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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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, 2002

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 0-10039

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eB2B COMMERCE, INC.
(Name of Small Business Issuer in its Charter)

New Jersey	22-2267658
(State or Other Juris-diction of Incorporation)	(I.R.S. Employer Identification No.)

665 Broadway
New York, NY 10012
(Address of Principal Executive Offices)

Issuer's Telephone Number: (212) 477-1700

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)

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, 2002: $3,493,000

As of March 13, 2003, 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 $126,297

Number of shares of our company's common stock outstanding at March 13, 2003: 3,157,431

Transitional Small Business Disclosure Format: Yes |_| No |X|

PART I

Item 1. Description of Business

General

We are a provider of business-to-business transaction management services designed to simplify trading partner integration, automation and collaboration.

We use proprietary software to provide services that enable more efficient trading to take place between business partners. Our technology platform allows business partners to electronically initiate, communicate, and respond to business documents, regardless of the differences in the partners' respective computer systems.

Through our service offerings and technology, we:

- receive business documents including, but not limited to, purchase

orders, purchase order acknowledgments, advanced shipping notices and invoices in any data format,

- ensure that the appropriate data has been sent,
- translate the document into any other format readable by the trading partner,
- transmit the documents correctly to the respective trading partner,
- acknowledge the flow of transactions to each partner,
- allow the partners to view and interact with other supply chain information,
- alert the partners to time-critical information.

We provide access to our services via the Internet and traditional communications methodologies. Our software is maintained on both on-site hardware and remotely hosted hardware.

We also provide professional services and consulting services to tailor our software to our customers' specific needs with regard to automating the customers' transactions with their suppliers, 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 some instances, we provide access to our software to third-party software vendors as resellers, who use our solutions to meet their customers' requirements in this area. We may also allow certain of these customers to take delivery of our proprietary software on a licensed basis to support our services remotely.

Recent Developments

In September 2002, the Company discontinued its Training and Educational Services business segment. The Company was unable to find a buyer for this business segment and determined that it was in the best interest of its shareholders to discontinue its operations rather than continue to fund its working capital needs and operating losses. For the years ended December 31, 2002 and 2001, the Company's discontinued operations contributed net sales of $1,105,000 and $2,483,000 respectively.

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.

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.

In January 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. In November 2002, the Series D preferred stock automatically converted into an aggregate of 333,334 shares of common stock. The Company 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. 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 portfolio of nationally known suppliers, including O-Cedar Brands, Peregrine Outfitters, Schott Glass and Ross Products, a division of Abbott Labs.

Industry Background

Businesses are increasingly seeking to improve their operating efficiency with other businesses through electronically automated and integrated 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 called Web Services, has created technology that supports highly efficient channels of communication and collaboration. Expensive solutions and VAN connectivity charges are no longer necessities for conducting EDI transactions. This development 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 Web Services enable buyers and suppliers of all sizes to electronically exchange business documents and interact with a greater number of potential trading partners. New opportunities are created for expanding business reach and growing revenue. Companies of all sizes in virtually all industries can realize potentially significant return on investment by using these new, affordable technologies to gain efficiencies throughout their supply chains.

Faced with the challenges of rapid technological change, companies are now trying to justify existing, sometimes large, investments made in older supply chain or EDI-based systems and evaluating conversion alternatives. Decision-makers are interested in creating measurable operating efficiencies while achieving quick return on investment (ROI), which are the primary benefits of this new generation of solutions.

Business Overview

We use our proprietary software and professional services expertise in EDI and supply chain automation to provide simple, affordable, high ROI solutions for trading between business partners.

The Company believes that currently less than 25% of all transactions between businesses in the United States of America are done with document transfer via EDI. The other 75% plus of transactions and the related transfer of documents are conducted via phone, fax and mail. This is our target market. Included in this market are over 100,000 retailers and over 2 million suppliers, who transact over $1 trillion in annual purchases.

We provide services to automate currently existing business relationships. The simplicity of conducting 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 primarily an Applications Services Provider for our customers, enabling them to effectively manage their trading relationships with minimal additional investment in platforms or software. Our products and services include:

- Trading Hubs or Private Exchanges, where we provide services to automate currently existing business relationships. Through our technology, we provide a dedicated platform for large buyers or large suppliers to transfer business documents via traditional EDI

and the Internet to their small and medium-sized trading partners. We provide the Web-based application, accessible through any Web-browser, and the enablement services to contact, market, register, and activate trading partners.

- Trade Gateway, which is our generic exchange for small and medium-size, suppliers, and a growing number of large retailers. Through our technology, we provide an environment where business documents can be exchanged with many partners from a single, secure environment, without the need for a user to access multiple Websites or trading environments.

- EDI Outsourcing, where we work with a particular partner to facilitate the exchange of data, in any of a variety of formats and communication methods, with a targeted partner or partners. We act as the EDI department to our customer's business.

- End-to-End Integration, where we facilitate the movement of trading or supply chain information directly into the customer's back-end Accounting, Enterprise Resource Planning, Logistics, Warehouse Management, or other back-end system without human intervention.

- Enterprise Solution Original Equipment Manufacturer, in which we work with an Accounting, Enterprise Resource Planning, Logistics, or Warehouse Management partner to fully integrate our software with our partner's application, creating a seamless solution to be resold to our partner's customers.

We augment our products and services with professional services, which provides consulting expertise to our 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 work both within our daily operation and may also reside remotely on-site at an EDI enabled retailer or supplier with the objective of providing EDI expertise that does not exist on-site.

We believe that our products and services provide 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
- 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
- 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.

Markets and Marketing

The marketing goals of our Transaction Processing and related services business unit have been to:

1) attract and retain buyers and suppliers principally in the following vertical industries:

- chain drug,
- toys,
- general retail,
- telecommunications, and
- consumer electronics, and

2) build alliances with technology companies and other partners

VERTICAL MARKETS

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 our chosen industries attractive vertical markets for their transaction processing and related services.

Key clients in the chain drug vertical include Rite Aid Corporation, Duane Reade, and Eckerd. In the toys vertical, Toys "R" Us is our predominant customer. In the general retail vertical, our customers include Linens `N Things, O'Cedar and Disney. In the telecommunications vertical, customers include USA Wireless, Verizon Communications and Verizon Wireless, and in the consumer electronics vertical, customers include Best Buy, Circuit City and Handspring. For the years ended December 31, 2002 and 2001, 25% and 21% of our revenues, respectively, were derived from Toys "R" Us. It is expected that the Toys "R" Us business will decrease slightly in 2003 from 2002 levels.

ALLIANCES AND PARTNERSHIPS

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. In order to leverage our current direct sales force and add new revenue streams, we expect to establish alliances with other firms that have an established presence in either our existing vertical markets or new ones. Likely companies for us to partner with would include software and services firms selling enterprise software or other back-end processing applications and buying groups, consulting organizations, and associations that play a key role in influencing buying behavior. Joint marketing or sales programs with alliance partners would be intended to gain broader access to large and mid-size companies, enabling us to add connections to many of their small and medium-sized suppliers. Reciprocal reseller relationships would generate royalty revenue to us for each sale made, potentially including a portion of ongoing recurring revenue as well. Currently, the Company is a Progress Independent System Vendor, participating in the Progress Corporation's ASPEN program, whereby the Company may advantageously remarket Progress software under a revenue sharing arrangement to an unlimited number of customers. The Company has partnered with a number of Enterprise Resource Planning software vendors, including Daly Commerce, Cutsey Systems, and Epicor Software Corporation to provide its EDI solutions and services on an informal basis. While we expect additional partnership agreements to be formalized in 2003, there can be no assurance that the Company will be successful in this regard.

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

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 a small number of national trade shows.

As of December 31, 2002, we connected approximately 200 retail organizations and 1,100 supply organizations to their trading partners. As of December 31, 2002, we were processing in excess of 200,000 transactions per quarter representing almost $1 billion of purchasing volume.

Competition

Business-to-business electronic commerce is a rapidly evolving industry. Competition is intense and is expected to increase in the future. Our management believes that we provide a well-differentiated 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. This capability is augmented by our expertise in end-to-end integration with existing systems, and an EDI outsourcing solution.

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 AdvantE Corporation, Neoforma, Inc., and The viaLink Company. Major privately held competitors include Automated Data Exchange (ADX), GXS (a divestiture of General Electric), and SPS Commerce, for which minimal public information is available on their efforts to date.

Also, we believe that competition may develop from EDI/electronic commerce companies, technology/software development companies, retailer purchasing organizations, and leading industry manufacturers. Further, 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 customers in our target markets. We believe it will prove to be an inefficient use of resources for each large retailer to build a technology platform for its internal use and too complicated for each trading partner to access many discrete trading sites, 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, 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.

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 $1,217,000 and $2,024,000 for the years ended December 31, 2002 and 2001, 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, 2002, six employees were engaged in product development activities. When necessary, based on specific customer needs to rapidly deliver new features and functions, we may 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 the Costs of Computer Software Developed or Obtained for Internal Use", the Company capitalizes some of these costs. They are amortized over a period of two years.

Personnel

As of December 31, 2002, we employed 23 full-time employees, and 5 employees compensated on an hourly basis, which may be equivalent to full-time. 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 a single facility in New York, New York. The following table sets forth information on our property:

Principal Address	Square Footage	Owned/Leased	Purpose
665 Broadway New York, NY 10012	5,000	Leased	Corporate Headquarters Offices

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. There has been no additional activity in 2002. 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 entire matter was settled in February 2003 for less than $2,000 and an option to purchase 5,000 shares of eB2B stock at an exercise price of $67.50 per share.

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 disputed this claim and after defending the action, the entire matter was settled in January 2003 for $15,000.

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 2002.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Our common stock had been quoted on the Nasdaq SmallCap Market under the symbol "EBTB" since August 15, 2000 through August 26, 2002. After 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 periods it has not been on the Nasdaq SmallCap Market 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 for shares of eB2B Commerce, Inc.

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:

Quarter Ended	High	Low
March 31, 2001	$22.50	$15.90
June 30, 2001	4.50	2.85
September 30, 2001	1.65	1.35
December 31, 2001	2.25	1.50
March 31, 2002	3.62	.96
June 30, 2002	1.25	.11
September 30, 2002	.16	.10
December 31, 2002	.11	.03

As of March 15, 2003, we have approximately 4,075 record holders of our common stock.

The Company has a significant number of shares of common stock underlying its derivative securities, as follows (excluding stock options):

Security	Exercise or Conversion Price Per Share ($)	Aggregate No. Of Underlying Shares
Series A Preferred Stock	2.33	3,000
Series B Preferred Stock	6.14	3,985,000
Series C Preferred Stock	.49	15,137,000
Original Bridge Warrants	.101	8,935,000
Merger & Advisory Warrants	31.05	124,000
Credit Use Warrants	2.21	204,000
Series C Investor Warrants	1.65	5,527,000
Series C Agent Warrants - Preferred	.49	1,659,000
Series C Agent Warrants - Common	1.65	829,000
December 2001 Bridge Warrants	1.10	396,000
January 2002 Investor Warrants	1.85	1,229,000
January 2002 Agent Warrants	1.54	246,000
Series B Investor Warrants	5.75	1,434,000
Series B Agent Warrants	5.75	1,418,000
Other Warrants	.20 - 58.65	377,000
January 2002 Convertible Notes	.101	22,401,000
July 2002 Financing Convertible Notes	.101	8,911,000
Total		72,815,000

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 cannot 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 captioned Risk Factors and other cautionary statements included in this Form 10-KSB. We disclaim any 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 Form 10-KSB. 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 and 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 to eB2B Commerce, Inc. from DynamicWeb Enterprises, Inc. and assumed the accounting history of the former eB2B Commerce, Inc. (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 use 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. 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 January 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, 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. In November 2002, the Series D preferred stock automatically converted into an aggregate of 333,334 shares of common stock. We also issued non-interest bearing secured notes to the Bac-Tech stockholders in the aggregate amount of $600,000, payable in three equal installments on May 1, 2003, January 1, 2004 and January 1, 2005, which is included as long term debt in the accompanying condensed consolidated balance sheet. We accounted for this acquisition using the purchase method of accounting and determined the total purchase price to be $1,990,000, which consisted of (i) cash of approximately $250,000; (ii) 200,000 shares of our common stock at a price of $2.33 for total consideration of $465,000; (iii) 95,000 shares of Series D Preferred stock valued at $775,000; (iv) a three year non-interest bearing notes, present valued at $457,000 utilizing our estimated borrowing rate of 15 percent; and (v) $43,000 in closing costs and other items.

As a result of the acquisition of Bac-Tech Systems, our financial condition and results of operations were significantly different during the

years ended December 31, 2002 and 2001. Therefore, we believe that the results of operations for 2002 may not be comparable in certain respects to the results of operations for 2001. 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.

As a result of continuing operating losses, negative cash flows, working capital constraints, and the inability to sell the business as of September 30, 2002, we discontinued our Training and Client Educational Services business segment. As a result, the financial results from all current period periods have been restated to reflect this business segment as a discontinued operation and the Company now has one business segment, Transaction Processing and related services.

Impact of Critical Accounting Policies

The SEC has recently issued Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggesting companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to our financial condition and results, and requires significant judgment and estimates on the part of management in its application. Management believes the following represent our critical accounting policies as contemplated by FRR 60. For a summary of all of our significant accounting policies, including the critical accounting policies discussed below, see the Notes to the Financial Statements included in this Form 10-KSB.

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 on the volume of transactions processed during a specific period, typically one month. 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 or large project arrangements are recognized using either the contract completion or percentage-of-completion method. The revenue recognized from fixed price consulting arrangements is based on the percentage-of-completion method if management can accurately allocate (i) the ongoing costs to undertake the project relative to the contracted price and projected margin; and (ii) the degree of completion at the end of the applicable accounting period. Otherwise, revenue is recognized upon customer acceptance of the completed project. 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 are included in deferred revenue.

Accounting for Business Combinations, Goodwill, and Other Intangible Assets

The judgments made in determining the estimated fair value and expected useful lives assigned to each class of assets and liabilities acquired can significantly impact net income. For example, different classes of assets will have useful lives that differ--the useful life of a customer list may not be the same as the other intangible assets, such as patents, copyrights, or to other assets, such as software licenses. Consequently, to the extent a longer-lived asset (e.g., patents) is ascribed greater value or a greater part of the purchase price is allocated to goodwill, which is no longer amortized, than to a shorter-lived asset with a definitive life (e.g. customer lists and software licenses) there may be less amortization recorded in a given period. Furthermore, there is also judgment involved in determining whether goodwill and other intangibles are impaired. Determining the fair value of certain assets and liabilities acquired is judgmental in nature and often involves the use of significant estimates and assumptions. One of the areas that requires more judgment in determining fair values and useful lives is intangible assets. While there were a number of different methods used in estimating the value of the intangibles acquired, there were two approaches primarily used: discounted cash flow and market multiple approaches. Some of the more significant estimates and assumptions inherent in the two approaches include: projected future cash flows

(including timing); discount rate reflecting the risk inherent in the future cash flows; perpetual growth rate; determination of appropriate market comparables; and the determination of whether a premium or a discount should be applied to comparables. The value of our intangible assets is exposed to future adverse changes if our company experiences decline in operating results or experiences significant negative industry or economic trends or if future performance is below historical trends. We periodically review intangible assets and goodwill for impairment using the guidance of applicable accounting literature. In 2002, we adopted new rules for measuring the impairment of goodwill and certain intangible assets. The estimates and assumptions described

have impacted the amount of impairment recognized under the new accounting standard.

