receive the Conversion Shares through, but excluding, the Conversion Date.





(c) Conversion Rate Adjustments. The Conversion Rate of the Series D Preferred Stock shall be subject to adjustment from time to time, In case the Company, shall hereafter (a) declare a dividend or make a distribution on its outstanding shares of Common Stock in shares of Common Stock, (b) subdivide or reclassify its outstanding shares of Common Stock into a greater number of shares, or (c) combine or reclassify its outstanding shares of Common Stock into a smaller number of shares, the Conversion Rate shall be adjusted so that it shall equal the rate determined by multiplying the Conversion Rate by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding after giving effect to such action, and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such action. Such adjustment shall be made successively whenever any event listed above shall occur.

(d) Reservation of Shares. The Company shall at all times reserve and keep available, out of its authorized but unissued shares of Common Stock or out of shares of Common Stock held in its treasury, solely for the purpose of effecting the conversion of the shares of the Series D Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all shares of the Series D Preferred Stock from time to time outstanding.

(e) Fractional Shares.

(i) No fractional shares or scrip representing fractional shares of

Common Stock shall be issued upon the conversion of the Series D Preferred Stock. In lieu of any fractional shares to which a holder would otherwise be entitled, the Company shall pay cash, equal to such fraction multiplied by the closing price (determined as provided in Subsection (ii) of this Section 6(e)) of the Common Stock on the day of conversion.

(ii) For the purposes of any computation under Subsection 6(e)(i), the current market price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for the 30 consecutive business days prior to the day in question. The closing price for each day shall be the last sales price regular way or in case no sale takes place on such day, the average of the closing high bid and low asked prices regular way, in either case (a) as officially quoted by the Nasdaq SmallCap Market or the Nasdaq National Market or such other market on which the Common Stock is then listed for trading, or (b) if, in the reasonable judgment of the Board of Directors of the Company, the Nasdaq SmallCap Market or the Nasdaq National Market is no longer the principal United States market for the Common Stock, then as quoted on the principal United States market for the Common Stock, as determined by the Board of Directors of the Company, or (c) if, in the reasonable judgment of the Board of Directors of the Company, there exists no principal United States market for the Common Stock, then as reasonably determined by the Board of Directors of the Company.

(f) Taxes, Etc. The Company will pay any taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of shares of the Series D Preferred Stock. However, the Company shall not be required to pay any tax





which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock upon conversion in a name other than that in which the shares of the Series D Preferred Stock so converted were registered, and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to the Company the amount of any such tax, or has established, to the satisfaction of the Company, that such tax has been paid.

(g) Assurances. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 6 and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the holders of the Series D Preferred Stock against impairment.

(h) Reissuance. No shares of Series D Preferred Stock which have been converted to Common Stock shall be reissued by the Company, provided, however, that any such share, upon being converted and canceled, shah be restored to the status of an authorized but unissued share of Preferred Stock without designation as to series, rights or preferences and may thereafter be issued as a share of Preferred Stock not designated as Series D Preferred Stock.

7. Status of Converted Stock. In the event any shares of Series D Preferred Stock shall be converted pursuant to Section 6 hereof the shares so converted shall be cancelled and shall not be issuable by the Company. The Certificate of Incorporation may be appropriately amended from time to time to effect the corresponding reduction in the Company's authorized capital stock.

8. Miscellaneous.

(a) There is no sinking fund with respect to the Series D Preferred Stock.

(b) The shares of the Series D Preferred Stock shall not have any preferences, voting powers or relative, participating, optional, preemptive or other special rights except as set forth above in this Certificate of Amendment to the Certificate of Incorporation.

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IN WITNESS WHEREOF, eB2B Commerce, Inc. has caused this Certificate of Amendment to be executed this 2nd day of January, 2002.

eB2B COMMERCE, INC.

By: Richard S. Cohan
.....
Name: Richard S. Cohan
Title: CEO

Attest:

By: Margery L. Flax
.....
Name: Margery L. Flax
Title: Executive Assistant



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CERTIFICATE OF AMENDMENT
to the
CERTIFICATE OF INCORPORATION
of
EB2B COMMERCE, INC.

To: The Department of the Treasury
State of New Jersey

Pursuant to the provisions of Section 14A:7-2(2) of the New Jersey Business Corporation Act, the undersigned corporation, for the purpose of amending its Certificate of Incorporation, hereby certifies as follows:

1. The name of the 'Corporation' is eB2B Commerce, Inc.

2. The following is a copy of a resolution duly adopted by the Board of Directors of the Corporation on January 3, 2002, pursuant to the authority conferred upon said Board of Directors by the Certificate of Incorporation:

RESOLVED, that the following be added to Article FIFTH of the Certificate of Incorporation, as amended, at the end thereof:

'All the shares of Common Stock, par value $.0001 per share, of the Corporation issued and outstanding as of the date of filing of this Certificate of Amendment of the Certificate of Incorporation are hereby subject to a reverse stock split, whereby every 15 shares of issued and outstanding shares of Common Stock (including the number of shares of Common Stock issuable upon exercise or conversion of all issued and outstanding Preferred Stock, options, warrants and convertible securities of every kind, including all options under the Corporation's 2000 Stock Option Plan) shall equal one share of Common Stock following the filing of this Certificate of Amendment. No script or fractional shares will be issued by reason of this amendment, but, in lieu thereof, one whole share will be issued to those shareholders who would otherwise be entitled to receive fractional shares.'

3. The Certificate of Incorporation, as amended, of the Corporation is hereby amended so that the designation and number of shares of each class and series acted upon in the aforesaid resolution, and the relative rights, preferences and limitations of each such class and series, are as stated in the resolution.

4. This Certificate of Amendment of the Certificate of Incorporation shall

become effective as of January 10, 2002.

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IN TESTIMONY WHEREOF, the Corporation has caused this Certificate of Amendment to the Certificate of Incorporation to be executed by a duly authorized officer as of the 3rd day of January 2002.

EB2B COMMERCE, INC.

By: Richard S. Cohan
.....
Richard S. Cohan
Chief Executive Officer and President

CERTIFICATE OF
AMENDMENT TO THE
CERTIFICATE OF INCORPORATION
OF
EB2B COMMERCE, INC.

TO: The Department of the Treasury
State of New Jersey

Pursuant to the provisions of Section 14: 7-2(2) of the New Jersey Business Corporation Act, the undersigned corporation, for the purpose of amending its Certificate of Incorporation, hereby certifies as follows:

1. The name of the "Corporation" is eB2B Commerce, Inc.

2. The following is a copy of a resolution duly adopted by the Board of Directors of the Corporation on February 19, 2002, pursuant to the authority conferred upon said Board of Directors by the Certificate of Incorporation:

RESOLVED, that the Certificate of Incorporation of the Corporation be amended by deleting Section 9(b) of Exhibit C (the Certificate of Designations, Powers, Preferences and Rights of the Series C Convertible Preferred Stock of the Corporation) thereof in its entirety and substituting, in lieu thereof, the following:

"(b) Incurrence of Debt. The Company will not create, incur, assume or suffer to exist, contingently or otherwise, any indebtedness for borrowed money that is senior in right of payment to the Series C Preferred Stock or if such indebtedness would render the Company unable to pay its debts as they become due; provided, however, that the Company may (i) incur senior debt in an amount not to exceed two times the preceding 12 months' EBITDA and (ii) issue, during the period from December 10, 2001 to March 31, 2002, up to $7,300,000 of principal amount of senior subordinated notes (of which no more than $5,300,000 will be outstanding at any one time), on such terms as the Company and the purchasers thereof may negotiate."

3. The amendment was adopted by the holders of shares of Series C convertible preferred stock, par value $.0001 per shares (the "Series C Preferred"), without a meeting, pursuant to the written consents of the Series C

Preferred stockholders as permitted by Section 14A:5-6(2).

4. The number of shares of Series C Preferred represented by such written consents is 5,300,000.

IN TESTIMONY WHEREOF, the Corporation has caused this Certificate of Amendment to the Certificate of Incorporation to be executed by a duly authorized officer as of the 28th day of February, 2002.

EB2B COMMERCE, INC.

By:
---
Richard S. Cohan
Chief Executive Officer and President

Exhibit 10.5

SCHEDULE TO EXHIBIT 10.5
SERIES A PREFERRED STOCK SUBSCRIPTION AGREEMENT

<TABLE>
<CAPTION>

| Name of Subscriber | Number of Shares of Series A Subscribed for |
|---|---|
| <S> | <C> |
| Goldberg, Joshua R. | 18,620 |
| Goodman, Karen | 3,990 |
| Harrison, Edward D. | 6,650 |
| Harrison, Gilbert | 22,610 |
| Kestenbaum, Richard | 18,620 |
| Kisky School | 133,000 |
| Leeds, Laurence | 99,750 |
| Lyons, Jerry | 19,950 |
| Pappel, Jeffrey | 33,250 |
| Smith, William M. | 13,300 |
| Sperduto, Vito A. | 9,310 |
| Traub, Marvin | 6,650 |
| Treuille, Antoine G. | 13,300 |
| TOTAL | 399,000 |

</TABLE>

Exhibit 10.6

SCHEDULE TO EXHIBIT 10.6
UNIT SUBSCRIPTION AGREEMENT
SERIES B PREFERRED STOCK AND WARRANTS

<TABLE>
<CAPTION>

| Name of Subscriber | Number of Series B Shares and Warrants Underlying Units Subscribed For | |
|---|---|---|
| | Series B Shares | Series B Warrants |
| <S> | <C> | <C> |
| Abatangelo, William P. & Angela K. JTROS | 2,500 | 3,022 |
| Abraham, Dean | 1,250 | 1,511 |
| Abrahamson, Melissa R. & Paul JTROS | 500 | 604 |
| Abrams, Beverly | 1,000 | 1,210 |
| Abrams, Burton R. | 1,000 | 1,210 |
| Abrams, Richard | 5,500 | 6,650 |
| Abrams, Rodney A. | 7,750 | 9,371 |
| Acks, Shannon P. | 2,500 | 3,022 |
| Adametz, James R. | 3,700 | 4,474 |
| A'Hearn, Michael F. & Maxine C. JTROS | 2,500 | 3,022 |
| Alya, Al-Bahar & Lulwa Al-Khaled, JTROS | 5,000 | 6,046 |
| Alliance Equities, Inc. | 5,000 | 6,046 |
| Alliance Equities, Inc. | 7,500 | 9,068 |
| Anders Carlgren SEP-IRA | 1,000 | 1,210 |
| Anderson, Jack L. | 2,500 | 3,022 |
| Anderson, Jr., Ferdinand F. | 2,500 | 3,022 |
| Apodaca Investment Offshore, Ltd. | 40,000 | 48,364 |
| Apodaca Investment Partners, LP | 40,000 | 48,364 |
| Appelbaum, Michael L. | 1,300 | 1,572 |
| Asciutto, Basil | 900 | 1,088 |
| Ashok, Shanthamallappa A. | 2,500 | 3,022 |
| Astor, Michael | 2,500 | 3,022 |
| Aubrey J. Ferrao TTEEAubrey J. Ferrao Living Trust U/A/D 6/26/98 | 5,000 | 6,046 |
| Auerbach, A. Phillip | 2,500 | 3,022 |
| Aukstuolis, Jim G. | 5,000 | 6,046 |
| Bachner Tally Polevoy 401K Profit Sharing Plan DTD 01/01/84 FBO Fran Stoller | 1,000 | 1,210 |
| Baily, Gary R. | 2,500 | 3,022 |
| Ballin, Scott | 2,500 | 3,022 |
| Ballyhoo Partners | 12,500 | 15,114 |
| Barnes, Jr., Charles A. | 2,500 | 3,022 |
| Barrington Capital Corp. | 2,000 | 2,418 |
| Basil J. Ascuitto IRA | 1,000 | 1,210 |
| Bauer, Thomas W. & Paula S. JTROS | 4,000 | 4,836 |
| Beattie, Edwin J. | 2,500 | 3,022 |
| Beiser, John W. & Maureen W. JTROS | 10,000 | 12,092 |
| Bentley, Hugh P. & Jean J. | 2,500 | 3,022 |
| Bentley, Italo | 5,000 | 6,046 |
| Bentley, Mark | 2,500 | 3,022 |
| Bentley, Richard | 20,000 | 24,182 |
| Berger, Toby | 1,000 | 1,210 |
| Berglund, Donald | 2,000 | 2,418 |
| Berman, Marc G. | 1,250 | 1,511 |
| Bernard Kirsner Trust | 2,500 | 3,022 |
| Berney, L. Neal | 2,500 | 3,022 |

</TABLE>

<TABLE>
<CAPTION>

| Name of Subscriber | Number of Series B Shares and Warrants Underlying Units Subscribed For | |
|---|---|---|
| | Series B Shares | Series B Warrants |
| <S> | <C> | <C> |
| Bernstein, Howard & Sandra JTROS | 2,500 | 3,022 |
| Bertoni, Christopher W. | 5,000 | 6,046 |
| Bettinger, Robert | 5,000 | 6,046 |
| Black, Lincoln Edward | 1,250 | 1,511 |
| Blank, Gerald | 1,000 | 1,210 |
| Blitz, Craig & Annette JTROS | 500 | 605 |
| Blitz, Craig & Annette JTROS | 500 | 604 |
| Blomstedt, Jeffrey & Susan LaScala JTROS | 5,000 | 6,046 |
| Bloom, Jack | 10,000 | 12,092 |
| Bloom, Jack | 5,000 | 6,046 |
| Bloom, Ron | 1,500 | 1,814 |
| Blue, Harold | 5,000 | 6,046 |
| Blue, Robert & Ruth JTROS | 2,000 | 2,418 |
| Blum, Gary | 2,500 | 3,022 |
| BNB Investment Associates L.P. | 15,000 | 18,136 |
| BNB Investment Associates L.P. | 2,500 | 3,023 |
| Bob K. Pryt -- TTEE BKP Capital Management LLC 401(k) PSP & MPP, DTD. 1/1/92 FBO Bob K. Pryt | 12,500 | 15,114 |
| Bodmer, Hans C. | 20,000 | 24,182 |
| Bolding, Jeffrey O. & Deborah R JTROS. | 2,500 | 3,022 |
| Bollag, Michael | 2,500 | 3,023 |
| Bolognue, Joseph T. | 2,500 | 3,022 |
| Boyd, John W. & Sandra L. JTROS | 2,000 | 2,418 |
| Briggs, Tom P. | 2,000 | 2,418 |
| Brigl, Thomas J. & Brenda J. JTROS | 1,000 | 1,210 |
| Brogan, Thomas R. | 1,000 | 1,210 |
| Brown, Raymond | 7,500 | 9,068 |
| Brummer, Michael & Mary Jo JTROS | 5,000 | 6,046 |
| Burgess, Paul | 2,500 | 3,022 |
| Burr Family Trust | 1,250 | 1,511 |
| Burtt R. Ehrlich, IRA | 5,000 | 6,046 |
| C.E. Unterberg Towbin Capital Partners I, L.P. | 20,000 | 24,182 |
| Callahan, Daniel J. | 5,000 | 6,046 |
| Cameron, Jeffrey S. | 2,500 | 3,022 |
| Campanella, Richard | 500 | 605 |
| Campos, Felix & Joyce JTROS | 15,000 | 18,136 |
| Cardoso, Manuel | 2,000 | 2,418 |
| Cardwell, J.A. | 5,000 | 6,046 |
| Cardwell, Jr., James A. | 2,500 | 3,022 |
| Cass, C. Wyllys & Ellen M. JTROS | 2,000 | 2,418 |
| Cavanna, Kieran | 500 | 604 |
| Chance, Albert & Doris JTROS | 2,500 | 3,022 |
| Chandra-Sekar, Balasundaram | 1,000 | 1,210 |
| Chase, Arthur M. | 2,000 | 2,418 |
| Chimbel, Marvin & Arlene JTROS | 1,000 | 1,210 |
| Circle F. Ventures, LLC | 3,750 | 4,535 |
| Clark, Martin E. & Glenda F. JTROS | 1,500 | 1,814 |
| Cohen, Jonathan R. & Shapiro, Nancy D. JTWROS | 2,500 | 3,022 |
| Cohen, Alan N. | 2,500 | 3,022 |
| Cohen, Dr. David | 7,000 | 8,464 |
| Collier,Timmy M. & Connie A. JTROS | 1,000 | 1,210 |
| Collins, James C. | 2,500 | 3,022 |
| Commonwealth Associates L.P. | 4,950 | 5,985 |
| ComVest Capital Management, LLC | 30,000 | 36,273 |
| Conzett Europa Invest Ltd. | 10,000 | 12,092 |

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| Name of Subscriber | Number of Series B Shares and Warrants Underlying Units Subscribed For | |
|---|---|---|
| | Series B Shares | Series B Warrants |
| <S> | <C> | <C> |
| Cooper, Stephen | 2,500 | 3,022 |
| Corbin, Bruce | 2,500 | 3,022 |
| Corbin, Bruce | 1,000 | 1,210 |
| Corbin, Jeff | 500 | 604 |
| Corbin, Richard | 3,500 | 4,232 |
| Coventry, Brian | 1,400 | 1,693 |
| Cramer Taos Partners | 10,000 | 12,092 |
| Cranshire Capital, L.P. | 50,000 | 60,456 |
| Crown, Robert & Barbara JTROS | 7,500 | 9,068 |
| Cunningham, Stephen & Fleming, Wendell JTROS | 2,500 | 3,022 |
| Danieli, Mark | 2,500 | 3,022 |
| Daphne Astor Grandchildren's Trust | 2,500 | 3,022 |
| d'Autremont, Hugh | 1,000 | 1,210 |
| d'Autremont, Sloan | 2,500 | 3,022 |
| Davenport, James A. & Rebecca C. JTROS | 2,000 | 2,418 |
| Davenport, James A. & Rebecca C. JTROS | 5,000 | 6,046 |
| David Thalheim c/f Lindsay Thalheim | 1,000 | 1,210 |
| David Thalheim c/f Marc Thalheim | 1,000 | 1,210 |
| David Thalheim Revocable Living Trust | 2,500 | 3,022 |
| DeAtkine, Jr., David | 5,000 | 6,046 |
| DellaValle, Anthony | 1,500 | 1,814 |
| Dercher, David J. & Su Ellen JTROS | 4,000 | 4,836 |
| Deshmukh, Sunil M. | 10,000 | 12,092 |
| DiCesare, Dominick | 2,500 | 3,022 |
| DiCesare, Louis A. | 1,100 | 1,330 |
| DiCesare, Paul | 1,100 | 1,330 |
| Dickey, David L. & Susan M. JTROS | 1,000 | 1,210 |
| DiFatta, Tony | 1,250 | 1,511 |
| DiLeonardo, Frank L. | 2,500 | 3,022 |
| Dozier, Robert and Deborah G. JTROS | 1,000 | 1,210 |
| Dozier, Robert and Deborah G. JTROS | 1,500 | 1,814 |
| Drapkin, Donald | 25,000 | 30,228 |
| Dreyfuss, Jerome | 4,000 | 4,836 |
| Duncan, John | 2,500 | 3,022 |
| DW Trustees (BVI) Ltd. Children's Fund | 2,500 | 3,022 |
| DW Trustees (BVI) Ltd. ? Main Fund | 5,000 | 6,046 |
| Echo Capital Growth Corp. | 7,500 | 9,068 |
| Edgewater Ventures LLC | 5,000 | 6,046 |
| EDJ Limited | 20,000 | 24,182 |
| EFG Reads Trustees Ltd. | 1,500 | 1,814 |
| Elder, James | 1,000 | 1,210 |
| Engfer, Jodi Abrams | 1,000 | 1,210 |
| Epstein, Frederick B. | 10,000 | 12,092 |
| Erinch R. Ozada, IRA Rollover | 7,500 | 9,068 |
| Ernest J. Genco IRA DTD 3/11/92 | 1,000 | 1,210 |
| Esformes, Joseph | 5,000 | 6,046 |
| Falk, Michael & Annie JTROS | 1,250 | 1,511 |
| Falk, Michael S. | 15,000 | 18,136 |
| Falk, Michael S. | 5,000 | 6,046 |
| Farzaneh, Hamid & Nildufar | 4,000 | 4,836 |
| Faxon, David P. Jr. | 1,250 | 1,511 |
| Finkle, S. Marcus | 5,000 | 6,046 |
| Flavin, Blake Investors, L.P. | 5,000 | 6,046 |
| Flavin, Blake Investors, L.P. | 10,000 | 12,092 |
| Flavin, John P. | 2,500 | 3,022 |

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| Name of Subscriber | Number of Series B Shares and Warrants Underlying Units Subscribed For | |
|---|---|---|
| | Series B Shares | Series B Warrants |
| <S> | <C> | <C> |
| Flom, Joseph H. | 12,500 | 15,114 |
| Flynn Corporation | 100,000 | 120,913 |
| Flynn Corporation | 3,750 | 4,534 |
| FM Grandchildren's Trust | 7,500 | 9,068 |
| FM Grandchildren's Trust | 2,500 | 3,023 |
| Fox, Karen A. | 1,500 | 1,814 |
| Frank B. Palazzolo, Jr. - Profit Sharing Plan | 1,000 | 1,210 |
| French, Robert A. | 1,500 | 1,814 |
| Friedlander, Charles L. | 2,500 | 3,022 |
| Friedman, Philip & Rose JTROS | 10,000 | 12,092 |
| Friedman, Ronald | 1,000 | 1,210 |
| Friedman, Victor | 10,000 | 12,092 |
| Funeral Financial Systems, Ltd. | 8,750 | 10,579 |
| Gaba, Ilya & Alice JTROS | 1,000 | 1,210 |
| Gaffney, Michael F. | 2,500 | 3,022 |
| Gajeski, Donald K. & Phyllis M. | 1,000 | 1,210 |
| Gallagher Investment Corporation | 100,000 | 120,913 |
| Gallagher Investment Corporation | 3,750 | 4,534 |
| Gaylord, Gregg M. | 2,500 | 3,022 |
| Geller, Marshall | 25,000 | 30,228 |
| Generation Capital Associates | 6,000 | 7,254 |
| George Fox University | 2,500 | 3,022 |
| Gerald I. Falke, IRA | 1,000 | 1,210 |
| Gerlach and Company, c/f Fleming (Jersey) Ltd. | 5,000 | 6,046 |
| Gianna Falk Trust | 1,250 | 1,511 |
| Giardina, Anthony J. | 1,000 | 1,210 |
| Giardina, Anthony J. | 500 | 605 |
| Gilfand, David S. | 1,000 | 1,210 |
| Gittis, Howard | 25,000 | 30,228 |
| Glaser, Bruce | 500 | 604 |
| Glaser, Bruce | 900 | 1,088 |
| Glashow, Jonathan | 7,500 | 9,068 |
| Glasscock, Gary M. | 2,500 | 3,022 |
| Goddu, Roger V. | 20,000 | 24,182 |
| Goebel, Gregg R. & Marilyn | 2,000 | 2,418 |
| Goldberg, Ira | 5,000 | 6,046 |
| Goldberg, Mark & Joanna JTROS | 2,500 | 3,022 |
| Goldenheim, Paul D. | 5,000 | 6,046 |
| Gonchar, Andrew | 2,500 | 3,022 |
| Gould, William S. | 3,000 | 3,628 |
| Grace, Roger | 1,200 | 1,450 |
| Graves, Richard W. & Mary J. JTROS | 1,500 | 1,814 |
| Greenspan, Burton E. | 1,250 | 1,511 |
| Greiper, Scott L. | 2,000 | 2,418 |
| Gruber & McBaine Capital Management Fiduciary Trust | 10,000 | 12,092 |
| Grunwald, J. Thomas | 5,000 | 6,046 |
| Gubitosa, Paul & Linda JTROS | 2,000 | 2,418 |
| Hammerman, Alan H. | 2,500 | 3,022 |
| Harrison, Judith P. | 5,000 | 6,046 |
| Hart, Andrew C. | 2,500 | 3,022 |
| Hart, Steven | | |
| Hartman, Roland F. | 2,500 | 3,022 |
| Hartman, Timothy | 1,500 | 1,814 |
| Hayden R. & LaDonna M. Fleming Revocable Trust | 3,750 | 4,535 |

| | | |
|---|---|---|
| Hayden, Michael D. & Velma J. TIC | 1,000 | 1,210 |

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| | Number of Series B Shares and Warrants Underlying Units Subscribed For | |
|---|---|---|
| Name of Subscriber | Series B Shares | Series B Warrants |
| - ------------------ | --------------- | ----------------- |
| <S> | <C> | <C> |
| Heine, Spencer H. & Margaret JTWROS | 10,000 | 12,092 |
| Henry, William O. E. | 5,000 | 6,046 |
| Herrmann, Frederick J. & Marilyn C. JTROS | 750 | 907 |
| Herscu, Robert | 5,000 | 6,046 |
| HFR - 07 Partners | 6,250 | 7,557 |
| Hirsch, Allen | 500 | 604 |
| Hirsch, Marcia | 1,000 | 1,210 |
| Hoagland, Gina & Lee JTROS | 2,500 | 3,022 |
| Hodge, David | 2,500 | 3,022 |
| Holtvogt, Annette | 2,500 | 3,022 |
| Hornady, James Brooks | 1,500 | 1,814 |
| Hulas & Savita Kanodia Revocable Living Trust | 12,500 | 15,114 |
| Insalaco, Paul | 1,000 | 1,210 |
| Intercontinental Investment Services, Inc. | 2,500 | 3,022 |
| Isbell, Charles E. | 1,000 | 1,210 |
| Iseli, Andre | 5,000 | 6,046 |
| Jaber, Jim & Aileen JTROS | 4,000 | 4,836 |
| Jacobs, Paul M. | 2,500 | 3,022 |
| Jahdi, Nasrollah & Farahnaz JTROS | 2,000 | 2,418 |
| Jahn, Rosalie J. | 3,000 | 3,628 |
| Jajoor, Nagaraj O. & Sudha N. | 2,500 | 3,022 |
| Jeffers Family Ltd. Partnership | 1,000 | 1,210 |
| Jensen, Eric & Julie Patricia JTROS | 500 | 604 |
| JF Shea & Co., Inc. | 20,000 | 24,182 |
| JF Shea & Co., Inc. | 125,000 | 151,141 |
| JF Shea & Co., Inc. | 3,750 | 4,534 |
| Johnson, Kimber & Susan JTROS | 1,500 | 1,814 |
| Johnson, L. Wayne | 5,000 | 6,046 |
| Jonathan R. Cohen Retirement Plan | 1,000 | 1,210 |
| Jordan, Bette P. | 1,250 | 1,511 |
| Jordan, Edward C. | 1,000 | 1,210 |
| Jordan, Peggy | 7,500 | 9,068 |
| Joseph Cornacchio Retirement Plan | 3,000 | 3,628 |
| Joseph, Dr. Ralph | 2,000 | 2,418 |
| JR Squared, LLC | 15,000 | 18,136 |
| Kabuki Partners | 15,500 | 18,742 |
| Kabuki Partners | 2,500 | 3,023 |
| Kane, Norman | 5,000 | 6,046 |
| Kanuit, Gary | 2,500 | 3,022 |
| Keating, Patrick N. & Julie S. JTROS | 2,500 | 3,022 |
| Keeney, Thomas J. & Pamela C. JTROS | 1,250 | 1,511 |
| Kennett, David R. | 1,000 | 1,210 |
| Kensington Partners II, L.P. | 956 | 1,157 |
| Kensington Partners, L.P. | 15,400 | 18,620 |
| Keough, Thomas G. | 1,500 | 1,814 |
| Ketcham, Edward | 1,500 | 1,814 |
| Keyway Investments Ltd. | 50,000 | 60,456 |
| Kim M. Beretta 1994 Trust | 2,500 | 3,022 |
| Kirk, William F., Jr. & Lynn B. JTROS | 2,500 | 3,022 |
| Kleidman, Carl | 2,000 | 2,418 |
| Klein, Michael | 12,500 | 15,114 |
| Knollmeyer, Paul P. & Phyllis M. JTROS | 2,500 | 3,022 |

| | | |
|---|---|---|
| Koch, Kevin & Susan | 2,500 | 3,022 |
| Koniver, Garth A. | 2,500 | 3,022 |
| Kraus, Dennis H. & Daryl B. JTROS | 1,000 | 1,210 |