Years Ended December 31, 2002 and 2001

Revenue for the year ended December 31, 2002 decreased approximately $840,000 or 19% to $3,493,000 as compared to $4,333,000 for the year ended December 31, 2001. Revenue from core transaction processing was $2,574,000, an increase $103,000, or 4%, as compared to $2,471,00 in 2001. This increase was offset by a decline in non-core pieces of our overall transaction processing business, which were part of various acquisitions, including the following: (i) a $544,000 reduction in professional services to $858,000 in 2002 compared to $1,402,000 in the similar period in the prior year as a result of certain cost containment measures by a key customer; (ii) elimination of a web design business, which consisted of $286,000 in revenues for 2001, and (iii) anticipated continued contraction of a legacy outsourced EDI business acquired from DynamicWeb, representing approximately $103,000 of the decline in revenue during 2002. Revenues were generally adversely affected due to a slower economy and reduced marketing expenditures.

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 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, 2002 amounted to $1,215,000, as compared to $1,754,000 for the year ended December 31, 2001, a decrease of approximately $539,000 or 31%. This decrease was a result of (i) lower revenues and (ii) cancellation of duplicate web hosting facilities and value-added network data charges, resulting in $610,000 in cost savings for 2002.

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, 2002 amounted to $500,000 as compared to $1,657,000 for the year ended December 31, 2001, a decrease of $1,157,000 or 70%. 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, saving approximately $106,000 in 2002.

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 $1,217,000 for the year ended December 31, 2002 as compared to $2,024,000 for the year ended December 31, 2001, a decrease of $807,000 or 40%. This is attributable to a nonrecurring reduction of these costs of $220,000 as a result of a settlement agreement with a large vendor. The product development expenses in 2002 consists entirely of

amortization of capitalized software development costs offset by the $220,000 for the vendor settlement discussed above; whereas during 2001, in addition to amortization, we expensed approximately $910,000 in relation with costs chiefly associated with the transition of certain of our existing customers to our new 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 years ended December 31, 2002 and 2001, total general and administrative expenses amounted to $5,089,000 and $10,103,000, respectively, representing a decrease of $5,014,000 or 50%. The decrease is attributable to: (i) the termination of the lease at 757 Third Avenue in the fourth quarter of 2001 which was reflected as a restructuring charge and resulted in quarterly savings of $285,000; (ii) a reduction of salaries and benefits of approximately $570,000 per quarter as a result of the cost cutting measures implemented by us during 2001 and 2002; (iii) reduction of fees paid to outside contractors by approximately $210,000 per quarter; and (iv) lower legal expenses in 2002 by $520,000.

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. During 2002, the Company settled with its landlord at its prior executive offices at 757 Third Avenue in New York City, resulting in an early termination of the lease relating to these premises and this restructuring was finalized. The amount by which the estimated restructuring charge taken in 2001 exceeded the actual restructuring costs to terminate this lease, as determined in 2002, in the amount of $655,000, was reversed into income in the restructuring caption during the second quarter of 2002

Amortization of goodwill and other intangibles are non-cash charges associated with the DynamicWeb, Netlan, and Bac-Tech business combinations. For the years 2002 and 2001, amortization expense was $974,000 and $9,789,000, respectively. The decrease of $8,815,000 for 2002 is due to the implementation of SFAS No. 142 during 2002. SFAS No. 142 eliminated amortization of goodwill and certain intangibles with indefinite lives and requires an annual impairment

test of their carrying value. During the year ended December 31, 2001, we recorded amortization expense of $9,536,000 related to goodwill, which would not have been amortized under SFAS No. 142. During 2002, $1,248,000 of amortization of goodwill would have been recorded.

Based upon our history of recurring operating losses and our market capitalization being less than our stockholders' equity as of September 30, 2001, we assessed the carrying value of goodwill and other intangibles and determined that such value may not be recoverable. The impairment loss was measured as the amount by which the carrying amount of the goodwill and other intangibles exceeds the fair value of the assets, calculated utilizing the discounted future cash flows. In accordance with this policy, the Company recorded impairment charges of $43,375,000 in 2001.

Goodwill related to Bac-Tech, DWeb and Netlan was tested for impairment in the third quarter of 2002, after our annual forecasting process. Due to the discontinuance of our Training and Educational Services reporting unit and a change in economic conditions, operating profits and cash flows were lower than expected in the fourth quarter of 2002. Based on that trend, the earnings forecast for the future was revised. In December 2002, a goodwill impairment loss of $2,732,000 was recognized. The fair value of these reporting units was estimated using the expected present value of future cash flows.

During the year ended December 31, 2002, stock-based compensation expense amounted to $12,000 as compared to $1,922,000 for the year ended December 31, 2001, a decrease of $1,910,000 or 99%. 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 was reduced to zero at December 31, 2002 due to a forfeiture of warrants.

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, (iv) stock-based compensation, and (v) restructuring charges.

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. For a reconciliation of EBITDA and Net Loss, see Note 16 to the financial statements in this Form 10-KSB. Also see Liquidity and Capital Resources for a discussion of cash flow information.

For the year ended December 31, 2002, EBITDA was a loss of $2,300,000 as compared to a loss of $8,123,000 for the year ended December 31, 2001, a decrease of $5,823,000 or 72%. The improvement in EBITDA during 2002 is a result of the cost savings from the restructuring discussed above, particularly in general and administrative expenses and marketing. The substantial improvement in EBITDA during 2002 is also a result of reversing the excess restructuring charge of $655,000 into income during the second quarter of 2002.

Net interest expense, inclusive of deferred financing costs, during the year ended December 31, 2002 was approximately $601,000 as compared to $3,302,000 for the year ended December 31, 2001. The substantial reduction was attributable to the conversion of previously issued $7.5 million convertible promissory notes into Series C Preferred Stock during 2001.

Net loss for the year ended December 30, 2002 was $9,011,000 as compared to $73,494,000 for the year ended December 31, 2001, a decrease of $64,483,000 or 88%. Before the impairment charges to goodwill of $2,732,000 and $43,375,000 recorded in 2002 and 2001, respectively, net loss was $11,743,000 for the year ended December 31, 2002, compared to $30,119,000 for the year ended December 31, 2001, an improvement of $18,376,000 or 61%.

Liquidity and Capital Resources

As a result of the significant cost cutting measures carried out in 2001 and 2002, our ongoing quarterly cash expenses more closely approximate our quarterly revenues. Although we reported negative cash flows from operations and an EBITDA loss for the year ended December 31, 2002, we were EBITDA positive during the fourth quarter of 2002. We also expect to report positive EBITDA results in the first quarter of 2003 due to the completion of the integration of our operations with Bac-Tech Systems, Inc. and the fact that a number of major projects will be completed during the quarter, with deferred revenue to be taken into income.

At our current quarterly expense rates we require approximately $975,000 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. In the event we experience an unexpected decline in monthly revenue, we plan on further scaling back our operations. Reference is made to "Risk Factors" for a description of certain risks that may affect the achievement of our objectives and results discussed herein.

As of December 31, 2002, our principal source of liquidity was approximately $461,000 of cash and cash equivalents. Additionally, the Company may have access to the remaining $300,000 of the $1.2 million raised in the financing completed in July 2002. The $300,000 is currently in escrow and the Company believes it will satisfy the criteria necessary to draw down the funds. As of December 31, 2002, we had a negative working capital position of $3,233,000. Excluding deferred revenue of $740,000, which represents projects that we expect to complete in the first quarter of 2003, and net current liabilities of discontinued operations, we had a negative working capital balance of $2,228,000. The negative working capital position does not reflect the anticipated reduction in liabilities from settlements reached with unsecured vendors totaling $1,109,000. There can be no assurance that we will be successful in further reducing these liabilities. If we are unsuccessful in reducing these liabilities and do not see an increase in revenues and cash collections to the previously mentioned levels or cannot raise additional capital, we are unlikely to have the capital to fund our operations through 2003.

At December 31, 2002, we accrued approximately $594,000 potentially owing to a creditor, which is included in accrued liabilities. 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.

In addition, the Company has significant long-term liabilities including Convertible Notes in the aggregate principal amounts of $2,900,000 and notes issued in connection with the acquisition of Bac-Tech of $600,000. Of such Convertible Notes, (i) an aggregate principal amount of $2 million becomes due in January 2007, and (ii) an aggregate principal amount of $900,000 becomes due beginning in July 2007. The notes issued in the Bac-Tech acquisition become due in one-third increments during each of May 2003, January 2004, and January 2005. We are currently in negotiations with the holders of the Bac-Tech notes to defer the May 2003 payment date for at least one year. The Convertible Notes are secured by all the assets of the Company. In the event we are successful in achieving positive EBITDA on a recurring basis, then we anticipate that the Convertible Notes will either be converted or refinanced. We may also, depending on facts and circumstances, seek a sale of our company.

The report of our independent auditors on our financial statements as of and for the year ended December 31, 2002 contains an unqualified report with 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.

In 2002, we initiated the following actions to improve our cash position and fund our operating losses:

- Our staff was reduced by eight employees in the year ended December 31, 2002 resulting in annual savings of $1,015,000 in salaries and benefits;
- As a result of our inability to sell the business, we discontinued our training and client educational services business segment to, preserve capital;
- We settled unsecured vendor obligations totaling $1,384,000 for approximately $275,000 which will be disbursed in various increments through June 2003. The Company continues to pursue negotiations with its remaining unsecured creditors.
- We determined to raise additional capital, in which respect, we entered into a private financing in July 2002, resulting in gross proceeds of $350,000 to the Company and $850,000 of gross proceeds being placed in escrow, to be released to the Company upon achieving certain parameters. We received additional proceeds from escrow of $275,000 in each of September and November of 2002. Accordingly, as of December 31, 2002, we have received a total of $900,000 from this financing, with $300,000 remaining in escrow.
- We are also taking aggressive steps to renegotiate old contracts and existing liabilities.
- In the second quarter of 2002, we entered into an agreement to terminate 22,000 square feet of leased space in New York City that we previously used for our corporate headquarters and back office operations. This action reduced our monthly rental cost by approximately $100,000 per month including certain utilities. To terminate the lease, we surrendered a letter of credit of approximately $1.2 million securing this lease and granted the landlord 240,000 warrants to purchase our common stock at a per share price of $0.101. The warrants were valued at $13,190 using the

Black-Scholes model assuming an expected life of three years, volatility of 85 percent, and a risk free borrowing rate of 4.5 percent. During the year ended December 31, 2001, we recorded a restructuring charge of $1,765,000 to account for the estimated costs to terminate the lease. During the three-month period ended September 30, 2002, we reversed $655,000, which is the portion this restructuring charge that we over-estimated in excess of the actual lease termination costs.

Management believes our current cash resources, the anticipated draw down from escrow of the remaining proceeds of the July 2002 financing, together with the improvement of our working capital as a result of the previously mentioned actions, will be sufficient to continue operations through 2003 and thereafter if our operations are cash flow positive, as anticipated.

If positive cash flow from operations is not generated, revenue growth does not materialize as planned, or there are unanticipated expenses, we may seek additional capital in order to fund our internal growth. There can be no

assurances provided that any additional funding will be concluded, or that, if concluded, will be concluded on acceptable terms or be adequate to accomplish our goals.

We anticipate spending approximately $0.6 million on capital expenditures over the next twelve months, primarily on capitalized product development costs.

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 2003, that net losses will be reduced or that we will generate positive cash flow from operations in 2003. Historically, we have funded our losses and capital expenditures through borrowings and the net proceeds of prior securities offerings. From inception through December 31, 2002, net proceeds from private sales of securities and issuance of convertible notes totaled approximately $39 million.

In July 2002, we initially closed a private placement of five-year 7% senior subordinated secured notes, which are convertible into shares of our common stock at the conversion price of $0.101 per share (the closing price of the common stock on the trading day prior to the closing). Ten persons or entities, consisting of certain of our significant investors, and members of our management, purchased these notes. The gross proceeds of this transaction are intended to be used for working capital and general corporate purposes. These notes contain full ratchet anti-dilution protection in certain events, including the issuances of shares of stock at less than market price or the applicable conversion price. These notes along with the $2,000,000 of notes issued in the January 2002 private placement are secured by substantially all of our assets. The security interest with respect to the notes issued in the July 2002 financing is senior in right to the security interest created with respect to the notes issued in January 2002. In connection with the July 2002 financing, all subscription proceeds were held in escrow by an escrow agent for the benefit of the holders of these notes pending our acceptance of subscriptions and shall be disbursed as provided in the escrow agreement. On the closing of this financing, proceeds of $350,000 were released to us and the remaining proceeds were held in escrow. As provided in our escrow agreement, the remaining proceeds will be disbursed as directed by the representative of the holders of these notes, or, upon our request, after reducing our liabilities, existing as of June 18, 2002, through negotiation with creditors. In this respect, the retained proceeds may be released in one-third increments provided that liabilities are reduced by defined parameters. As of December 31, 2002, we have received $900,000 from the escrow. We believe that we have satisfied the criteria whereby we can draw on the remaining $300,000 in escrow. This financing triggered anti-dilution provisions affecting the conversion price of the Company's notes issued in January 2002 (the 7% Notes as defined below), Series B preferred stock and Series C preferred stock and the exercise price of and number of shares issuable under various outstanding warrants.

Net cash used in continuing operating activities totaled approximately $1,453,000 for the year ended December 31, 2002 as compared to net cash used in continuing operating activities of approximately $12,836,000 for the year ended December 31, 2001. Net cash used in continuing operating activities for the year ended December 31, 2002 resulted primarily from (i) the $7,984,000 net loss from continuing operations and (ii) a $1,519,000 use of cash from operating assets and liabilities, offset by (iii) an aggregate of $421,000 of non-cash charges consisting primarily of depreciation, amortization, stock-based compensation expense, non-cash interest expense and the impairment of goodwill, (iv) a reversal of $655,000 of restructuring charges. Net cash used in operating activities for the year ended December 31, 2001 resulted primarily from (i) the $72,649,000 net loss from continuing operations and (ii) a $990,000 use of cash

from operating assets and liabilities, offset by (iii) an aggregate of $6,975,000 of non-cash charges consisting primarily of depreciation, amortization stock-based compensation expense, impairment of goodwill and restructuring charges.

Net cash used in investing activities totaled approximately $731,000 for the year ended December 31, 2002 as compared to net cash provided by investing

activities of approximately $2,291,000 for the same period in 2001. Net cash used in investing activities for the year ended December 31, 2002 resulted from (i) the acquisition of Bac-Tech Systems, Inc., including net cash outlays of $250,000, and (ii) $477,000 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, 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 financing activities totaled approximately $735,000 for the year ended December 31, 2002 as compared to approximately $5,851,000 for the year ended December31, 2001. 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. On March 1, 2001, we made a $250,000 quarterly payment on our term loan. 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.

Impact of New Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." For most companies, SFAS No. 145 will require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as an extraordinary item as previously required. Extraordinary treatment will be required for certain extinguishments as provided in APB Opinion No. 30. SFAS No. 145 also amends SFAS No. 13 to require that certain modifications to capital leases be treated as a sale-leaseback, and to modify the accounting for sub-leases when the original lessee remains a secondary obligor. We have adopted the provisions of SFAS No. 145 in the first quarter of 2003. Any gain or loss on extinguishments of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion No. 30 for classification as an extraordinary item shall be reclassified. Early application of the provisions of this statement related to the recission of SFAS No. 4 is encouraged. Accordingly, the reversal of certain restructuring charges $655,000 during 2002 has been accounted for in accordance with SFAS No. 145.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associates with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The requirements of SFAS No. 146 apply prospectively to activities that are initiated after December 31. 2002 and, as a result, we cannot reasonably estimate the impact of adopting these new rules until and unless we undertake relevant activities in future periods.

In November 2002, the FASB issued Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies the required disclosures to be made by a guarantor in their interim and annual financial statements about its obligations under certain guarantees that it has issued.

FIN No. 45 also requires a guarantor to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken. The Company is required to adopt the disclosure requirements of FIN No. 45 for financial statements ending December 31, 2002. We are required to adopt and, accordingly, have adopted prospectively the initial recognition and measurement provisions of FIN No.45 for guarantees issued or modified after December 31, 2002 and, as a result, we cannot reasonable estimate the impact of adopting these new rules until and unless it undertakes relevant activities in future periods.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We are adopting the provisions of SFAS No. 148 prospectively from January 1, 2003. The adoption of SFAS No. 148 is not expected to have a material impact on our financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," which clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," relating to consolidation of certain entities. First, FIN No. 46 will require identification of our participation in variable interests entities ("VIEs"), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIEs, FIN No. 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN No. 46 also sets forth certain disclosures regarding interests in VIEs that are deemed significant, even if consolidation is not required. We are required to adopt the provisions of FIN No. 46 for VIEs

created after January 31, 2003. As we do not participate in VIEs, we do not anticipate that the provisions of FIN No. 46 will have a material impact on our financial position or results of operations.

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 security holders of former eB2B received the majority of the voting securities of the combined company, former eB2B was deemed to be the accounting acquirer. Accordingly, the financial results discussed in Risk Factors and throughout this Form 10-KSB 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. We had no revenues and incurred a net loss attributable to common stockholders of $37,562,000 for the year ended December 31, 1999, which amount is inclusive of a deemed dividend on preferred stock of $29,442,000. 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 from continuing operations of $4,333,000, and incurred a net loss of $73,494,000, inclusive of a goodwill impairment charge of $43,375,000. For the year ended December 31, 2002, we generated revenues from continuing operations of $3,493,000, incurred a net loss of $9,011,000, inclusive of an impairment charge of $2,732,000, and our accumulated deficit was $161,519,000 at December 31, 2002.

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. 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 2003. 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 affect 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. Accordingly, we do not expect to report net income as determined by generally accepted accounting principles in 2003.

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, 2002, we had approximately $461,000 in cash and available escrowed capital of $300,000 available to fund operating and working capital requirements. Due to the significant cost cutting measures and the settlement of certain outstanding obligations for shares rather than cash, or at reduced amounts, carried in 2001 and 2002 and based upon current expectations, we anticipate generating positive cash flow from ongoing operations on a recurring basis in 2003, although there can be no assurance in this regard.

As of December 31, 2002, we had a negative working capital position of $3,233,000. Excluding deferred revenue of $740,000, which represents projects that we expect to complete in the first quarter of 2003, and net current liabilities of discontinued operations; we had a negative working capital balance of $2,228,000. There can be no assurance that we will be successful in reducing our liabilities. If we are unsuccessful in reducing these liabilities and do not see an increase in revenues and cash collections to $975,000 and $1,050,000 per quarter, respectively, we are unlikely to have the capital to fund our operations through 2003.

In addition, the Company has significant long-term liabilities including Convertible Notes in the aggregate principal amounts of $2.9 million and notes issued in connection with the acquisition of Bac-Tech of $600,000. The Convertible Notes are secured by all the assets of the Company.

The report of our independent auditors on our financial statements as of and for the year ended December 31, 2002 contains an unqualified report with 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.

In the event that contemplated revenue levels are not achieved or if expenses are greater than anticipated, or if we are faced with any significant unanticipated working capital or capital expenditure requirements in the near future, 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 our shareholders or us. 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. 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, 2002, we connected approximately 200 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 3,000 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 2003 based upon our historical results. 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, 2002, one customer accounted for approximately 25% of our total revenue. In the year ended December 31, 2001, this customer accounted for approximately 21% of our total revenue. We expect a slight decline 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, Ross Products Division of Abbott Laboratories, O'Cedar Corporation, USA Wireless, and Duane Reade. 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 short periods of 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 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. Others are focused in vertical markets unrelated to those pursued by us. Major publicly traded competitors include AdvantE Corporation, Neoforma, Inc., and The viaLink Company. Major privately held competitors include Automated Data Exchange (ADX), GXS (a divestiture of General Electric), and SPS Commerce, for which minimal public information is available on their efforts to date.

Also, we believe that competition may develop from EDI/electronic commerce companies, technology/software development companies, retailer purchasing organizations, and leading industry manufacturers. Further, 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 customers in our target markets. We believe it will prove to be an inefficient use of resources for each large retailer to build a technology platform for its internal use and too complicated for each trading partner to access many discrete trading sites, compared to using our services.

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, a division of J-Net Enterprises, 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 had been seeking a federal registration. The United States Patent and Trademark Office ("USPTO") 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. We subsequently withdrew our application. 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 consists 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 or other telecommunications providers fail to adequately host or maintain our servers, or experience trunk line failures, 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 portions that conduct business with us) to Cable & Wireless PLC was approved by the bankruptcy court. The sale was consummated during 2002, and to date, normal services have continued to be provided. There can be no assurance that Exodus Communications or a 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.

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, 2002, we have accrued approximately $590,000 relating to the

potential cash shortfall for this amount in short term liabilities as the cash short fall could be triggered within 12 months.

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 December 31, 2002 our current directors and executive officers beneficially owned a substantial portion 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 a significant portion of our common stock as of December 31, 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, as of December 31, 2002, had the ability to obtain 5,419,000 shares of common stock. Holders of Series C preferred stock, as well as related warrants, issued in our April/May 2001 private placement, as of December 31, 2002, had the ability to obtain 20,664,000 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 24,026,000 shares of our common stock. All of the holders of such notes, except for one, also own Series C preferred stock and many of the holders of Series C preferred stock also own Series B preferred stock. A significant portion of the holders of interest of these notes also owns the aforementioned securities. 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 underlie outstanding shares of convertible preferred stock, convertible notes and outstanding options and warrants. As of December 31, 2002, there are outstanding shares of convertible preferred stock and convertible notes to purchase an aggregate of approximately 50,770,000 million shares of our common stock and options and warrants to purchase an aggregate of approximately 25,712,000 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 December 31,

2002, there would have been approximately 2.605% 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, our shareholders in the open market sold certain shares of our common stock, which were issued by virtue of conversion of shares of preferred stock. 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 the prior registration statement did not cover such shares. 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 security holders 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, January 2002, and July 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, 2002 through December 31, 2002, our common stock traded as high as $22.50 per share and as low as $.03 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 trade on the Over the Counter Bulletin Board and may ultimately trade on the less liquid "pink sheets."

Since August 17, 2002, our common stock is traded on the Over the Counter bulletin board under the symbol "EBTB.OB", having been delisted from the Nasdaq SmallCap Market on that date. Nasdaq has published its initial requirements for BBX, the proposed successor market to the Over the Counter bulletin board. The BBX is scheduled to become operative in late 2003. There are a number of initial and ongoing fees to participate in the BBX. Should the Company opt not to participate on the BBX exchange, the Company would become a "Pink Sheet" stock. As such:

- Our investors would find it more difficult to dispose of their shares in the Company,

- It will become more difficult to obtain market prices on the shares of our stock, and

- There will be a potentially larger spread between bid and asked prices, created a less favorable trading environment for our shareholders.

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.

Item 7. Financial Statements

eB2B Commerce, Inc.

Index to Consolidated Financial Statements

INDEPENDENT AUDITORS' REPORT

To eB2B Commerce, Inc.:

We have audited the accompanying consolidated balance sheet of eB2B Commerce, Inc. (the "Company") as of December 31, 2002, and the related consolidated statements of operations, stockholders' deficit and cash flows for the year 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 audit. The consolidated financial statements of the Company for the year ended December 31, 2001 were audited by other auditors whose report dated April 15, 2002, on those consolidated financial statements included an explanatory paragraph describing conditions that raised substantial doubt about the Company's ability to continue as a going concern.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the financial position of eB2B Commerce, Inc. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying 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 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. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 4 to the financial statements, the Company changed its method of accounting for goodwill in 2002, as required by the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/ MILLER, ELLIN & COMPANY, LLP

New York, New York
March 28, 2003

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of eB2B Commerce, Inc. (the "Company") for the year ended December 31, 2001. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of the Company's operations and its cash flows for the year ended December 31, 2001 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 consolidated 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.

/s/ DELOITTE & TOUCHE, LLP

New York, New York
April 15, 2002

eB2B COMMERCE, INC.
CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share data)
DECEMBER 31, 2002

ASSETS

Current Assets	
Cash and cash equivalents	$ 461
Accounts receivable (net of allowance of $173)	608
Other current assets	54
Total current assets	1,123
Property and equipment, net	73
Product development costs, net of accumulated amortization of $5,317	432
Deferred financing costs, net of accumulated amortization of $93	372
Other intangibles, net of accumulated amortization of $2,444	638
Other assets	50
Total assets	$ 2,688

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Accounts payable	$ 1,396
Accrued expenses and other current liabilities	1,775
Current maturities of long-term debt	180
Deferred revenue	740
Current liabilities of discontinued operations	265
Total current liabilities	4,356
Long-term debt, less current maturities	2,555
Total liabilities	6,911
Commitments and contingencies	
Stockholders' Deficit	
Preferred stock, convertible Series A - $.0001 par value; 2,000 shares authorized; 7 shares issued and outstanding	--
Preferred stock, convertible Series B - $.0001 par value; 4,000,000 shares authorized; 2,211,675 shares issued and outstanding	--
Preferred stock, convertible Series C - $.0001 par value; 1,750,000 shares authorized; 732,875 shares issued and outstanding	--
Common stock - $.0001 par value; 200,000,000 shares authorized; 3,053,470 issued and outstanding	--
Additional paid-in capital	157,287
Accumulated deficit	(161,510)
Total stockholders' deficit	(4,223)
Total liabilities and stockholders' deficit	$ 2,688

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.

eB2B COMMERCE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 2002	YEAR ENDED DECEMBER 31, 2001
<S>	<C>	<C>
Revenue	$ 3,493	$ 4,333
Costs and expenses:		
Cost of revenue	1,215	1,754
Marketing and selling (exclusive of stock-based compensation expense of $-0- and $469 for the years ended December 31, 2002 and 2001, respectively)	500	1,657
Product development costs (exclusive of stock-based compensation expense of $-0- and $9 for the years ended December 31, 2002 and 2001, respectively)	1,217	2,024
General and administrative (exclusive of stock-based compensation expense of $12 and $1,444 for the years ended December 31, 2002 and 2001, respectively)	5,089	10,103
Amortization of goodwill and other intangibles	974	9,789
Stock-based compensation expense	12	1,922
Restructuring charge (recovery)	(655)	3,327
Impairment of goodwill and other intangible assets	2,524	43,375
Total costs and expenses	10,876	73,951
Loss from continuing operations before other income (expense)	(7,383)	(69,618)

Interest income	--	172
Interest expense (including deferred financing costs of $423 and $3,178 in 2002 and 2001, respectively)	(601)	(3,203)
Net loss from continuing operations	(7,984)	(72,649)
Net loss from discontinued operations	(1,027)	(845)
Net loss	$ (9,011)	$ (73,494)
Per share data - Basic and diluted:		
Loss from continuing operations	$ (4.14)	$ (58.20)
Loss from discontinued operations	(0.53)	(0.68)
Net loss per share	$ (4.67)	$ (58.88)
Weighted average number of common shares outstanding	1,926,786	1,248,164

</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.

eB2B COMMERCE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share and per share data)

<TABLE>
<CAPTION>

	Preferred Stock Series A		Preferred Stock Series B		Preferred Stock Series C		Preferred Stock Series D	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 2001	7	$ --	2,803,198	$ --	--	$ --	--	$ --
Conversion of Series B Preferred	--	--	(326,145)	--	--	--	--	--
Private placement	--	--	--	--	--	--	--	--
Conversion of convertible notes	--	--	--	--	763,125	--	--	--
Amortization of unearned stock-based compensation	--	--	--	--	--	--	--	--
Unearned stock-based compensation	--	--	--	--	--	--	--	--
Issuance of stock in lieu of interest payment on convertible notes	--	--	--	--	--	--	--	--
Issuance of common stock to settle vendor and other obligations	--	--	--	--	--	--	--	--
Other issuances of common stock	--	--	--	--	--	--	--	--
Net Loss	--	--	--	--	--	--	--	--
Balance at December 31, 2001	7	--	2,477,053	--	763,125	--	--	--
Acquisition of Bac-Tech Systems, Inc.							95,000	--
Conversion of Series B Preferred Stock	--	--	(265,378)	--		--	--	--
Conversion of Series C Preferred Stock					(30,250)	--	--	--
Conversion of Series D Preferred Stock							(95,000)	--
Issuance of common stock to settle vendor and other obligations	--	--	--	--	--	--	--	--
Forfeiture of warrants	--	--	--	--	--	--	--	--
Amortization of stock based compensation	--	--	--	--	--	--	--	--
Private placement		--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--
Balance at December 31, 2002	7	$ --	2,211,675	$ --	732,875	$ --	--	$ --

</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.

eB2B COMMERCE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(CONTINUED)
(in thousands, except share and per share data)

<TABLE>
<CAPTION>

	Common Stock		Additional Paid-in Capital	Unearned Stock - Based Compensation	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 2001	1,025,604	--	$ 144,459	$ (2,368)	$ (79,005)	$ 63,086
Conversion of Series B Preferred	146,728	--	--	--	--	--
Private placement	--	--	7,884	--	--	7,884
Conversion of convertible notes	--	--	1,531	--	--	1,531
Amortization of unearned stock-based compensation	--	--	--	1,922	--	1,922
Unearned stock-based compensation	--	--	322	(322)	--	--
Issuance of stock in lieu of interest payment on convertible notes	30,339	--	85	--	--	85
Issuance of common stock to settle vendor and other obligations	398,738	--	1,624	--	--	1,624
Other issuances of common stock	1,728	--	--	--	--	--
Net Loss	--	--	--	--	(73,494)	(73,494)
Balance at December 31, 2001	1,603,137	--	155,905	(768)	(152,499)	2,638
Acquisition of Bac-Tech Systems, Inc.	200,000	--	1,240	--	--	--
Conversion of Series B Preferred Stock	279,143	--	--	--	--	--
Conversion of Series C preferred Stock	622,914	--	--	--	--	--
Conversion of Series D preferred Stock	333,334	--	--	--	--	--
Issuance of common stock to settle vendor and other obligations	14,942	--	(365)	--	--	(365)
Forfeiture of warrants	--	--	(756)	756		
Amortization of stock based compensation	--		--	12		12
Private placement	--	--	1,263	--	--	1,263
Net loss	--	--	--	--	(9,011)	(9,011)
Balance at December 31, 2002	3,053,470	$ --	$ 157,287	$ --	$(161,510)	$ (4,223)