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| | Number of Series B Shares and Warrants Underlying Units Subscribed For | |
|---|---|---|
| Name of Subscriber | Series B Shares | Series B Warrants |
| <S> | <C> | <C> |
| Kwiat Capital Corp. | 5,000 | 6,046 |
| L. Wayne Johnson SEP IRA | 2,500 | 3,022 |
| LAD Equity Partners | 2,500 | 3,022 |
| Lagunitas Partners LP | 40,000 | 48,364 |
| Landers, James R. | 2,500 | 3,022 |
| Latour, Peter | 1,500 | 1,814 |
| Lenzo, Christopher | 75,000 | 90,685 |
| Leon, Martin B. | 2,500 | 3,022 |
| Lerner, Brian C. | 4,500 | 5,442 |
| Levitin, Eli | 2,500 | 3,022 |
| Levy, Stuart J. | 5,000 | 6,046 |
| Levy, Stuart J. | 2,500 | 3,022 |
| Lewis, Lindsay | 2,500 | 3,022 |
| Liebro Partners LLC | 2,500 | 3,022 |
| Lightman, Ezra | 1,500 | 1,814 |
| Lin, Rong-Chung | 2,000 | 2,418 |
| Lipman, Beth | 500 | 604 |
| Lipman, Beth | 500 | 605 |
| Loegering, Charles J. | 10,000 | 12,092 |
| Loegering, Charles J. | 5,000 | 6,046 |
| Longobardi, Vincent & Carmela Basile JTROS | 2,500 | 3,022 |
| Luck, John | 2,500 | 3,022 |
| Luxenberg, Arthur | 2,500 | 3,022 |
| MacDonald, Allan & Eileen JTROS | 3,000 | 3,628 |
| Mallis, Stephen | 1,000 | 1,210 |
| Manhattan Group Funding | 12,500 | 15,114 |
| Mann, Michael | 2,500 | 3,022 |
| Manocherian, Jed | 2,500 | 3,022 |
| Mardale Investments Ltd. | 2,500 | 3,023 |
| Mardale Investments Ltd. | 7,500 | 9,068 |
| Mark, Laurel Lester | 2,000 | 2,418 |
| Marsh, Frederic A. | 1,000 | 1,210 |
| Martell, John A. | 5,000 | 6,046 |
| Martella, Richard R. & Jennifer K. JTROS | 1,250 | 1,511 |
| Martin W. Gangel Roth IRA | 5,000 | 6,046 |
| Mateer, Richard B. & Margaret J. JTROS | 1,500 | 1,814 |
| May, Gary D. & Deborah C. JTROS | 5,000 | 6,046 |
| Mazzocchi, Leo F. & Nancy T. JTROS | 2,500 | 3,022 |
| McCarthy, John J. & Donna P. JTROS | 9,100 | 11,002 |
| McCleeary, Robert A. | 3,750 | 4,535 |
| McGary, Lawrence W. | 1,500 | 1,814 |
| Meinershagen, Alan | 2,500 | 3,022 |
| Mercy Radiologists of Dubuque, PC Money Purchase Pension Plan's Trust f/b/o Roger R. Stenlund, | 1,000 | 1,210 |
| Meringoff, Stephen J. | 5,000 | 6,046 |
| Michael S. Falk IRA | 1,250 | 1,511 |
| Mikaela Falk Trust | 1,250 | 1,511 |
| Millstein, Gerald Jay | 2,000 | 2,418 |
| Misher, Sheldon | 2,500 | 3,022 |
| Monie, Vijaykumar S. | 2,500 | 3,022 |

| | | |
|---|---|---|
| Moraes, Claude & Roshan TEN ENT | 1,000 | 1,210 |
| Moran, Jr., Charles E. | 1,250 | 1,511 |
| Morfesis, F.A. & Gail JTROS | 4,000 | 4,836 |
| Moriber, Lloyd A. | 5,000 | 6,046 |

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| | Number of Series B Shares and Warrants Underlying Units Subscribed For | |
|---|---|---|
| Name of Subscriber | Series B Shares | Series B Warrants |
| - ------------------ | --------------- | ----------------- |
| <S> | <C> | <C> |
| Moschetta, Ron | 1,500 | 1,814 |
| MRL Astor Expectancy Trust | 5,000 | 6,046 |
| Mulkey II Limited Partnership | 30,000 | 36,274 |
| Mullery, Gregg Wm. | 1,000 | 1,210 |
| Nano-Cap Hyper Growth Partnership L.P. | 2,500 | 3,022 |
| Nano-Cap New Millennium Growth Fund L.P. | 1,250 | 1,511 |
| Neil A. Chapman, SEP IRA | 1,500 | 1,814 |
| Nelson, Jody | 1,500 | 1,814 |
| Nemiroff, Karen | 500 | 604 |
| Newmark, Amy L. | 5,000 | 6,046 |
| Norman, Gregory | 5,000 | 6,046 |
| Notowitz, Allen | 2,500 | 3,022 |
| Nowak, Greg A. & Lynn M. TEN ENT | 5,000 | 6,046 |
| Nussbaum, Jeffrey Kahn | 1,500 | 1,814 |
| Nussbaum, Samuel R. | 5,000 | 6,046 |
| Odlivak, Prudence & Andrew | 2,500 | 3,022 |
| O'Donnell, Edmond | 1,000 | 1,210 |
| Odyssey Capital, L.P. | 100,000 | 120,913 |
| O'Neill, William and Linda JTROS | 2,500 | 3,022 |
| O'Sullivan, Robert | 2,000 | 2,418 |
| Overdrive Capital Corp. | 20,000 | 24,182 |
| Palmer, Richard & Lynne Marie JTROS | 2,500 | 3,022 |
| Pamela Equities Corporation | 7,500 | 9,068 |
| Pannu, Jaswant Singh & Debra | 1,000 | 1,210 |
| Parrish, Edward L. | 500 | 604 |
| Partoyan, Garo A. | 3,500 | 4,232 |
| Patel, Sanjiv M. | 2,500 | 3,022 |
| Patil, Gangadhar | 2,500 | 3,022 |
| Patil, Jayakumar & Purnima J JTROS | 17,500 | 21,160 |
| Patil, Nagaraja & Shantha JTROS | 2,500 | 3,022 |
| Paulson, Timothy G. | 2,500 | 3,022 |
| Pecord, Carmen | 2,500 | 3,022 |
| Perez, Michael | 1,000 | 1,210 |
| Pesele, Robert | 1,000 | 1,210 |
| Petrus, Paul F. | 1,500 | 1,814 |
| Piccolo, August | 2,500 | 3,022 |
| Piccolo, John | 10,000 | 12,092 |
| Pickett, George F. & Elizabeth H. JTROS | 2,500 | 3,022 |
| Pinto, James J. | 10,000 | 12,092 |
| Pobiel, Ronald | 1,000 | 1,210 |
| Pocisk, Anna M. | 3,500 | 4,232 |
| Polyviu, P. Tony | 2,500 | 3,022 |
| Porter Partners, L.P. | 30,000 | 36,274 |
| Porter, Barry | 40,000 | 48,364 |
| Porter, Jeffrey | 10,000 | 12,092 |
| Poujol, Michael A. & Angela G. JTROS | 5,000 | 6,046 |
| Priddy, Robert | 132,500 | 160,209 |
| Priddy, Robert | 3,750 | 4,534 |
| High View Ventures, LLC | 17,500 | 21,160 |
| Primo, Joseph C. | 1,300 | 1,572 |

| | | |
|---|---|---|
| Prude, Randy | 5,000 | 6,046 |
| Pryt, Bob | 12,500 | 15,114 |
| R M and L Burwick Family L.P. | 20,000 | 24,182 |
| Radichel, William C. | 7,500 | 9,068 |
| Radichel, William C. | 2,500 | 3,022 |

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| | Number of Series B Shares and Warrants Underlying Units Subscribed For | |
|---|---|---|
| Name of Subscriber | Series B Shares | Series B Warrants |
| - ------------------ | --------------- | ----------------- |
| <S> | <C> | <C> |
| Radix Associates | 5,000 | 6,046 |
| Radix Associates | 2,500 | 3,022 |
| Rahn & Bodmer | 35,000 | 42,321 |
| Rappaport, A.G. | 20,000 | 24,182 |
| Rasnick, James A. & MaryAnn JTROS | 2,500 | 3,022 |
| Reese-Cole Partnership Ltd. | 7,500 | 9,068 |
| Reichelt, Kurt V. & Laura M. JTROS | 4,000 | 4,836 |
| Reichenbaum, Mark | 10,000 | 12,092 |
| Reichenbaum, Mark | 2,500 | 3,023 |
| Reichenbaum, Mark | 10,000 | 12,092 |
| RHL Ventures LLC | 10,000 | 12,092 |
| Rice, William A. | 12,500 | 15,114 |
| Rice, William A. | 7,500 | 9,068 |
| Richard Corbin IRA | 1,500 | 1,814 |
| Richmond, Gerald & Amy JTROS | 5,000 | 6,046 |
| Rion, James H., Jr. | 3,000 | 3,628 |
| Robert E. Gallucci DPM | 2,500 | 3,022 |
| Roberts, Cindy D. | 3,750 | 4,535 |
| Rodler, Lawrence | 1,500 | 1,814 |
| Rolling Investment Group | 1,000 | 1,210 |
| Ronco, Edmund | 1,000 | 1,210 |
| Ronco, Edmund c/f Todd Ronco | 998 | 1,208 |
| Rosenblatt, Richard | 2,500 | 3,023 |
| Rosenbloom, Keith | 2,500 | 3,022 |
| Rosenbloom, Dale | 10,000 | 12,092 |
| Rosenbloom, Howard | 2,500 | 3,022 |
| Rosenbloom, Keith | 2,000 | 2,418 |
| Rosenfield, Laurence | 2,500 | 3,022 |
| Ross, Adam Ross & Lisa Falk-Ross JTROS | 2,500 | 3,022 |
| RS Emerging Growth Partners LP | 22,000 | 26,603 |
| RS Pacific Partners | 50,043 | 60,507 |
| RS Premium Partners | 27,957 | 33,803 |
| Rubin, Brett | 1,500 | 1,814 |
| Rubin, Jeffrey | 1,500 | 1,814 |
| Rubinson, Brett | 500 | 604 |
| Runckel, Douglas & Evelyn JTROS | 8,500 | 10,278 |
| Russell, Donnie H. | 5,000 | 6,046 |
| Russo, Paul & Sally JTROS | 15,000 | 18,136 |
| Salkind, Scott | 2,500 | 3,022 |
| Sandhu, Avtar S. | 1,000 | 1,210 |
| Santolo, Dennis & Thomas, JTROS | 5,000 | 6,046 |
| Sax Family Limited Partnership | 500 | 604 |
| Scaglione, Domenic G. & Josephine JTROS | 1,250 | 1,511 |
| Scalo, John T. | 3,400 | 4,112 |
| Scalo, John F. & Carole M. JTROS | 2,500 | 3,022 |
| Schenker, Monroe H. | 2,500 | 3,022 |
| Schlank, Lionel | 2,500 | 3,022 |
| Schneider, Sidney | 2,500 | 3,022 |
| Schoen, William R. & Barbara J. JTROS | 2,500 | 3,022 |

| | | |
|---|---|---|
| Schottenstein, Gary L. | 1,500 | 1,814 |
| Schroeder, Charles F. A. | 1,250 | 1,511 |
| Schroeder, Charles F. A. | 1,250 | 1,511 |
| Schultz, Gary & Lance | 1,000 | 1,210 |
| Schultz, Gary D. & Barbara A. JTROS | 4,500 | 5,442 |
| Schultz, Gary D. & Barbara A. JTROS | 2,500 | 3,022 |

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| | Number of Series B Shares and Warrants Underlying Units Subscribed For | |
|---|---|---|
| Name of Subscriber | Series B Shares | Series B Warrants |
| - ------------------ | --------------- | ----------------- |
| <S> | <C> | <C> |
| Schwarzwaelder, Douglas | 1,000 | 1,210 |
| Schwencke, Kim M. | 10,000 | 12,092 |
| Schwickert, Kent | 2,500 | 3,022 |
| Schwickert, Kim | 5,000 | 6,046 |
| Scotto, Peter | 2,500 | 3,022 |
| Scotto, Peter | 2,500 | 3,022 |
| Seftel, Lawrence & Roslyn JTROS | 2,500 | 3,022 |
| Serra, Jose E. & Cecilia P. JTROS | 5,000 | 6,046 |
| Serubo, John | 1,250 | 1,511 |
| Shagadelic Partners | 2,500 | 3,022 |
| Shapiro, Nancy | 1,000 | 1,210 |
| Shapiro, J.D. | 500 | 604 |
| Shaw, John J. | 10,000 | 12,092 |
| Sheats , Fred B. | 2,500 | 3,022 |
| Shrager, Jay J. & Carole B. JTROS | 9,000 | 10,882 |
| Shroff, Burjis N. and Havovi B. TEN ENT | 1,500 | 1,814 |
| Shubash, May S. | 1,000 | 1,210 |
| Sica, Joseph L., Jr. & Emilia M. | 5,000 | 6,046 |
| Siddiqi, Tariq S. | 1,000 | 1,210 |
| Signore, Claude M. & Marie JTROS | 1,000 | 1,210 |
| Silverman, Robert & Lois B. JTROS | 2,500 | 3,022 |
| Simon Asset Management, LLC | 25,000 | 30,228 |
| Simon Asset Management, LLC | 5,000 | 6,046 |
| Singer, Michael | 7,500 | 9,068 |
| SIRHC Holdings Limited | 4,000 | 4,836 |
| Sivak, Cheryl R. and Gary Evan, M.D JTROS. | 1,500 | 1,814 |
| Sivak, George C., M.D. | 1,500 | 1,814 |
| SJG Management, Inc. 1981 Amended and Restated Profit Sharing Plan | 2,500 | 3,022 |
| Skoly, Jr., Stephen T. | 2,500 | 3,022 |
| Smith , Harlan B. | 3,300 | 3,990 |
| Spencer, Robert J. | 2,500 | 3,022 |
| Spiegelberg, Joan | 1,000 | 1,210 |
| Spielman , Melvin | 5,000 | 6,046 |
| Spigarelli, Anthony M. & Nancy M. JTROS | 4,000 | 4,836 |
| Spigarelli, Anthony M. & Nancy M. JTROS | 1,000 | 1,210 |
| Spivak, Joel | 5,000 | 6,046 |
| Stalker, Philip | 1,000 | 1,210 |
| Starapoli, Fedele | 1,000 | 1,210 |
| Steele, Michael D. | 3,000 | 3,628 |
| Stellway, David L. | 5,000 | 6,046 |
| Stern, Jeremy B. & Wendy B. JTROS | 2,500 | 3,022 |
| Steven B. Greenman IRA | 2,500 | 3,022 |
| Stransky, Barry & Lauren A. JTROS | 1,500 | 1,814 |
| Strazzulla, Domenic M. | 4,000 | 4,836 |
| Stuart Schapiro IRA Account | 5,000 | 6,046 |
| Sullivan, Jesse | 2,500 | 3,022 |

| | | |
|---|---|---|
| Sutton, Patrick | 1,250 | 1,511 |
| Sybesman, William & Martha Jane JTROS | 5,000 | 6,046 |
| Sybessma Research LLC | 5,000 | 6,046 |
| Syd Verbin & Helen Verbin, Trustees under Trust Agreement DTD 12/20/88 FBO Syd Verbin | 1,500 | 1,814 |
| Tachibana , Glen | 2,000 | 2,418 |
| Tallur, Inder | 1,000 | 1,209 |
| Teirstein, Paul | 2,500 | 3,022 |

</TABLE>

<TABLE>
<CAPTION>

| | Number of Series B Shares and Warrants Underlying Units Subscribed For | |
|---|---|---|
| Name of Subscriber | Series B Shares | Series B Warrants |
| <S> | <C> | <C> |
| Thau, Clifford | 500 | 604 |
| The Bald Eagle Fund Ltd. | 3,644 | 4,405 |
| The Dexter Corporation Grantor Trust | 5,000 | 6,046 |
| The DotCom Fund, L.L.C. | 25,000 | 30,228 |
| The Leo J. Ambrogi II Trust DTD 2/1/95 | 1,500 | 1,814 |
| The Rodney N. Schorlemmer SEP IRA | 4,000 | 4,836 |
| The William S. Gould, Peter L. Gould & Deborah Gould Cygler Irrevocable Trust | 1,000 | 1,210 |
| Thompson, George L. | 2,500 | 3,022 |
| Tickner, Todd | 2,500 | 3,022 |
| Todywala, Sam & Lyla | 500 | 604 |
| Toombs, Walter F. | 5,000 | 6,046 |
| Tradex Commodities | 2,500 | 3,022 |
| Treitel, David | 1,000 | 1,210 |
| Trombone, Mario | 1,000 | 1,210 |
| Trupiano, Salvatore | 1,500 | 1,814 |
| Uday, Kalpana A. & Udayashankar K. JTROS | 2,500 | 3,022 |
| Union Cattle Company | 2,500 | 3,022 |
| Vainberg, Vladik | 500 | 605 |
| Valentino, Barbara | 2,500 | 3,022 |
| Van Le, Linda | 2,500 | 3,022 |
| Vandewalle, John Joos- | 5,000 | 6,046 |
| Ventana Partners, L.P. | 10,000 | 12,092 |
| Virginia R. Nelson Trust | 2,500 | 3,022 |
| Voigt, Kevin J. & Cindy G. JTROS | 2,500 | 3,022 |
| Voigt, Bryon & Jacelyn TIC | 3,000 | 3,628 |
| Voss Limited Partnership | 1,000 | 1,210 |
| Wasserstrum, Seymour | 1,500 | 1,814 |
| Waxman, David B. & Jeremy JTROS | 1,000 | 1,210 |
| Wayne, Thom | 300 | 363 |
| Wayne D. Eig Chartered Defined Benefit Pension Trust | 1,000 | 1,210 |
| Weidenbener, Erich J. and Diane D. JTROS | 4,000 | 4,836 |
| Weiskopf Silver & Co. L.P. | 7,500 | 9,068 |
| Weitz, Perry | 2,500 | 3,022 |
| Weksler, Luiz | 1,500 | 1,814 |
| Westmont Venture Partners, LLC | 25,000 | 30,228 |
| Wilkins, Charles P. | 5,000 | 6,046 |
| Wilkins, Stuart B. | 2,500 | 3,022 |
| Wilson, Kenneth B. | 2,302 | 2,782 |
| Wingate Investments Limited | 50,000 | 60,456 |
| Wisseman, Charles L., III | 4,000 | 4,836 |
| Wolf, Aizik L. & Robyn JTROS | 2,000 | 2,418 |
| Wolfson Equities | 125,000 | 151,141 |
| Wynne, Joanne | 1,500 | 1,814 |
| Wynne, Joseph | 500 | 605 |

| | | |
|---|---|---|
| Yalen, Richard | 1,000 | 1,209 |
| Yalen, Richard | 1,000 | 1,210 |
| Zale, John H. | 2,500 | 3,022 |
| TOTAL | 3,300,000 | 3,990,092 |

</TABLE>

Exhibit 10.7

SCHEDULE TO EXHIBIT 10.7
UNIT SUBSCRIPTION AGREEMENT
CONVERTIBLE NOTES AND WARRANTS

<Table>
<Caption>

| | Convertible Notes and Warrants Underlying Units Subscribed For | |
|---|---|---|
| Name of Subscriber | Amount of Convertible Notes | Number of Series C Warrants |
| <S> | <C> | <C> |
| Alpine Ventures Capital Partners, L.P. | $ 1,300,000 | 2,600,000 |
| Ben Joseph Partners | 50,000 | 100,000 |
| Bodmer, Hans C. | 50,000 | 100,000 |
| Boris, Marvin | 50,000 | 100,000 |
| Carol R. Hill Spousal Trust | 175,000 | 350,000 |
| Chesed Congregations of America | 725,000 | 1,450,000 |
| Conzett Europa Invest Ltd. | 50,000 | 100,000 |
| Cramer Taos Partners | 50,000 | 100,000 |
| Cranshire Capital, L.P. | 300,000 | 600,000 |
| EDJ Limited | 100,000 | 200,000 |
| Edward J. Rosenthal Profit Sharing Plan | 50,000 | 100,000 |
| Evans, Sir Richard | 50,000 | 100,000 |
| Farzaneh, Hamid & Niloufar JTROS | 25,000 | 50,000 |
| Flavin, Blake Investors, L.P. | 75,000 | 150,000 |
| Flavin, John P. | 25,000 | 50,000 |
| Flynn Corporation | 250,000 | 500,000 |
| Goldenheim, Paul D. | 25,000 | 50,000 |
| Gottesman, Noam & Geraldine JTROS | 100,000 | 200,000 |
| Hammerman, Alan H. | 25,000 | 50,000 |
| Harvard Developments, Inc. | 25,000 | 50,000 |
| J.F. Shea & Co., Inc. | 1,000,000 | 2,000,000 |
| Kirk, William F., Jr. & Lynn B. JTROS | 25,000 | 50,000 |
| Lay Ventures, L.P. | 25,000 | 50,000 |
| Levitin, Eli | 25,000 | 50,000 |
| Linhart, Richard S. | 50,000 | 100,000 |
| McCaffrey, William T. | 100,000 | 200,000 |
| Mulkey II Limited Partnership | 25,000 | 50,000 |
| Porter Partners, L.P. | 150,000 | 300,000 |
| Reichenbaum, Mark | 200,000 | 400,000 |
| Rice, William A. | 100,000 | 200,000 |
| RMC Capital, LLC | 2,000,000 | 4,000,000 |
| Safier, Jacob | 250,000 | 500,000 |
| Skolnick, Kenneth B. & Melissa S. JTROS | 50,000 | 100,000 |
| TOTAL | $ 7,500,000 | 15,000,000 |

</TABLE>

Exhibit 10.8

EB2B COMMERCE, INC.

SUBSCRIPTION AGREEMENT made as of this _____ day of _____, 200_ between eB2B Commerce, Inc., a corporation organized under the laws of the State of New Jersey with offices at 757 Third Avenue, Suite 302, New York, New York 10017 (the "Company"), and the undersigned (the "Subscriber").

WHEREAS, the Company desires to issue a minimum of five (the "Minimum Offering") and a maximum of 20 (the "Maximum Offering") units ("Units") in a bridge financing (the "Bridge") on the terms and conditions set forth herein and in the Confidential Private Placement Term Sheet dated December 14, 2001 (together with all the Exhibits thereto, the "Term Sheet"), and the Subscriber desires to acquire the number of Units set forth on the signature page hereof; and

WHEREAS, each Unit shall consist of: (i) $100,000 principal amount of 7% senior subordinated secured promissory notes (the "Notes") in the form attached as Exhibit A to the Term Sheet and (ii) two-year warrants (the "Warrants") to purchase 200,000 shares (the "Warrant Shares") of the Company's common stock, $.0001 par value (the "Common Stock") at an exercise price per share equal to the average of the closing bid prices of the Common Stock for the five trading days immediately preceding the initial closing of the Bridge (the "Initial Closing"), subject to adjustment; and

WHEREAS, the Warrants shall be governed by the warrant agreement in the form attached as Exhibit B to the Term Sheet (the "Warrant Agreement"); and

WHEREAS, the Warrant Shares are entitled to registration rights on the terms set forth in this Subscription Agreement; and

WHEREAS, Commonwealth Associates, L.P. is acting as placement agent (the "Placement Agent") for the Bridge pursuant to a placement agency agreement dated December 14, 2001 between the Company and the Placement Agent (the "Agency Agreement"); and

WHEREAS, the Subscriber is delivering simultaneously herewith a completed confidential investor questionnaire (the "Questionnaire").

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereto do hereby agree as follows:

I. SUBSCRIPTION FOR UNITS AND REPRESENTATIONS BY AND COVENANTS OF SUBSCRIBER

1.1 Subscription for Units. Subject to the terms and conditions hereinafter set forth, the Subscriber hereby subscribes for and agrees to purchase from the Company such number of Units as is set forth upon the signature page hereof at a price equal to $100,000 per Unit and the Company agrees to sell such Units to the Subscriber for said purchase price subject to the Company's right to sell to the Subscriber such lesser number of Units as the Company may, in its sole discretion, deem necessary or desirable. The purchase price is payable by certified or bank check made payable to "American Stock Transfer & Trust Company as escrow agent for eB2B Commerce, Inc." or by wire transfer of funds, contemporaneously with the execution and delivery of this Subscription Agreement. American Stock Transfer & Trust Company (the "Escrow Agent") shall act as such in accordance with the terms and conditions of an escrow agreement to be entered into among the Placement Agent, the Company and the Escrow Agent. The Notes and Warrants shall be delivered by the Company within five (5) business days following the consummation of the Bridge as set forth in Article III hereof.

1.2 Reliance on Exemptions. The Subscriber acknowledges that the Bridge has not been reviewed by the United States Securities and Exchange Commission (the "SEC") or any state agency because of the Company's

representations that this is intended to be a nonpublic offering exempt from the registration requirements of the 1933 Act of 1933, as amended (the "1933 Act") and state securities laws. The Subscriber understands that the Company is relying in part upon the truth and accuracy of, and the Subscriber's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Subscriber set forth herein in order to determine the availability of such exemptions and the eligibility of the Subscriber to acquire the Units.

1.3 Investment Purpose. The Subscriber represents that the Notes and Warrants comprising the Units are being purchased for its own account, for investment purposes only and not for distribution or resale to others in contravention of the registration requirements of the 1933 Act. The Subscriber agrees that it will not sell or otherwise transfer the Notes, the Warrants or the Warrant Shares (collectively, the "Securities") unless they are registered under the 1933 Act or unless an exemption from such registration is available.

1.4 Accredited Investor. The Subscriber represents and warrants that it is an "accredited investor" as such term is defined in Rule 501 of Regulation D promulgated under the 1933 Act, as indicated by its responses to the Questionnaire, and that it is able to bear the economic risk of any investment in the Units. The Subscriber further represents and warrants that the information furnished in the Questionnaire is accurate and complete in all material respects.

1.5 Risk of Investment. The Subscriber recognizes that the purchase of Units involves a high degree of risk in that: (i) an investment in the Company is highly speculative and only investors who can afford the loss of their entire investment should consider investing in the Company and the Shares; (ii) transferability of the Shares is limited; and (iii) the Company may require substantial additional funds to operate its business and there can be no assurance that the Maximum Offering will be completed or that any other funds will be available to the Company, in addition to all of the other risks set forth in the Company's SEC Documents (as defined in Section 2.5 hereof).

1.6 Information. The Subscriber acknowledges careful review of: (a) the Company's Registration Statement on Form SB-2 as amended on July 13, 2001, (b) the Company's Quarterly Report on Form 10-QSB for the period ended September 30, 2001, (c) the Company's Proxy Statement for the annual meeting of shareholders held on October 17, 2001, (d) the Company's Current Report on Form 8-K filed with the SEC on November 15, 2001, (e)



the Term Sheet, (f) this Subscription Agreement, and (g) all exhibits, schedules and appendices which are part of the aforementioned documents (collectively, the "Offering Documents"), and hereby represents that: (i) the Subscriber has been furnished by the Company during the course of this transaction with all information regarding the Company which it has requested; (ii) that the Subscriber has been afforded the opportunity to ask questions of and receive answers from duly authorized officers of the Company concerning the terms and conditions of the Bridge, and any additional information which it has requested; and (iii) the Subscriber has been given the opportunity by the Placement Agent to review the Agency Agreement if it has requested.

1.7 No Representations. The Subscriber hereby represents that, except as expressly set forth in the Offering Documents, no representations or warranties have been made to the Subscriber by the Company or any agent, employee or affiliate of the Company, including the Placement Agent, and in entering into this transaction the Subscriber is not relying on any information other than that contained in the Offering Documents and the results of independent investigation by the Subscriber.

1.8 Tax Consequences. The Subscriber acknowledges that the Bridge may involve tax consequences and that the contents of the Offering Documents do not contain tax advice or information. The Subscriber acknowledges that he must retain his own professional advisors to evaluate the tax and other consequences of an investment in the Units.