</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.

eB2B COMMERCE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	2002	2001
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss from continuing operations	$(7,984)	$(72,649)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Impairment of goodwill and other intangibles	2,524	40,088

Depreciation and amortization	4,330	13,693
Provision for doubtful accounts	108	--
Stock-based compensation expense	12	1,922
Non-cash interest expense	421	3,120
Changes in operating assets and liabilities		
Accounts receivable	209	537
Other current assets	135	--
Accounts payable	(139)	(242)
Accrued expenses and other liabilities	(35)	(1,459)
Deferred revenue	466	--
Lease termination and other restructuring costs	(610)	1,894
Other liabilities	(890)	260
Net cash used in operating activities	(1,453)	(12,836)
Cash flows from investing activities:		
Acquisition of Bac-Tech Systems, Inc., net	(250)	--
Purchases of property and equipment	(4)	(596)
Product development expenditures	(477)	(1,695)
Net cash used in investing activities	(731)	(2,291)
Cash flows from financing activities:		
Proceeds from borrowings and issuance of convertible notes	900	6,466
Payments on borrowings	(44)	(2,250)
Proceeds from bridge notes, net	--	1,743
Payment of capital lease obligations	(121)	(108)
Net cash provided by financing activities	735	5,851
Net cash used in continuing operations	(1,449)	(9,276)
Net cash provided by (used in) discontinued operations	(188)	3,165
Net change in cash and cash equivalents	(1,637)	(6,111)
Cash and cash equivalents - beginning of year	2,098	8,209
Cash and cash equivalents - end of year	$ 461	$ 2,098

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.

eB2B COMMERCE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)
(In thousands)

	YEAR ENDED DECEMBER 31,	
	2002	2001
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 189	$ 136
Non-cash investing and financing activities:		
Issuance of note payable to settle liabilities	262	--
Remeasurement of settlement obligation	365	--
Common and preferred stock issued in connection with acquisition	1,240	--
Forfeiture of warrants	756	--
Issuance of long-term note in connection with acquisition	458	--
Issuance of warrants with convertible debt	750	4,434
Beneficial conversion with issuance of convertible debt	512	434
Common stock issued to settle liabilities	--	2,081

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.

eB2B COMMERCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

NOTE 1. ORGANIZATION AND PLAN OF OPERATIONS

eB2B Commerce, Inc. (the "Company") utilizes proprietary software to provide a technology platform for buyers and 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, until it discontinued these operations as of September 30, 2002, the Company provided authorized technical education to its client base, and also designed and delivered 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.

To ensure the success of the Company, and 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 implemented during 2001 and continuing into 2002 as follows:

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

- Raising gross proceeds of $2,000,000 in December 2001 through the sale of convertible notes and warrants.

- Settlement of certain liabilities in December 2001 for approximately $400,000 less than what was previously owed. During 2002, the Company settled unsecured vendor obligations totaling $766,000 for approximately $178,000, which were disbursed in various increments through March 2003. The Company continues to pursue negotiations with its remaining unsecured creditors.

- Savings of approximately $475,000 in monthly cash expenses as a result of a restructuring plan 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 reduced its staff by nine employees in the year ended December 31, 2002 resulting in annual savings of $1,015,000 in salaries and benefits;

- Discontinuing its training and educational services business segment as of September 30, 2002; and

- Raising additional capital by means of a private financing of convertible notes in July 2002, resulting in gross proceeds of $350,000 to the Company and $950,000 of gross proceeds being placed in escrow, to be released to the Company upon achieving certain parameters. In September 2002 and November 2002, the Company met these parameters and drew down on an additional $275,000 on each such date so that $300,000 remains in the escrow account as of December 31, 2002.

The Company believes that its current cash resources, the anticipated drawdown from escrow of the remaining proceeds of the July 2002 financing, together with the improvement of working capital as a result of the previously mentioned actions, will be sufficient to continue operations through 2003 and thereafter if operations are cash flow positive, as anticipated.

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.

All significant inter-company balances and transactions have been eliminated in consolidation.

NOTE 3. DISCONTINUED OPERATIONS

As discussed in Note 1, in September 2002, the Company discontinued its Training and Educational Services business segment. The Company was unable to find a buyer for this business segment and determined that it was in the best interests of its shareholders to discontinue its operations rather than continue to fund its working capital needs and operating losses. Accordingly, the related results of operations and cash flows have been reflected as discontinued operations in the accompanying consolidated financial statements. For the years ended December 31, 2002 and 2001, the Company's discontinued operations contributed net sales of $1,105,000 and $2,483,000, respectively. As of December 31, 2002, there were no assets relating to this segment, and only the liabilities appear on the Company's balance sheet.

NOTE 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Significant estimates made by management include, but are not limited to, the allowance for doubtful accounts and the valuation of intangible assets.

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, 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 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, unless the extent of progress toward completion cannot be reliably determined. Progress towards completion is measured using efforts-expended method based upon management estimates. To the extent that efforts expended and costs to complete cannot be reasonably estimated, revenues are deferred until the contract is completed. The Company does not have a history of incurring losses on these types of contracts. If the 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 are included in deferred income.

Revenue from training and client educational services was recognized upon the completion of the seminar and was based upon class attendance. If a seminar began in one period and was completed in the next period, the Company recognized revenue based on the percentage of completion method for the applicable period.

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.

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 2001, goodwill was amortized using the straight-line method over the period of expected benefit. Other intangibles resulting from the Company's purchase business combinations, including customer lists, are also amortized over the straight-line method from the date of acquisition over the period of expected benefit, which was estimated as three years. In September 2001, the Company recorded an impairment charge to goodwill and reduced the expected period of benefit to three years from five years. In December 2002, the Company recorded an additional impairment charge to reduce goodwill to zero (See Note 6).

In 2001, the Financial Accounting Standards Board issued Statement of

Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." This Statement provides that goodwill and intangible assets with indefinite lives should no longer be amortized, but should be reviewed at least annually, for impairment. In accordance with the adoption of SFAS No. 142, beginning January 1, 2002, the Company ceased amortizing its existing net goodwill of $1,558,000, resulting in the exclusion of $1,248,000 of amortization during 2002.

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.

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 for 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 ARP 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 has adopted the new accounting standard in the year ended December 31, 2002.

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. Total product development costs expensed as amortization were approximately $1,217,000 and $1,114,000 for the years ended December 31, 2002 and 2001, 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 $137,000 and $226,000, respectively, and write-offs (deductions) against the allowance of $153,000 and $192,000 during the years ended December 31, 2002 and 2001, respectively.

In the years ended December 31, 2002 and 2001, one customer from the Company's transaction processing and related services' segment accounted for approximately 25% and 21%, respectively, of the Company's total revenue. As of December 31, 2002 and 2001, the same customer accounted for approximately 33% and 22% of accounts receivable, respectively.

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, 2002 and 2001, options and warrants to purchase 11,993,114 and 9,076,210 common shares, and preferred shares convertible into 17,418,670 and 6,920,222 common shares, respectively, and debt convertible into 9,845,806 and 934,922 common shares, respectively, would have been included in the computation of diluted earnings per common share, to the extent they were not anti-dilutive.

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.

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 disclosure purposes, pro forma net loss and loss per common share data are provided in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as if the fair value method had been applied.

New Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." For most companies, SFAS No. 145 will require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as an extraordinary item as previously required. Extraordinary treatment will be required for certain extinguishments as provided in APB Opinion No. 30. SFAS No. 145 also amends SFAS No. 13 to require that

certain modifications to capital leases be treated as a sale-leaseback, and to modify the accounting for sub-leases when the original lessee remains a secondary obligor. The Company is required to adopt the provisions of SFAS No. 145 in the first quarter of 2003. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion No. 30 for classification as an extraordinary item shall be reclassified. Early application of the provisions of this statement related to the recission of SFAS No. 4 is encouraged. Accordingly, the reversal of certain restructuring charges $655,000 during 2002 has been accounted for in accordance with SFAS No. 145.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associates with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The requirements of SFAS No. 146 apply prospectively to activities that are initiated after December 31. 2002 and, as a result, the Company cannot reasonably estimate the impact of adopting these new rules until and unless it undertakes relevant activities in future periods.

In November 2002, the FASB issued Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies the required disclosures to be made by a guarantor in their interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN No. 45 also requires a guarantor to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken. The Company is required to adopt the disclosure requirements of FIN No. 45 for financial statements ending December 31, 2002. The Company is required to adopt and accordingly has adopted prospectively the initial recognition and measurement provisions of FIN No.45 for guarantees issued or modified after December 31, 2002 and, as a result, the Company cannot reasonable estimate the impact of adopting these new rules until and unless it undertakes relevant activities in future periods.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of SFAS No. 148 is not expected to have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," which clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," relating to consolidation of certain entities. First, FIN No. 46 will require identification of the Company's participation in variable interests entities ("VIEs"), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIEs, FIN No. 46 sets forth a model to

evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN No. 46 also sets forth certain disclosures regarding interests in VIEs that are deemed significant, even if consolidation is not required. As the Company does not participate in VIEs, it does not anticipate that the provisions of FIN No. 46 will have a material impact on its financial position or results of operations.

Reclassification

Certain prior year amounts, including those related to discontinued operations, have been reclassified to conform to the current year presentation.

NOTE 5. ACQUISITIONS

Bac-Tech Systems, Inc.

On January 2, 2002, the Company acquired Bac-Tech Systems, Inc. ("Bac-Tech"), 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. In September 2002, the Series D preferred stock automatically converted into an aggregate of 333,334 shares of common stock. The Company also issued secured notes to the Bac-Tech stockholders in the aggregate amount of $600,000, payable in three equal installments on May 1, 2003, January 1, 2004 and January 1, 2005,

of which $457,000, is included as long term debt, inclusive of current maturities of $180,000, in the accompanying condensed consolidated balance sheet after discounting these notes using the Company's estimated borrowing rate of 15 percent.

The Company has accounted for this acquisition using the purchase method of accounting and determined the final purchase price to be $1,990,000, which consisted of (i) cash of $250,000; (ii) 200,000 shares of the Company's common stock at a price of $2.33 for total consideration of $465,000; (iii) 95,000 shares of Series D Preferred stock valued at $775,000; (iv) a three year non-interest bearing note with a face value of $600,000 and a net present value of $457,000 assuming the Company's effective borrowing rate; and (v) $43,000 in closing costs and other items.

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

Purchase price	$ 1,947
Acquisition costs	43
Total purchase price	$ 1,990
Cash assumed	$ 52
Accounts receivable, net	326
Other current assets	51
Property, plant, and equipment, net	47
Accounts payable	(196)
Accrued expenses and other current liabilities	(161)
Deferred revenue	(110)
Historical net assets acquired	9
Identifiable intangible assets	807
Goodwill	1,174
Total purchase price	$ 1,990

The Company estimated that the identifiable intangible assets include (i) customer list of $188,000, which is estimated to have a useful life of three years; (ii) Bac-Tech technology of $475,000, which is estimated to have a useful life of two years; and (iii) below market lease for office space, which is estimated at $144,000 and has a remaining life of 6 years, the remainder of the lease term.

Since the acquisition of Bac-Tech occurred on January 2, 2003, the results of operations of the Company for the year ended December 31, 2002, include the results of operations of Bac-Tech for the year ended December 31, 2002.

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. 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 recorded as goodwill. As discussed in Notes 1 and 3, the results of operations of Netlan have been included in the Company's discontinued operations for the years ended December 31, 2002 and 2001. As further discussed in Note 6, the remaining goodwill was determined to be impaired and the impairment loss was included within the results of discontinued operations.

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

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

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. As discussed in Note 6, such goodwill was determined to be impaired in 2002 and 2001. 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

NOTE 6. 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. In addition, workforce-in-place no longer meets the definition of an identifiable intangible asset. As a result, the net book value of $584,000 has been reclassified to goodwill as of September 30, 2001. The impairment loss after reclassification was measured as the amount by which the carrying amount of the goodwill and other intangibles exceeds the fair value of the assets, calculated utilizing the discounted future cash flows. In accordance with this policy, the Company recorded impairment charges of $43,375,000 in 2001.

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):

	Dweb	Netlan	Total
Goodwill			
Balance as of September 30, 2001	$ 41,283	$ 3,380	$ 44,663
Reclassification from other intangibles	425	159	584
Impairment losses	(40,088)	(3,287)	(43,375)
Adjusted Balance	$ 1,620	$ 252	$ 1,872
Other Intangibles			
Balance as of September 30, 2001	$ 1,376	$ 159	$ 1,535
Reclassification to goodwill	(425)	(159)	(584)
Adusted Balance	$ 951	$ --	$ 951

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 fourth quarter of 2001 of $314,000. Commencing January 1, 2002, goodwill was no longer amortized, but rather reviewed for impairment in compliance with SFAS No. 142.

The changes in the carrying amount of goodwill for the year ended December 31, 2002, are as follows:

	Continuing Operations	Discontinued Operations	Total
Balance as of January 1, 2002	$ 1,350	$ 208	$ 1,558
Goodwill acquired during year	1,174	--	1,174
Impairment losses	(2,524)	(208)	(2,732)
Balance as of December 31, 2002	$ --	$ --	$ --

A reconciliation of previously reported net loss and loss per share to the amounts adjusted for the exclusion of goodwill and workforce-in-place amortization is as follows:

(In thousands - except per share amounts)	2002	2001
Reported net loss	$ (9,011)	$(73,494)
Goodwill and workforce amortization	--	9,755
Adjusted net loss	$ (9,011)	$(63,739)
Reported net loss per share	$ (4.67)	$ (58.88)
Goodwill and workforce amortization	--	7.82
Adjusted net loss per share	$ (4.67)	$ (51.06)

Remaining other intangibles after the impairment review relate to customer lists acquired in April 2000 and January 2002 of $2,376,000, a non-compete agreement of $75,000, the cost of acquiring the Company's domain name and establishing the Company's web-site of $22,000, a software platform of $475,000, and the assumption of the Company's current lease at below market rates aggregating $144,000. 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 of 2001, the Company recorded additional amortization expense related to other intangible assets of $159,000. Aggregate amortization expense for other intangibles for the year ended December 31, 2002 was $974,000.

Estimated Amortization Expense (in thousands):

For year ended December 31, 2003	$ 489

For year ended December 31, 2004	91
For year ended December 31, 2005	29
For year ended December 31, 2006	29

No amortization is estimated after 2006.