1.9 Transfer or Resale. The Subscriber understands that Rule 144 (the "Rule") promulgated under the 1933 Act requires, among other conditions, a one-year holding period prior to the resale (in limited amounts) of securities acquired in a non-public offering without having to satisfy the

registration requirements under the 1933 Act. The Subscriber understands that the Company makes no representation or warranty regarding its fulfillment in the future of any reporting requirements under the Securities Exchange Act or 1934, as amended (the "Exchange Act"), or its dissemination to the public of any current financial or other information concerning the Company, as is required by the Rule as one of the conditions of its availability. The Subscriber understands and hereby acknowledges that the Company is under no obligation to register the securities comprising the Units under the 1933 Act, with the exception of certain registration rights covering the resale of the Warrant Shares set forth in Article IV herein. The Subscriber consents that the Company may, if it desires, permit the transfer of the Securities out of the Subscriber's name only when the Subscriber's request for transfer is accompanied by an opinion of counsel reasonably satisfactory to the Company that neither the sale nor the proposed transfer results in a violation of the 1933 Act or any applicable state "blue sky" laws.

1.10 No Hedging Transactions. The Subscriber hereby agrees not to engage in any Hedging Transaction until such time as the Warrant Shares have been registered for resale under the 1933 Act or may otherwise be sold in the public market without an effective registration statement under the 1933 Act. "Hedging Transaction" means any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Company's



Common Stock or any rights, warrants, options or other securities that are convertible into, or exercisable or exchangeable for, Common Stock.

1.11 Placement Agent. The Subscriber agrees that neither the Placement Agent or any of its directors, officers, employees or agents shall be liable to any Subscriber for any action taken or omitted to be taken by it in connection therewith, except for willful misconduct or gross negligence.

1.12 Legends. The Subscriber understands that the certificates representing the Securities, until such time as they have been registered under the 1933 Act, shall bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of such certificates or other instruments):

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, OR (B) AN OPINION OF COUNSEL, IN A REASONABLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS, OR (II) UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT.

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of the Warrant Shares upon which it is stamped, if (a) such Warrant Shares are being sold pursuant to a registration statement under the 1933 Act, (b) such holder delivers to the Company an opinion of counsel, in a reasonably acceptable form, to the Company that a disposition of the Warrant Shares is being made pursuant to an exemption from such registration, or (c) such holder provides the Company with reasonable assurance that a disposition of the Warrant Shares may be made pursuant to the Rule without any restriction as to the number of securities acquired as of a particular date that can then be immediately sold.

1.13 No General Solicitation. The Subscriber represents that the Subscriber was not induced to invest by any form of general solicitation or general advertising including, but not limited to, the following: (i) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over the news or radio; and (ii) any seminar or meeting whose attendees were invited by any general solicitation or advertising.

1.14 Validity; Enforcement. If the Subscriber is a corporation, partnership, trust or other entity, the Subscriber represents and warrants that: (a) it is authorized and otherwise duly qualified to purchase and hold the Units; and (b) that this Subscription Agreement has been duly and validly authorized, executed and delivered and constitutes the legal, binding and enforceable obligation of the undersigned.



1.15 Address. The Subscriber hereby represents that the address of Subscriber furnished by the Subscriber at the end of this Subscription Agreement is the undersigned's principal residence if the Subscriber is an individual or its principal business address if it is a corporation or other entity.

1.16 Foreign Subscriber. If the Subscriber is not a United States person, such Subscriber hereby represents that it has satisfied itself as to the full observance of the laws of its jurisdiction in connection with any invitation to subscribe for the Shares comprising the Units or any use of this Subscription Agreement, including: (a) the legal requirements within its jurisdiction for the purchase of the Units; (b) any foreign exchange restrictions applicable to such purchase; (c) any governmental or other consents that may need to be obtained; and (d) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale or transfer of the Shares comprising the Units. Such Subscriber's subscription and payment for, and his or her continued beneficial ownership of the Securities, will not violate any applicable securities or other laws of the Subscriber's jurisdiction.

1.17 NASD Member. The Subscriber acknowledges that if it is a Registered Representative of a NASD member firm, the Subscriber must give such firm notice required by the NASD's Rules of Fair Practice, receipt of which must be acknowledged by such firm on the signature page hereof.

II. REPRESENTATIONS BY THE COMPANY

The Company represents and warrants to the Subscriber, except as set forth in the disclosure schedules attached hereto:

2.1 Organization and Qualification. The Company is duly organized and validly existing in good standing under the laws of the jurisdiction in which it is organized, and has the requisite power and authorization to own its properties and to carry on its business as now being conducted. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership of property or the nature of the business conducted by it makes such qualification necessary, except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect. As used in this Subscription Agreement, "Material Adverse Effect" means any material adverse effect on the business, properties, assets, operations, results of operations, financial condition or prospects of the Company, or on the transactions contemplated hereby, or by the other Offering Documents or the agreements and instruments to be entered into in connection herewith or therewith, or on the authority or ability of the Company to perform its obligations under the Offering Documents. The Company does not have any operating subsidiaries other than as set forth in the Offering Documents and all of the non-operating subsidiaries are wholly-owned by the Company.

2.2 Authorization; Enforcement; Validity. The Company has the requisite corporate power and authority to enter into and perform its obligations under this Subscription Agreement and the other Offering Documents, to file and perform its obligations under the



Offering Documents, and to issue the Securities in accordance with the terms of the Offering Documents. The execution and delivery of the Offering Documents by the Company and the consummation by the Company of the transactions contemplated

by the Offering Documents, including without limitation the issuance of the Securities, have been duly authorized by the Company's board of directors and no further consent or authorization is required by the Company, its board of directors or its stockholders.

2.3 Issuance of Securities. The issuance, sale and delivery of the Securities have been duly authorized by all requisite corporate action by the Company and, upon issuance in accordance with the Offering Documents, shall be (a) duly authorized, validly issued, fully paid and non-assessable, and (b) free from all taxes, liens and charges with respect to the issue thereof.

2.4 No Conflicts. The execution, delivery and performance of the Offering Documents by the Company and the consummation by the Company of the transactions contemplated therein, will not (a) result in a violation of the Company's Certificate of Incorporation, any certificate of designations, preferences and rights of any outstanding series of preferred stock of the Company, or the Company's bylaws, (b) conflict with, or constitute a default or an event which with notice or lapse of time or both would become a default under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, lease, license or instrument (including without limitation, any document filed as an exhibit to any of the Company's SEC Documents (as defined below)), or (c) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and the rules and regulations of The Nasdaq Stock Market, Inc.) applicable to the Company or by which any property or asset of the Company is bound or affected.

2.5 SEC Documents; Financial Statements. Since September 30, 2001, the Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Exchange Act (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein being hereinafter referred to as the "SEC Documents"). The Company has made available to the Subscriber or its representatives copies of the SEC Documents. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of their respective dates, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles, consistently applied, during the periods involved (except (a) as may be otherwise indicated in such financial statements or the notes thereto, or (b) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed or summary



statements) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments that will not be material). As of the date hereof, the Company meets the requirements for the use of Form S-3 for registration of the resale of the Warrant Shares.

2.6 Absence of Litigation. Except as set forth in the Offering Documents or the SEC Documents, there is no action, suit, proceeding, inquiry or investigation before or by the Nasdaq Stock Market, Inc., any court, public board, government agency, self-regulatory organization or body, or arbitrator pending or, to the knowledge of the Company, threatened against the Company or any of the Company's officers or directors in their capacities as such which would have a Material Adverse Effect.

2.7 Securities Law Compliance. The offer, offer for sale, and sale of the Units have not been registered with the SEC. The Units are to be offered for sale and sold in reliance upon the exemptions from the registration requirements of Section 5 of the 1933 Act. The Company will conduct the Bridge

in compliance with the requirements of Regulation D under the 1933 Act, and the Company will file all appropriate notices of offering with the SEC.

2.8 Disclosure. None of the representations and warranties of the Company appearing in this Subscription Agreement or any information appearing in any of the Offering Documents, when considered together as a whole, contains, or on any Closing Date (as defined in Section 3.1 below) will contain, any untrue statement of a material fact or omits, or on any Closing Date will omit, to state any material fact required to be stated herein or therein in order for the statements herein or therein, in light of the circumstances under which they were made, not to be misleading.

III. TERMS OF SUBSCRIPTION

3.1 Offering Period. The subscription period will begin as of December 13, 2001 and will terminate at 11:59 PM Eastern time on February 11, 2002, unless extended by mutual agreement of the Company and the Placement Agent for up to an additional 30 days (the "Termination Date"). Provided the Minimum Offering shall have been subscribed for, funds representing the sale thereof shall have cleared, all conditions to closing set forth in the Agency Agreement have been satisfied or waived and neither the Company nor the Placement Agent have notified the other that they do not intend to effect the closing of the Minimum Offering, the Initial Closing shall take place at the offices of counsel to the Placement Agent, Loeb & Loeb, 345 Park Avenue, New York, New York 10154, within three business days thereafter (but in no event later than three days following the Termination Date, which closing date may be accelerated or adjourned by agreement between the Company and the Placement Agent). At the Initial Closing, payment for the Units issued and sold by the Company shall be made against delivery of the Notes and Warrants comprising such Units. Subsequent closings (each of which shall be deemed a "Closing" hereunder) shall take place by mutual agreement of the Company and the Placement Agent. The date of the last closing of the Bridge is hereinafter referred to as



the "Final Closing" and the date of any Closing hereunder is hereinafter referred to as a "Closing Date".

3.2 Expenses; Fees. Simultaneously with payment for and delivery of the Units at each Closing, the Company shall pay to the Placement Agent a cash fee equal to 10% of the gross proceeds of the Units sold , which fee shall be applied to the placement fee payable in connection with a contemplated subsequent private placement through the Placement Agent whether on the terms contemplated by the letter of intent dated November 29, 2001 or otherwise (the "Subsequent Financing"). The Company shall also reimburse the Placement Agent for up to $50,000 of its actual out-of-pocket expenses incurred in connection with the Bridge and the Subsequent Financing, including, without limitation, the reasonable fees and expenses of its counsel (Loeb & Loeb LLP), due diligence investigation expenses, travel and mailing expenses. The Company shall also pay all expenses in connection with the qualification of the Securities under the blue sky laws of the states which the Placement Agent shall designate, including legal fees, filing fees and disbursements of Placement Agent's counsel in connection with such blue sky matters.

3.3 Escrow. Pending the sale of the Units, all funds paid hereunder shall be deposited by the Company in escrow with the Escrow Agent. If the Company shall not have obtained subscriptions (including this subscription) for purchases of at least five Units ($500,000) on or before the Termination Date, then this subscription shall be void and all funds paid hereunder by the Subscriber, without interest, shall be promptly returned to the Subscriber, subject to Section 3.5 hereof.

3.4 Certificates. The Subscriber hereby authorizes and directs the Company, upon each Closing in the Bridge, to deliver the Notes and Warrants to be issued to such Subscriber pursuant to this Subscription Agreement either (a) to the Subscriber's address indicated in the Questionnaire, or (b) directly to the Subscriber's account maintained with the Placement Agent, if any.

3.5 Return of Funds. The Subscriber hereby authorizes and directs the Company to return any funds for unaccepted subscriptions to the same account from which the funds were drawn, including any customer account maintained with the Placement Agent.

IV. REGISTRATION RIGHTS

4.1 Automatic Registration. The Company hereby agrees with the holders of the Securities or their transferees (other than a transferee who acquires shares pursuant to Rule 144 or an effective registration statement) (collectively, the "Holders") that no later than three months following the date of the Initial Closing, the Company shall prepare and file a registration statement under the 1933 Act with the SEC covering the resale of the Shares, and the Company will use its best efforts to cause such registration to become effective within three months thereafter. In the event that the Company's registration statement has not been declared effective by the SEC within six months following the date of the Initial Closing or if the registration statement has been suspended beyond 30 days in any one instance or a total of 60



days in any 365-day period, the Conversion Price shall be reduced by 5% for each month (or portion thereof) until such time as the registration is effective or the suspension ceases and the prospectus may be used. The Company's obligation to keep the registration statement effective shall continue until the earlier of (a) the date that all of the Warrant Shares have been sold pursuant to Rule 144 under the 1933 Act or an effective registration statement, or (b) such time as the Warrant Shares are eligible for immediate resale pursuant to Rule 144(k) under the 1933 Act.

4.2 "Piggyback" Registration Rights. At any time after the Initial Closing, if the Company shall determine to proceed with the actual preparation and filing of a new registration statement under the 1933 Act in connection with the proposed offer and sale of any of its securities by it or any of its security holders (other than a registration statement on Form S-4, S-8 or other limited purpose form), the Company will give written notice of its determination to all record holders of the Warrant Shares. Upon the written request from any Holders (the "Requesting Holders"), within 15 days after receipt of any such notice from the Company, the Company will, except as herein provided, cause all of the Warrant Shares covered by such request (the "Requested Stock") held by the Requesting Holders to be included in such registration statement, all to the extent requisite to permit the sale or other disposition by the prospective seller or sellers of the Requested Stock; provided, further, that nothing herein shall prevent the Company from, at any time, abandoning or delaying any registration. If any registration pursuant to this Section 4.2 shall be underwritten in whole or in part, the Company may require that the Requested Stock be included in the underwriting on the same terms and conditions as the securities otherwise being sold through the underwriters. In such event, the Requesting Holders shall, if requested by the underwriters, execute an underwriting agreement containing customary representations and warranties by selling stockholders and a lock-up on Warrant Shares not being sold. If in the good faith judgment of the managing underwriter of such public offering the inclusion of all of the Requested Stock would reduce the number of shares to be offered by the Company or interfere with the successful marketing of the shares of stock offered by the Company, the number of shares of Requested Stock otherwise to be included in the underwritten public offering may be reduced pro rata (by number of shares) among the Requesting Holders and all other holders of registration rights who have requested inclusion of their securities or excluded in their entirety if so required by the underwriter. To the extent only a portion of the Requested Stock is included in the underwritten public offering, those shares of Requested Stock which are thus excluded from the underwritten public offering and any other securities of the Company held by such holders shall be withheld from the market by the Holders thereof for a period, not to exceed 90 days, which the managing underwriter reasonably determines is necessary in order to effect the underwritten public offering. The obligation of the Company under this Section 4.2 shall not apply after the earlier of (a) the date that all of the Warrant Shares have been sold pursuant to Rule 144 under the 1933 Act or an effective registration statement, or (b) such time as the Warrant Shares are eligible for immediate resale pursuant to Rule 144(k) under the 1933 Act.

4.3 Registration Procedures. To the extent required by Sections 4.1 or 4.2, the Company will:

(a) prepare and file with the SEC a registration statement with respect to such securities, and use its best efforts to cause such registration statement to become and remain effective;

(b) prepare and file with the SEC such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective;

(c) furnish to the Holders participating in such registration and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as such underwriters may reasonably request in order to facilitate the public offering of such securities;

(d) use its best efforts to register or qualify the securities covered by such registration statement under such state securities or blue sky laws of such jurisdictions as the Holders may reasonably request in writing within 20 days following the original filing of such registration statement, except that the Company shall not for any purpose be required to execute a general consent to service of process or to qualify to do business as a foreign corporation in any jurisdiction wherein it is not so qualified;

(e) notify the Holders, promptly after it shall receive notice thereof, of the time when such registration statement has become effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(f) notify the Holders promptly of any request by the SEC for the amending or supplementing of such registration statement or prospectus or for additional information;

(g) prepare and file with the SEC, promptly upon the request of any Holders, any amendments or supplements to such registration statement or prospectus which, in the opinion of counsel for such Holders (and concurred in by counsel for the Company), is required under the 1933 Act or the rules and regulations thereunder in connection with the distribution of Common Stock by such Holders;

(h) prepare and promptly file with the SEC and promptly notify such Holders of the filing of such amendment or supplement to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the 1933 Act, any event shall have occurred as the result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading; and

(i) advise the Holders, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the SEC suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and



promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued.

The Holders shall cooperate with the Company in providing the information necessary to effect the registration of their Warrant Shares, including completion of customary questionnaires. Failure to do so may result in exclusion of such Holders' Warrant Shares from the registration statement.

4.4 Expenses.

(a) With respect to the any registration required pursuant to Section 4.1 or 4.2 hereof, all fees, costs and expenses of and incidental to such registration, inclusion and public offering (as specified in paragraph (b) below) in connection therewith shall be borne by the Company, provided, however, that the Holders shall bear their pro rata share of the underwriting discount and commissions and transfer taxes and the cost of their own counsel.

(b) The fees, costs and expenses of registration to be borne by the Company as provided in paragraph (a) above shall include, without limitation, all registration, filing, and NASD fees, printing expenses, fees and disbursements of counsel and accountants for the Company, and all legal fees and disbursements and other expenses of complying with state securities or blue sky laws of any jurisdictions in which the securities to be offered are to be registered and qualified (except as provided in 4.4(a) above). Fees and disbursements of counsel and accountants for the Holders and any other expenses incurred by the Holders not expressly included above shall be borne by the Holders.

4.5 Indemnification.

(a) The Company will indemnify and hold harmless each Holder of Warrant Shares which are included in a registration statement pursuant to the provisions of Sections 4.1 and 4.2 hereof, its directors and officers, and any underwriter (as defined in the 1933 Act) for such Holder and each person, if any, who controls such Holder or such underwriter within the meaning of the 1933 Act, from and against, and will reimburse such Holder and each such underwriter and controlling person with respect to, any and all loss, damage, liability, cost and expense to which such Holder or any such underwriter or controlling person may become subject under the 1933 Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, however, that the Company will not be liable in any such case to the extent that any such loss, damage, liability, cost or expenses arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by or on behalf of such Holder, such underwriter or such controlling person in writing specifically for use in the preparation thereof.



(b) Each Holder of Warrant Shares included in a registration pursuant to the provisions of Sections 4.1 or 4.2 hereof will indemnify and hold harmless the Company, its directors and officers, any controlling person and any underwriter from and against, and will reimburse the Company, its directors and officers, any controlling person and any underwriter with respect to, any and all loss, damage, liability, cost or expense to which the Company or any controlling person and/or any underwriter may become subject under the 1933 Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was so made in reliance upon and in strict conformity with written information furnished by or on behalf of such Holder specifically for use in the preparation thereof.

(c) Promptly after receipt by an indemnified party pursuant to the provisions of paragraph (a) or (b) of this Section 4.5 of notice of the commencement of any action involving the subject matter of the foregoing indemnity provisions such indemnified party will, if a claim thereof is to be made against the indemnifying party pursuant to the provisions of said paragraph (a) or (b), promptly notify the indemnifying party of the commencement thereof; but the omission to so notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise under this Section except to the extent the defense of the claim is prejudiced. In case such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party shall have the right to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, provided, however, if counsel for the indemnifying party concludes that a single counsel cannot under applicable legal and ethical considerations, represent both the indemnifying party and the indemnified party, the indemnified party or

parties have the right to select separate counsel to participate in the defense of such action on behalf of such indemnified party or parties; provided that there shall be no more than one such separate counsel. After notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party pursuant to the provisions of said paragraph (a) or (b) for any legal or other expense subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation, unless (i) the indemnified party shall have employed counsel in accordance with the provisions of the preceding sentence, (ii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after the notice of the commencement of the action or (iii) the indemnifying party has, in its sole discretion, authorized the employment of counsel for the indemnified party at the expense of the indemnifying party.

V. INVESTMENT IN SUBSEQUENT FINANCING



5.1 Cancellation of Notes. In the event that prior to the Maturity Date (as defined in the Notes) the Company completes a Subsequent Financing, the outstanding Principal Amount of the Notes shall be cancelled as payment for an investment in the securities sold in the Subsequent Financing.

5.2 No Action Required. The Subscriber agrees that its investment in the Subsequent Financing will be made without any further action on the part of the Subscriber; however, the Subscriber agrees to execute and deliver all documents reasonably requested by the Company to effectuate such investment.

5.3 Reliance on Representations. The Subscriber understands that the Company will rely on the representations and warranties of the Subscriber contained in this Subscription Agreement and the Questionnaire in connection with the Subscriber's investment in the Subsequent Financing.

VI. MISCELLANEOUS

6.1 Notice. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Subscription Agreement must be in writing and will be deemed to have been delivered: (a) upon receipt, when delivered personally, (b) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party), or (c) one (1) business day after deposit with an overnight courier service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company:

eB2B Commerce, Inc.
757 Third Avenue
New York, New York 10017
Telephone: (212) 703-2000
Facsimile: (212)
Attention: Peter J. Fiorillo

With a copy to:

Kaufman & Moomjian, LLC
50 Charles Lindbergh Blvd.
Mitchel Field, New York
Telephone: (516) 222-5100
Facsimile: (516) 222-5110
Attention: Gary Moomjian, Esq.

If to the Subscriber, to its address and facsimile number set forth at the end of this Subscription Agreement, or to such other address and/or facsimile number and/or to the attention of such other

person as specified by written notice given to the Company five (5) days prior to the effectiveness of such change. Written confirmation of receipt (a) given by the recipient of such notice, consent, waiver or other communication, (b) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission, or (c) provided by an overnight courier service shall be rebuttable evidence of personal service, receipt by facsimile or receipt from an overnight courier service in accordance with clause (a), (b) or (c) above, respectively.

6.2 Entire Agreement; Amendment. This Subscription Agreement supersedes all other prior oral or written agreements between the Subscriber, the Company, their affiliates and persons acting on their behalf with respect to the matters discussed herein, and this Subscription Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Subscriber makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Subscription Agreement may be amended or waived other than by an instrument in writing signed by the Company and the holders of at least a majority of the Securities then outstanding (or if prior to the Closing, the Subscribers purchasing at least a majority of the Units to be purchased at the Closing). No such amendment shall be effective to the extent that it applies to less than all of the holders of the Securities then outstanding.

6.3 Severability. If any provision of this Subscription Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Subscription Agreement in that jurisdiction or the validity or enforceability of any provision of this Subscription Agreement in any other jurisdiction.

6.4 Governing Law; Jurisdiction; Jury Trial. All questions concerning the construction, validity, enforcement and interpretation of this Subscription Agreement shall be governed by the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the state and federal courts sitting in the Southern District of New York, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Subscription Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereby irrevocably waives any right it may have, and agrees not to request, a jury trial for the adjudication of any dispute hereunder or in



connection with or arising out of this Subscription Agreement or any transaction contemplated hereby.

6.5 Headings. The headings of this Subscription Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Subscription Agreement.

6.6 Successors And Assigns. This Subscription Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns, including any purchasers of the Notes and the Warrants. The Company shall not assign this Subscription Agreement or any rights or

obligations hereunder without the prior written consent of the holders of at least a majority the Securities then outstanding, except by merger or consolidation. The Subscriber may assign some or all of its rights hereunder without the consent of the Company, provided, however, that any such assignment shall not release the Subscriber from its obligations hereunder unless such obligations are assumed by such assignee and the Company has consented to such assignment and assumption, which consent shall not be unreasonably withheld.

6.7 No Third Party Beneficiaries. This Subscription Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

6.8 Survival. The representations and warranties of the Company and the Subscriber contained in Articles I and II and the agreements set forth this Article VI shall survive the Final Closing for a period of two years.

6.9 Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Subscription Agreement and the consummation of the transactions contemplated hereby.

6.10 No Strict Construction. The language used in this Subscription Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

6.11 Legal Representation. The Subscriber acknowledges that: (a) it has read this Subscription Agreement and the exhibits hereto; (b) it understands that the Company has been represented in the preparation, negotiation, and execution of this Subscription Agreement by Kaufman & Moomjian, LLC, counsel to the Company; (c) it understands that the Placement Agent has been represented by Loeb & Loeb LLP, counsel to the Placement Agent, and that such counsel has not represented and is not representing the Subscriber; (d) it has either been represented in the preparation, negotiation, and execution of this Subscription Agreement by legal counsel of its own choice, or has chosen to forego such representation by legal counsel after being advised to seek such legal representation; and (e) it understands the terms and consequences of this Subscription Agreement and is fully aware of its legal and binding effect.



6.12 Expenses of Enforcement. The Company shall pay all fees and expenses (including reasonable fees and expenses of counsel and other professionals) incurred by the Subscriber or any successor holder of Securities in enforcing any of its rights and remedies under this Subscription Agreement.

6.13 Confidentiality. The Subscriber agrees that it shall keep confidential and not divulge, furnish or make accessible to anyone, the confidential information concerning or relating to the business or financial affairs of the Company contained in the Offering Documents to which it has become privy by reason of this Subscription Agreement until such information has been publicly disclosed by the Company or until such information is no longer material.

6.14 Counterparts. This Subscription Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party; provided that a facsimile signature shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original, not a facsimile signature.



IN WITNESS WHEREOF, the parties have executed this

Subscription Agreement as of the day and year first written above.

<TABLE>
<S>
<C>

| | |
|---|---|
| Signature of Subscriber | Signature of Co-Subscriber |
| Name of Subscriber [please print] | Name of Co-Subscriber [please print] |
| Address of Subscriber | Address of Co-Subscriber |
| Social Security or Taxpayer Identification Number of Subscriber | Social Security or Taxpayer Identification Number of Co-Subscriber |
| Subscriber's Account Number at Commonwealth Associates | |
| Dollar Amount of Units Subscribed For | |
| *If Subscriber is a Registered Representative with an NASD member firm, have the following acknowledgment signed by the appropriate party: | |
| The undersigned NASD member firm acknowledges receipt of the notice required by Rule 3040 of the NASD Conduct Rules. | Subscription Accepted: |
| | EB2B COMMERCE, INC. |
| | By: |
| Name of NASD Member Firm | Name: Title: |
| By Authorized Officer | |
| | Dollar Amount of Subscription Accepted |

</TABLE>



SCHEDULE TO EXHIBIT 10.8
UNIT SUBSCRIPTION AGREEMENT
CONVERTIBLE NOTES AND WARRANTS

<TABLE>
<CAPTION>

| | Convertible Notes and Warrants Underlying Units Subscribed For | |
|---|---|---|
| Name of Subscriber | Amount of Convertible Notes | Number of Warrants |
| <S> | <C> | <C> |
| Alpine Ventures Capital Partners, L.P. | $ 500,000 | 1,000,000 |
| Chesed Congregations of America | 290,000 | 580,000 |
| J.F. Shea & Co., Inc. | 400,000 | 800,000 |
| Levitin, Eli | 10,000 | 20,000 |
| Priddy, Robert | 700,000 | 1,400,000 |
| Safier, Jacob | 100,000 | 200,000 |
| TOTAL | $2,000,000 | 4,000,000 |

</TABLE>

Exhibit 10.9

EB2B COMMERCE, INC.

SUBSCRIPTION AGREEMENT made as of this _____ day of _____, 2002 between eB2B Commerce, Inc., a corporation organized under the laws of the State of New Jersey with offices at 757 Third Avenue, Suite 302, New York, New York 10017 (the "Company"), and the undersigned (the "Subscriber").

WHEREAS, the Company desires to issue a minimum of 15 (the "Minimum Offering") and a maximum of 30 (the "Maximum Offering") units ("Units") in a private placement (the "Offering") on the terms and conditions set forth herein and in the Confidential Private Placement Term Sheet dated January 10, 2002 (together with all the Exhibits thereto, the "Term Sheet"), and the Subscriber desires to acquire the number of Units set forth on the signature page hereof; and

WHEREAS, each Unit shall consist of: (i) $100,000 principal amount of 7% senior subordinated secured promissory notes (the "Notes") in the form attached as Exhibit A to the Term Sheet convertible into shares (the "Conversion Shares") of the Company's common stock, $.0001 par value (the "Common Stock") at an initial conversion price equal to the average of the closing prices of the Common Stock for the five trading days immediately preceding the initial closing of the Offering (the "Initial Closing"), subject to adjustment as set forth in the Notes (the "Conversion Price"); and (ii) two-year warrants (the "Warrants") to purchase the number of shares of Common Stock (the "Warrant Shares") equal to the initial number of Conversion Shares at an exercise price per share equal to 120% of the Conversion Price; and

WHEREAS, the Minimum Offering shall be met through the automatic conversion of $2,000,000 of outstanding notes issued in a bridge financing completed by the Company in December 2001; and

WHEREAS, the Warrants shall be governed by the warrant agreement in the form attached as Exhibit B to the Term Sheet (the "Warrant Agreement"); and

WHEREAS, the Conversion Shares and the Warrant Shares (collectively, the "Underlying Shares") are entitled to registration rights on the terms set forth in this Subscription Agreement; and

WHEREAS, Commonwealth Associates, L.P. is acting as placement agent (the "Placement Agent") for the Offering pursuant to a placement agency agreement dated January __, 2002 between the Company and the Placement Agent (the "Agency Agreement"); and

WHEREAS, the Subscriber is delivering simultaneously herewith a completed confidential investor questionnaire (the "Questionnaire").