NOTE 7. RESTRUCTURING

To address the continuing loss from operations and negative cash flows from operations, management enacted a restructuring plan for the Company. During the third and fourth quarters of 2000 and continuing into 2001 and 2002, 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 following is a summary of the restructuring charges, and reversals recognized in the years ended December 31, 2002 and 2001 (in thousands):

<TABLE>
<CAPTION>

	Restructuring Charges	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	$ --	$ 1,603
Severance for 40 employees	1,145	--	1,065	80
Contract termination settlement	418	--	237	180
Total charges	$ 3,328	$ 162	$ 1,302	$ 1,863

<CAPTION>

	Balance at January 1, 2002	Payments	Reversals	Balance December 31, 2002
<S>	<C>	<C>	<C>	<C>
Lease termination	$ 1,603	$ 948	$ (655)	$ --
Severance for 40 employees	80	80	--	--
Contract termination settlement	180	180	--	--
Total charges	$ 1,863	$ 1,208	$ (655)	$ --

</TABLE>

In December 2001, the Company issued 156,667 shares of common stock to two former employees to satisfy $282,000 in severance claims, which is included in the payments above. The Company made the final payment related to employee severance in the second quarter of 2002 and finalized the lease termination for less than the Company originally estimated. The remaining excess restructuring accrual for lease termination costs of $655,000 was reversed into income through the restructuring line item charge in the second quarter of 2002.

NOTE 8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2002 (in thousands):

Computer and communications equipment	$ 2,440
Purchased software	2,568
Office equipment and furniture	793
	5,800
Accumulated depreciation and amortization	(5,728)
	$ 73

As of December 31, 2002 the cost of assets under capital leases, principally computer and communications equipment was approximately $725,000. The depreciation expense for 2002 and 2001 was $1,845,000 and $1,947,000, respectively.

NOTE 9. ACCRUED EXPENSES, OTHER CURRENT LIABILITIES AND OTHER

Accrued expenses and other current liabilities consist of the following as of December 31, 2002 (in thousands):

Accrued software development costs	$ 590
Accrued severance	44
Accrued professional fees	285
Accrued compensation and related costs	44
Accrued purchases and sub-contractors costs	192
Accrued interest	178

Current maturities of capital lease obligations	109
Other	333
	$1,775

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 approximately $590,000 recorded in accrued software development costs as of December 31, 2002 to cover the potential cash shortfall to this vendor.

NOTE 10. FINANCINGS AND LONG-TERM DEBT

In February 2000, eB2B obtained a $2,500,000 term loan from a bank (the "Bank"). The loan had a term of three years, interest-only was payable until December 1, 2000, and the interest rate was equivalent 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 were 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 12 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, prior to adjustment for dilutive financings. These warrants were valued at $218,875 using the Black-Scholes model assuming an expected life of two years, 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, these 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, prior to adjustment for dilutive financings. The holders of the Bridge Notes also received, in exchange for the Bridge Notes, warrants to purchase 826,439 shares of common stock at a price of $2.90 per share, prior to adjustment for dilutive financings. The Company also issued warrants to purchase 165,289 shares of 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 the placement agent and to the investors were 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 these financings were used to fund (i) operating and working capital needs and (ii) the $250,000 upfront cash portion of the Bac-Tech acquisition.

On July 15, 2002, the "Company initially closed a private placement (the "July Financing") of five-year 7% senior subordinated secured notes (the "July Notes") which are convertible into shares of common stock of the Company at the conversion price of $0.101 per share (the closing price of the common stock on the trading day prior to the closing). The Notes were purchased by ten persons or entities, consisting of certain significant investors in the Company, and by certain members of the Company's management. To date, the gross proceeds of this transaction, exclusive of $300,000 held in escrow at December 31, 2002, were $900,000 and are intended to be utilized for working capital and general corporate purposes. The Notes contain anti-dilution protection in certain events, including the issuances of shares by the Company at less than market price or the applicable conversion price.

In connection with the July Financing, all subscription proceeds were held in escrow by an escrow agent for the benefit of the holders of the Notes pending, acceptance of subscriptions by the Company and shall be disbursed as provided in the relevant escrow agreement (the "Escrow Agreement"). On the closing of the Financing, proceeds of $350,000 were released to the Company and the remaining proceeds were held in escrow (the "Retained Proceeds"). As provided in the Escrow Agreement, the Retained Proceeds will be disbursed as directed by the representative of the holders of the Notes, or, upon request of the Company, after reducing its liabilities, existing as of June 18, 2002, through negotiation with creditors. The Retained Proceeds may be released in one-third increments provided that liabilities are reduced by defined parameters. In this respect, in each of September 2002 and November 2002, $275,000 was released from escrow leaving a balance of $300,000 at December 31, 2002.

The July Notes issued in the July Financing, together with the $2,000,000 of the 7% Notes issued in the Company's-private placement of notes and warrants in January 2002, are secured by substantially all of the assets of the Company. The security interest with respect to the July Notes are senior in right to the security interest created with respect to the 7% Notes.

The January 2002 financing triggered anti-dilution provisions affecting the conversion price of the Company's Series B preferred stock and Series C preferred stock and the exercise price of and number of shares issuable under various outstanding warrants. The July 2002 Financing also triggered anti-dilution provisions as to such securities as well as in respect to the 7% Notes.

The Company has an available line of credit with a commercial bank in the amount of $165,000 personally guaranteed by two officers of the Company. Interest rate is calculated at 1% over prime. The Bank's interest rate at December 31, 2002 was 5.25%. Interest expense for the year ended December 31, 2002 was $7,000. As of December 31, 2002, $88,000 was outstanding.

NOTE 11. 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 2002, the Company assumed a lease for new office space in connection with the acquisition of BacTech. The new lease expires in 2008.

Future minimum rental commitments under non-cancelable leases as of December 31, 2002 are as follows (in thousands):

Year Ending December 31,	Capital leases	Operating leases
2003	$109	$109
2004	--	114
2005	--	118
2006	--	121
2007	--	125
Thereafter	--	21
Total	$109	$608
Less: amounts representing interest	--	--
Less: current maturities	109	--
Long-term capital lease obligations	$ --	$608

Employment agreements

The Company maintains employment agreements with three of its officers. These employment agreements provide for (i) minimum aggregate annual base salaries of $505,000 and (ii) minimum bonuses totaling $50,000 for each year of employment of these three individuals. The bonuses were waived for 2002.

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. In December 2002, this action was settled for a cash payment of approximately $2,000.

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. During the fourth quarter of 2002, this matter was settled for approximately $15,000.

NOTE 12. 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, 2002, 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, which resulted 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 securities 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, 2002, 1,688,681 shares of Series B issued in December 1999 had been converted into 586,053 shares of Company common stock. At December 31, 2002, giving effect to anti-dilution adjustments, each share of Series B Preferred Stock was convertible into 1.63 shares of 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, B and C stockholders equal to the dividend which would have been payable if the Series A, B and C stock had been converted into common stock. The holders of the Series A, B and C are entitled to one vote for each share of the Company's common stock into which such share of Series A, B and C 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. Series C holders are entitled to a payment of the purchase price plus a 33% premium before and 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. As of December 31, 2002, giving effect to anti-dilution adjustments, each share of Series C Preferred Stock was convertible into 20.4 shares of common stock.

The Private Warrants are 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 204,172 shares of Company common stock at $2.21 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 $2,544,000 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.

In connection with the Company's acquisition of Bac-Tech, eB2B authorized 95,000 shares of Series D Convertible Preferred Stock ("Series D") with a par value of $0.001 per share and issued the 95,000 shares to the two stockholders of Bac-Tech with a value of $775,000. The Series D, inclusive of any accrued dividend, is automatically convertible into an aggregate of 333,334 shares of common stock. In November 2002, the Series D was converted into 333,334 shares of common stock.

NOTE 13. COMMON STOCK AND WARRANTS

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 30,335 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, 2002, 27,384, shares of common stock were issuable under such warrants.

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 year ended December 31, 2001, the Company recognized business partner warrant expenses in the amount of $300,000, which have been classified as stock-based compensation expense in the Company's consolidated statement of operations. On January 1, 2002, the business partner forfeited the warrants and the unamortized value of $300,000 was relieved from unearned stock-based compensation and charged to additional paid-in capital.

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%, 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, 2002:

<TABLE>
<CAPTION>

	Warrants exercisable and outstanding		
	Range of exercise price per share	Number of shares (in thousands)	Weighted average remaining life (in years)
<S>	<C>	<C>	<C>
Original Bridge Warrants	$ 0.10	8,935	3.8
Merger & Advisory Warrants	31.05	124	1.8
Credit Line Warrants	2.21	204	3.0
Series C Investor Warrants	1.65	5,527	3.3
Series C Agent Warrants - Preferred	0.49	1,659	3.3
Series C Agent Warrants - Common	1.65	829	3.3
December 2001 Bridge Warrants	1.01	396	4.0
January 2002 Investor Warrants	1.85	1,229	2.0
January 2002 Agent Warrants	1.54	246	2.0
Series B Investor Warrants	5.75	1,434	2.0
Series B Agent Warrants	5.75	1,418	2.0
Other	0.20 - 58.65	377	4.3
Total.....		22,378	

</TABLE>

NOTE 14. 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 (the "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 667,000 shares at December 31, 2002. In January 2003, the Board of Directors approved an increase in the number of shares underlying the Plan to 8 million.

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 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, 2001.

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 $2.0 million for the year ended December 31, 2001. No compensation expense for options was recorded during 2002. 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 (in thousands, except per share data):

	Years ended December 31,	
	2002	2001
Net loss attributable to common stockholders		
As reported	$ (9,011)	$(73,494)
Pro forma	(9,704)	$(76,288)
Net loss per common share - basic and diluted		
As reported	(4.67)	$ (58.88)
Pro forma	(5.03)	$ (61.12)

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:

Years ended December 31,

Weighted-Average Assumptions	2002	2001
Dividend yield	0%	0%
Expected volatility	80%	80%
Risk-free interest rate	2.2%	6.5%
Expected life	3 years	3 years

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, 2002 and 2001:

	Shares (in thousands)	Weighted Average Exercise Price Per Share
Options outstanding at December 31, 2000	2,048	$0.78
Granted/assumed (1)	7,784	2.78
Exercised	81	2.69
Forfeited/expired	1,143	2.64
Options outstanding at December 31, 2001	8,608	2.32
Granted/assumed	3,283	0.21
Exercised	--	--
Forfeited/expired	8,039	2.32
Options outstanding at December 31, 2002	3,852	$0.21

- ----------

(1) Includes options converted in DWeb acquisition.

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2002:

<TABLE>
<CAPTION>

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Outstanding (in thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Exercisable (in thousands)	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$0.11 - $0.19	3,025	9.5	$0.12	625	$0.11
$1.30	250	9.0	$1.30	250	$1.30
$2.85 - $3.45	256	8.0	$3.45	256	$3.45
$7.95 - $8.25	270	7.5	$8.10	270	$8.10
$31.50	40	7.0	$31.50	40	$31.50
$48.75	11	6.5	$48.75	11	$48.75

</TABLE>

As discussed in Note 4, in December 2002, the FASB issued SFAS No. 148, which provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company is adopting the provisions of SFAS No. 148 prospectively from January 1, 2003.

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%, of their salary, subject to a maximum contribution of $11,000 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. During the years ended December 31, 2002 and 2001, the Company has not made any contributions to the Plan.

NOTE 15. INCOME TAXES

The components of the net deferred tax asset as of December 31, 2002 consists of the following (in thousands):

Deferred tax assets:	
Net operating loss carryforwards	$ 14,205
Stock-based compensation	8,200
Other miscellaneous	600
	23,205
Valuation allowance	(23,205)
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, 2002.

As of December 31, 2002, the Company had approximately $35.5 million of net operating loss (NOL) carryforwards for federal income tax purposes. The NOL carryforwards expire in various years ranging from 2019 to 2022. 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 (in thousands):

	Year Ended December 31,	
	2002	2001
Federal income tax, at statutory rate	$ (3,064)	$(24,400)
State income tax, net of federal benefit	(721)	(2,100)
Non-deductible expenditures, including goodwill amortization and other	3,080	18,400
Change in valuation allowance	705	8,100
Income taxes, as recorded	$ --	$ --

NOTE 16. RELATED PARTIES

The Chief Operating Officer and a Managing Director of a securities firm that has in the past provided financial advisory services to the Company (the "Financial Advisor") are directors of the Company. In additional, until recently, a principal and Chief Executive Officer of the Financial Advisor was a director of the Company. For acting as a placement agent for the December 2001 and January 2002 financings, the Financial Advisor received a cash fee in the amount of $200,000 and was issued warrants to purchase 165,289 shares of Company common stock with an exercise price of $2.40 for a period of two years prior to adjustment for dilutive financings. These warrants were valued using the Black-Scholes option-pricing model at $180,900 assuming 80 percent volatility, a bond equivalent yield of 4.9%, and at a price of $2.40, prior to adjustment for dilutive financings. They are included on the accompanying condensed consolidated balance sheet as deferred financing fees and are being amortized and included as interest expense over the five-year life of the debt.

The Company also paid its former Chairman of the Board of the Company $100,000 during the year ended December 31, 2002, to provide consulting services related to the restructuring of the Company's current business operations as well as to evaluate the Company's overall business strategies.

NOTE 17. SEGMENT REPORTING

The Company had two reportable operating segments during 2001. 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 offered 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 during 2001, the Company designed and delivered custom technical education through delivery of custom computer and Internet-based on line training seminars. This second reportable segment, defined as "training and client educational services" during 2001, has been discontinued during 2002, as further discussed in Notes 1 and 3.

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 (in thousands):

	Year ended December 31,	
	2002	2001
Revenue from external customers		
Transaction processing and related services	$ 3,493	$ 4,333
Training and client educational services	1,105	2,483
	$ 4,598	$ 6,816

EBITDA (1)		
Transaction processing and related services	$ (1,692)	$ (8,108)
Training and client educational services	(608)	(15)
EBITDA	(2,300)	(8,123)
Depreciation and amortization	(4,021)	(13,716)
Stock-related compensation	(12)	(1,922)
Interest, net	(601)	(3,031)
Restructuring (charge) benefit	655	(3,327)
Impairment charge	(2,732)	(43,375)
Net Loss	$ (9,011)	$(73,494)
Identifiable assets		
Transaction processing and related services	$ 2,050	$ 8,030
Training and client educational services	--	818
Corporate, mainly goodwill and other intangibles	--	2,637
	$ 2,050	$ 11,485
Capital expenditures, including product development		
Transaction processing and related services	$ 1,217	$ 2,253
Training and client educational services	--	38
	$ 1,217	$ 2,291

(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, (v) product development costs, and (vi) restructuring charges.

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.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

On July 31, 2002, the Company engaged Miller, Ellin & Company, LLP as its independent accountants for the year ending December 31, 2002, and dismissed the former independent accountants, Deloitte & Touche LLP. The report of the former accountants for the year ended December 31, 2001, included an explanatory paragraph describing conditions that raised substantial doubt about the Company's ability to continue as a going concern.

During the most recent fiscal year and to the date hereof, there have been no disagreements between the Registrant and the former accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which if not resolved to the satisfaction of the former accountant would have caused it to make reference to the subject matter of the disagreement in connection with its report.