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereto do hereby agree as follows:

## I. SUBSCRIPTION FOR UNITS AND REPRESENTATIONS BY AND COVENANTS OF SUBSCRIBER

1.1 Subscription for Units. Subject to the terms and conditions hereinafter set forth, the Subscriber hereby subscribes for and agrees to purchase from the Company such number of Units as is set forth upon the signature page hereof at a price equal to $100,000 per Unit and the Company agrees to sell such Units to the Subscriber for said purchase price subject to the Company's right to sell to the Subscriber such lesser number of Units as the Company may, in its sole discretion, deem necessary or desirable. The purchase price is payable by certified or bank check made payable to "American Stock Transfer & Trust Company as escrow agent for eB2B Commerce, Inc." or by wire transfer of funds, contemporaneously with the execution and delivery of this Subscription Agreement. American Stock Transfer & Trust Company (the "Escrow

Agent") shall act as such in accordance with the terms and conditions of an escrow agreement to be entered into among the Placement Agent, the Company and the Escrow Agent. The Notes and Warrants shall be delivered by the Company within five (5) business days following the consummation of the Offering as set forth in Article III hereof.

1.2 Reliance on Exemptions. The Subscriber acknowledges that the Offering has not been reviewed by the United States Securities and Exchange Commission (the "SEC") or any state agency because of the Company's representations that this is intended to be a nonpublic offering exempt from the registration requirements of the 1933 Act of 1933, as amended (the "1933 Act") and state securities laws. The Subscriber understands that the Company is relying in part upon the truth and accuracy of, and the Subscriber's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Subscriber set forth herein in order to determine the availability of such exemptions and the eligibility of the Subscriber to acquire the Units.

1.3 Investment Purpose. The Subscriber represents that the Notes and Warrants comprising the Units are being purchased for its own account, for investment purposes only and not for distribution or resale to others in contravention of the registration requirements of the 1933 Act. The Subscriber agrees that it will not sell or otherwise transfer the Notes, the Warrants or the Underlying Shares (collectively, the "Securities") unless they are registered under the 1933 Act or unless an exemption from such registration is available.

1.4 Accredited Investor. The Subscriber represents and warrants that it is an "accredited investor" as such term is defined in Rule 501 of Regulation D promulgated under the 1933 Act, as indicated by its responses to the Questionnaire, and that it is able to bear the economic risk of any investment in the Units. The Subscriber further represents and warrants that the information furnished in the Questionnaire is accurate and complete in all material respects.

1.5 Risk of Investment. The Subscriber recognizes that the purchase of Units involves a high degree of risk in that: (i) an investment in the Company is highly speculative and only investors who can afford the loss of their entire investment should consider investing in the Company and the Shares; (ii) transferability of the Shares is limited; and (iii) the Company may require substantial additional funds to operate its business and there can be no assurance that the Maximum Offering will be completed or that any other funds will be available to the Company, in addition to all of the other risks set forth in the Company's SEC Documents (as defined in Section 2.5 hereof).



1.6 Information. The Subscriber acknowledges careful review of: (a) the Company's Registration Statement on Form SB-2 as amended on July 13, 2001, (b) the Company's Quarterly Report on Form 10-QSB for the period ended September 30, 2001, (c) the Company's Proxy Statement for the annual meeting of shareholders held on October 17, 2001, (d) the Company's Current Reports on Form 8-K filed with the SEC on November 15, 2001, January 4, 2002 and January 10, 2002 (e) the Term Sheet, (f) this Subscription Agreement, and (g) all exhibits, schedules and appendices which are part of the aforementioned documents (collectively, the "Offering Documents"), and hereby represents that: (i) the Subscriber has been furnished by the Company during the course of this transaction with all information regarding the Company which it has requested; (ii) that the Subscriber has been afforded the opportunity to ask questions of and receive answers from duly authorized officers of the Company concerning the terms and conditions of the Offering, and any additional information which it has requested; and (iii) the Subscriber has been given the opportunity by the Placement Agent to review the Agency Agreement if it has requested.

1.7 No Representations. The Subscriber hereby represents that, except as expressly set forth in the Offering Documents, no representations or warranties have been made to the Subscriber by the Company or any agent, employee or affiliate of the Company, including the Placement Agent, and in entering into this transaction the Subscriber is not relying on any information other than that contained in the Offering Documents and the results of independent investigation by the Subscriber.

1.8 Tax Consequences. The Subscriber acknowledges that the Offering may involve tax consequences and that the contents of the Offering Documents do not contain tax advice or information. The Subscriber acknowledges that he must retain his own professional advisors to evaluate the tax and other consequences of an investment in the Units.

1.9 Transfer or Resale. The Subscriber understands that Rule 144 (the "Rule") promulgated under the 1933 Act requires, among other conditions, a one-year holding period prior to the resale (in limited amounts) of securities acquired in a non-public offering without having to satisfy the registration requirements under the 1933 Act. The Subscriber understands that the Company makes no representation or warranty regarding its fulfillment in the future of any reporting requirements under the Securities Exchange Act or 1934, as amended (the "Exchange Act"), or its dissemination to the public of any current financial or other information concerning the Company, as is required by the Rule as one of the conditions of its availability. The Subscriber understands and hereby acknowledges that the Company is under no obligation to register the securities comprising the Units under the 1933 Act, with the exception of certain registration rights covering the resale of the Underlying Shares set forth in Article IV herein. The Subscriber consents that the Company may, if it desires, permit the transfer of the Securities out of the Subscriber's name only when the Subscriber's request for transfer is accompanied by an opinion of counsel reasonably satisfactory to the Company that neither the sale nor the proposed transfer results in a violation of the 1933 Act or any applicable state "blue sky" laws.

1.10 No Hedging Transactions. The Subscriber hereby agrees not to engage in any Hedging Transaction until such time as the Underlying Shares have been registered for resale under the 1933 Act or may otherwise be sold in the public market without an effective



registration statement under the 1933 Act. "Hedging Transaction" means any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Company's Common Stock or any rights, warrants, options or other securities that are convertible into, or exercisable or exchangeable for, Common Stock.

1.11 Placement Agent. The Subscriber agrees that neither the Placement Agent or any of its directors, officers, employees or agents shall be liable to any Subscriber for any action taken or omitted to be taken by it in connection therewith, except for willful misconduct or gross negligence.

1.12 Legends. The Subscriber understands that the certificates representing the Securities, until such time as they have been registered under the 1933 Act, shall bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of such certificates or other instruments):

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, OR (B) AN OPINION OF COUNSEL, IN A REASONABLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS, OR (II) UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT.

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of the Underlying Shares upon which it is stamped, if (a) such Underlying Shares are being sold pursuant to a registration statement under the 1933 Act, (b) such holder delivers to the Company an opinion of counsel, in a reasonably acceptable form, to the Company that a disposition of the Underlying Shares is being made pursuant to an exemption from such registration, or (c) such holder provides the Company with reasonable assurance that a disposition of the Underlying Shares may be made

pursuant to the Rule without any restriction as to the number of securities acquired as of a particular date that can then be immediately sold.

1.13 No General Solicitation. The Subscriber represents that the Subscriber was not induced to invest by any form of general solicitation or general advertising including, but not limited to, the following: (i) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over the news or radio; and (ii) any seminar or meeting whose attendees were invited by any general solicitation or advertising.

1.14 Validity; Enforcement. If the Subscriber is a corporation, partnership, trust or other entity, the Subscriber represents and warrants that: (a) it is authorized and otherwise duly qualified to purchase and hold the Units; and (b) that this Subscription Agreement



has been duly and validly authorized, executed and delivered and constitutes the legal, binding and enforceable obligation of the undersigned.

1.15 Address. The Subscriber hereby represents that the address of Subscriber furnished by the Subscriber at the end of this Subscription Agreement is the undersigned's principal residence if the Subscriber is an individual or its principal business address if it is a corporation or other entity.

1.16 Foreign Subscriber. If the Subscriber is not a United States person, such Subscriber hereby represents that it has satisfied itself as to the full observance of the laws of its jurisdiction in connection with any invitation to subscribe for the Shares comprising the Units or any use of this Subscription Agreement, including: (a) the legal requirements within its jurisdiction for the purchase of the Units; (b) any foreign exchange restrictions applicable to such purchase; (c) any governmental or other consents that may need to be obtained; and (d) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale or transfer of the Shares comprising the Units. Such Subscriber's subscription and payment for, and his or her continued beneficial ownership of the Securities, will not violate any applicable securities or other laws of the Subscriber's jurisdiction.

1.17 NASD Member. The Subscriber acknowledges that if it is a Registered Representative of a NASD member firm, the Subscriber must give such firm notice required by the NASD's Rules of Fair Practice, receipt of which must be acknowledged by such firm on the signature page hereof.

1.18 Increase in Maximum Offering. The Subscriber acknowledges that the Maximum Offering may be increased by up to 20 Units ($2,000,000) without notice to Subscribers.

II. REPRESENTATIONS BY THE COMPANY

The Company represents and warrants to the Subscriber, except as set forth in the disclosure schedules attached hereto:

2.1 Organization and Qualification. The Company is duly organized and validly existing in good standing under the laws of the jurisdiction in which it is organized, and has the requisite power and authorization to own its properties and to carry on its business as now being conducted. The Company is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which its ownership of property or the nature of the business conducted by it makes such qualification necessary, except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect. As used in this Subscription Agreement, "Material Adverse Effect" means any material adverse effect on the business, properties, assets, operations, results of operations, financial condition or prospects of the Company, or on the transactions contemplated hereby, or by the other Offering Documents or the agreements and instruments to be entered into in connection herewith or therewith, or on the authority or ability of the Company to perform its obligations under the Offering Documents. The Company does not have any operating subsidiaries other than as set

forth in the Offering Documents and all of the non-operating subsidiaries are wholly-owned by the Company.

2.2 Authorization; Enforcement; Validity. The Company has the requisite corporate power and authority to enter into and perform its obligations under this Subscription Agreement and the other Offering Documents, to file and perform its obligations under the Offering Documents, and to issue the Securities in accordance with the terms of the Offering Documents. The execution and delivery of the Offering Documents by the Company and the consummation by the Company of the transactions contemplated by the Offering Documents, including without limitation the issuance of the Securities, have been duly authorized by the Company's board of directors and no further consent or authorization is required by the Company, its board of directors or its stockholders.

2.3 Issuance of Securities. The issuance, sale and delivery of the Securities have been duly authorized by all requisite corporate action by the Company and, upon issuance in accordance with the Offering Documents, shall be (a) duly authorized, validly issued, fully paid and non-assessable, and (b) free from all taxes, liens and charges with respect to the issue thereof.

2.4 No Conflicts. The execution, delivery and performance of the Offering Documents by the Company and the consummation by the Company of the transactions contemplated therein, will not (a) result in a violation of the Company's Certificate of Incorporation, any certificate of designations, preferences and rights of any outstanding series of preferred stock of the Company, or the Company's bylaws, (b) conflict with, or constitute a default or an event which with notice or lapse of time or both would become a default under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, lease, license or instrument (including without limitation, any document filed as an exhibit to any of the Company's SEC Documents (as defined below)), or (c) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and the rules and regulations of The Nasdaq Stock Market, Inc.) applicable to the Company or by which any property or asset of the Company is bound or affected.

2.5 SEC Documents; Financial Statements. Since September 30, 2001, the Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Exchange Act (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein being hereinafter referred to as the "SEC Documents"). The Company has made available to the Subscriber or its representatives copies of the SEC Documents. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of their respective dates, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such



financial statements have been prepared in accordance with generally accepted accounting principles, consistently applied, during the periods involved (except (a) as may be otherwise indicated in such financial statements or the notes thereto, or (b) in the case of unaudited interim statements, to the extent they

may exclude footnotes or may be condensed or summary statements) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments that will not be material). As of the date hereof, the Company meets the requirements for the use of Form S-3 for registration of the resale of the Underlying Shares.

2.6 Absence of Litigation. Except as set forth in the Offering Documents or the SEC Documents, there is no action, suit, proceeding, inquiry or investigation before or by the Nasdaq Stock Market, Inc., any court, public board, government agency, self-regulatory organization or body, or arbitrator pending or, to the knowledge of the Company, threatened against the Company or any of the Company's officers or directors in their capacities as such which would have a Material Adverse Effect.

2.7 Securities Law Compliance. The offer, offer for sale, and sale of the Units have not been registered with the SEC. The Units are to be offered for sale and sold in reliance upon the exemptions from the registration requirements of Section 5 of the 1933 Act. The Company will conduct the Offering in compliance with the requirements of Regulation D under the 1933 Act, and the Company will file all appropriate notices of offering with the SEC.

2.8 Disclosure. None of the representations and warranties of the Company appearing in this Subscription Agreement or any information appearing in any of the Offering Documents, when considered together as a whole, contains, or on any Closing Date (as defined in Section 3.1 below) will contain, any untrue statement of a material fact or omits, or on any Closing Date will omit, to state any material fact required to be stated herein or therein in order for the statements herein or therein, in light of the circumstances under which they were made, not to be misleading.

III. TERMS OF SUBSCRIPTION

3.1 Offering Period. The subscription period will begin as of January 10, 2002 and will terminate at 11:59 PM Eastern time on February 28, 2002, unless extended by mutual agreement of the Company and the Placement Agent for up to an additional 30 days (the "Termination Date"); provided that in no event will the offering terminate prior to the 10th business day following the Company's public announcement that it has effected a reverse stock split. Provided the Minimum Offering shall have been subscribed for, funds representing the sale thereof shall have cleared, all conditions to closing set forth in the Agency Agreement have been satisfied or waived and neither the Company nor the Placement Agent have notified the other that they do not intend to effect the closing of the Minimum Offering, the Initial Closing shall take place at the offices of counsel to the Placement Agent, Loeb & Loeb, 345 Park Avenue, New York, New York 10154, within three business days thereafter (but in no event later than three days following the Termination Date, which closing date may be accelerated or adjourned by agreement between the Company and the Placement Agent). At the Initial Closing, payment for the Units issued and sold by the Company shall be made against delivery of the



Notes and Warrants comprising such Units. Subsequent closings (each of which shall be deemed a "Closing" hereunder) shall take place by mutual agreement of the Company and the Placement Agent. The date of the last closing of the Offering is hereinafter referred to as the "Final Closing" and the date of any Closing hereunder is hereinafter referred to as a "Closing Date".

3.2 Expenses; Fees. Simultaneously with payment for and delivery of the Units at each Closing, the Company shall pay to the Placement Agent a cash fee equal to 10% of the gross proceeds of the Units sold and shall issue to the Placement Agent and its designees five-year warrants (the "Agent's Warrants") to purchase that number of shares of Common Stock as equals 10% of the Underlying Shares initially issuable upon conversion and exercise of the Notes and Warrants sold in the Offering. The Company shall also reimburse the Placement Agent for actual out-of-pocket expenses incurred in connection with the Offering, including, without limitation, the reasonable fees and expenses of its counsel (Loeb & Loeb LLP), due diligence investigation expenses, travel and mailing expenses. The Company shall also pay all expenses in connection with the qualification of the Securities under the blue sky laws of the states which the

Placement Agent shall designate, including legal fees, filing fees and disbursements of Placement Agent's counsel in connection with such blue sky matters.

3.3 Escrow. Pending the sale of the Units, all funds paid hereunder shall be deposited by the Company in escrow with the Escrow Agent.

3.4 Certificates. The Subscriber hereby authorizes and directs the Company, upon each Closing in the Offering, to deliver the Notes and Warrants to be issued to such Subscriber pursuant to this Subscription Agreement either (a) to the Subscriber's address indicated in the Questionnaire, or (b) directly to the Subscriber's account maintained with the Placement Agent, if any.

3.5 Return of Funds. The Subscriber hereby authorizes and directs the Company to return any funds for unaccepted subscriptions to the same account from which the funds were drawn, including any customer account maintained with the Placement Agent.

IV. REGISTRATION RIGHTS

4.1 Automatic Registration. The Company hereby agrees with the holders of the Securities or their transferees (other than a transferee who acquires shares pursuant to Rule 144 or an effective registration statement) (collectively, the "Holders") that no later than three months following the date of the Initial Closing, the Company shall prepare and file a registration statement under the 1933 Act with the SEC covering the resale of the Shares, and the Company will use its best efforts to cause such registration to become effective within three months thereafter. In the event that the Company's registration statement has not been declared effective by the SEC within six months following the date of the Initial Closing or if the registration statement has been suspended beyond 30 days in any one instance or a total of 60 days in any 365-day period, the Conversion Price shall be reduced by 5% for each month (or portion thereof) until such time as the registration is effective or the suspension ceases and the prospectus may be used. The Company's obligation to keep the registration statement effective shall continue until the earlier of (a) the date that all of the Underlying Shares have been sold pursuant to Rule 144 under the 1933 Act or an effective registration statement, or (b) such time



as the Underlying Shares are eligible for immediate resale pursuant to Rule 144(k) under the 1933 Act.

4.2 "Piggyback" Registration Rights. At any time after the Initial Closing, if the Company shall determine to proceed with the actual preparation and filing of a new registration statement under the 1933 Act in connection with the proposed offer and sale of any of its securities by it or any of its security holders (other than a registration statement on Form S-4, S-8 or other limited purpose form), the Company will give written notice of its determination to all record holders of the Underlying Shares. Upon the written request from any Holders (the "Requesting Holders"), within 15 days after receipt of any such notice from the Company, the Company will, except as herein provided, cause all of the Underlying Shares covered by such request (the "Requested Stock") held by the Requesting Holders to be included in such registration statement, all to the extent requisite to permit the sale or other disposition by the prospective seller or sellers of the Requested Stock; provided, further, that nothing herein shall prevent the Company from, at any time, abandoning or delaying any registration. If any registration pursuant to this Section 4.2 shall be underwritten in whole or in part, the Company may require that the Requested Stock be included in the underwriting on the same terms and conditions as the securities otherwise being sold through the underwriters. In such event, the Requesting Holders shall, if requested by the underwriters, execute an underwriting agreement containing customary representations and warranties by selling stockholders and a lock-up on Underlying Shares not being sold. If in the good faith judgment of the managing underwriter of such public offering the inclusion of all of the Requested Stock would reduce the number of shares to be offered by the Company or interfere with the successful marketing of the shares of stock offered by the Company, the number of shares of Requested Stock otherwise to be included in the underwritten public offering may be reduced pro rata (by number of shares) among the

Requesting Holders and all other holders of registration rights who have requested inclusion of their securities or excluded in their entirety if so required by the underwriter. To the extent only a portion of the Requested Stock is included in the underwritten public offering, those shares of Requested Stock which are thus excluded from the underwritten public offering and any other securities of the Company held by such holders shall be withheld from the market by the Holders thereof for a period, not to exceed 90 days, which the managing underwriter reasonably determines is necessary in order to effect the underwritten public offering. The obligation of the Company under this Section 4.2 shall not apply after the earlier of (a) the date that all of the Underlying Shares have been sold pursuant to Rule 144 under the 1933 Act or an effective registration statement, or (b) such time as the Underlying Shares are eligible for immediate resale pursuant to Rule 144(k) under the 1933 Act.

4.3 Registration Procedures. To the extent required by Sections 4.1 or 4.2, the Company will:

(a) prepare and file with the SEC a registration statement with respect to such securities, and use its best efforts to cause such registration statement to become and remain effective;

(b) prepare and file with the SEC such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective;



(c) furnish to the Holders participating in such registration and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as such underwriters may reasonably request in order to facilitate the public offering of such securities;

(d) use its best efforts to register or qualify the securities covered by such registration statement under such state securities or blue sky laws of such jurisdictions as the Holders may reasonably request in writing within 20 days following the original filing of such registration statement, except that the Company shall not for any purpose be required to execute a general consent to service of process or to qualify to do business as a foreign corporation in any jurisdiction wherein it is not so qualified;

(e) notify the Holders, promptly after it shall receive notice thereof, of the time when such registration statement has become effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(f) notify the Holders promptly of any request by the SEC for the amending or supplementing of such registration statement or prospectus or for additional information;

(g) prepare and file with the SEC, promptly upon the request of any Holders, any amendments or supplements to such registration statement or prospectus which, in the opinion of counsel for such Holders (and concurred in by counsel for the Company), is required under the 1933 Act or the rules and regulations thereunder in connection with the distribution of Common Stock by such Holders;

(h) prepare and promptly file with the SEC and promptly notify such Holders of the filing of such amendment or supplement to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the 1933 Act, any event shall have occurred as the result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading; and

(i) advise the Holders, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the SEC suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts

to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued.

The Holders shall cooperate with the Company in providing the information necessary to effect the registration of their Underlying Shares, including completion of customary questionnaires. Failure to do so may result in exclusion of such Holders' Underlying Shares from the registration statement.

4.4 Expenses.



(a) With respect to the any registration required pursuant to Section 4.1 or 4.2 hereof, all fees, costs and expenses of and incidental to such registration, inclusion and public offering (as specified in paragraph (b) below) in connection therewith shall be borne by the Company, provided, however, that the Holders shall bear their pro rata share of the underwriting discount and commissions and transfer taxes and the cost of their own counsel.

(b) The fees, costs and expenses of registration to be borne by the Company as provided in paragraph (a) above shall include, without limitation, all registration, filing, and NASD fees, printing expenses, fees and disbursements of counsel and accountants for the Company, and all legal fees and disbursements and other expenses of complying with state securities or blue sky laws of any jurisdictions in which the securities to be offered are to be registered and qualified (except as provided in 4.4(a) above). Fees and disbursements of counsel and accountants for the Holders and any other expenses incurred by the Holders not expressly included above shall be borne by the Holders.

4.5 Indemnification.

(a) The Company will indemnify and hold harmless each Holder of Underlying Shares which are included in a registration statement pursuant to the provisions of Sections 4.1 and 4.2 hereof, its directors and officers, and any underwriter (as defined in the 1933 Act) for such Holder and each person, if any, who controls such Holder or such underwriter within the meaning of the 1933 Act, from and against, and will reimburse such Holder and each such underwriter and controlling person with respect to, any and all loss, damage, liability, cost and expense to which such Holder or any such underwriter or controlling person may become subject under the 1933 Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, however, that the Company will not be liable in any such case to the extent that any such loss, damage, liability, cost or expenses arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by or on behalf of such Holder, such underwriter or such controlling person in writing specifically for use in the preparation thereof.

(b) Each Holder of Underlying Shares included in a registration pursuant to the provisions of Sections 4.1 or 4.2 hereof will indemnify and hold harmless the Company, its directors and officers, any controlling person and any underwriter from and against, and will reimburse the Company, its directors and officers, any controlling person and any underwriter with respect to, any and all loss, damage, liability, cost or expense to which the Company or any controlling person and/or any underwriter may become subject under the 1933 Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they

were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was so made in reliance upon and in strict conformity with written information furnished by or on behalf of such Holder specifically for use in the preparation thereof.

(c) Promptly after receipt by an indemnified party pursuant to the provisions of paragraph (a) or (b) of this Section 4.5 of notice of the commencement of any action involving the subject matter of the foregoing indemnity provisions such indemnified party will, if a claim thereof is to be made against the indemnifying party pursuant to the provisions of said paragraph (a) or (b), promptly notify the indemnifying party of the commencement thereof; but the omission to so notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise under this Section except to the extent the defense of the claim is prejudiced. In case such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party shall have the right to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, provided, however, if counsel for the indemnifying party concludes that a single counsel cannot under applicable legal and ethical considerations, represent both the indemnifying party and the indemnified party, the indemnified party or parties have the right to select separate counsel to participate in the defense of such action on behalf of such indemnified party or parties; provided that there shall be no more than one such separate counsel. After notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party pursuant to the provisions of said paragraph (a) or (b) for any legal or other expense subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation, unless (i) the indemnified party shall have employed counsel in accordance with the provisions of the preceding sentence, (ii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after the notice of the commencement of the action or (iii) the indemnifying party has, in its sole discretion, authorized the employment of counsel for the indemnified party at the expense of the indemnifying party.

V. MISCELLANEOUS

5.1 Notice. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Subscription Agreement must be in writing and will be deemed to have been delivered: (a) upon receipt, when delivered personally, (b) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party), or (c) one (1) business day after deposit with an overnight courier service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:



If to the Company:

eB2B Commerce, Inc.
757 Third Avenue
New York, New York 10017
Telephone: (212) 703-2000
Facsimile: (212)
Attention: Peter J. Fiorillo

With a copy to:

Kaufman & Moomjian, LLC

50 Charles Lindbergh Blvd.
Mitchel Field, New York
Telephone: (516) 222-5100
Facsimile: (516) 222-5110
Attention: Gary Moomjian, Esq.

If to the Subscriber, to its address and facsimile number set forth at the end of this Subscription Agreement, or to such other address and/or facsimile number and/or to the attention of such other person as specified by written notice given to the Company five (5) days prior to the effectiveness of such change. Written confirmation of receipt (a) given by the recipient of such notice, consent, waiver or other communication, (b) mechanically or electronically generated by the sender's facsimile machine containing the time, date, recipient facsimile number and an image of the first page of such transmission, or (c) provided by an overnight courier service shall be rebuttable evidence of personal service, receipt by facsimile or receipt from an overnight courier service in accordance with clause (a), (b) or (c) above, respectively.

5.2 Entire Agreement; Amendment. This Subscription Agreement supersedes all other prior oral or written agreements between the Subscriber, the Company, their affiliates and persons acting on their behalf with respect to the matters discussed herein, and this Subscription Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Subscriber makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Subscription Agreement may be amended or waived other than by an instrument in writing signed by the Company and the holders of at least a majority of the Securities then outstanding (or if prior to the Closing, the Subscribers purchasing at least a majority of the Units to be purchased at the Closing). No such amendment shall be effective to the extent that it applies to less than all of the holders of the Securities then outstanding.

5.3 Severability. If any provision of this Subscription Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Subscription Agreement in that jurisdiction or the validity or enforceability of any provision of this Subscription Agreement in any other jurisdiction.



5.4 Governing Law; Jurisdiction; Jury Trial. All questions concerning the construction, validity, enforcement and interpretation of this Subscription Agreement shall be governed by the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the state and federal courts sitting in the Southern District of New York, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Subscription Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereby irrevocably waives any right it may have, and agrees not to request, a jury trial for the adjudication of any dispute hereunder or in connection with or arising out of this Subscription Agreement or any transaction contemplated hereby.

5.5 Headings. The headings of this Subscription Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Subscription Agreement.

5.6 Successors And Assigns. This Subscription Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns, including any purchasers of the Notes and the Warrants. The Company shall not assign this Subscription Agreement or any rights or obligations hereunder without the prior written consent of the holders of at least a majority the Securities then outstanding, except by merger or consolidation. The Subscriber may assign some or all of its rights hereunder without the consent of the Company, provided, however, that any such assignment shall not release the Subscriber from its obligations hereunder unless such obligations are assumed by such assignee and the Company has consented to such assignment and assumption, which consent shall not be unreasonably withheld.

5.7 No Third Party Beneficiaries. This Subscription Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

5.8 Survival. The representations and warranties of the Company and the Subscriber contained in Articles I and II and the agreements set forth this Article V shall survive the Final Closing for a period of two years.

5.9 Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request



in order to carry out the intent and accomplish the purposes of this Subscription Agreement and the consummation of the transactions contemplated hereby.

5.10 No Strict Construction. The language used in this Subscription Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

5.11 Legal Representation. The Subscriber acknowledges that: (a) it has read this Subscription Agreement and the exhibits hereto; (b) it understands that the Company has been represented in the preparation, negotiation, and execution of this Subscription Agreement by Kaufman & Moomjian, LLC, counsel to the Company; (c) it understands that the Placement Agent has been represented by Loeb & Loeb LLP, counsel to the Placement Agent, and that such counsel has not represented and is not representing the Subscriber; (d) it has either been represented in the preparation, negotiation, and execution of this Subscription Agreement by legal counsel of its own choice, or has chosen to forego such representation by legal counsel after being advised to seek such legal representation; and (e) it understands the terms and consequences of this Subscription Agreement and is fully aware of its legal and binding effect.