PART III

Item 9. Directors and Executive Officers of the Registrant

Executive officers and directors

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

Name	Age	Position
Robert Priddy*	58	Chairman of the Board of Directors
Richard S. Cohan	50	Chief Executive Officer and President
Robert Bacchi	47	Chief Operating Officer
Michael Dodier	44	Executive Vice President - Sales
Steven Rabin	46	Chief Technology Officer
Stephen J. Warner*	61	Director
Harold S. Blue	40	Director
Thom Waye*	39	Director

* Member of Audit Committee

Robert Priddy has been Chairman of the Board and a director of our company since January 2003. He is currently chairman and chief executive officer of RMC Capital, LLC. He was one of the four founding partners of ValuJet Airlines and served in a variety of executive positions for the airline through its merger with AirTran Airways in 1997. Mr. Priddy remains a Director of AirTran Airways, a New York Stock exchange company. Prior to that, Mr. Priddy served as President of Florida Gulf Airlines and Air Midwest, and was one of the three founders of

Atlantic Southeast Airlines (ASA) as well as its chief financial officer.

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. He has been a director since May 2002. 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.

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. Prior to that, Mr. Dodier was General Territory U.S. Sales Manager for Data General Corporation.

Steven Rabin has served as our chief technology officer since November 2000 and currently serves on a part-time basis. Prior to joining our company, Mr. Rabin was the chief technology officer for InterWorld Corporation from May 1997 to 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.

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 is President of Commonwealth Associates Group Holdings and from 1993 to 2000, was Chairman and CEO of ProxyMed. During his career, Mr. Blue has founded and sold a pharmacy chain, a generic pharmaceutical distributor known as Best Generics, which was sold to IVAX, the largest generic drug manufacturer in the U.S., and a physician practice company. He was formerly a director of IVAX and is currently a director of Notify Corporation, and Commonwealth Associates Group Holdings.

Thom Waye has been a director of our company since January 2003. Mr. Waye is Managing Director of Corporate Finance and Business Development at Commonwealth Associates. Mr. Waye has primary responsibility for originating Commonwealth's investment opportunities, private placements, and public offerings. Mr. Waye previously held various positions with American International Group's (AIG) Financial Services companies, as well as led Motorola's and Unisys' New York based Financial Services Marketing efforts.

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 Thom Waye. 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 no designee at this time. 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 year ended December 31, 2002, except as follows: 1) Commonwealth Associates, L.P. filed one late Form 4 relating to the receipt of warrants as placement agent compensation for a January 2002 transaction; 2) Robert Priddy filed four late Form 4s relating to purchases of convertible notes; and 3) one late Form 4 was filed by Michael Dodier to report the automatic conversion of preferred stock to common stock.

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 2002.

		Annual Compensation		Long-Term Compensation
Name and Principal Position	Year	Salary	Bonus	Number of Securities Underlying Options (#)
Richard S. Cohan				
Chief Executive Officer	2002	$201,068	$40,000	1,150,000
and President	2001	$114,086	$8,333	200,000
Robert Bacchi				
Chief Operating Officer	2002	$151,104	--	633,333
Michael Dodier				
Executive Vice President Sales	2002	$152,349	--	333,333

Option Grants in 2002

The following table provides information concerning individual grants of stock options made during 2002 to each of our named executive officers.

<TABLE>
<CAPTION>

Name	Number of Securities Underlying Options (#)	Percent of Total Options Granted to Employees in 2002	Exercise or Base Price ($ per share)	Expiration Date
<S>	<C>	<C>	<C>	<C>
Richard S. Cohan	350,000	14.8%	$1.30	February 2012
	800,000	33.8%	$0.11	June 2012
Robert Bacchi	33,333	1.4%	$2.85	January 2012
	600,000	25.4%	$0.11	June 2012
Michael Dodier	33,333	1.4%	$2.85	January 2012
	300,000	12.7%	$0.11	June 2012

</TABLE>

Aggregated Option Exercises in 2002 and Year End Values

The following table provides information concerning the value of unexercised options owned by each of our named executive officers at December 31, 2002. No stock options were exercised in 2002.

<TABLE>
<CAPTION>

	Number of Securities Underlying Options		Value of Unexercised In-the-Money Options (1)	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>
Richard S. Cohan	652,779	730,555	0	0
Robert Bacchi	322,222	311,111	0	0
Michael Dodier	172,222	161,111	0	0

</TABLE>

(1) Based on closing price of our common stock as reported on Nasdaq on December 31, 2002.

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. In 2002, the Board of Directors increased Mr. Cohan's annual salary to $250,000 and changed the minimum guaranteed bonus to a contingent bonus of up to 50% of base salary dependent upon the achievement of certain defined operating parameters. 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.

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 current 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 December 31, 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.

<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>
Steven Rabin	13,376 (5)	*	*
Michael S. Falk (6)	** (7)	**	**
Timothy P. Flynn (8)	** (9)	**	**
Richard S. Cohan	244,648 (10)	8.0%	1.9%

Stephen J. Warner (11)	** (12)	**	8.4%
Harold S. Blue (13)	** (14)	**	*
Commonwealth Associates LP (15)	** (16)	**	**
Robert Priddy (17)	15,403,171 (18)	84.5%	19.6%
Robert Bachhi	454,160 (19)	15.0%	1.4%
Michael Dodier	454,160 (20)	15.0%	*
Thom Waye (21)	** (22)	*	*
Edmund H. Shea, Jr. (23)	** (24)	**	**
Jacob Safier (25)	** (26)	**	**
All directors and officers as a group (8 persons)	** (27)	**	**

</TABLE>

- ----------

* Less than 1%

** In the process of being determined

(1) The address of each person who is a 5% holder, except as otherwise noted, is c/o eB2B Commerce, Inc., 665 Broadway, New York, New York 10012.

(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 December 31, 2002.

(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 December 31, 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 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 (regardless if exercisable within 60 days) and warrants, held by such person and all of our other securityholders and conversion of all preferred stock and convertible notes held by such person and all of our other securityholders.

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

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

(7) In addition to the aggregate of _____ 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) _____ shares underlying warrants and options, (ii) _____ shares underlying convertible preferred stock. In his capacity as chairman and controlling equity owner of Commonwealth Associates Management Corp., Mr. Falk shares voting 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 _____ 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 _____ shares beneficially owned by such entity, which is inclusive of _____ shares underlying warrants and _____ 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.

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

(9) Includes (i) _____ shares underlying convertible preferred stock and (ii) _____ shares underlying warrants.

(10) Includes 3,447 shares of common stock and (i) 185,645 shares underlying convertible notes and (ii) 55,556 shares underlying options.

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

(12) Includes _____ shares underlying convertible preferred stock, _____ shares underlying convertible notes and _____ 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.

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

(14) Includes _____ shares underlying convertible preferred stock and _____ shares underlying warrants.

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

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

(17) The address of Mr. Priddy is 3291 Buffalo Drive, Suite 8, Las Vegas, Nevada 89129.

(18) Mr. Priddy may be deemed to be the beneficially owner of (i) 4,161,101 shares of common stock beneficially owned by RMC Capital, LLC ("RMC"), of which Mr. Priddy is a manager and principal member, (ii) 2,232,943 shares of common stock underlying warrants, (iii) 222,088 shares of common stock underlying convertible preferred stock, and (iv) 8,787,139 shares of common stock underlying convertible notes. RMC's beneficial holdings include 8,342 shares of common stock and 4,152,659 shares of common stock underlying convertible preferred stock.

(19) In addition to 257,404 shares of common stock (including 80,000 shares owned by family members) includes (i) 185,645 shares underlying convertible notes and (ii) 11,111 shares underlying options.

(20) In addition to 257,404 shares of common stock (including 106,667 shares owned by family members) includes 185,645 shares underlying convertible notes and (ii) 11,111 shares underlying options.

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

(22) Includes _____.

(23) The address of Mr. Shea is 655 Brea Canyon Road, Walnut, California 91789.

(24) Includes _____.

(25) The address of Mr. Shafier is One State Street Plaza, New York, New York 10004.

(26) Includes _____.

(27) Includes _____.

Item 12. Certain Relationships and Related Transactions

In April and May 2001, we issued to Commonwealth Associates, L.P. (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 a significant amount of our voting securities, and currently has two designees on our Board of Directors.

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 (incorporated by reference to Exhibit 3.1 filed with the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2001 ("2001 Form 10-KSB")).
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	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).
10.2	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 (incorporated by reference to Exhibit 10.5 filed with the Registrant's 2001 Form 10-KSB.
10.3	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 (incorporated by reference to Exhibit 10.6 as filed with the Registrant's 2001 Form 10-KSB).
10.4	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 (incorporated by reference to Exhibit 10.7 as filed with the Registrant's 2001 Form 10-KSB).
10.5	Form of Unit subscription relating to convertible notes and warrants issued in December 2001 and schedule related thereto (incorporated by reference to Exhibit 10.8 as filed with the Registrant's 2001 Form 10-KSB).
10.6	Form of Unit Subscription Agreement relating to convertible notes and warrants issued in January 2002 and schedule related thereto (incorporated by reference to Exhibit 10.9 as filed with the Registrant's 2001 Form 10-KSB).

10.7	Form of 7% Senior Subordinated Secured Convertible Note (incorporated by reference to Exhibit 10.10 as filed with the Registrant's 2001 Form 10-KSB).
10.8	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(incorporated by reference to Exhibit 10.11 as filed with the Registrant's 2001 Form 10-KSB).
10.9	eB2B Commerce, Inc. 2000 Stock Option Plan, as amended through January 16, 2003.
10.10	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).
10.11	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).
10.12	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).
10.13	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).
10.14	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).
10.15	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).
10.16	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).
10.17	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).
10.18	Form of Subscription Agreement relating to promissory notes issued in each of July 2002, September 2002, and November 2002 and schedule related thereto.
10.19	Form of 7% Senior Subordinated Secured Promissory Note issued each as of July 15, 2002, September 11, 2002, and November 4, 2002 and schedule related thereto.

10.20 General Security Agreement, dated July 11, 2002, between eB2B Commerce, Inc. and Robert Priddy, as Investor Representative.
99.1 Certification pursuant to 18 U.S.C. S1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Reports on Form 8-K.

During the fourth quarter of 2002, we filed two Form 8-Ks as follows: 1) On October 24, 2002, we filed a Form 8-K to report the discontinuation of our training and client education services business and 2) on November 7, 2002, we filed a Form 8-K to report the release of funds from escrow.

Item 14. Controls and Procedures.

Our principal executive and financial officer has concluded, based on his evaluation as of a date within 90 days before the filing of this Form 10-KSB, that our disclosure controls and procedures under Rule 13a-14 of the Securities Exchange Act of 1934 are effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officer, as appropriate to allow timely decisions regarding required disclosure.

Subsequent to our evaluation, there were no significant changes in internal controls or other factors that could significantly affect these internal controls.

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, 2003 eB2B Commerce, Inc.

By: /s/ Richard S. Cohan

Richard S. Cohan
Chief Executive Officer & President
(Principal Executive,
Financial and Accounting 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.

April 15, 2003 By /s/ Richard S. Cohan

Richard S. Cohan
Director

April 15, 2003 By:

Robert Priddy
Director

April 15, 2003 By: /s/ Harold S. Blue

Harold S. Blue
Director

April 15, 2003 By: /s/ Thom Waye

Thom Waye
Director

April 15, 2003 By: /s/ Stephen J. Warner

Stephen J. Warner
Director

CERTIFICATIONS

I, Richard S. Cohan, certify that:

1. I have reviewed this annual report on Form 10-KSB of eB2B Commerce, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrants' other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not here were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 15, 2003

/s/ Richard S. Cohan

Richard S. Cohan
Chief Executive Officer and
President (Principal Executive and
Financial Officer)

Exhibit 10.9

eB2B COMMERCE, INC.
2000 STOCK OPTION PLAN
(As Amended January 16, 2003)

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 EIGHT MILLION (8,000,000) SHARES(1) 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 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.

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(1) The increase in the amount of shares issuable pursuant to Section 4.1 hereof is subject to the Company receiving shareholder approval.

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, 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.

EXHIBIT 10.18

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 665 Broadway, New York, New York 10012 (the "Company"), and the undersigned (the "Subscriber").

WHEREAS, the Company desires to issue up to an aggregate principal amount of $1,350,000 of 7% senior subordinated secured promissory notes (the "Notes") in a private placement (the "Offering") on the terms and conditions set forth herein and in the Confidential Private Placement Term Sheet dated July 11, 2002 (together with all the Exhibits thereto, the "Term Sheet"), and the Subscriber desires to acquire the principal amount of Notes set forth on the signature page hereof; and

WHEREAS, the Notes shall be in the form attached as Exhibit (ii) to the Term Sheet and shall be convertible into shares (the "Conversion Shares") of the Company's common stock, par value $.0001 per share (the "Common Stock"), at an initial conversion price equal to the closing price of the Common Stock for the trading day immediately preceding the closing of the Offering (the "Closing") or such other conversion price as mutually determined by the Company and the Subscribers, subject to adjustment as set forth in the Notes (the "Conversion Price"); and

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

WHEREAS, the Subscriber is delivering simultaneously herewith a completed confidential purchaser 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 NOTES AND REPRESENTATIONS BY AND COVENANTS OF SUBSCRIBER

1.1 Subscription for Notes. Subject to the terms and conditions hereinafter set forth, the Subscriber hereby subscribes for and agrees to purchase from the Company such principal amount of Notes as is set forth upon the signature page hereof at a price equal to $1.00 for each $1.00 principal amount of Notes and the Company agrees to sell such Notes to the Subscriber for said purchase price. 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 Company, Robert Priddy, as representative of all Subscribers (the "Representative"), and the Escrow Agent. The Notes 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 Notes.

1.3 Investment Purpose. The Subscriber represents that the Notes 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 or the Conversion 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 Notes. 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 Notes 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 Notes; (ii) transferability of the securities is limited; and (iii) the Company may require substantial additional funds to operate its business and there can be no assurance 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 May 14, 2002, (b) the Company's Quarterly Report on Form 10-QSB for the period ended March 31, 2002, (c) the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002, (d) the Company's Proxy Statement for the annual meeting of shareholders held on October 17, 2001, (e) the Company's Current Reports on Form 8-K filed with the SEC on May 14, 2002 and June 19, 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; and (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.

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, 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 Notes.

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 under the 1933 Act, with the exception of certain registration rights covering the resale of the Conversion 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 Conversion 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 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 Conversion Shares upon which it is stamped, if (a) such Conversion 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 Conversion 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 Conversion 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.

1.12 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.

1.13 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 Notes; 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.

1.14 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.

1.15 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 Notes or any use of this Subscription Agreement, including: (a) the legal requirements within its jurisdiction for the purchase of the Notes; (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 Notes. 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.

1.16 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 March 31, 2002, 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).

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 Notes have not been registered with the SEC. The Notes 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 the Closing Date (as defined in Section 3.1 below) will contain, any untrue statement of a material fact or omits, or on the 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 date of the Term Sheet and will terminate at 11:59 PM Eastern time on July 15, 2002, unless extended by the Company for up to an additional 30 days (the "Termination Date"). Provided the minimum Offering amount ($500,000) shall have been subscribed for, funds representing the sale thereof shall have cleared, the Closing shall thereafter take place at the offices of the Company (but in no event later than three days following the Termination Date). At the Closing, payment for the Notes issued and sold by the Company shall be made against delivery of the Notes. The date of the Closing hereunder is hereinafter referred to as the "Closing Date".