5.12 Expenses of Enforcement. The Company shall pay all fees and expenses (including reasonable fees and expenses of counsel and other professionals) incurred by the Subscriber or any successor holder of Securities in enforcing any of its rights and remedies under this Subscription Agreement.

5.13 Confidentiality. The Subscriber agrees that it shall keep confidential and not divulge, furnish or make accessible to anyone, the confidential information concerning or relating to the business or financial affairs of the Company contained in the Offering Documents to which it has become privy by reason of this Subscription Agreement until such information has been publicly disclosed by the Company or until such information is no longer material.

5.14 Counterparts. This Subscription Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party; provided that a facsimile signature shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original, not a facsimile signature.

IN WITNESS WHEREOF, the parties have executed this Subscription Agreement as of the day and year first written above.

<TABLE>
<S> <C>

| | |
|---|---|
| Signature of Subscriber | Signature of Co-Subscriber |
| Name of Subscriber [please print] | Name of Co-Subscriber [please print] |
| Address of Subscriber | Address of Co-Subscriber |
| Social Security or Taxpayer Identification Number of Subscriber | Social Security or Taxpayer Identification Number of Co-Subscriber |
| Subscriber's Account Number at Commonwealth Associates | |
| Dollar Amount of Units Subscribed For | |

*If Subscriber is a Registered Representative with an NASD member firm, have the following acknowledgment signed by the appropriate party:

| | |
|---|---|
| The undersigned NASD member firm acknowledges receipt of the notice required by Rule 3040 of the NASD Conduct Rules. | Subscription Accepted: |
| | By: |
| Name of NASD Member | Name: Title |
| By | Dollar Amount of Subscription Accepted |
| Authorized Officer Accepted | |

</TABLE>



SCHEDULE TO EXHIBIT 10.9
UNIT SUBSCRIPTION AGREEMENT
CONVERTIBLE NOTES AND WARRANTS

<TABLE>
<CAPTION>

Convertible Notes and Warrants

| Name of Subscriber | Underlying Units Subscribed For | |
|---|---|---|
| | Amount of Convertible Notes | Number of Warrants |
| <S> | <C> | <C> |
| Alpine Ventures Capital Partners, L.P. | $ 500,000 | 206,610 |
| Chesed Congregations of America | 290,000 | 119,833 |
| J.F. Shea & Co., Inc. | 400,000 | 165,288 |
| Levitin, Eli | 10,000 | 4,132 |
| Priddy, Robert | 700,000 | 289,254 |
| Safier, Jacob | 100,000 | 41,322 |
| TOTAL | $2,000,000 | 826,439 |

</TABLE>

Exhibit 10.10

THIS NOTE AND THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE HAVE BEEN ACQUIRED FOR INVESTMENT PURPOSES ONLY AND MAY NOT BE TRANSFERRED UNTIL (i) A REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), SHALL HAVE BECOME EFFECTIVE WITH RESPECT THERETO OR (ii) RECEIPT BY THE COMPANY OF AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY TO THE EFFECT THAT REGISTRATION UNDER THE SECURITIES ACT IS NOT REQUIRED IN CONNECTION WITH SUCH PROPOSED TRANSFER NOR IS SUCH TRANSFER IN VIOLATION OF ANY APPLICABLE STATE SECURITIES LAWS. THIS LEGEND SHALL BE ENDORSED UPON ANY NOTE ISSUED IN EXCHANGE FOR THIS NOTE OR ANY SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE.

THIS NOTE AND THE RIGHTS AND OBLIGATIONS OF THE COMPANY AND PAYEE HEREUNDER ARE SUBJECT TO THE SUBORDINATION PROVISIONS SET FORTH IN SECTION 2 HEREOF. IN THE EVENT OF A CONFLICT BETWEEN ANY TERMS OF THIS NOTE AND THE TERMS OF SUCH SECTION 2, THE TERMS OF SECTION 2 SHALL GOVERN.

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eB2B COMMERCE, INC.

No. _____ $_____

Senior Subordinated Secured Convertible Note

eB2B Commerce, Inc., a New Jersey corporation (the "Company"), for value received, hereby promises to pay to the order of _____ (the "Payee") on the earlier of: (i) _____, 2007 [60 months after initial issuance]; (ii) a merger or combination of the Company in which the shareholders of the Company prior to the transaction own less than a majority of the outstanding shares of the surviving or combined entity after such transaction (a "Change of Control"); or (iii) the sale of all or substantially all of the assets of the Company to one or more third parties or the purchase by a single entity or person or group of affiliated entities or persons of issued and outstanding shares of the Company representing more than 50% of the voting power (the "Maturity Date") at the offices of the Company, subject to the following sentence, the principal sum of _____ Dollars ($_____) or such lesser principal amount as shall at such time be outstanding hereunder (the "Principal Amount"). Each payment by the Company pursuant to this Note shall be made without set-off or counterclaim and shall be made in lawful currency of the United States of America and in immediately available funds.

Interest on this Note shall accrue on the Principal Amount outstanding from time to time at a rate per annum computed in accordance with Section 3 hereof and shall be payable quarterly in arrears on each March 31, June 30, September 30 and December 31 commencing March 31, 2002 (each, an "Interest Payment Date"). All payments by the Company hereunder shall be applied first to pay any interest which is due, but unpaid, then to reduce the Principal Amount.

The Company (i) waives presentment, demand, protest or notice of any kind in connection with this Note and (ii) agrees to pay to the Payee, on demand, all costs and expenses (including reasonable legal fees and expenses) incurred in connection with the enforcement and collection or this Note.



This Note is issued in connection with a private placement (the "Placement") through Commonwealth Associates, L. P. ("Commonwealth") of notes (the "Notes") and common stock purchase warrants (the "Warrants") pursuant to a Subscription Agreement, between the Company and the Payee (the "Subscription Agreement"), a copy of which agreement is available for inspection at the Company's principal office. Notwithstanding any provision to the contrary contained herein, this Note is subject and entitled to those terms, conditions, covenants and agreements contained in the Subscription Agreement that are expressly applicable to the Notes. Any transferee of this Note, by its

acceptance hereof, assumes the obligations of the Payee in the Subscription Agreement with respect to the conditions and procedures for transfer of this Note. Reference to the Subscription Agreement shall in no way impair the absolute and unconditional obligation of the Company to pay both principal hereof and interest hereon as provided herein.

The obligations of the Company under the Notes are secured by liens on the Company's assets, including its intellectual property rights, as set forth in and pursuant to a General Security Agreement (the "Security Agreement") of even date herewith.

1. Prepayment. The Principal Amount of this Note may be prepaid in whole or in part at any time upon fifteen (15) days' prior written notice to the Payee (a "Prepayment Notice"). In the event the Company determines to prepay this Note on or prior to _____, 2004 [24 months after initial issuance], it shall pay to the Payee, in addition to the Principal Amount and accrued interest thereon, a premium (the "Premium") calculated as follows:

<TABLE>
<CAPTION>

| Repayment Date | Premium |
|---|---|
| <S> | <C> |
| on or prior to _____, 2003 | 15% of the Principal Amount |
| after _____, 2003 and prior to _____, _____, 2003 | 10% of the Principal Amount |
| after _____, 2003 and prior to _____, 2004 | 5% of the Principal Amount |

</TABLE>

2. Subordination. The Company, for itself, its successors and assigns, covenants and agrees, and the Payee and each successive holder of this Note, by its acceptance of this Note, likewise covenants and agrees (expressly for the benefit of the present and future holders of the Senior Debt (as hereinafter defined)), that the payment of principal of, and interest on, this Note is hereby expressly subordinated in right of payment to the prior payment in full of the principal of, premium (if any) and interest on, all Senior Debt of the Company (other than the Notes), hereafter incurred or created. "Senior Debt" means, collectively, (i) all Indebtedness for Borrowed Money (and all renewals, extensions, refundings, amendments and modifications of any such Indebtedness for Borrowed Money); and (ii) all payment obligations of the Company pursuant to any capitalized lease with an entity that is not an affiliate of the Company, unless by the terms of the instrument creating or evidencing any such indebtedness it is expressly provided that such indebtedness is not superior in right of payment to the Notes.

"Indebtedness for Borrowed Money" means (i) all payment obligations of the Company to a bank, insurance company, finance company or other institutional lender or other entity



regularly engaged in the business of extending credit in the form of borrowed money, provided such entity is not an affiliate of the Company (each of the foregoing, an "Institutional Lender") in respect of extensions of credit to the Company (or to a subsidiary of the Company to the extent such obligations are guaranteed by the Company pursuant to a written guarantee executed by the appropriate officers of the Company) and (ii) all obligations, contingent or otherwise, relative to the face amount of all asset-based letters of credit, whether or not drawn, and banker's acceptances, in each case issued for the

account of the Company (other than such as may be for the benefit of an affiliate of the Company).

The provisions of this Section 2 are not for the benefit of the Company, but are solely for the purpose of defining the relative rights of the holders of the Senior Debt, on the one hand, and the holders of the Notes, on the other hand. Nothing contained herein (i) shall impair, as between the Company and the holder of this Note, the obligations of the Company, which are absolute and unconditional, to pay to the holder hereof all amounts payable in respect of this Note as and when the same shall become due and payable in accordance with the terms hereof or (ii) is intended to or shall affect the relative rights of the holder of this Note and the creditors of the Company, or (iii) shall prevent the holder of this Note from exercising all rights, powers and remedies otherwise permitted by applicable law or upon a default or Event of Default under this Note as set forth in these subordination provisions.

3. Computation of Interest. All computations of interest hereunder shall be made based on the actual number of days elapsed in a year of 365 days (including the first day but excluding the last day during which any such Principal Amount is outstanding).

A. Base Interest Rate. Subject to Sections 3B and 3C below, the outstanding Principal Amount shall bear interest at the rate of seven percent (7%) per annum.

B. Penalty Interest. In the event this Note is not repaid on the Maturity Date, the rate of interest applicable to the unpaid Principal Amount shall be adjusted to twelve percent (12%) per annum from the Maturity Date until repayment; provided, that in no event shall the interest rate exceed the Maximum Rate provided in Section 3C below.

C. Maximum Rate. In the event that it is determined that, under the laws relating to usury applicable to the Company or the indebtedness evidenced by this Note ("Applicable Usury Laws"), the interest charges and fees payable by the Company in connection herewith or in connection with any other document or instrument executed and delivered in connection herewith cause the effective interest rate applicable to the indebtedness evidenced by this Note to exceed the maximum rate allowed by law (the "Maximum Rate"), then such interest shall be recalculated for the period in question and any excess over the Maximum Rate paid with respect to such period shall be credited, without further agreement or notice, to the Principal Amount outstanding hereunder to reduce said balance by such amount with the same force and effect as though the Company had specifically designated such extra sums to be so applied to principal and the Payee had agreed to accept such extra payment(s) as a premium-free prepayment. All such deemed prepayments shall be applied to the principal balance payable at maturity. In no event shall any agreed-to or actual exaction as consideration for this Note exceed the limits imposed or provided by Applicable Usury Laws in the jurisdiction in which the



Company is resident applicable to the use or detention of money or to forbearance in seeking its collection in the jurisdiction in which the Company is resident.

D. Method of Payment. Interest on this Note shall be payable in cash or in shares of Common Stock based on the average closing sale price for the ten (10) trading days immediately preceding the Interest Payment Date provided such shares have been registered for resale under the Securities Act and are freely tradable immediately upon their issuance. The method of interest payment shall be at the option of the Company.

4. Covenants of Company.

A. Affirmative Covenants. The Company covenants and agrees that, so long as this Note shall be outstanding, it will perform the obligations set forth in this Section 4A:

(i) Taxes and Levies. The Company will promptly pay and

discharge all material taxes, assessments, and governmental charges or levies imposed upon the Company or upon its income and profits, or upon any of its property, before the same shall become delinquent, as well as all material claims for labor, materials and supplies which, if unpaid, might become a lien or charge upon such properties or any part thereof; provided, however, that the Company shall not be required to pay and discharge any such tax, assessment, charge, levy or claim so long as the validity thereof shall be contested in good faith by appropriate proceedings and the Company shall set aside on its books adequate reserves in accordance with generally accepted accounting principles ("GAAP") with respect to any such tax, assessment, charge, levy or claim so contested.

(ii) Maintenance of Existence. The Company will do or cause to be done all things reasonably necessary to preserve and keep in full force and effect its corporate existence, rights and franchises and comply with all laws applicable to the Company, except where the failure to comply would not have a material adverse effect on the Company or otherwise in connection with an acquisition of the Company.

(iii) Maintenance of Property. The Company will at all times maintain, preserve, protect and keep its property used or useful in the conduct of its business in good repair, working order and condition, and from time to time make all needful and proper repairs, renewals, replacements and improvements thereto as shall be reasonably required in the conduct of its business.

(iv) Books and Records. The Company will at all times keep true and correct books, records and accounts reflecting all of its business affairs and transactions in accordance with GAAP.

(v) Notice of Certain Events. The Company will give prompt written notice (with a description in reasonable detail) to the Payee of the occurrence of any Event of Default or any event which, with the giving of notice or the lapse of time, would constitute an Event of Default.



B. Negative Covenants. The Company covenants and agrees that, so long as this Note shall be outstanding, it will perform the obligations set forth in this Section 4B:

(i) Liquidation, Dissolution. The Company will not liquidate or dissolve, consolidate with, or merge into or with, any corporation or entity, except that (1) any wholly-owned subsidiary may merge with another wholly-owned subsidiary or with the Company (so long as the Company is the surviving corporation and no Event of Default shall occur as a result thereof) and (2) the Company may complete a merger or consolidation if the surviving entity has cash and cash equivalents and/or net assets which are either (a) equal to or greater than the then outstanding Principal Amount, Premium and accrued interest on the Notes or (b) equal to or greater than the Company's cash and cash equivalents and/or net assets immediately prior to such merger or consolidation.

(ii) Sales of Assets. The Company will not sell, transfer, lease or otherwise dispose of, or grant options, warrants or other rights with respect to, all or substantially all of its properties or assets to any person or entity other than in connection with a transaction covered by clause (i) above unless this Note is repaid in full prior to or in connection with such transaction; provided that this clause (ii) shall not restrict any disposition made in the ordinary course of business and consisting of

(a) capital goods which are obsolete or have no remaining useful life; or

(b) finished goods inventories.

(iii) Transactions with Affiliates. The Company will not enter into any transaction, including, without limitation, the purchase, sale, lease or exchange of property, real or personal, the purchase or sale of any

security, the borrowing or lending of any money, or the rendering of any service, with any person or entity affiliated with the Company (including officers, directors and shareholders owning 3% or more of the Company's outstanding capital stock), except upon terms not less favorable than would be obtained in a comparable arms-length transaction with any other person or entity not affiliated with the Company except (a) transactions valued at less than $25,000 entered into in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms not less favorable than would be obtained in a comparable arms-length transaction with any other person or entity not affiliated with the Company, (b) transactions with Commonwealth or (c) transactions approved by the majority of the independent members of the Board of Directors.

(iv) Investments. The Company will not purchase, own, invest in or otherwise acquire, directly or indirectly, any stock or other securities or make or permit to exist any investment or capital contribution or acquire any interest whatsoever in any other person or entity or permit to exist any loans or advances for such purposes except for investments in direct obligations of the United States of America or any state thereof or any agency thereof, obligations guaranteed by the United States of America or any state thereof and certificates of deposit or other obligations of any bank or trust company organized under the laws of the United States or any state thereof and having capital and surplus of at least $500,000,000; provided, however, that nothing contained in this clause (iv) shall preclude the Company from making



acquisitions, organizing and making advances to subsidiaries, and entering into joint ventures or other business arrangements for the purpose of expanding its business.

(v) Proration of Payments. The Company shall not make or permit any payment or other recovery (whether voluntary, involuntary, by application of setoff or otherwise) on account of Principal Amount or Premium or interest payable hereunder in excess of the Payee's pro rata share of payments then being made in respect of all Notes.

(vi) Indebtedness. The Company will not create, incur, assume or suffer to exist, contingently or otherwise, any indebtedness for borrowed money that is either (i) pari passu or senior in right of payment to the Notes (provided, however, that the Company may incur Senior Debt), (ii) subordinated in right of payment to the Notes if such indebtedness is due and payable prior to the Maturity Date, or (iii) at the time of incurrence would preclude the timely repayment of this Note or otherwise render the Company unable to pay its debts as they become due.

(vii) Negative Pledge. The Company will not hereafter create, incur, assume or suffer to exist any mortgage, pledge, hypothecation, assignment, security interest, encumbrance, lien (statutory or other), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement and any financing lease) (each, a "Lien") upon any of its property, revenues or assets, whether now owned or hereafter acquired, except:

(a) Liens granted to secure indebtedness incurred to finance the acquisition (whether by purchase or capitalized lease) of tangible assets, but only on the assets acquired with the proceeds of such indebtedness;

(b) Liens for taxes, assessments or other governmental charges or levies not at the time delinquent or thereafter payable without penalty or being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books;

(c) Liens of carriers, warehousemen, mechanics, materialmen and landlords incurred in the ordinary course of business for sums not overdue or being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its

books;

(d) Liens (other than Liens arising under the Employee Retirement Income Security Act of 1974, as amended, or Section 412(n) of the Internal Revenue Code of 1986, as amended) incurred in the ordinary course of business in connection with workers' compensation, unemployment insurance or other forms of governmental insurance or benefits, or to secure performance of tenders, statutory obligations, leases and contracts (other than for borrowed money) entered into in the ordinary course of business or to secure obligations on surety or appeal bonds;

(e) judgment Liens in existence less than sixty (60) days after the entry thereof or with respect to which execution has been stayed; and



(f) any other Permitted Liens (as defined in the Security Agreement).

(viii) Dividends. The Company will not declare or pay any dividends or distributions on its outstanding capital stock other than as provided for in any certificates of designation for with respect to shares of preferred stock.

(ix) Acceleration of Payments. The Company shall not make any accelerated payment under any agreement, lease, loan or any other similar instrument, whether due to settlement, entry of judgement or otherwise, which shall exceed $50,000 in any one instance or $100,000 in the aggregate. Notwithstanding the preceding sentence, the Company shall be permitted to pay the accounts payable reflected on the balance sheet of the Company contained in the most recently filed Quarterly Report on Form 10-QSB and other payables which are incurred in the ordinary course of business.

(x) Executive Compensation. The Company shall not increase the compensation payable to any current executive officer of the Company without the approval of the majority of the independent members of the Board.

(xi) Issuance of Redeemable Securities. The Company shall not issue any securities that are redeemable or otherwise provide for cash payments to the holders thereof if such payments can be made prior to the Maturity Date.

5. Events of Default.

A. The term "Event of Default" shall mean any of the events set forth in this Section 5A:

(i) Non-Payment of Obligations. The Company shall default in the payment of the Principal Amount or Premium when and as the same shall become due and payable, whether by acceleration or otherwise or, within ten (10) business days of its becoming due, accrued interest on this Note.

(ii) Non-Performance of Affirmative Covenants. The Company shall default in any material respect in the due observance or performance of any covenant set forth in Section 4A, which default shall continue uncured for ten (10) days.

(iii) Non-Performance of Negative Covenants. The Company shall default in any material respect in the due observance or performance of any covenant set forth in Section 4B.

(iv) Non-Performance of Other Obligations. The Company shall default in the due observance or performance of any other material covenant or agreement on the part of the Company to be observed or performed pursuant to the terms hereof, which default shall continue uncured for five (5)

days after such default has been discovered by the Company.

(v) Bankruptcy, Insolvency, etc. The Company shall:



(a) become insolvent or generally fail or be unable to pay, or admit in writing its inability to pay, its debts as they become due;

(b) apply for, consent to, or acquiesce in, the appointment of a trustee, receiver, sequestrator or other custodian for the Company or any of its property, or make a general assignment for the benefit of creditors;

(c) in the absence of such application, consent or acquiesce in, permit or suffer to exist the appointment of a trustee, receiver, sequestrator or other custodian for the Company or for any part of its property;

(d) permit or suffer to exist the commencement of any bankruptcy, reorganization, debt arrangement or other case or proceeding under any bankruptcy or insolvency law, or any dissolution, winding up or liquidation proceeding, in respect of the Company and, if such case or proceeding is not commenced by the Company or converted to a voluntary case, such case or proceeding shall be consented to or acquiesced in by the Company or shall result in the entry of an order for relief or shall remain for 60 days undismissed; or

(e) take any corporate or other action authorizing or in furtherance of, any of the foregoing.

(vi) Breach of Warranty. Any material representation or warranty of the Company contained in the Subscription Agreement is or shall be incorrect in any material respect when made.

(vii) Cross-Acceleration. Any indebtedness for borrowed money of the Company or any subsidiary in an aggregate principal amount exceeding $100,000 (1) shall be duly declared to be or shall become due and payable prior to the stated maturity thereof, or (2) shall not be paid as and when the same becomes due and payable, including any applicable grace period.

B. Action if Bankruptcy. If any Event of Default described in clauses (v)(a) through (d) of Section 5A shall occur, the outstanding Principal Amount of this Note and all other obligations hereunder shall automatically be and become immediately due and payable, without notice or demand.

C. Action if Other Event of Default. If any Event of Default (other than any Event of Default described in clauses (v)(a) through (d) of Section 5A) shall occur for any reason, whether voluntary or involuntary, and be continuing, the Holders may, upon notice to the Company, declare all or any portion of the outstanding Principal Amount of this Note, together with the Premium (if applicable) and interest accrued thereon to be due and payable and any or all other obligations hereunder to be due and payable, whereupon the full unpaid Principal Amount, such accrued interest and any and all other such obligations which shall be so declared due and payable shall be and become immediately due and payable, without further notice, demand, or presentment.



D. Remedies. Subject to the provisions of Section 5C and 7A hereof, in case any Event of Default shall occur and be continuing, the holders of not less than 25% of the outstanding aggregate Principal Amount of the Notes may proceed to protect and enforce their rights by a proceeding seeking the specific performance of any covenant or agreement contained in this Note or in aid of the exercise of any power granted in this Note or may proceed to enforce the payment of this Note or to enforce any other legal or equitable rights as

such holders shall determine.

6. Conversion of Note.

A. Optional Conversion. The Payee shall have the right, at its option, at any time up to and including the later of the Maturity Date or three business days following receipt of a Maturity Notice (as defined in Section 7J hereof), to convert all or the maximum permissible amount of the outstanding Principal Amount of this Note, together with accrued and unpaid interest, if any, into shares of the Company's common stock at the Conversion Price. The "Conversion Price" shall be $___ per share, subject to adjustment as provided in Section 7C. The shares of Common Stock to be issued upon such conversion are herein referred to as the "Conversion Shares."

B. Automatic Conversion. The Company shall have the right, at its sole discretion, to convert the outstanding Principal Amount, together with accrued and unpaid interest, into Common Stock at the Conversion Price if:

(i) (a) the average closing price per share of the Company's Common Stock equals or exceeds 200% of the then Conversion Price for twenty (20) consecutive trading days ending within five days of each notice to the Payee of conversion pursuant to this Section 7 (the "20-day trailing period"); (b) at least 90% of the Company's Series B and Series C preferred stock outstanding on January 10, 2002 have converted into Common Stock; (c) the Common Stock is then trading on the Nasdaq SmallCap, the Nasdaq National Market or a national securities exchange; (d) either a registration statement covering the resale of the Conversion Shares has been declared effective by the Securities and Exchange Commission and remains effective or Rule 144(k) is available for resale of the Conversion Shares; and (e) the Conversion Shares are not subject to any contractual restrictions on transferability with the Company, its underwriter or agent.

(ii) prior to the Maturity Date, the Company completes a public offering of its securities resulting in gross proceeds to the Company in excess of $25,000,000 at a per share price in excess of $30.00, provided that (a) the Common Stock is then trading on the Nasdaq SmallCap, the Nasdaq National Market or a national securities exchange, (b) either a registration statement covering the Conversion Shares has been declared effective by the Securities and Exchange Commission and remains effective or Rule 144(k) is available for resale of the Conversion Shares, and (c) the Conversion Shares are not subject to more than a six-month lock-up agreement required by the Company or its underwriter.

C. Adjustment of Conversion Price. The Conversion Price in effect at any time and the number and kind of securities issuable upon conversion of the Notes shall be subject to adjustment from time to time upon the happening of certain events as follows:



(i) In case the Company shall hereafter (a) declare a dividend or make a distribution on its outstanding shares of Common Stock in shares of Common Stock, (b) subdivide or reclassify its outstanding shares of Common Stock into a greater number of shares, or (c) combine or reclassify its outstanding shares of Common Stock into a smaller number of shares, the Conversion Price in effect at the time of such dividend or distribution or of the effective date of such subdivision, combination or reclassification shall be adjusted so that it shall equal the price determined by multiplying the Conversion Price by a fraction, the denominator of which shall be the number of shares of Common Stock outstanding after giving effect to such action, and the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such action. Such adjustment shall be made successively whenever any event listed above shall occur.

(ii) Subject to the provisions of Subsection (x) below, in case the Company shall fix a record date for the issuance of rights or warrants to all holders of its Common Stock entitling them to subscribe for or purchase shares of Common Stock (or securities convertible into Common Stock) at a price (the "Subscription Price") (or having a conversion price per share) less than the current market price on such record date or less than the Conversion Price on such record date, the Conversion Price shall be adjusted so that the

same shall equal the lower of (i) the price determined by multiplying the Conversion Price in effect immediately prior to the date of such issuance by a fraction, the numerator of which shall be the sum of (x) the number of Common Stock Equivalents Outstanding (as defined below) on the record date mentioned below and (y) the number of additional shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered (plus the aggregate conversion price of the convertible securities so offered) would purchase at such current market price per share of the Common Stock, and the denominator of which shall be the sum of (x) the number of Common Stock Equivalents Outstanding on such record date and (y) the number of additional shares of Common Stock offered for subscription or purchase (or into which the convertible securities so offered are convertible) or (ii) in the event the Subscription Price is equal to or higher than the current market price but is less than the Conversion Price, the price determined by multiplying the Conversion Price in effect immediately prior to the date of issuance by a fraction, the numerator of which shall be the sum of the (x) number of Common Stock Equivalents Outstanding on the record date mentioned below and (y) the number of additional shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered (plus the aggregate conversion price of the convertible securities so offered) would purchase at the Conversion Price in effect immediately prior to the date of such issuance, and the denominator of which shall be the sum of (x) the number of Common Stock Equivalents Outstanding on the record date mentioned below and (y) the number of additional shares of Common Stock offered for subscription or purchase (or into which the convertible securities so offered are convertible). For purposes of this Section 7C, "Common Stock Equivalents Outstanding" shall mean the number of shares of Common Stock that is equal to the sum of (1) all shares of Common Stock of the Company that are outstanding at the time in question, plus (2) all shares of Common Stock of the Company issuable, directly or indirectly, upon conversion of all shares of preferred stock or other stock or other securities convertible into or exchangeable, directly or indirectly, for shares of Common Stock without the payment of additional consideration ("Convertible Securities") that are outstanding at the time in question. Such adjustment shall be made successively whenever such rights or warrants are issued and



shall become effective immediately after the record date for the determination of shareholders entitled to receive such rights or warrants; and to the extent that shares of Common Stock are not delivered (or securities convertible into Common Stock are not delivered) after the expiration of such rights or warrants the Conversion Price shall be readjusted to the Conversion Price which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of Common Stock (or securities convertible into Common Stock) actually delivered.

(iii) In case the Company shall hereafter distribute to the holders of its Common Stock evidences of its indebtedness or assets (excluding cash dividends or distributions and dividends or distributions referred to in Subsection (a) above) or subscription rights or warrants (excluding those referred to in Subsection (b) above), then in each such case the Conversion Price in effect thereafter shall be determined by multiplying the Conversion Price in effect immediately prior thereto by a fraction, the numerator of which shall be (x) the total number of Common Stock Equivalents Outstanding multiplied by the current market price per share of Common Stock, less (y) the fair market value (as determined by the Company's Board of Directors) of said assets or evidences of indebtedness so distributed or of such rights or warrants, and the denominator of which shall be the total number of Common Stock Equivalents Outstanding multiplied by such current market price per share of Common Stock. Such adjustment shall be made successively whenever such a record date is fixed. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date for the determination of shareholders entitled to receive such distribution.

(iv) Subject to the provisions of Subsection (x) below, in case the Company shall hereafter issue shares of its Common Stock (excluding shares (a) issued in any of the transactions described in Subsections (i), (ii) or (v), (b) issued to shareholders of any corporation which merges into the

Company in proportion to their stock holdings of such corporation immediately prior to such merger, upon such merger, (c) issued in a private placement where the Offering Price (as defined below) is at least 85% of the current market price, (d) issued in a bona fide public offering pursuant to a firm commitment underwriting, (e) issued in connection with an acquisition of a business or technology which has been approved by a majority of the Company's non-employee directors, (f) issued in connection with the payment of interest or dividends with respect to any securities issued to investors or Commonwealth and/or their designees in connection with the Placement or upon conversion or exercise of such securities, or (g) issued upon exercise of options, warrants, convertible securities and convertible debentures) for a consideration per share (the "Offering Price") less than either the current market price or less than the Conversion Price, the Conversion Price shall be adjusted immediately thereafter so that it shall equal the lower of (i) the price determined by multiplying the Conversion Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum of (x) the number of Common Stock Equivalents Outstanding immediately prior to the issuance of such additional shares and (y) the number of shares of Common Stock which the aggregate consideration received for the issuance of such additional shares would purchase at such current market price per share of Common Stock, and the denominator of which shall be the number of Common Stock Equivalents Outstanding immediately after the issuance of such additional shares or (ii) in the event the Offering Price is equal to or higher than the current market price per share but less than the Conversion Price, the price determined by multiplying



the Conversion Price in effect immediately prior to the date of issuance by a fraction, the numerator of which shall be (x) the number of Common Stock Equivalents Outstanding immediately prior to the issuance of such additional shares and (y) the number of shares of Common Stock which the aggregate consideration received (determined as provided in Subsection (viii) below) for the issuance of such additional shares would purchase at the Conversion Price in effect immediately prior to the date of such issuance, and the denominator of which shall be the number of Common Stock Equivalents Outstanding immediately after the issuance of such additional shares. Such adjustment shall be made successively whenever such an issuance is made, and to the extent that shares of Common Stock (or securities convertible into Common Stock), expire, are cancelled or are redeemed after their issuance, the Conversion Price shall be readjusted to the Conversion Price that would then be in effect had the adjustments made upon the issuance of convertible securities been made upon the basis of delivery of only the number of shares of Common Stock (or securities convertible into Common Stock) actually issued.

(v) Subject to the provisions of Subsection (x) below, in case the Company shall hereafter issue any securities convertible into or exercisable or exchangeable for its Common Stock (excluding (a) securities issued in transactions described in Subsections (ii), (iii) and (iv)(a) through (g), (b) options granted to the Company's officers, directors, employees and consultants under a plan or plans adopted by the Company's Board of Directors, if such options would otherwise be included in this Subsection (v) (but only to the extent that the aggregate number of shares issuable upon exercise of the options excluded hereby and issued after the date hereof, shall not exceed 10% of the Company's Common Stock outstanding, on a fully diluted basis, at the time of any issuance unless such excess issuances are approved by the non-employee members of the Company's Board of Directors or by a committee comprised of a majority of non-employee directors) and (c) options, warrants, convertible securities and convertible debentures outstanding as of the date hereof or upon issuance, or subsequent exercise or conversion of, or in connection with the payment of in kind interest or dividends with respect to, any securities issued to investors or Commonwealth and/or their designees in connection with the Placement, or upon conversion or exercise of such securities) for a consideration per share of Common Stock (the "Exchange Price") initially payable and thereafter deliverable upon conversion, exercise or exchange of such securities (determined as provided in Subsections (vii) and (viii) below) less than the current market price or less than the Conversion Price, the Conversion Price shall be adjusted immediately thereafter so that it shall equal the lower of (i) the price determined by multiplying the Conversion Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum

of (x) the number of Common Stock Equivalents Outstanding immediately prior to the issuance of such securities and (y) the number of shares of Common Stock which the aggregate consideration paid for such securities (plus the aggregate exercise price if such convertible securities are options or warrants) would purchase at such current market price per share of Common Stock, and the denominator of which shall be the sum of (x) the number of Common Stock Equivalents Outstanding immediately prior to such issuance and (y) the maximum number of shares of Common Stock of the Company deliverable upon conversion, exercise or exchange of such securities at the initial Exchange Price or (ii) in the event the Exchange Price is equal to or higher than the current market price per share but less than the Conversion Price, the price determined by multiplying the Conversion Price in effect immediately prior to the date of issuance by a fraction, the numerator of which shall be the sum



of (x) the number of Common Stock Equivalents Outstanding immediately prior to the issuance of such securities and (y) the number of shares of Common Stock which the aggregate consideration received (determined as provided in Subsection (h) below) for such securities would purchase at the Conversion Price in effect immediately prior to the date of such issuance, and the denominator of which shall be the sum of (x) the number of Common Stock Equivalents Outstanding immediately prior to the issuance of such securities and (y) the maximum number of shares of Common Stock of the Company deliverable upon conversion of or in exchange for such securities at the initial conversion or exchange price or rate. Such adjustment shall be made successively whenever such an issuance is made; and to the extent that shares of Common Stock are not delivered after the expiration of such securities the Conversion Price shall be readjusted to the Conversion Price which would then be in effect had the adjustments made upon the issuance of such securities been made upon the basis of delivery of only the number of shares of Common Stock actually delivered.

(vi) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least two cents ($0.02) in such price; provided, however, that any adjustments which by reason of this Section 6C are not required to be made shall be carried forward and taken into account in any subsequent adjustment required to be made hereunder.

(vii) For purposes of any computation respecting consideration received pursuant to Subsections (iv) and (v) above, the following shall apply:

(a) in the case of the issuance of shares of Common Stock for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions, discounts or other expenses incurred by the Company for any underwriting of the issue or otherwise in connection therewith;

(b) in the case of the issuance of shares of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined in good faith by the Board of Directors of the Company (irrespective of the accounting treatment thereof), whose determination shall be conclusive; and

(c) in the case of the issuance of securities convertible into or exchangeable for shares of Common Stock, the aggregate consideration received therefor shall be deemed to be the consideration received by the Company for the issuance of such securities plus the additional minimum consideration, if any, to be received by the Company upon the conversion or exchange thereof (the consideration in each case to be determined in the same manner as provided in clauses (a) and (b) of this Subsection (vii)).

(viii) For the purpose of any computation under Subsections (ii), (iii), (iv) and (v) above, the current market price per share of Common Stock at any date shall be deemed to be the higher of (x) the average of the prices for thirty (30) consecutive business days before such date or (y)

the average of the prices for the five (5) consecutive business days immediately preceding such date determined as follows:



(a) If the Common Stock is listed on a national securities exchange or admitted to unlisted trading privileges on such exchange or listed for trading on the Nasdaq Stock Market ("Nasdaq"), the current market value shall be the closing price of the Common Stock on such exchange or market on such trading day or if no such sale is made on such day, the average closing bid and asked prices for such day on such exchange or market;

(b) If the Common Stock is not so listed or admitted to unlisted trading privileges, but is traded in the over-the-counter market, the current market value shall be the mean of the average of the last reported bid and asked prices reported by the National Quotation Bureau, Inc. for such trading day; or

(c) If the Common Stock is not so listed or admitted to unlisted trading privileges and bid and asked prices are not so reported, the current market value shall be an amount, not less than book value thereof as at the end of the most recent fiscal year of the Company ending prior to such business day, determined in such reasonable manner as may be prescribed by the Board of Directors of the Company.

(ix) All calculations under this Section 6C shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be. Anything in this Section 6C to the contrary notwithstanding, the Company shall be entitled, but shall not be required, to make such changes in the Conversion Price, in addition to those required by this Section 6C, as it shall determine, in its sole discretion, to be advisable in order that any dividend or distribution in shares of Common Stock, or any subdivision, reclassification or combination of Common Stock, hereafter made by the Company shall not result in any Federal Income tax liability to the holders of Common Stock or securities convertible into Common Stock (including the Notes and the Warrants).

(x) Notwithstanding the provisions of this Section 6C, in the event that the Company shall at any time prior to the date set forth in the last sentence of this Subsection (x) issue securities under Subsections (ii), (iv) or (v) (but subject to the exemptions specified therein other than clause (c) of Subsection (iv) and subject to a de minimus exception of an aggregate of 50,000 shares of Common Stock issued or underlying the securities) having an Offering Price, Subscription Price or Conversion Price less than the Conversion Price (whether initially or due to provisions in such securities requiring price reductions as a result of anti-dilution adjustments, the passage of time, "discount to market" or similar provisions), then the Conversion Price shall be immediately reset to equal such lower Offering Price, Subscription Price or Conversion Price. The full-ratchet protection provided for in this Subsection (x) shall terminate at such time as the full-ratchet provisions of the Company's Series C preferred Stock are no longer applicable and at least 75% of the Company's bridge warrants containing full-ratchet anti-dilution provisions have been exercised or have expired.

(xi) No adjustment under Subsections (ii), (iii), (iv) and (v) shall be required for issuances below the current market price if (A) the current market price is at least 400% of the Conversion Price then in effect and (B) a registration statement covering the Conversion Shares is in effect and remains in effect for the 90 days after such issuance or Rule 144(k) under the Securities Act of 1933, as amended (the "Securities Act") is available for resale



of all of the Conversion Shares and the Conversion Shares are not subject to any lock-up agreement with the Company, its underwriter or agent.

(xii) In the event that at any time, as a result of an adjustment made pursuant to Subsection (i) above, the Payee thereafter shall become entitled to receive any shares of the Company, other than Common Stock, thereafter the number of such other shares so receivable upon conversion of this Note shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in Subsections (i) to (xi), inclusive above.

D. Mechanics of Conversion.

(i) Optional Conversion. Before the Payee shall be entitled to convert this Note into Conversion Shares in accordance with Section 6A, the Payee shall surrender this Note at the office of the Company, and shall give written notice to the Company at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for the Conversion Shares are to be issued. The Company shall, as soon as practicable thereafter, issue and deliver to the Payee, or to the nominee or nominees of Payee, a certificate or certificates for the number of Conversion Shares to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the Note to be converted, and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date.

(ii) Automatic Conversion. In the event of a conversion pursuant to the provisions of Section 6B hereof, the Company shall deliver to the Payee at its address appearing on the records of the Company a written notice of the imminent conversion of this Note (the "Conversion Notice"), requesting surrender of this Note for cancellation and written instructions regarding the registration and delivery of certificates for the Conversion Shares. In the event the Payee receives a Conversion Notice, the Payee shall be required to surrender this Note for cancellation within five business days of the Conversion Notice (the "Conversion Date"), but the failure of the Payee so to surrender this Note shall not affect the conversion of the outstanding Principal Amount into Conversion Shares, provided that if the Note is not surrendered, an affidavit of lost note shall be provided. No holder of this Note shall be entitled upon conversion of this Note to have the Conversion Shares registered in the name of another person or entity without first complying with all applicable restrictions on the transfer of this Note. In the event the Payee does not provide the Company with written instructions regarding the registration and delivery of certificates for the Conversion Shares, the Company shall issue such shares in the name of the Payee and shall forward such certificates to the Payee at its address appearing on the records of the Company. The person entitled to receive the Conversion Shares shall be deemed to have become the holder of record of such shares at the close of business on the Conversion Date and the person entitled to receive share certificates for the Conversion Shares shall be regarded for all corporate purposes after the Conversion Date as the record holder of the number of Conversion Shares to which it is entitled upon the conversion. The Company may rely on record ownership of this Note for all corporate purposes, notwithstanding any contrary notice. After the Conversion Date, this Note shall, until



surrendered to the Company, represent the right to receive the Conversion Shares; provided, however, that the Company shall have no obligation to issue the Conversion Shares until the Payee has delivered either this Note or an affidavit of loss.

E. Cash Payments. No fractional shares (or scrip representing fractional shares) of Common Stock shall be issued upon conversion of this Note. In the event that the conversion of the Principal Amount of this Note would result in the issuance of a fractional share of Common Stock the Company shall pay a cash adjustment in lieu of such fractional share to the holder of this Note based upon the Conversion Price.

F. Stamp Taxes, etc. The Company shall pay all documentary, stamp or

other transactional taxes attributable to the issuance or delivery of shares of Common Stock upon conversion of this Note; provided, however, that the Company shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares in a name other than that of the holder of this Note, and the Company shall not be required to issue or deliver any such certificate unless and until the person requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the Company's satisfaction that such tax has been paid.

G. Validity of Stock. All shares of Common Stock that may be issued upon conversion of this Note will, upon issuance by the Company in accordance with the terms of this Note, be validly issued, free from all taxes and liens with respect to the issuance thereof (other than those created by the holders), free from all pre-emptive or similar rights and fully paid and non-assessable.

H. Reservation of Shares. The Company covenants and agrees that it will at all times have authorized and reserved, solely for the purpose of such possible conversion, out of its authorized but unissued shares, a sufficient number of shares of its Common Stock to provide for the exercise in full of the conversion rights contained in this Note.

I. Notice of Certain Transactions. In case at any time:

(i) The Company shall declare any dividend upon, or other distribution in respect of, its Common Stock;

(ii) The Company shall offer for subscription to the holders of its Common Stock any additional shares of stock of any class or any other securities convertible into shares of stock or any rights to subscribe thereto;

(iii) There shall be any capital reorganization or reclassification of the capital stock of the Company, or a sale of all or substantially all of the assets of the Company, or a consolidation or merger of the Company with another corporation (other than a merger with a subsidiary in which merger the Company is the continuing corporation and which does not result in any reclassification);

(iv) There shall be a voluntary or involuntary dissolution; liquidation or winding up of the Company; or



(v) The Conversion Price shall have been adjusted in accordance with the provisions of Section 6C;

then, in any one or more of said cases, the Company shall cause to be mailed to the Payee at the earliest practicable time (and, in any event not less than 10 days before any record date or other date set for definitive action), written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or such reorganization, reclassification, sale, consolidation, merger or dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Conversion Price and the kind and amount of the shares of stock and other securities and property deliverable upon the conversion of this Note. Such notice shall also specify the date as of which the holders of the Common Stock of record shall participate in said dividend, distribution or subscription rights or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, sale, consolidation, merger or dissolution, liquidation or winding-up, as the case may be.

Nothing herein shall be construed as the consent of the holder of this Note to any action otherwise prohibited by the terms of this Note or as a waiver of any such prohibition.

J. Notice of Maturity Date. The Company shall give written notice to the Payee not less than 10 business days prior to event described in

clause (ii) or (iii) of the first paragraph of this Note which results in the Maturity Date (a "Maturity Notice").

7. Amendments and Waivers.

A. The provisions of this Note, including, but not limited to, any decision to convert the Notes, any waiver of the restrictive covenants or anti-dilution provision and any change to the conversion price, may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to by the Company and the Holders of not less than 50% in principal amount of the Notes then outstanding (the "Required Holders"); provided, however, that no such amendment, modification or waiver which would (i) modify this Section 7A, (ii) extend the Maturity Date for more than one year, or (iii) reduce the Principal Amount payable hereunder shall be made without the consent of the Payee of each Note so affected.

B. No failure or delay on the part of the Payee in exercising any power or right under this Note shall operate as a waiver thereof, nor shall any single or partial exercise of any such power or right preclude any other or further exercise thereof or the exercise of any other power or right. No notice to or demand on the Company in any case shall entitle it to any notice or demand in similar or other circumstances. No waiver or approval by the Payee shall, except as may be otherwise stated in such waiver or approval, be applicable to subsequent transactions. No waiver or approval hereunder shall require any similar or dissimilar waiver or approval thereafter to be granted hereunder.

C. To the extent that the Company makes a payment or payments to the Payee, and such payment or payments or any part thereof are subsequently for any reason



invalidated, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied, and all rights and remedies therefor, shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

D. After any waiver, amendment or supplement under this section becomes effective, the Company shall mail to the Payee a copy thereof.

8. Miscellaneous

A. Registered Holder. The Company may consider and treat the person in whose name this Note shall be registered as the absolute owner thereof for all purposes whatsoever (whether or not this Note shall be overdue) and the Company shall not be affected by any notice to the contrary. In case of transfer of this Note by operation of law, the transferee agrees to notify the Company of such transfer and of its address, and to submit appropriate evidence regarding such transfer so that this Note may be registered in the name of the transferee. This Note is transferable only on the books of the Company by the Holder hereof, in person or by attorney, on the surrender hereof, duly endorsed. Communications sent to any registered owner shall be effective as against all Holders or transferees of the Note not registered at the time of sending the communication.

B. Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New York. Sections 5-1401 and 5-1402 of the General Obligations Law of the State of New York shall apply to this Note and the Company hereby waives any right to stay or dismiss on the basis of forum non conveniens any action or proceeding brought before the courts of the State of New York sitting in New York County or of United States of America for the Southern District of New York and hereby submits to the jurisdiction of such courts.

C. Notices. Unless otherwise provided, all notices required or permitted under this Note shall be in writing and shall be deemed effectively given (i) upon personal delivery to the party to be notified, (ii) upon

confirmed delivery by Federal Express or other nationally recognized courier service providing next-business-day delivery, or (iii) three business days after deposit with the United States Postal Service, by registered or certified mail, postage prepaid and addressed to the party to be notified, in each case at the address set forth below, or at such other address as such party may designate by written notice to the other party (provided that notice of change of address shall be effective upon receipt by the party to whom such notice is addressed).

If sent to Payee, notices shall be sent to the address set forth in the Subscription Agreement.

If sent to the Company, notices shall be sent to the following address:

eB2B Commerce, Inc.
757 Third Avenue, Suite 302



New York, New York 10017
Attention: Peter Fiorillo

D. Parties in Interest. All covenants, agreements and undertakings in this Note binding upon the Company or the Payee shall bind and inure to the benefit of the successors and permitted assigns of the Company and the Payee, respectively, whether so expressed or not.

E. Waiver of Jury Trial. THE PAYEE AND THE COMPANY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS NOTE OR ANY OTHER DOCUMENT OR INSTRUMENT EXECUTED AND DELIVERED IN CONNECTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN), OR ACTIONS OF THE PAYEE OR THE COMPANY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PAYEE'S PURCHASING THIS NOTE.

IN WITNESS WHEREOF, the Company has caused this Note to be signed in its name by its duly authorized officer.

eB2B COMMERCE, INC.

By _____
Name:
Title:

Exhibit 10.11

[LOGO]

# INTERWORLD CORPORATION SOFTWARE LICENSE AGREEMENT

This Software License Agreement is entered into and made effective on December 11, 1998 between InterWorld Corporation ("InterWorld"), a Delaware corporation, with offices at 395 Hudson St., New York, N.Y. 10014, and eChannel Ventures Inc. ("Client"), a Delaware corporation with offices at 236 E. Granada Avenue, Lindenhurst, N.Y. 11757.

## 1. DEFINITIONS

"Agreement" means this Software License Agreement, Exhibit A, and any other addenda attached hereto, and each supplemental Exhibit A signed by both parties. "Functionality Specifications" means the functionality of the Software as described in the Documentation. "Software" means the object code (machine readable) version of the software product(s) listed in Exhibit A, or any subsequent Exhibit A, including prior and future releases. "Price List" means the then-current price list for the country in which the Software is to be used. "Documentation" means installation manuals and user manuals for the Software. "Purchase Order" means a purchase authorization document issued by Client for the licensing of InterWorld Software. "Designated Platform" means the computer central processing unit ("CPU") and operating system software on which the InterWorld Software is running and is located at the site designated on Exhibit A.

## 2. LICENSE

2.1 InterWorld hereby grants to Client a non-exclusive, non-transferable license to use the Software on the Designated Platform for: (i) internal data processing at Client locations within the United States and Canada; and (ii) enabling on-line users to access information about, and to order electronically, products and services offered by Client on its Web site. Client may make copies of the Software in accordance with any such rights granted hereunder or set forth in an applicable Exhibit A. Client shall notify InterWorld if Client elects to transfer the Software, at no additional charge to Client: (i) to a different Client location; or (ii) from one Designated Platform to another Designated Platform, provided such new Designated Platform runs the same binary version of the Software and the same number of processors.

2.2 The Software and all copies (in whole or in part) shall remain the exclusive property of InterWorld and its suppliers. Client shall not modify, reverse engineer, decompile or reverse assemble any Software or part thereof (or otherwise attempt to derive the source code for the Software), except as expressly described in the Documentation. Client shall not use the Software in a timesharing arrangement nor encumber, rent, lease, transmit, distribute or transfer the Software to any third party for any purpose.

2.3 Client may make a reasonable number of copies of the Software for inactive back-up or archival purposes. Client may also make copies of the Documentation for its own use.

## 3. CONFIDENTIALITY

3.1 Neither party shall disclose nor use any business and/or technical information of the other party designated orally or in writing as "Confidential" or "Proprietary" (together "Confidential Information") without the prior written consent of the other party. "Confidential Information" includes, without limitation, the Software, (including methods and concepts. Documentation and all information relating to the disclosing party's business or financial affairs. All Confidential Information shall remain the sole property of the disclosing party.

3.2 Each party shall expressly undertake, using reasonable efforts not less than it exercises for its own confidential materials, to retain in confidence, and to require its employees and consultants to retain in confidence all Confidential Information. Confidential Information shall not include any information that: (i) is already known to the other party free of any obligation to keep it confidential; (ii) is or becomes publicly known through no wrongful act by the other party; (iii) is received by the other party from a third party without any restriction on confidentiality; (iv) is independently developed by one party without access to the Confidential Information of the other.

3.3 Client shall not release the results of any benchmark of the Software to any third party without the prior written approval of InterWorld for each such release.

## 4. PROPRIETARY NOTICES

The Software and related Documentation are proprietary and protected by copyright, patent, trademark, and/or trade secret law. All proprietary notices incorporated in or fixed to the Software or Documentation shall be duplicated by Client on all copies or extracts thereof and shall not be altered, removed or obliterated.

## 5. AUDIT

Interworld or its authorized representatives shall have the right, during normal business hours to audit the relevant records of Client to verify its compliance

with this Agreement. If the number of copies of the Software is found to the greater than that contracted for, or the platform on which the Software is installed differs from the Designated Platform specified, Client shall be invoiced for such additional copies at the price set forth in the then-current Price List.

6. IDENTIFICATION

Client shall display the file containing the phrase "Powered by InterWorld'TM'" on the initial screen seen by customers or other end-users when they enter a Software application. InterWorld reserves the right periodically to change this file, and Client shall use commercially reasonable efforts to effect such change upon notice from and delivery by InterWorld of such revised file. This phrase shall be a hypertext link to the following Universal Resource Locator ("URL"): www.interworld.com.

7. EXPORT CONTROL

Client shall not transfer, directly or indirectly, any restricted Software or technical data received from InterWorld, or the direct product of such data, to any destination subject to export restrictions under U.S. law, unless prior written authorization has been obtained from the appropriate U.S. agency.

8. PAYMENTS

8.1 Upon InterWorld's receipt of Client's Purchase Order, InterWorld shall deliver the applicable Software and Documentation to Client by physical medium, electronically or otherwise.

8.2 Payment is due InterWorld upon execution of this Agreement, or in the case of subsequent licensing of Software, as specified on the applicable Exhibit A. Client will pay all applicable shipping charges and sales, use, personal property or similar taxes, tariffs or governmental charges, exclusive of InterWorld's income and corporate franchise taxes. Client shall reimburse InterWorld for all reasonable costs incurred (including reasonable attorneys' fees) in collecting past due amounts.

8.3 Client must purchase a support and maintenance plan ("Support") for the first year for all Software licensed hereunder. Client will be invoiced for first year Support upon execution of this Agreement. Support shall commence on the date of invoice. Fees for Support in subsequent years may be purchased annually in advance ("Support Fees"). Client will be invoiced one month prior to the anniversary of the Support commencement date, unless Client notifies InterWorld in writing of its desire not to renew maintenance 60 days prior to the end of the existing maintenance period. The renewal invoices will be due net thirty (30) days from the invoice data. Client may reinstate lapsed Support for any then currently supported Software by paying all Support Fees in arrears and all time and travel expenses incurred in updating the Software to the current version.

9. SUPPORT AND MAINTENANCE

Provided Client has paid applicable Support Fees, InterWorld shall support the Software in accordance with the then current policies and procedures for such support plan and as follows: Client shall designate a primary and secondary Client suport staff for all communications with InterWorld's technical support representatives; each suport staff may communicate with InterWorld via telephone, facsimile or email for problem resolution during InterWorld's published Support hours corresponding to the level of Support purchased; and InterWorld shall make available to Client all updates to the Software commercially released by InterWorld during the Support year. Updates consist of new releases of a particular Software version which provides functional enhancements and error corrections (for example 1.1 to 1.2). Depending on the level of Support purchased by Client, InterWorld may reserve the right to charge a fee for functional enhancements included in the updates.

10. WARRANTY/LIMITATION OF LIABILITY

10.1 InterWorld warrants that, for a period of ninety (90) days after receipt by Client of the Software (the "Warranty Period"), the media on which the Software is delivered will be free of defects in material and workmanship under normal use and the unmodified Software, when properly installed and used, will conform in all material respects to the Functional Specifications. Clients sole remedy in the event of non conformity of the Software, at InterWorld's option, will be replacement of the defective Software or a refund of the license fees paid for the affected Software.

10.2 THE EXPRESS WARRANTY SET FORTH IN SECTION 10.1 CONSTITUTES THE ONLY WARRANTY WITH RESPECT TO THE SOFTWARE. INTERWORLD MAKES NO OTHER REPRESENTATIONS OR WARRANTIES OF ANY KIND, WHETHER EXPRESS OR IMPLIED (EITHER IN FACT OR BY OPERATION OF LAW). INTERWORLD EXPRESSLY DISCLAIMS ALL

WARRANTIES OR MERCHANTABILITY OR FITNESS FOR USE OR A PARTICULAR PURPOSE, AGAINST INFRINGEMENT, OR ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING,

OR USAGE OF TRADE. INTERWORLD DOES NOT WARRANT THAT THE SOFTWARE IS ERROR-FREE, THAT IT WILL SUIT THE CLIENT'S APPLICATIONS OR REQUIREMENTS OR OPERATE IN THE COMBINATIONS WHICH MAY BE SELECTED FOR USE BY THE CLIENT, OR THAT THE OPERATION OF THE SOFTWARE WILL BE SECURE OR UNINTERRUPTED.

10.3 THE TOTAL LIABILITY OF INTERWORLD AND ITS SUPPLIERS, INCLUDING BUT NOT LIMITED TO LIABILITY ARISING OUT OF CONTRACT, TORT, BREACH OF WARRANTY, OR CONDITIONS, CLAIMS BY THIRD PARTIES OR OTHERWISE, SHALL NOT IN ANY EVENT EXCEED THE UNAMORTIZED LICENSE FEES PAID BY CLIENT FOR THE SOFTWARE WHICH GAVE RISE TO THE CLAIM. INTERWORLD'S SUPPLIERS SHALL NOT BE LIABLE FOR DIRECT DAMAGES HEREUNDER AND IN NO EVENT SHALL INTERWORLD OR ITS SUPPLIERS BE LIABLE FOR LOSS OF PROFITS, LOSS OR INACCURACY OF DATA OR ANY INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING WITHOUT LIMITATION THE COST OF ANY SUBSTITUTE PROCUREMENT) EVEN IF SUCH PARTY HAD BEEN ADVISED OF THE POSSIBILITY THEREOF.