3.2 Escrow. Pending the sale of the Notes, all funds paid hereunder

shall be deposited by the Company in escrow with the Escrow Agent. The Subscriber hereby authorizes Robert Priddy to act as a representative for all purchasers of Notes (the "Investor Representative"). The Investor Representative shall be a party to the Escrow Agreement, and the related Escrow Release Agreement, executed in connection with Offering and shall have all of the authority, on behalf of all purchasers, to perform in accordance with the terms of the Escrow Agreement and the Escrow Release Agreement.

3.3 Certificates. The Subscriber hereby authorizes and directs the Company, upon the Closing, to deliver the Notes 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 Commonwealth Associates, L.P., if any.

3.4 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 Commonwealth Associates, L.P.

IV. REGISTRATION RIGHTS

4.1 "Piggyback" Registration Rights. At any time after the 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 Notes and the Conversion Shares. Holders of the Securities or their transferees (other than transferees who acquire Securities pursuant to Rule 144 or an effective registration statement) are hereinafter referred to as "Holders." 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 Conversion 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 4.1 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 Conversion Shares and other securities or underlying securities of the Company 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 4.1 shall not apply after the earlier of (a) the date that all of the Conversion Shares have been sold pursuant to Rule 144 under the 1933 Act or an effective registration statement, or (b) such time as the Conversion Shares are eligible for immediate resale pursuant to Rule 144(k) under the 1933 Act. In addition, the obligation under this Section 4.1 shall not apply with respect to the Company's currently filed, but not yet effective, Registration Statement on Form SB-2, File No. 333-54410.

4.2 Registration Procedures. To the extent required by Sections 4.1,

the Company will:

(a) 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;

(b) 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;

(c) 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;

(d) 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

(e) 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 Conversion Shares, including completion of customary questionnaires. Failure to do so may result in exclusion of such Holders' Conversion Shares from the registration statement.

4.3 Expenses.

(a) With respect to the any registration required pursuant to Section 4.1 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 4.3(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.

4.4 Indemnification.

(a) The Company will indemnify and hold harmless each Holder of

Conversion Shares which are included in a registration statement pursuant to the provisions of Section 4.1 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 Conversion Shares included in a registration pursuant to the provisions of Section 4.1 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 4.4 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.
665 Broadway
New York, New York 10012
Telephone: (212) 477-1700
Facsimile: (212) 477-6207
Attention: Richard S. Cohan

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 in interest of the Notes 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. 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 Closing Date 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 there is no placement agent for the Offering and no legal counsel has been retained to represent the Subscribers; (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.

- _____	_____
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, L.P.	
- _____	
Dollar Amount of Notes 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	
Authorized Officer Accepted	Dollar Amount of Subscription Accepted

Schedule to Exhibit 10.18
Private Placement Subscription Agreement

Subscriber's Name	Aggregate Amount Invested ($)	Amount of 1st Note Issued ($(1)	Amount of 2nd Note Issued ($)(2)	Amount of 3rd Note Issued ($)(3)
Robert Priddy	250,000	72,917	57,292	57,292
Alpine Ventures Capital Partners LP	300,000	87,500	68,750	68,750
Chesed Congregations of America	65,000	18,958	14,896	14,896
Jacob Safier	35,000	10,208	8,021	8,021
J.F. Shea Co., Inc.	250,000	72,917	57,292	57,292
Comvest Venture Partners, LP	200,000	58,333	45,833	45,833
Bruce J. Haber	25,000	7,292	5,729	5,729
Richard S. Cohan	25,000	7,292	5,729	5,729
Robert Bacchi	25,000	7,292	5,729	5,729
Michael Dodier	25,000	7,292	5,729	5,729

(1) Note to be dated as of July 15, 2002.
(2) Note to be dated as of September 11, 2002.
(3) Note to be dated as of November 4, 2002.

EXHIBIT 10.19

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 on the Maturity 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 by the Company (the "Placement") of notes (the "Notes") 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, without premium, in whole or in part at any time upon fifteen (15) days' prior written notice to the Payee (a "Prepayment Notice").

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. 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.

The sale of the Company's training center business shall be deemed not to be a sale of all or substantially all of the properties or assets of the Company.

(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 Associates, L.P. 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. Except for indebtedness existing on the date hereof, 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) or (ii) 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;

(f) the Liens in favor of the holders of the $2,000,000 principal amount of notes issued by the Company in January 2002;

(g) any other Permitted Liens (as defined in the Security Agreement); and

(h) Liens for Senior Debt.

(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 or certificates of amendment 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, entry of judgment 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 (i) pay the liabilities 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, (ii) pay and settle liabilities of the Company for less than the face amounts thereof and (iii) pay and settle contingent liabilities described in the footnotes to the financial statements.

(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.

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, interest or Premium when and as the same shall become due and payable, whether by acceleration or otherwise.

(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." The Payee may exercise its right of conversion after receipt of a Prepayment Notice and prior to the date set for prepayment.

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 200% of the Conversion Price, 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 Subsections (x) and (xi) 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 6C, "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, convertible notes 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 Subsections (x) and (xi) 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 and equal to or greater than the Conversion 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 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 Subsections (x) and (xi) 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 a majority of 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 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).

(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 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 Exchange 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 Exchange 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 equal to, or greater than, 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.
665 Broadway
New York, New York 10012
Attention: Richard S. Cohan

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:

Schedule to Exhibit 10.19
Private Placement Promissory Notes

Subscriber's Name	Aggregate Amount Invested ($)	Amount of 1st Note Issued ($(1)	Amount of 2nd Note Issued ($)(2)	Amount of 3rd Note Issued ($)(3)
Robert Priddy	250,000	72,917	57,292	57,292
Alpine Ventures Capital Partners LP	300,000	87,500	68,750	68,750
Chesed Congregations of America	65,000	18,958	14,896	14,896
Jacob Safier	35,000	10,208	8,021	8,021
J.F. Shea Co., Inc.	250,000	72,917	57,292	57,292
Comvest Venture Partners, LP	200,000	58,333	45,833	45,833
Bruce J. Haber	25,000	7,292	5,729	5,729
Richard S. Cohan	25,000	7,292	5,729	5,729
Robert Bacchi	25,000	7,292	5,729	5,729
Michael Dodier	25,000	7,292	5,729	5,729

(1) Note to be dated as of July 15, 2002.
(2) Note to be dated as of September 11, 2002.
(3) Note to be dated as of November 4, 2002.

EXHIBIT 10.20

GENERAL SECURITY AGREEMENT

(Floating Lien)

SECURITY AGREEMENT, dated as of July 11, 2002, between eB2B Commerce, Inc., a New Jersey corporation with its principal executive office located at 665 Broadway, New York, New York 10012 (the "Debtor"), and Robert Priddy with an address at 3435 Kingsboro Road, Apt. 1601, Atlanta, Georgia 30326 (the "Investor Representative"), as representative for the investors (the "Investors") from time to time set forth on Annex I hereto (the Investor Representative, acting in such capacity, the "Secured Party");

W I T N E S S E T H :

WHEREAS, Debtor has issued and/or will issue to the Investors a series of 7% senior subordinated secured convertible promissory notes in the aggregate principal amount of up to $1,350,000 from time to time in a private placement (herein collectively, as at any time amended, extended, restated, renewed or modified, the "Notes"), pursuant to a Confidential Term Sheet of the Debtor dated July 11, 2002;

WHEREAS, it is a condition to the willingness of the Investors to make the loan evidenced by the Notes that Debtor enter into this Agreement and grant to the Secured Party, for the ratable benefit of the Investors, the security interest provided for herein;

WHEREAS, the Investors have appointed the Investor Representative pursuant to the Investor Representative Appointment Agreement attached as Exhibit 4 hereto.

NOW, THEREFORE, FOR VALUE RECEIVED, IT IS AGREED:

Section 1. Terms. Unless otherwise defined herein, capitalized terms used in this Agreement shall have the meaning specified therefor in the Notes. As used herein the following terms shall have the meanings specified and shall include in the singular number the plural and in the plural number the singular:

"Assigned Agreements" shall mean all contracts and agreements of the Debtor.

"Collateral" means all of the Debtor's right, title and interest in and under or arising out of each and all of the following:

All personal property and fixtures of the Debtor of any type or description, wherever located and now existing or hereafter arising or acquired, including but not limited to the following:

(i) all of the Debtor's goods including, without limitation:

(A) all inventory, including without limitation, equipment held for lease, whether raw materials, in process or finished, all material or equipment usable in processing the same and all documents of title covering any inventory (as such term is

defined in the Uniform Commercial Code, as in effect from time to time in the State of New York (the "NYUCC")) (all of the foregoing, "Inventory"), including without limitation that located at the locations listed on Schedule 1 annexed hereto;

(B) all equipment (the "Equipment") employed in connection with the Debtor's business, together with all present and future additions, attachments and accessions thereto and all substitutions therefor and replacements thereof, including without limitation that located at the locations listed on Schedule 1 annexed hereto;

(ii) all of the Debtor's present and future accounts, accounts receivable, general intangibles, as such terms are defined in the NYUCC,

and all contracts and contract rights (herein sometimes referred to as "Receivables"), including but not limited to the Debtor's rights (including rights to payment) under all Assigned Agreements, together with

(A) all claims, rights, powers or privileges and remedies of the Debtor relating thereto or arising in connection therewith including, without limitation, all rights of the Debtor to make determinations, to exercise any election (including, but not limited to, election of remedies) or option or to give or receive any notice, consent, waiver or approval, together with full power and authority to demand, receive, enforce, collect or receipt for any of the foregoing or any property which is the subject of the Assigned Agreements, to enforce or execute any checks, or other instruments or orders, to file any claims and to take any action which (in the opinion of the Secured Party) may be necessary or advisable in connection with any of the foregoing, (B) all liens, security, guaranties, endorsements, warranties and indemnities and all insurance and claims for insurance relating thereto or arising in connection therewith,

(C) all rights to property forming the subject matter of the Receivables including, without limitation, rights to stoppage in transit and rights to returned or repossessed property,

(D) all writings relating thereto or arising in connection therewith including without limitation, all notes, contracts, security agreements, guaranties, chattel paper and other evidence of indebtedness or security, all powers-of-attorney, all books, records, ledger cards and invoices, all credit information, reports or memoranda and all evidence of filings or registrations relating thereto,

(E) all catalogs, computer and automatic machinery software and programs, and the like pertaining to operations by the Debtor in, on or about any of its plants or warehouses, all sales data and other information relating to sales or service of products now or hereafter manufactured on or about any of its plants, and all accounting information pertaining to

operations in, on or about any of its plants, and all media in which or on which any of the information or knowledge or data is stored or contained, and all computer programs used for the compilation or printout of such information, knowledge, records or data, and

(F) all accounts, contract rights, general intangibles and other property rights of any nature whatsoever arising out of or in connection with the foregoing, including without limitation, payments due and to become due, whether as repayments, reimbursements, contractual obligations, indemnities, damages or otherwise;

(iii) all other personal property of the Debtor of any nature whatsoever, including, without limitation, all accounts, bank accounts, deposits, credit balances, contract rights, inventory, general intangibles, goods, equipment, instruments, chattel paper, machinery, furniture, furnishings, fixtures, tools, supplies, appliances, plans and drawings, together with all customer and supplier lists and records of the business, and all property from time to time described in any financing statement signed by the Debtor naming the Investor Representative as secured party;

(iv) all of the Debtor's right, title, and market in and to any shares of capital stock of any subsidiary corporation and the certificates representing any such shares;

(v) any and all of Debtor's right, title and interest in its intellectual property, including, without limitation, (a) each of the Trademarks (as hereinafter defined), and the goodwill of the business

symbolized by each of the Trademarks, all customer lists and other records of the Debtor relating to the distribution of products bearing the Trademarks and each of the registrations described in Schedule 2-A hereto; (b) each of the Patents (as hereinafter defined) and each of the registrations listed on Schedule 2-B hereto; (c) all of the tradenames listed on Schedule 1 hereto (the "Tradenames") and (d) any and all proceeds of the foregoing, including, without limitation, any claims by Debtor against third parties for infringement of the Trademarks or the Patents (collectively, the "Intellectual Property");

(vi) all additions, accessions, replacements, substitutions or improvements and all products and proceeds including, without limitation, proceeds of insurance, of any and all of the Collateral described in clauses (i) through (iv) above; and

(vii) any consideration received from the sale, exchange, lease or other disposition of any asset or property which constitutes Collateral, any other value received as a consequence of the possession of any Collateral and any payment received from any insurer or other person or entity as a result of the destruction, loss, theft or other involuntary conversion of whatever nature of any asset or property that constitutes Collateral.

Notwithstanding the foregoing, the term "Collateral" does not include any license or contract rights to the extent the granting of a security interest in it would be contrary to applicable law.

"Instrument" shall have the meaning specified in Article 3 of the NYUCC and shall also include any other writing which evidences a right to the payment of money and is not itself a security agreement or lease and is of a type which is in the ordinary course of business transferred by delivery with any necessary endorsement or assignment.

"Lien" means any mortgage, pledge, hypothecation, assignment, security interest, deposit arrangement, encumbrance (including any easement, right of way, zoning restriction and the like), lien (statutory or other) or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any financing lease involving substantially the same economic effect as any of the foregoing and the filing of any financing statement under the NYUCC or comparable law of any jurisdiction).

"Patents" shall mean (i) all letters patent of the United States or any other country, all right, title and interest therein and thereto, and all applications, registrations and recordings thereof, including, without limitation, applications, registrations and recordings in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state or province thereof or any other country or any political subdivision thereof, all whether now owned or hereafter acquired by Debtor, including, but not limited to, those described in Schedule 2-B annexed hereto and made a part hereof, and (ii) all reissues, continuations, continuations-in-part, extensions or divisionals thereof and all licenses thereof.

"Permitted Liens" means:

(i) 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 generally accepted accounting principles shall have been set aside on its books;

(ii) 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 shall have been set aside on its books;

(iii) 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;

(iv) judgment Liens in existence less than 60 days after the entry thereof or with respect to which execution has been stayed;

(v) ground leases in respect of real property on which facilities owned or leased by the Debtor or any of its subsidiaries are located;

(vi) easements, rights-of-way, restrictions, minor defects or irregularities in title and other similar charges or encumbrances not interfering in any material respect with the business of the Debtor and its subsidiaries taken as a whole;

(vii) any interest or title of a lessor secured by a lessor's interest under any lease of real property on which facilities owned or leased by the Debtor or any of its subsidiaries are located;

(viii) leases or subleases and licenses or sublicenses granted to others not interfering in any material respect with the business of the Debtor and its subsidiaries taken as a whole;

(ix) a Lien on any asset securing indebtedness (including capitalized lease obligations) incurred or assumed for the purpose of financing the purchase price (including capitalized lease payments in the nature thereof) of such asset, provided that such Lien attaches only to the asset acquired with the proceeds of such indebtedness and attaches concurrently with or within ten (10) days following the acquisition thereof;

(x) Liens securing Senior Debt (as defined in the Notes); and

(xi) Liens existing on the date hereof as disclosed on Schedule (1) hereto.