11. INFRINGEMENT INDEMNITY

InterWorld, at its own expense, shall: (i) defend, or at its option, settle any claim or suit against Client on the bases of infringement of any trademark, copyright, trade secret or United States patent ("Intellectual Property Right") by the Software or use thereof, and (ii) pay all damages and expenses finally awarded by a court against Client as a result of such claim or any settlement thereof, provided that: (a) InterWorld has sole control of the defense and/or settlement, and (b) Client promptly notifies InterWorld of such claim, and (c) Client cooperates with InterWorld in the defense of such claim or any related settlement (Client shall be reimbursed for any reasonable out-of-pocket expenses). If the Software is alleged to be infringing or is enjoined, InterWorld shall, at its expense, defend such claim and do one of the following: (A) procure for the Client the right to use the Software; (B) replace the Software or affected part thereof with other suitable software; or (C) modify the Software or the affected part thereof to make it non-infringing. If the foregoing is not commercially reasonable, InterWorld shall terminate this Agreement and refund the unamortized aggregate payments made by Client for the Software or affected part thereof. InterWorld shall not have any obligations under this Section 11 to the extent a claim is based upon (I) use of any altered version of the Software, (II) use, operation or combination of the Software on or with programs, data, equipment or documentation not provided by InterWorld, (III) any information, data, illustration, graphics, pictures, text or other content placed on the Web site by Client or any third party, and (IV) any activities of Client or its representatives after InterWorld has notified Client that such activities may result in the infringement of the intellectual property rights of any third party. This Section 10 states the entire liability of InterWorld and the exclusive remedy of Client with respect to any alleged infringement by the Software or any part thereof.

12. TERMINATION

12.1 InterWorld may terminate a license if Client has not paid the license fees therefor within 15 calendar days after written notice that payment is past due. Either party may terminate this Agreement if the other party fails to cure a material breach of any term or condition of this Agreement within sixty (60) days of receipt of written notice by the other party specifying such breach.

12.2 Upon termination of this Agreement, Client shall cease using the Software, Documentation and Confidential information received from InterWorld and shall certify to InterWorld in writing that all copies (whether or not modified or merged with other material(s) have been destroyed or returned to InterWorld. Termination shall not limit either party from pursuing any other remedies available to it, including injunctive relief, nor shall termination relieve Client of its obligations to pay InterWorld all fees accrued prior to the effective date of termination. Sections 3, 6, 10, 10.3, 11 and 12 shall survive termination of this Agreement.

13. GENERAL

13.1 Assignment. Neither this Agreement nor any license granted hereunder may be assigned by Client without the prior written consent of InterWorld. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by the successors and permitted assigns of the parties.

13.2 Entire Agreement. This Agreement contains the entire understanding of the parties with respect to subject matter hereof and supersedes all prior agreements and understandings between the parties. This Agreement may only be altered or otherwise amended or terminated pursuant to an instrument in writing signed by both parties, except that either party may waive any obligation owed to it by the other party. The waiver by either party of a breach of any provisions of this Agreement shall not operate or be construed as a waiver of any other breach.

13.3 Notices. All notices, claims certificates, requests, demands and other communications hereunder shall be in writing and either delivered personally, or sent by first-class mail, express carrier or confirmed facsimile transmission to the address of the party set forth above to the attention of its Chief Financial Officer or General Counsel. All notices shall be deemed given on the business day actually received.

13.4 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to principles governing conflicts of laws.

13.5 Severability. The provisions of this Agreement are severable and, in the event any court of competent jurisdiction shall determine one or more of the provisions contained in this Agreement is invalid, illegal or unenforceable in ay respect, the remaining provisions of this Agreement shall remain in full force and effect.

13.6 Relationship of the Parties. The parties are independent contractors and neither party is an employee, agent, partner of, or joint venture with the other party. Neither party shall have the right to bind the other party to any agreement with a third party or to incur any obligation or liability on behalf of the other party.

13.7 Joint Publicity. Within 30 days after the Software licensed under this Agreement is delivered, Client agrees to cooperate with InterWorld to create and issue a joint press release stating that Client is using InterWorld Software. Such press release shall, at a minimum, describe the nature of the business relationship and Client's use of the Software. Such press release is subject to final approval by Client, which approval shall not be unreasonably withheld, InterWorld may thereafter identify Client as a licensee of the Software in its advertising and marketing materials.

13.8 Amortization. For purposes of this Agreement, amortization shall be computed using straight line method over a three year period.

13.9 U.S. Government Restricted Rights. Use, duplication or disclosure by the U.S. Government is subject to restrictions set forth, as applicable, at: FAR 52.227-14 (JUN 1987) Alternate III(g)(3)(i), 48 CFR Ch. 1 (10-1-96 Edition); FAR 52.227-19 (JUN 1987), 48 CFR Ch. 1 (10-1-96 Edition); DFARS 252.227-7013(b)(3)(A) (NOV 1995), 48 CFR Ch. 2 (10-1-96 Edition); DFARS 252.227-7014(b)(3) (JUN 1995), 48 CFR Ch. 2 (10-1-96 Edition); or DFARS 252.227-7016(b)(2) (JUN 1995), 48 CFR Ch. 2 (10-1-96 Edition). Manufacturer is InterWorld Corporation, 395 Hudson Street, New York, NY 10014.

The parties have caused this Agreement to be executed by their respective authorized representatives.

| | |
|---|---|
| INTERWORLD CORPORATION | CLIENT: eChannel Ventures Inc |
| BY: Amy Aguilar-Brown | BY: Peter J. Fiorillo |
| its authorized representative | its authorized representative |
| NAME: Amy Aguilar-Brown | NAME: Peter J. Fiorillo |
| TITLE: VP Legal Affairs & Secretary | TITLE: President & CEO |

LEGAL APPROVED
By Amy Aguilar-Brown
Date 12.18.98

CONFIDENTIAL

<Page>

ADDENDUM TO INTERWORLD SOFTWARE LICENSE AGREEMENT

This addendum ("Addendum") entered into and made effective on September 24, 1999, ("Effective Date") supplements and amends the terms and conditions of the InterWorld Corporation Software License Agreement dated December 11, 1998, ("Agreement") between InterWorld Corporation and its majority owned subsidiaries ("InterWorld") and EB2B, Inc., formerly eChannel Ventures, Inc., a Delaware corporation with offices at 236 E. Granada Avenue, Lindenhurst, N.Y. 11757 ("Client"). Capitalized terms not otherwise defined herein shall have the meaning set forth in the Agreement. In the event of any conflict or inconsistency between the Agreement and this Addendum, the latter shall govern.

InterWorld and Client agree that the following terms and conditions shall apply:

1. Client agrees to pay to InterWorld the non-refundable net fee of $756,600 (which represents $635,600 in net license fees and $121,000 in first year Support and Maintenance Fees ("Support and Maintenance Fees") for the Software licensed to Client on the attached Exhibit A dated September 24, 1999, the "Relevant Exhibit A"). Payment of the aforementioned fees shall be due and payable pursuant to the following schedule:

$200,000 shall be due and payable on September 29, 1999
$141,000 shall be due and payable on December 30, 1999
$240,000 shall be due and payable on March 30, 2000
$175,000 shall be due and payable on June 29, 2000

2. Notwithstanding anything to the contrary found in Section 1 above, in the event Client achieves five million dollars ($5,000,000) in additional financing

at any time, all then current outstanding fees defined in Section 1 above shall be remitted to InterWorld immediately.

3. Client hereby represents and warrants to InterWorld that it has lawfully caused its name to be changed, as reflected in the preamble above, with the Delaware Secretary of State. Further, the individual executing this Agreement below hereby warrants to InterWorld that he is an authorized representative of Client.

4. Pursuant to Client's representation to InterWorld that it is exempt from certain government taxes and Client's delivery of a bon-fide exemption certificate, InterWorld shall not impose such charges on Client. In the event a claim is asserted against InterWorld for the payment of, or, collection of any taxes, government impositions or otherwise, including but not limited to the payment of sales tax arising out of any aspect of this transaction, then, in that event, Client shall indemnify and hold InterWorld harmless from all liabilities and expenses, including but not limited to this payment of such taxes and legal expenses arising therefrom.

5. Client and InterWorld agree that the terms of this Addendum and any discount and financial terms are confidential and shall be disclosed or discussed only with parties that have involvement in, or responsibility for, carrying out the terms of this Agreement.

Except as amended above, the Agreement shall remain in full force and effect.

<Table>
<S> <C>

INTERWORLD CORPORATION — EB2B, Inc.

By: Amy Aguilar-Brown — By: Peter J. Fiorillo

(authorized representative) — (authorized representative)

Name: Amy Aguilar-Brown — Name: Peter J. Fiorillo

Title: VP Legal Affairs & Secretary — Date: 9/28/99 — Title: Pres. & CEO — Date: 9/27/99

</Table>



LEGAL APPROVED
By [Illegible]
Date 9-30-99

<Page>

INTERWORLD CORPORATI0N
EXHIBIT

<Table>
<S> <C>

| Ship to Address | Invoice Address: |
|---|---|
| 28 W. 38 St. | |
| 14th Floor | |
| | |
| New York, NY | |
| Partner | |
| | |
| Ship to Contact | Bill to Contact |
| Peter Fiorillo | |
| Phone | Phone |
| | |

</Table>

Payment terms:
Due immediately upon receipt of invoice

<Table>
<Caption>

| | License Fee | Maintenance | Maintenance | Extended | Total |
|---|---|---|---|---|---|

| Products | Qty | Platform | # CPUs | License Type | Per Copy | Fee 1st Copy | Fee Each Add'l Copy | License Fees | 1st Year Support Fees |
|---|---|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Commerce Exchange | 6 | NT | | Production | $150,000 | $30,000 | $15,000 | $750,000 | $90,000 |
| Web Broker | 2 | NT | | Production | 130,000 | $ 8,000 | 3,000 | $60,000 | 19,000 |
| Business Adapter | 2 | NT | | Production | 112,600 | $ 3,000 | 13,000 | $25,000 | 16,000 |
| Business Analyzer | 1 | NT | | Production | $ 25,000 | $ 5,000 | | $25,600 | 15,060 |
| Staging Server | 1 | NT | | Development | $ 30,000 | $ 8,000 | | $30,000 | 16,000 |
| Development Server | 2 | NT | | Development | $ 9,000 | $ 2,500 | 12,500 | $18,000 | 15,000 |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |

The Software granted hereunder shall be subject to the terms and conditions of the Software License Agreement dated 01 Dec 98 between InterWorld and Client
Purchase Number ____, 0_
Customer does not issue Purchase Orders; however, Customer agrees to pay for product(s) indicated on this Exhibit A as specified in the Software License Agreement dated 01 Dec 98 between InterWorld and Client

| | | |
|---|---|---|
| TOTALS: | $908,000 | $121,000 |
| Discount: | $272,400 | |
| GRAND TOTAL: | | $756,800.00 |

</Table>

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INTERWORLD CORPORATION

By: /s/ Amy Aguilar-Brown

Printed Name: Amy Aguilar-Brown

Title: VP Legal Affairs & Secretary

Date: 9/28/99

CLIENT: EB2B

By: /s/ Peter J. Fiorillo

Printed Name: Peter J. Fiorillo

Title: President

Date: 9/28/99

</Table>

LEGAL APPROVED
By:
Date: 9-20-99

LEGAL APPROVED
By [Illegible]
Date 9-30-99

InterWorld/Client
**Confidential**

<Page>

INTERWORLD CORPORATION
EXHIBIT A

<Table>
<S> <C>

Ship to Address:

E-Channel Ventures
236 E. Granada Avenue
Lindenhurst, N.Y. 11757

Partner:

Invoice Address:

Same

</Table>

<Table>
<S> <C>

Ship to Contact: Peter Fiorillo
Phone: 516-957-5345

Bill to Contact: Same
Phone: Same

</Table>

First year Support and Maintenance Plan: ___ Silver __ Gold _X_ Platinum

Payment terms: Net 30

</Table>

<Table>
<Caption>

| Product Name | Qty | Platform: Database Type | Platform: Processor Type | Qty | License Fee per copy | Extended License Fees | First Year Support Fees | Other add'l Fees |
|---|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Commerce Exchange 2.0 | 1 | SQL | 2 | 1 | $45,000 | | $6,750 | |
| Catalog | 1 | ' ' | 2 | 1 | $30,000 | | $4,500 | |
| WorkPlace | 1 | ' ' | 2 | 1 | | | | |
| Process Builder | 1 | ' ' | 2 | 1 | | | | |
| TOTAL SOFTWARE | | | | | | $75,000 | $11,250 | |
| | | | | | Total: | $75,000 | $11,250 | $86,250 |
| | | | | | | | GRAND TOTAL: | $86,250 |

</Table>

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|---|---|
| INTERWORLD CORPORATION | CLIENT: E-Channel Ventures eChannel Ventures |
| /s/ Amy Aguilar-Brown | By /s/ Peter J. Fiorillo |
| Amy Aguilar-Brown | Name Peter J. Fiorillo |
| VP Legal Affairs & Secretary | Title President & CEO |

</Table>

* The Software granted hereunder shall be subject to the terms and conditions of the Software License Agreement dated 12/11, 1998 between InterWorld and Client*
* Purchase Order Number
* Customer does not issue Purchase Orders; however, Customer agrees to pay for products/services indicated on this Exhibit A as specified in the Software License Agreement dated ___, 19__, between InterWorld and Client.*

LEGAL APPROVED
By Amy Aguilar-Brown
Date 12-18-98

11/23/98



<Page>

ADDENDUM TO INTERWORLD SOFTWARE LICENSE AGREEMENT

This addendum ('Addendum') entered into and made effective on September 30, 2000, ('Effective Date') supplements and amends the terms and conditions of the InterWorld Corporation Software License Agreement dated December 11, 1998, ('Agreement') between InterWorld Corporation and its majority owned subsidiaries ('InterWorld') and EB2B, Inc., formerly eChannel Ventures, Inc., a Delaware corporation with offices at 757 3rd Avenue, New York, N.Y. 11757 ('Client'). Capitalized terms not otherwise defined herein shall have the meaning set forth in the Agreement. In the event of any conflict or inconsistency between the Agreement and this Addendum, the latter shall govern.

InterWorld and Client agree that the following terms and conditions shall apply:

1. Client agrees to pay to InterWorld the non-refundable net fee of $2,600,000 (which represents $2,200,000 in net license fees and $400,000 in first year Support and Maintenance Fees ('Support and Maintenance Fees') for the Software licensed to Client on the attached Exhibit A dated September 28, 2000, the 'Relevant Exhibit A'). Payment of the aforementioned fees shall be due and payable as follows: $500,000 upon execution of this Addendum; $500,000 due on December 31, 2000; $1,600,000 due on March 15, 2001.

2. Payment of the aforementioned fees entitles Client to deploy as much of the Volume Based Software (defined as Commerce Exchange Production and Staging, Web

Broker Design and Staging, Control Station) as necessary to achieve an annual Client Revenue, as defined below, of $250,000,000 without incurring additional license charges, ('Volume Pricing Model'), as well as user-based licenses for Business Station for 5 users, Customer Service Module (CSR) for 5 users, Dev Station for 5 users and Design Station for 5 users. Should Client achieve annual Client Revenue greater than $250,000,000 ('Overage'), Client hereby agrees to pay InterWorld the product of the Overage multiplied by .01% ('Additional License Fee').

3. Should Client, during the term of this pricing model, achieve an annual Revenue greater than $250,000,000 InterWorld and Client hereby agree that the actual annual Client Revenue achieved shall become the controlling threshold for determining any applicable Overage for successive years. For example, should Client achieve $251,000,000 in annual Client Revenue in the first year, Client shall pay to InterWorld $1,000,000 multiplied by .01% as Additional License fees and the appropriate Additional Support and Maintenance fees as defined below. Thereafter, the annual Revenue achievable in following years shall be $251,000,000 without incurring additional licensing fees and support fees for that year.

4. Client Revenue is hereby defined as the total amount of transactional revenue that Client generates through the use of InterWorld Software, exclusive of applicable taxes, shipping and handling costs, and credit card fees billed by client.

5. Client acknowledges that only the InterWorld Software defined in Section A above is included in this Revenue Pricing Model. As such, Client is not entitled to unlimited licenses for any other InterWorld Software products.

6. Support and Maintenance Fees shall be invoiced at $400,000 for the Software defined in the Relevant 'Exhibit A' for the second year. Further, Client shall pay to InterWorld .08% of the Overage as an additional support and maintenance fee ('Additional Support and Maintenance Fee'). Thereafter, InterWorld agrees that the cost associated with the current maintenance program for the software licensed under this addendum shall not exceed the lesser of 10% or the published Consumer Price Index for that year.





7. Client is subject to annual revenue reporting to be submitted to InterWorld 30 days after the close of the twelve month period immediately succeeding the Effective Date which shall include reporting on both relevant finances and the number of servers deployed pursuant to the above grant. Should Client exceed the prepaid annual Client Revenue, Client shall pay to InterWorld the applicable Additional License Fee and Additional Support and Maintenance Fee Net 30 days from the due date of such report. It is hereby acknowledged that Client Revenues shall be deemed to be 'Confidential Information' as defined in the Agreement.

8. IW represents that it offers all of its licensees the same level of support and maintenance; as such, IW agrees to provide eB2B with the same level of support and maintenance provided to its other licensees.

9. Client and InterWorld agree that the terms of this Addendum and any discount and financial terms are confidential and shall be disclosed or discussed only with parties that have involvement in, or responsibility for, carrying out the terms of this Agreement.

Except as amended above, the Agreement shall remain in full force and effect.

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|---|---|
| INTERWORLD CORPORATION | EB2B, Inc. |
| By: | By: Peter J. Fiorillo |
| (authorized representative) | (authorized representative) |
| Name: | Name: |
| Title: Chairman Date: 9/30/00 | Title: CEO Date: 9/30/00 |

</Table>



| Customer | |
|---|---|
| EB2B Corporation | |
| Ship to Address | Invoice Address: |
| 757 3rd Ave | EB2B Corporation |
| New York, NY | 757 3rd Ave |
| | New York, NY |

| | |
|---|---|
| | |
| Ship to Contact | Bill to Contact |
| Peter Fiorillo | |
| Phone | Phone |
| 212-860-0920 | |
| Ship To E-Mail Address | |
| | |
| Payment terms:<br>See Addendum | |

<TABLE>
<Caption>

| Platform | | | Total Revenue Generated Annually | | $250,000,000.00 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |

| Products | License Fee | Additional License Fees (% of Revenue) | Annual Maintenance Fee | Additional Maintenance Fees (% of Revenue) | Total Fees |
|---|---|---|---|---|---|
| Commerce Exchange Business Application Suite 4.0 | 2,200,000 | 0.01% | $400,000.00 | 0.01% | $2,600,000 |

</TABLE>

<TABLE>
<CAPTION>

Server-Based Products, Tools & Adapters

| Products | Qty | Platform | # CPUs | License Type | License Fee Per Copy | Maintenance Fee 1st Copy | Maintenance Fee Each Add'l Copy | Extended License Fees | Total 1st Year Support Fees |
|---|---|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Commerce Intelligence | 1 | | | Server | | | | | |
| Enterprise Broker | 1 | | | Server | | | | | |
| Dev Station | 5 | | | Per named user | | | | | |
| Design Station | 5 | | | Per named user | | | | | |
| Business Station | 5 | | | Per named user | | | | | |

The Software granted hereunder shall be subject to the terms and conditions of the Software Lic_____
* Purchase Order Number_____; OR
Customer does not issue Purchase Orders: however, Customer agrees to pay for product(s) indicate _____
between InterWorld and Client.

| | | |
|---|---|---|
| Total Fees: | | $2,600,000 |
| GRAND TOTAL: | | $2,600,000 |

</TABLE>

| | |
|---|---|
| INTERWORLD CORPORATION | CLIENT: EB2B CORPORATION |
| By: [ILLEGIBLE] | By: Peter J. Fiorillo |
| Printed Name: | Printed Name: |
| Title: | Title: |
| Date: 9/30/00 | Date: 9/30/00 |

Exhibit 10.12

# eB2B COMMERCE, INC.
# 2000 STOCK OPTION PLAN
# (As Amended July 3, 2001)

## ARTICLE 1 PURPOSE AND DURATION

1.1. PURPOSE OF THE PLAN. The purpose of the Plan is to promote the success of the Company by providing incentives to Employees, including officers, whether or not directors, of the Company that will link their personal interests to the long-term financial success of the Company and to growth in shareholder value, and to attract, motivate and retain experienced and knowledgeable independent directors. The Plan is designed to provide flexibility to the Company in their ability to motivate, attract, and retain the services of Employees upon whose judgment, interest, and special effort the successful conduct of their operations is largely dependent. "Corporation" means eB2B Commerce, Inc., a New Jersey corporation, and "Company" means the Corporation and, except where otherwise indicated by the context, its Subsidiaries, collectively. These terms and other capitalized terms are defined in Article 2.

1.2. DURATION OF THE PLAN. The Plan will commence on April 18, 2000, upon shareholder approval. The Plan shall remain in effect, subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article 12 herein, until all Shares subject to it shall have been purchased or acquired according to the provisions herein. However, in no event may an Award be granted under the Plan on or after April 18, 2010, which is the tenth (10th) anniversary of the effective date of this Plan.

## ARTICLE 2. DEFINITIONS AND CONSTRUCTION

2.1. DEFINITIONS. Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized: (a) "Award" means, individually or collectively, a grant under this Plan of Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Units, or Performance Shares. (b) "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act. (c) "Board" or "Board of Directors" means the Board of Directors of the Company. (d) "Cause" shall mean the occurrence of any one of the following: (i) The willful and continued failure by a Participant to substantially perform his/her duties (other than any such failure resulting from the Participant's disability), after a written demand for substantial performance is delivered to the Participant that specifically identifies the manner in which the Company, as the case may be, believes that the Participant has not substantially performed his/her duties, and the Participant has failed to remedy the situation within ten (10) business days of receiving such notice; or (ii) the Participant's conviction for committing a felony or other crime involving breach of trust or fiduciary duty owed to the Company; or (iii) the willful engaging by the Participant in gross misconduct materially and demonstrably injurious to the Company. However, no act, or failure to act, on the Participant's part shall be considered "willful" unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Company. (e) "Code" means the Internal Revenue Code of 1986, as amended from time to time. (f) "Committee" means the committee appointed by the Board to administer the Plan pursuant to Article 3 herein. (g) "Company" means, collectively, the Corporation and, except where otherwise indicated by the context, its Subsidiaries. (h) "Corporation" means eB2B Commerce, Inc., a New Jersey corporation and its successors hereto as provided in Article 14 herein. (i) "Covered Employee" means any Participant designated prior to the grant of an award by the Committee who is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which such award is taxable to such Participant. (j) "Employee" means (i) any officer or employee of the Company (including those employees on a temporary leave of absence by the Company); or (ii) any person who has received and accepted an offer of employment from the Company. (k) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time. (l) "Exercise Price" shall mean the price fixed by the Committee at the date of grant. (m) "Fair Market Value" on any date means (i) if the stock is listed or admitted to trade on a national securities exchange, the closing price of the stock on the principal national

securities exchange on which the stock is so listed or admitted to trade, on such date, or, if there is no trading of the stock on such date, then the closing price of the stock on the preceding date on which there was trading in such shares; (ii) if the stock is not listed or admitted to trade on a national securities exchange, the last price for the stock on such date, as furnished by the National Association of Securities Dealers, Inc. ("NASD") through NASDAQ or a similar organization if the



NASD is no longer reporting such information; (iii) if the stock is not listed or admitted to trade on a national securities exchange and is not reported on NASDAQ, the mean between the bid and asked price for the stock on such date, as furnished by the NASD or a similar organization; or (iv) if the stock is not listed or admitted to trade on a national securities exchange, is not reported on NASDAQ and if bid and asked prices for the stock are not furnished by the NASD or a similar organization, the value as established by the Committee at such time for purposes of this Plan. (n) "Incentive Stock Option" or "ISO" means an option to purchase Stock, granted under Article 6 herein, which is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code. (o) "Nonqualified Stock Option" or "NQSO" means an option to purchase Stock, granted under Article 6 herein, which is not intended to be an Incentive Stock Option. (p) "Option" means an Incentive Stock Option or a Nonqualified Stock Option. (q) "Other Eligible Person" shall mean any Outside Director or any individual consultant or advisor who renders or has rendered bona fide services (other than services in connection with the offering or sale of securities of the Company in a capital raising transaction) to the Company, and who is selected to participate in this Plan by the Committee. A non-employee agent providing bona fide services to the Company (other than as an eligible advisor or consultant) may also be selected as an Other Eligible Person if such agent's participation in this Plan would not adversely affect (i) the Corporation's eligibility to use Form S-8 to register under the Securities Act of 1933, as amended, the offering of shares issuable under this Plan by the Company or (ii) the Corporation's compliance with any other applicable laws. (r) "Outside Director" means any director who qualifies as an "outside director" as that term is defined in Code Section 162(m) and the regulations issued thereunder. (s) "Participant" means an Employee or Other Eligible Person who has been granted an Award under the Plan. (t) "Performance Share" means an Award, designated as a performance share, granted to a Participant pursuant to Article 9 herein. (u) "Performance Unit" means an Award, designated as a performance unit, granted to a Participant pursuant to Article 9 herein. (v) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock is restricted, during which the Participant is subject to a substantial risk of forfeiture, pursuant to Article 8 herein. (w) "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof. (x) "Plan" means this 2000 Stock Option Plan, as amended, of eB2B Commerce, Inc., as herein described and as hereafter from time to time amended. (y) "Restricted Stock" means an Award of Stock granted to a Participant pursuant to Article 8 herein. (z) "Rule 16b-3" shall mean Rule 16b-3 (or any successor rule) under the Exchange Act. (aa) "Subsidiary" shall mean any corporation of which more than fifty percent (50%) (by number of votes) of the Voting Stock at the time outstanding is owned, directly or indirectly, by the Company. (bb) "Stock" or "Shares" means the common stock of the Company. (cc) "Stock Appreciation Right" or "SAR" means an Award, designated as a Stock Appreciation Right, granted to a Participant pursuant to Article 7 herein. (dd) "Voting Stock" shall mean securities of any class or classes of stock of a corporation, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors.

2.2. GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

2.3. SEVERABILITY. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

3. ADMINISTRATION

3.1. THE COMMITTEE. The Plan shall be administered by a Committee of the Board of Directors consisting of at least two (2) directors who shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors. To the extent required to comply with Rule 16b-3 under the Exchange Act, each member of the Committee shall qualify as a "disinterested person" as defined in Rule 16b-3 or any successor definition adopted by the Securities and Exchange Commission. To the extent required to comply with Code Section 162(m), each member of the Committee also shall be an Outside Director. Notwithstanding anything herein to the contrary, the Plan may be administered by the Board, in which case references in the Plan to the Committee shall be deemed to be references to the Board.

3.2. AUTHORITY OF THE COMMITTEE. Subject to the provisions of the Plan, the Committee shall have full power to construe and interpret the Plan; to establish, amend or waive rules and regulations for its administration; to accelerate the exercisability of any Award or the end of a performance period or the termination of any Period of



Restriction or any award agreement, or any other instrument relating to an Award under the Plan; and (subject to the provisions of Article 12 herein) to amend the terms and conditions of any outstanding Option, Stock Appreciation Right or other Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Notwithstanding the foregoing, the Committee shall have no authority to adjust upwards the amount payable to a Covered Employee with respect to a particular Award, to take any of the foregoing actions or to take any other action to the extent that such action or the Committee's ability to take such action would cause any Award under the Plan to any Covered Employee to fail to qualify as "performance-based compensation" within the meaning of Code Section 162(m)(4) and the regulations issued thereunder. Also notwithstanding the foregoing, no action of the Committee (other than pursuant to Section 4.3 hereof or Section 9.4 hereof) may, without the consent of the person or persons entitled to exercise any outstanding Option or Stock Appreciation Right or to receive payment of any other outstanding Award, adversely affect the rights of such person or persons.

3.3. SELECTION OF PARTICIPANTS. The Committee shall have the authority to grant Awards under the Plan, from time to time, to such Employees (including officers and directors who are employees) and Other Eligible Persons as may be selected by it. The Committee shall select Participants from among those who they have identified as being Employees or Other Eligible Persons.

3.4. DECISIONS BINDING. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board of Directors shall be final, conclusive and binding on all persons, including the Company, its stockholders, employees, and Participants and their estates and beneficiaries, and such determinations and decisions shall not be reviewable.

3.5. DELEGATION OF CERTAIN RESPONSIBILITIES. The Committee may, in its sole discretion, delegate to an officer or officers of the Company the administration of the Plan under this Article 3; provided, however, that no such delegation by the Committee shall be made with respect to the administration of the Plan as it affects directors of the Company or officers of the Company and provided further that the Committee may not delegate its authority to correct errors, omissions or inconsistencies in the Plan. All authority delegated by the Committee under this Section 3.5 shall be exercised in accordance with the provisions of the Plan and any guidelines for the exercise of such authority that may from time to time be established by the Committee.

3.6. PROCEDURES OF THE COMMITTEE. All determinations of the Committee shall be made by not less than a majority of its members present at the meeting (in person or otherwise) at which a quorum is present. A majority of the entire Committee shall constitute a quorum for the transaction of business. Any action required or permitted to be taken at a meeting of the Committee may be taken

without a meeting if a unanimous written consent, which sets forth the action, is signed by each member of the Committee and filed with the minutes for proceedings of the Committee. Service on the Committee shall constitute service as a director of the Company so that members of the Committee shall be entitled to indemnification, limitation of liability and reimbursement of expenses with respect to their services as members of the Committee to the same extent that they are entitled under the Company's Articles of Incorporation and New Jersey law for their services as directors of the Company.

3.7. AWARD AGREEMENTS. Each Award under the Plan shall be evidenced by an award agreement which shall be signed by an authorized officer of the Company and by the Participant, and shall contain such terms and conditions as may be approved by the Committee. Such terms and conditions need not be the same in all cases.

3.8. RULE 16b-3 REQUIREMENTS. Notwithstanding any other provision of the Plan, the Board or the Committee may impose such conditions on any Award (including, without limitation, the right of the Board or the Committee to limit the time of exercise to specified periods) as may be required to satisfy the requirements of Rule 16b-3. Notwithstanding any other provisions of the Plan, all Awards under this Plan shall be subject to the following conditions, as and to the extent required by Rule 16b-3: (i) Except in the case of disability or death, no SAR, ISO, NQSO or other option granted pursuant to Article 6 shall be exercisable for at least six (6) months after its grant; and (ii) Except in the case of disability or death, no Restricted Stock, Performance Unit or Performance Share (or a Share issued in payment thereof) shall be sold for at least six (6) months after its acquisition.



ARTICLE 4. STOCK SUBJECT TO THE PLAN

4.1. NUMBER OF SHARES. Subject to adjustment as provided in Section 4.3 herein, the aggregate number of Shares that may be delivered under the Plan at any time shall not exceed TEN MILLION (10,000,000) SHARES OF COMMON STOCK OF THE COMPANY PLUS AN ANNUAL INCREASE TO BE ADDED ON THE FIRST DAY OF THE COMPANY'S FISCAL YEAR BEGINNING IN 2001 EQUAL TO THE LESSER OF (I) TWO MILLION TWO HUNDRED AND FIFTY THOUSAND (2,250,000) SHARES, (II) FIVE PERCENT (5%) OF THE OUTSTANDING SHARES ON SUCH DATE, OR (III) A LESSER AMOUNT DETERMINED BY THE COMMITTEE. No more than one-half (1/2) of such aggregate number of such Shares shall be issued as Restricted Stock under Article 8 of the Plan and no more than seven million (7,000,000) shares shall be issued upon exercise of Incentive Stock Options under Article 6 of the Plan. Stock delivered under the Plan may consist, in whole or in part, of authorized and unissued Shares or treasury Shares. The exercise of a Stock Appreciation Right, whether paid in cash or Stock, shall be deemed to be an issuance of Stock under the Plan. The payment of Performance Shares or Performance Units shall not be deemed to constitute an issuance of Stock under the Plan unless payment is made in Stock, in which case only the number of Shares issued in payment of the Performance Share or Performance Unit Award shall constitute an issuance of Stock under the Plan.

4.2. LAPSED AWARDS. If any Award (other than Restricted Stock) granted under this Plan terminates, expires, or lapses for any reason, any Stock subject to such Award again shall be available for the grant of an Award under the Plan, subject to Section 7.2 herein.

4.3. ADJUSTMENTS IN AUTHORIZED SHARES. In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, Stock dividend, split-up, share combination, or other change in the corporate structure of the Company affecting the Stock, such adjustment shall be made in the number and class of shares which may be delivered under the Plan, and in the number and class of and/or price of shares subject to outstanding Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Shares, and Performance Units granted under the Plan, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; and provided that the number of shares subject to any Award shall always be a whole number. Any adjustment of an Incentive Stock Option under this paragraph shall be made in such a manner so as not to constitute a modification within the meaning of Section 425(h)(3) of the Code.

ARTICLE 5. ELIGIBILITY AND PARTICIPATION

5.1. ELIGIBILITY. Persons eligible to participate in this Plan include (i) all employees of the Company who, in the opinion of the Committee, are Employees, and (ii) Other Eligible Persons.

5.2. ACTUAL PARTICIPATION. Subject to the provisions of the Plan, the Committee may from time to time select those Employees and Other Eligible Persons to whom Awards shall be granted and determine the nature and amount of each Award. No employee, director, or individual consultant shall have any right to be granted an Award under this Plan even if previously granted an Award.

ARTICLE 6. STOCK OPTIONS

6.1. GRANT OF OPTIONS. Subject to the terms and provisions of the Plan, Options may be granted to Employees and Other Eligible Persons at any time and from time to time as shall be determined by the Committee. The maximum number of Shares subject to Options granted to any individual Participant in any calendar year shall be one million (1,000,000) SHARES, except that the maximum number of Shares subject to Options granted to new Employees and Other Eligible Persons in the Fiscal Year of the Corporation in which his or her services as an Employee or Other Eligible Persons first commences shall be two million five hundred thousand (2,500,000) Shares. The Committee shall have the sole discretion, subject to the requirements of the Plan, to determine the actual number of Shares subject to Options granted to any Participant. The Committee may grant any type of Option to purchase Stock that is permitted by law at the time of grant including, but not limited to, ISOs and NQSOs. However, only Employees are eligible to receive ISOs and no employee may receive an Award of Incentive Stock Options that are first exercisable during any calendar year to the extent that the aggregate Fair Market Value of the Stock (determined at the time the options are granted) exceeds one hundred thousand dollars ($100,000). Nothing in this Article 6 shall be deemed to prevent the grant of NQSOs in excess of the maximum established by Section 422 of the Code. Unless otherwise expressly provided at the time of grant, Options granted under the Plan will be NQSOs.



6.2. OPTION AGREEMENT. Each Option grant shall be evidenced by an Option agreement that shall specify the type of Option granted, the Option price, the duration of the Option, the number of Shares to which the Option pertains, and such other provisions as the Committee shall determine. The Option agreement shall specify whether the Option is intended to be an Incentive Stock Option within the meaning of Section 422 of the Code, or a Nonqualified Stock Option whose grant is not intended to be subject to the provisions of Code Section 422.

6.3. OPTION PRICE. The purchase price per share of Stock covered by an Option shall be determined by the Committee but, in the case of an ISO, shall not be less than one hundred percent (100%) of the Fair Market Value of such Stock on the date the option is granted. An Incentive Stock Option granted to an Employee who, at the time of grant, owns (within the meaning of Section 424(d) of the Code) Stock possessing more than ten percent (10%) of the total combined voting power of all classes of Stock of the Company shall have an exercise price which is at least one hundred ten percent (110%) of the Fair Market Value of the Stock subject to the Option.

6.4. DURATION OF OPTIONS. Each Option shall expire at such time as the Committee shall determine at the time of grant provided, however, that no ISO shall be exercisable later than the tenth (10th) anniversary date of its grant. An Incentive Stock Option granted to an employee who, at the time of grant, owns (within the meaning of Section 424(d) of the Code) Stock possessing more than ten percent (10%) of the total combined voting power of all classes of Stock of the Company shall not be exerciseable after the expiration of five (5) years from the anniversary date of its grant.

6.5. EXERCISE OF OPTIONS. Subject to Section 3.8 herein, Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for all Participants.

6.6. PAYMENT. Options shall be exercised by the delivery of a written notice to

the Company setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. The Option price upon exercise of any Option shall be payable to the Company in full either (i) in cash or its equivalent, or (ii) if so permitted by the Committee (a) through the delivery (including by attestation of ownership) of shares of Stock which have been outstanding for at least six (6) months (unless the Committee approves a shorter period) and which have a fair market value at the time of exercise equal to the total option price, (b) by foregoing compensation under rules established by the Committee, (c) by having the Company withhold Shares of Stock, subject to Section 13.2 hereof, or (d) by delivery of an unconditional and irrevocable undertaking by a broker to deliver promptly to the Company sufficient funds to pay the option price and any tax withholding resulting from such exercise, or (e) by any combination of (i), (ii)(a), (ii)(b), (ii)(c), or (ii)(d). As soon as practicable, after receipt of written notification and payment, the Company shall deliver to the Participant Stock certificates in an appropriate amount based upon the number of Options exercised, issued in the Participant's name.

6.7. RESTRICTIONS ON STOCK TRANSFERABILITY. The Committee shall impose such restrictions on any Shares acquired pursuant to the exercise of an Option under the Plan as it may deem advisable, including, without limitation, restrictions under applicable Federal securities law, under the requirements of any stock exchange upon which such Shares are then listed and under any blue sky or state securities laws applicable to such Shares.

6.8. TERMINATION DUE TO DEATH, DISABILITY, OR RETIREMENT.
In the event the employment of an Employee, or an Outside Director's service on the Board, is terminated by reason of death, any of such Participant's outstanding Options that are vested shall be exercisable at any time prior to the expiration date of the Options or within one (1) year after such date of termination of employment, whichever period is shorter, by such person or persons as shall have acquired the Participant's rights under the Option pursuant to Article 10 hereof or by will or by the laws of descent and distribution. In the event of death of the Participant, all unvested options will be deemed to have expired. In the event the employment of an Employee, or an Outside Director's service on the Board, is terminated by reason of disability (as defined under the then established rules of the Company, as the case may be), any of such Participant's outstanding Options shall become immediately exercisable, at any time prior to the expiration date of the Options after such date of termination of employment. In the event the employment of a Participant is terminated by reason of retirement, any of such Participant's vested Options shall be immediately exercisable (subject to Section 3.8 herein) at any time prior to the expiration date of the Options. In the event of



retirement of the Employee or Outside Director from the Board, all unvested options will be deemed to have expired. In the case of Incentive Stock Options, the favorable tax treatment prescribed under Section 422 of the Internal Revenue Code of 1986, as amended, may not be available if the Options are not exercised within the Code Section 422 prescribed time period after termination of employment for death, disability, or retirement.

6.9. VOLUNTARY TERMINATION. If the employment of an Employee, or an Outside Director's service on the Board, shall terminate voluntarily, the Participant shall have the right to exercise such Participant's vested Options within the ninety (90) days after the date of his termination, but in no event beyond the expiration of the term of the Options and only to the extent that the Participant was entitled to exercise the Options at the date of his termination of employment. All unvested options will be deemed to have expired. In its sole discretion, the Committee may extend the ninety (90) days to up to one (1) year but, however, in no event beyond the expiration date of the Option.

6.10. TERMINATION FOR CAUSE. If the employment of the Employee or an Outside Director's service on the Board, shall terminate for Cause, all of the Participant's outstanding Options shall be immediately forfeited back to the Company.

6.11. TERMINATION FOR OTHER REASONS. If the employment of an Employee, or an Outside Director's service on the Board, shall terminate for any reason other than death, disability, retirement, voluntarily, or for Cause, the Participant shall have the right to exercise such Participant's vested Options within the ninety (90) days after the date of his termination, but in no event beyond the expiration of the term of the Options and only to the extent that the Participant was entitled to exercise the Options at the date of his termination. All unvested options will be deemed to have expired.

6.12. NONTRANSFERABILITY OF OPTIONS. Unless the Committee provides otherwise, no Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, otherwise than by will or by the laws of descent and distribution. Further, all Options granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant.

ARTICLE 7. STOCK APPRECIATION RIGHTS

7.1. GRANT OF STOCK APPRECIATION RIGHTS. Subject to the terms and conditions of the Plan, Stock Appreciation Rights may be granted to Participants, at the discretion of the Committee, in any of the following forms: (a) In lieu of Options; (b) In addition to Options; (c) Independent of Options; or (d) In any combination of (a), (b), or (c). The maximum numbers of Shares subject to SARs granted to any individual Participant in any calendar year shall be one million (1,000,000) Shares, except that the maximum number of Shares subject to SARs granted to new Employees and Other Eligible Persons in the Fiscal Year of the Corporation in which his or her services as a new Employee or Other Eligible Person first commences shall be one million five hundred thousand (1,500,000) Shares. Subject to the immediately preceding sentence, the Committee shall have the sole discretion, subject to the requirements of the Plan, to determine the actual number of Shares subject to SARs granted to any Participant.

7.2. EXERCISE OF SARS IN LIEU OF OPTIONS. SARs granted in lieu of Options may be exercised for all or part of the Shares subject to the related Option upon the surrender of the related Options representing the right to purchase an equivalent number of Shares. The SAR may be exercised only with respect to the Shares of Stock for which its related Option is then exercisable. Option Stock with respect to which the SAR shall have been exercised may not be subject again to an Award under the Plan. Notwithstanding any other provision of the Plan to the contrary, with respect to an SAR granted in lieu of an Incentive Stock Option, (i) the SAR will expire no later than the expiration of the underlying Incentive Stock Option; (ii) the SAR amount may be for no more than one hundred percent (100%) of the difference between the exercise price of the underlying Incentive Stock Option and the Fair Market Value of the Stock subject to the underlying Incentive Stock Option at the time the SAR is exercised; and (iii) the SAR may be exercised only when the Fair Market Value of the Stock subject to the Incentive Stock Option exceeds the exercise price of the Incentive Stock Option.

7.3. EXERCISE OF SARS IN ADDITION TO OPTIONS. SARs granted in addition to Options shall be deemed to be exercised upon the exercise of the related Options. The deemed exercise of SARs granted in addition to Options shall not necessitate a reduction in the number of related Options.



7.4. EXERCISE OF SARS INDEPENDENT OF OPTIONS. Subject to Section 3.8 herein and Section 7.5 herein, SARs granted independently of Options may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon the SARs, including, but not limited to, a corresponding proportional reduction in previously granted Options.

7.5. PAYMENT OF SAR AMOUNT. Upon exercise of the SAR, the holder shall be entitled to receive payment of an amount determined by multiplying: (a) The difference between the Fair Market Value of a Share on the date of exercise over the Exercise Price; by (b) The number of Shares with respect to which the SAR is exercised.

7.6. FORM AND TIMING OF PAYMENT. Payment to a Participant, upon SAR exercise, will be made in cash or stock, at the discretion of the Committee, within ten

(10) calendar days of the exercise.

7.7. TERM OF SAR. The term of an SAR granted under the Plan shall not exceed ten (10) years.

7.8. TERMINATION. In the event the employment of an Employee, or an Outside Director's service on the Board, is terminated by reason of death, disability, retirement, voluntarily, for cause, or any other reason, the exercisability of any outstanding SAR granted in lieu of or in addition to an Option shall terminate in the same manner as its related Option as specified under Sections 6.8, 6.9, 6.10, and 6.11 herein. The exercisability of any outstanding SARs granted independent of Options also shall terminate in the manner provided under Sections 6.8, 6.9, 6.10, and 6.11 hereof.

7.9. NONTRANSFERABILITY OF SARS. No SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, otherwise than by will or by the laws of descent and distribution. Further, all SARs granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant.

ARTICLE 8. RESTRICTED STOCK

8.1. GRANT OF RESTRICTED STOCK. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock under the Plan to such Participants and in such amounts as it shall determine. In the case of Covered Employees, the Committee may condition the vesting or lapse of the Period of Restriction established pursuant to Section 8.3 upon the attainment of one or more of the performance goals utilized for purposes of Performance Units and Performance Shares pursuant to Article 9 hereof. It is contemplated that Restricted Stock grants will be made only in extraordinary situations of performance, promotion, retention, or recruitment.

8.2. RESTRICTED STOCK AGREEMENT. Each Restricted Stock grant shall be evidenced by a Restricted Stock Agreement that shall specify the Period of Restriction, or periods, the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine.

8.3. TRANSFERABILITY. Except as provided in this Article 8 or in Section 3.8 herein, the Shares of Restricted Stock granted hereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the termination of the applicable Period of Restriction or for such period of time as shall be established by the Committee and as shall be specified in the Restricted Stock Agreement, or upon earlier satisfaction of other conditions (including any performance goals) as specified by the Committee in its sole discretion and set forth in the Restricted Stock Agreement. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant.

8.4. OTHER RESTRICTIONS. The Committee shall impose such other restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, restrictions under applicable Federal or state securities laws, and the Committee may legend certificates representing Restricted Stock to give appropriate notice of such restrictions.



8.5. CERTIFICATE LEGEND. In addition to any legends placed on certificates pursuant to Section 8.4 herein, each certificate representing Shares of Restricted Stock granted pursuant to the Plan shall bear the following legend: "The sale or other transfer of the shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer set forth in the 2000 Stock Option Plan, as amended, of eB2B Commerce, Inc., in the rules and administrative procedures adopted pursuant to such Plan, and in a Restricted Stock Agreement dated as of the date of issuance. A copy of the Plan, such rules and procedures, and such Restricted Stock Agreement may be obtained from the Chief Financial Officer of eB2B Commerce, Inc."

8.6. REMOVAL OF RESTRICTIONS. Except as otherwise provided in this Article, and

subject to applicable securities laws, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the Period of Restriction. Once the Shares are released from the restrictions, the Participant shall be entitled to have the legend required by Section 8.4 or Section 8.5 removed from his Stock certificate.

8.7. VOTING RIGHTS. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares.

8.8. DIVIDENDS AND OTHER DISTRIBUTIONS. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder shall be entitled to receive all dividends and other distributions paid with respect to those Shares while they are so held. If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions on transferability as the Shares of Restricted Stock with respect to which they were paid.

8.9. TERMINATION DUE TO RETIREMENT. In the event that the employment of an Employee, or an Outside Director's service on the Board, is terminated due to retirement, any remaining Period of Restriction applicable to the Restricted Stock pursuant to Section 8.3 hereof shall automatically terminate and, except as otherwise provided in Section 8.4, Section 8.5, or Section 3.8 hereof, the Shares of Restricted Stock shall thereby be free of restrictions and be freely transferable. In the event that an Employee terminates his employment with the Company because of early retirement (as defined under the then established rules of the Company, as the case may be), the Committee in its sole discretion (subject to Section 3.8 herein) may waive the restrictions remaining on any or all Shares of Restricted Stock pursuant to Section 8.3 herein and add such new restrictions to those Shares of Restricted Stock as it deems appropriate.

8.10. TERMINATION DUE TO DEATH OR DISABILITY. In the event that the employment of an Employee, or an Outside Director's service on the Board, is terminated because of death or disability (as defined under the then established rules of the Company, as the case may be) during the Period of Restriction, any remaining Period of Restriction applicable to the Restricted Stock pursuant to Section 8.3 herein shall automatically terminate and, except as otherwise provided in Section 8.4. herein, the shares of Restricted Stock shall thereby be free of restrictions and be fully transferable.

8.11. TERMINATION FOR OTHER REASONS. In the event that the employment of an Employee, or an Outside Director's service on the Board, is terminated for any reason other than for death, disability, or retirement, as set forth in Sections 8.9 and 8.10 herein, during the Period of Restriction, then any shares of Restricted Stock still subject to restrictions as of the date of such termination shall automatically be forfeited and returned to the Company; provided, however, that in the event of an involuntary termination of the employment of an Employee, or an Outside Director's service on the Board, by the Company other than for Cause, the Committee, in its sole discretion (subject to Section 3.8 herein), may waive the automatic forfeiture of any or all such Shares and may add such new restrictions to such Shares of Restricted Stock as it deems appropriate.

ARTICLE 9. PERFORMANCE UNITS AND PERFORMANCE SHARES

9.1. GRANT OF PERFORMANCE UNITS OR PERFORMANCE SHARES. Subject to the terms and provisions of the Plan, Performance Units or Performance Shares may be granted to Participants at any time and from time to time as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Performance Units or Performance Shares granted to each Participant.



9.2. VALUE OF PERFORMANCE UNITS AND PERFORMANCE SHARES. The Committee shall set performance goals over certain periods to be determined in advance by the Committee ("Performance Periods"). Prior to each grant of Performance Units or Performance Shares, the Committee shall establish an initial value for each Performance Unit and an initial number of Shares for each Performance Share

granted to each Participant for that Performance Period. Prior to each grant of Performance Units or Performance Shares, the Committee also shall set the performance goals that will be used to determine the extent to which the Participant receives a payment of the value of the Performance Units or number of Shares for the Performance Shares awarded for such Performance Period. These goals will be based on the attainment, by the Company, of certain objective performance measures, which includes, but is not limited to one or more of the following: total shareholder return, return on equity, return on capital, earnings per share, market share, stock price, sales, costs, net income, cash flow, and retained earnings. Such performance goals also may be based upon the attainment of specified levels of performance of the Company under one or more of the measures described above relative to the performance of other corporations. With respect to each such performance measure utilized during a Performance Period, the Committee shall assign percentages to various levels of performance which shall be applied to determine the extent to which the Participant shall receive a payout of the values of Performance Units and number of Performance Shares awarded. With respect to Covered Employees, all performance goals shall be objective performance goals satisfying the requirements for "performance-based compensation" within the meaning of Section 162(m)(4) of the Code, and shall be set by the Committee within the time period prescribed by Section 162(m) of the Code and related regulations.

9.3. PAYMENT OF PERFORMANCE UNITS AND PERFORMANCE SHARES. After a Performance Period has ended, the holder of a Performance Unit or Performance Share shall be entitled to receive the value thereof as determined by the Committee. The Committee shall make this determination by first determining the extent to which the performance goals set pursuant to Section 9.2 have been met. It will then determine the applicable percentage (which may exceed one hundred percent (100%)) to be applied to, and will apply such percentage to, the value of Performance Units or number of Performance Shares to determine the payout to be received by the Participant. In addition, with respect to Performance Units and Performance Shares granted to any Covered Employee, no payout shall be made hereunder except upon written certification by the Committee that the applicable performance goal or goals have been satisfied to a particular extent. The maximum amount payable in cash to any Covered Employee with respect to any Performance Period pursuant to any Performance Unit or Performance Share award shall be five hundred thousand dollars ($500,000), and the maximum number of Shares that may be issued to any Covered Employee with respect to any Performance Period pursuant to any Performance Unit or Performance Share award is two hundred and fifty thousand (250,000) (subject to adjustment as provided in Section 4.3).

9.4. COMMITTEE DISCRETION TO ADJUST AWARDS. Subject to Section 3.2 regarding Awards to Covered Employees, the Committee shall have the authority to modify, amend or adjust the terms and conditions of any Performance Unit award or Performance Share award, at any time or from time to time, including but not limited to the performance goals.

9.5. FORM AND TIMING OF PAYMENT. The payment described in Section 9.3 herein shall be made in cash, Stock, or a combination thereof as determined by the Committee. Payment may be made in a lump sum or installments as prescribed by the Committee. If any payment is to be made on a deferred basis, the Committee may provide for the payment of dividend equivalents or interest during the deferral period. Any stock issued in payment of a Performance Unit or Performance Share shall be subject to the restrictions on transfer in Section 3.8 herein.

9.6. TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, OR RETIREMENT. In the case of death, disability, or retirement (each of disability and retirement as defined under the established rules of the Company, as the case may be), the holder of a Performance Unit or Performance Share shall receive a prorated payment based on the Participant's number of full months of service during the Performance Period, further adjusted based on the achievement of the performance goals during the entire Performance Period, as computed by the Committee. Payment shall be made at the time payments are made to Participants who did not terminate service during the Performance Period.

9.7. TERMINATION FOR OTHER REASONS. In the event that the employment of an Employee, or an Outside Director is terminated for any reason other than death, disability, or retirement, all Performance Units and Performance Shares shall be forfeited; provided, however, that in the event of an involuntary termination of the

employment of an Employee or an Outside Director's service on the Board, is by the Company other than for Cause, the Committee in its sole discretion may waive the automatic forfeiture provisions and pay out on a prorata basis.

9.8. NONTRANSFERABILITY. No Performance Units or Performance Shares granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, otherwise than by will or by the laws of descent and distribution until the termination of the applicable Performance Period. All rights with respect to Performance Units and Performance Shares granted to a Participant under the Plan shall be exercisable during his lifetime only by such Participant.

ARTICLE 10. BENEFICIARY DESIGNATION
Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively and who may include a trustee under a will or living trust) to whom any benefit under the Plan is to be paid in case of his death before he receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Committee during his lifetime. In the absence of any such designation or if all designated beneficiaries predecease the Participant, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

ARTICLE 11. RIGHTS OF EMPLOYEES AND OUTSIDE DIRECTORS
11.1. EMPLOYMENT. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Employee's employment at any time, nor confer upon any Employee any right to continue in the employ of the Company.

11.2. PARTICIPATION. No Employee or Outside Director shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant.

11.3. NO IMPLIED RIGHTS; RIGHTS ON TERMINATION OF SERVICE. Neither the establishment of the Plan nor any amendment thereof shall be construed as giving any Participant, beneficiary, or any other person any legal or equitable right unless such right shall be specifically provided for in the Plan or conferred by specific action of the Committee in accordance with the terms and provisions of the Plan. Except as expressly provided in this Plan, neither the Company shall be required or be liable to make any payment under the Plan, and to the extent that any Participant's service, namely an individual consultant, is terminated under circumstances not provided for under the Plan, the termination provisions for such Awards will be stipulated in the Participant's award agreement under Section 3.7 herein.

11.4. NO RIGHT TO COMPANY ASSETS. Neither the Participant nor any other person shall acquire, by reason of the Plan, any right in or title to any assets, funds or property of the Company whatsoever including, without limiting the generality of the foregoing, any specific funds, assets, or other property which the Company, in its sole discretion, may set aside in anticipation of a liability hereunder. Any benefits which become payable hereunder shall be paid from the general assets of the Company. The Participant shall have only a contractual right to the amounts, if any, payable hereunder unsecured by any asset of the Company. Nothing contained in the Plan constitutes a guarantee by the Company that the assets of the Company shall be sufficient to pay any benefit to any person.

ARTICLE 12. AMENDMENT, MODIFICATION, AND TERMINATION
12.1. AMENDMENT, MODIFICATION, AND TERMINATION. At any time and from time to time, the Board may terminate, amend, or modify the Plan. However, without the approval of the stockholders of the Company if required by the Code, by the insider trading rules of Section 16 of the Exchange Act, by any national securities exchange or system on which the Stock is then listed or reported, or by any regulatory body having jurisdiction with respect hereto, no such termination, amendment, or modification may: (a) Increase the total amount of Stock which may be issued under this plan, except as provided in Section 4.3

herein; or (b) Change the class of Employees eligible to participate in the Plan; or (c) Materially increase the cost of the Plan or materially increase the benefits to Participants; or (d) Extend the maximum period after the date of grant during which Options or Stock Appreciation Rights may be exercised.



12.2. AWARDS PREVIOUSLY GRANTED. No termination, amendment or modification of the Plan other than pursuant to Section 4.3 hereof shall in any manner adversely affect any Award theretofore granted under the Plan, without the written consent of the Participant.

ARTICLE 13. WITHHOLDING

13.1. TAX WITHHOLDING. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an applicable amount sufficient to satisfy Federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any grant, exercise, or payment made under or as a result of this Plan.

13.2. STOCK DELIVERY OR WITHHOLDING. With respect to withholding required upon the exercise of Nonqualified Stock Options, or upon the lapse of restrictions on Restricted Stock, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by tendering to the Company shares of previously acquired Stock or by having the Company withhold Shares of Stock (cashless exercise), in each such case in an amount having a Fair Market Value equal to the amount required to be withheld to satisfy the minimum tax withholding obligations described in Section 13.1. The value of the Shares to be tendered or withheld is to be based on the Fair Market Value of the Stock on the date that the amount of tax to be withheld is to be determined. All Stock withholding elections shall be irrevocable and made in writing, signed by the Participant on forms approved by the Committee in advance of the day that the transaction becomes taxable. Stock withholding elections made by Participants who are subject to the short-swing profit restrictions of Section 16 of the Exchange Act must comply with the additional restrictions of Section 16 and Rule 16b-3 in making their elections.

ARTICLE 14. SUCCESSORS

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE 15. REQUIREMENTS OF LAW

15.1. REQUIREMENTS OF LAW. The granting of Awards and the issuance of Shares of Stock under this Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

15.2. GOVERNING LAW. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of New Jersey.