"Person" means any natural person, corporation, firm, association, partnership, joint venture, limited liability company, joint-stock company, trust, unincorporated organization, government, governmental agency or subdivision, or any other entity, whether acting in an individual, fiduciary or other capacity.

"Receivables" has the meaning specified therefor in clause (ii) of the definition of Collateral.

"Secured Obligations" means all obligations of the Debtor, whether for fees, expenses or otherwise, now existing or hereafter arising under this Agreement and the Notes, including, without limitation, full and prompt payment and performance of (i) all principal and interest on the Notes when and as due, whether at maturity, by acceleration, or otherwise and (ii) all obligations of the Debtor at any time and from time to time under this Agreement.

"Trademarks" shall mean (i) all trademarks, trade names, trade styles, service marks, prints and labels on which said trademarks, trade names, trade styles and service marks have appeared or appear, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all right, title and interest therein and thereto, and all applications, registrations and recordings thereof, including, without limitation, applications, registrations and recordings in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state or province thereof, or any other country or any political subdivision thereof, all whether now owned or hereafter acquired by Debtor, including, but

not limited to, those described in Schedule 2-A annexed hereto and made a part hereof, and (ii) all reissues, extensions or renewals thereof and all licenses

thereof.

Section 2. Security Interests.

(a) As security for the payment and performance of all Secured Obligations, and subject to the last sentence of this Section 2, the Debtor does hereby create, grant and assign to the Secured Party, for its own benefit and for the ratable benefit of the Investors, a continuing security interest in all of the Collateral, whether now existing or hereafter arising or acquired and wherever located, subject to the priority, if any, of Permitted Liens (the "Security Interest"). Without limiting the foregoing, the Secured Party is hereby authorized to file one or more financing statements, continuation statements or such other documents, including, without limitation, the Assignment of Security (Trademarks) attached hereto as Exhibit 1, for the purpose of perfecting, confirming, continuing, enforcing or protecting the Security Interest.

(b) The Debtor hereby assigns to the Secured Party all of Debtor's right, title and interest in and to any and all moneys which may become due and payable with respect to the Collateral under any policy insuring the Collateral (except proceeds relating to tangible personal property which are applied to restoration or replacement), including return of unearned premium, and shall cause any such insurance company, after the occurrence of an Event of Default or, if prior to the Maturity Date (as such term is defined in the Notes) acceleration of the Notes ("Acceleration") to make payment directly to the Secured Party for application to amounts outstanding under the Notes in accordance with the terms of the Notes and, to the extent not provided therein, in such order as the Secured Party shall determine.

Section 3. General Representations, Warranties and Covenants. The Debtor represents, warrants and covenants, which representations, warranties and covenants shall survive execution and delivery of this Agreement, as follows:

(a) This Agreement is made with full recourse to the Debtor and pursuant to and upon all the warranties, representations, covenants, and agreements on the part of the Debtor contained herein, in the Notes and otherwise made in writing in connection herewith or therewith.

(b) Except for the Security Interest of the Secured Party therein, the Debtor is, and as to Collateral acquired from time to time after the date hereof the Debtor will be, the owner of all the Collateral free from any lien, security interest, encumbrance or other right, title or interest of any Person (other than Permitted Liens and licenses granted in the ordinary course of business) and the Debtor shall defend the Collateral against all claims and demands of all Persons at any time claiming the same or any interest therein adverse to the Secured Party (other than Permitted Liens and licenses granted in the ordinary course of business).

(c) There is no financing statement, assignment of trademark, or assignment of patent (or similar statement or instrument of registration under the law of any jurisdiction) now on file or registered in any public office covering any interest of any kind in the Collateral, or, to the knowledge of Debtor intended to cover any such interest, which has not been terminated or released by the secured party named therein and so long as the Notes remain outstanding or any of the Secured Obligations of the Debtor remain unpaid, the Debtor will not execute and there will not be on file in any public office any

financing statement, assignment of trademark, or assignment of patent (or similar statement or instrument of registration under the law of any jurisdiction) or statements relating to the Collateral, except (i) financing statements, assignment of trademark, or assignment of patent filed or to be filed in respect of and covering the Security Interest of the Secured Party hereby granted and provided for, (ii) those listed on Schedule 2, and (iii) with respect to Permitted Liens.

(d) The chief executive office and chief place of business of the Debtor is located at the address of the Debtor listed on the signature page hereof, and the Debtor will not move its chief executive office and chief place of business except to such new location as the Debtor may establish in accordance with the last sentence of this Section 3(d). The originals of all Assigned Agreements and

all documents (as well as all duplicates thereof) evidencing all Receivables and all other contract rights or accounts and other property of the Debtor and the only original books of account and records of the Debtor relating thereto are, and will continue to be, kept at such chief executive office or at such new location as the Debtor may establish in accordance with the last sentence of this Section 3(d). The Debtor shall establish no such new location until (i) it shall have given to the Secured Party not less than 15 days' prior written notice of its intention to do so, clearly describing such new location and providing such other information in connection therewith as the Secured Party may reasonably request, and (ii) with respect to such new location, it shall have taken such action, satisfactory to the Secured Party (including, without limitation, all action required by Section 7 hereof), to maintain the Security Interest of the Secured Party in the Receivables intended to be granted at all times fully perfected and in full force and effect.

(e) Debtor has no Collateral located outside of the State of New York or other states in which inventory may be held on consignment.

(f) The name of the Debtor is as set forth on the signature page hereto and the Debtor shall not change such name, conduct its business in any other name or take title to the Collateral in any other name while this Agreement remains in effect. The Debtor has never had any name, or conducted business under any name in any jurisdiction, other than its name set forth on the signature page hereto, during the past six years other than as set forth in Schedule 2 annexed hereto.

(g) At the Debtor's own expense, the Debtor will: (i) without limiting the provisions of the Notes, keep the Collateral fully insured at all times with financially sound and responsible insurance carriers against loss or damage by fire and other risks, casualties and contingencies and in such manner and to the same extent that like properties are customarily so insured by other entities engaged in the same or similar businesses similarly situated and keep adequate insurance at all times against liability on account of damage to persons and properties and under all applicable workers' compensation laws, by financially sound and reputable insurers and in amounts usually carried by similar businesses, for the benefit of the Debtor and the Secured Party, (ii) upon request by the Secured Party, promptly deliver the insurance policies or certificates thereof to the Secured Party, and (iii) keep the Collateral in good condition at all times (normal wear and tear excepted). Upon any failure of the Debtor to comply with its obligations pursuant to this Section 3(g), the Secured Party may at its option and after 20 days' prior written notice to Debtor, and without affecting any of its other rights or remedies provided herein or as a

secured party under the NYUCC, procure the insurance protection it deems necessary to be made to the Collateral and the cost of either or both of which shall be a lien against the Collateral added to the amount of the indebtedness secured hereby and payable on demand with interest at a rate per annum equal to 8%. (h) The Debtor will not use the Collateral in material violation of any statute or ordinance or applicable insurance policy and will promptly pay all material taxes and assessments levied against the Collateral; provided that the Debtor shall not be required to pay any such tax or assessment that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained. (i) The Debtor will not sell, transfer, change the registration, if any, dispose of, attempt to dispose of, substantially modify (other than in the ordinary course of business) or abandon the Collateral or any material part thereof other than sales of Inventory in the ordinary course of business and the disposition of obsolete or worn-out Equipment in the ordinary course of business.

(j) The Debtor will not assert against the Secured Party any claim or defense which the Debtor may have against any seller of the Collateral or any part thereof or against any other Person with respect to the Collateral or any part thereof.

(k) The Debtor will indemnify and hold the Secured Party harmless from and against any loss, liability, damage, costs and expenses whatsoever arising from the Debtor's use, operation, ownership or possession of the Collateral or any part thereof other than liabilities arising as a result of Secured Party's gross negligence or willful misconduct.

(l) The Debtor will maintain the confidentiality of all customer lists and not sell or otherwise dispose of such lists except that the Debtor shall deliver copies thereof to the Secured Party upon its request, which may be made at any time and from time to time after an Event of Default (as such term is defined in the Notes).

(m) In addition to, and not in limitation of, the foregoing, with respect to the Intellectual Property, the Debtor hereby represents and warrants:

(i) Subject to Permitted Liens, Debtor has the sole, full and clear title to the Trademarks shown on Schedule 2-A hereto for the goods and services covered by the registrations thereof and such registrations are valid and subsisting.

(ii) Debtor will perform all acts and execute all documents, to the extent reasonable, including, without limitation, assignments for security in form suitable for filing with the United States Patent and Trademark Office, substantially in the forms of Exhibits 1 and 2 hereof, respectively, requested by the Secured Party at any time to evidence, perfect, maintain, record and enforce the Secured Party's interest in the Patents and Trademarks or otherwise in furtherance of the provisions of this Agreement, and Debtor hereby authorizes the Secured Party to execute and file one or more financing statements (and similar documents) or copies thereof or of this Agreement with respect to the Intellectual Property signed only by the Secured Party.

(iii) None of the Trademarks have been abandoned or invalidated, and, except to the extent that the Secured Party, upon 10 days' prior written notice by the Debtors, shall consent, and except to the extent such Debtor has a valid business purpose for doing otherwise (so long as any action on the part of any such Debtor would not have a material adverse effect on Debtor's business), Debtor (either itself or through licensees) will continue to use the Trademarks on each and every trademark class of goods in order to maintain the Trademarks in full force free from any claim of abandonment for nonuse and Debtor will not (nor will it permit any licensee thereof to) do any act or knowingly omit to do any act whereby any Trademark may become abandoned or invalidated, and Debtor shall notify the Secured Party immediately if it knows of any reason or has reason to know that any pending application or issued Trademark may become abandoned or invalidated.

(iv) Subject to Permitted Liens, Debtor has the sole, full and clear title to each of the Patents shown on Schedule 2-B hereto and the issued Patents are subsisting. None of the Patents has been abandoned or dedicated, and, except to the extent that the Secured Party, upon 10 days' prior written notice by the Debtor, shall consent, and except to the extent such Debtor has a valid business purpose for doing otherwise (so long as any action on the part of any such Debtor would not have a material adverse effect on Debtor's business), Debtor will not do any act, or omit to do any act, whereby the Patents may become abandoned or dedicated and shall notify the Secured Party immediately if it knows of any reason or has reason to know that any pending application or issued Patent may become abandoned or dedicated.

(v) In no event shall Debtor, either itself or through any agent, employee, licensee or designee, (A) file an application for the registration of any Patent or Trademark with the United States Patent and Trademark Office or any similar office or agency of the United States, any state or province thereof, any other country or any political subdivision thereof or (B) file any assignment of any patent or trademark, which Debtor may acquire from a third party, with the United States Patent and Trademark Office or any similar office or agency of the United States, any state or province thereof, any other country or any political subdivision thereof, unless Debtor shall promptly notify the Secured Party thereof, and, upon request of the Secured Party, execute and deliver any and all assignments, agreements, instruments, documents and papers as the Secured Party may reasonably request to evidence the Secured Party's interest in such Patent or Trademark and the goodwill and general intangibles of Debtor relating thereto or represented thereby, and Debtor hereby constitutes the Secured Party its attorney-in-fact to execute and file all

such writings for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed, such power being coupled with an interest is irrevocable until the Secured Obligations are paid in full.

(vi) Except to the extent that the Secured Party, upon prior written notice from Debtor, shall consent (which consent shall not be unreasonably withheld), Debtor will not assign, sell, mortgage, lease, transfer, pledge, hypothecate, grant a security interest in or lien upon, encumber, grant an exclusive or non-exclusive license (except in the ordinary course of business), or otherwise dispose of any of the Intellectual Property,

and nothing in this Agreement shall be deemed a consent by the Secured Party to any such action except as expressly permitted herein. Notwithstanding the foregoing, the Debtor may sell its training center operations.

(vii) As of the date hereof neither Debtor nor any affiliate or subsidiary thereof owns any Patents or Trademarks registered in, or the subject of pending applications in, the United States Patent and Trademark Office or any similar office or agency of the United States, any state or province thereof, any other country or any political subdivision thereof, other than those described in Schedules 2-A and 2-B hereto.

(viii) Except to the extent Debtor has a valid business purpose for doing otherwise (so long as any action on the part of Debtor would not have a material adverse effect on Debtor's business), Debtor will take all necessary steps in any proceeding before the United States Patent and Trademark Office or any similar office or agency of the United States, any state or province thereof, any other country or any political subdivision thereof, to maintain each application and registration of the Trademarks and Patents, including, without limitation, filing of renewals, affidavits of use, affidavits of incontestability and opposition, interference and cancellation proceedings (except to the extent that dedication, abandonment or invalidation is permitted under paragraphs (ii) and (iii) hereof).

(ix) Debtor agrees that the Secured Party does not assume, and shall have no responsibility for, the payment of any sums due or to become due under any agreement or contract included in the Intellectual Property or the performance of any obligations to be performed under or with respect to any such agreement or contract by Debtor, and the Debtor hereby agrees to indemnify and hold the Secured Party harmless with respect to any and all claims by any person relating thereto.

(x) Debtor agrees that if it, or any affiliate or subsidiary thereof, learns of any use by any person of any term or design likely to cause confusion with any Trademark, it shall promptly notify the Secured Party of such use and, if requested by the Secured Party, shall join with the Secured Party, at the Secured Party's expense, in such action as the Secured Party, in its reasonable discretion may deem advisable for the protection of the Secured Party's interest in and to such Trademarks.

(xi) All licenses of Trademarks and Patents which Debtor has granted to third parties are set forth in Schedule B hereto.

(xii) If Debtor shall acquire title to any new Trademarks or Patents, the provisions of this Agreement shall automatically apply thereto. Debtor shall promptly notify the Secured Party in writing of any rights to any new Trademarks or Patents acquired by Debtor after the date hereof and of any registrations issued or applications for registration made after the date hereof. Concurrently with the filing of an application for registration for any Trademarks or Patents, Debtor shall execute, deliver and record in all places where this Agreement is recorded an appropriate agreement, substantially in the form hereof, with appropriate insertions, or an amendment to this Agreement, in form and substance reasonably satisfactory to the Secured Party, pursuant to which Debtor

shall grant a security interest to the extent of its interest in such registration as provided herein to the Secured Party.

Section 4. Special Provisions Concerning Assigned Agreements. The Debtor represents, warrants and agrees as follows:

(a) The Assigned Agreements constitute the legal, valid and binding obligations of the Debtor and, to the best of its knowledge, the other parties thereto, enforceable in accordance with their respective terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights or by the effect of general equitable principles.

(b) The Debtor will use best efforts to abide by, perform and discharge each and every material obligation, covenant and agreement to be performed by the Debtor under the Assigned Agreements.

(c) At the request of the Secured Party, and at the sole cost and expense of the Debtor, the Debtor will use best efforts to enforce or secure the performance of each and every material obligation, covenant, condition and agreement contained in the Assigned Agreements to be performed by the other parties thereto.

(d) The Debtor will not modify, amend or agree to vary any of the Assigned Agreements in any material respect other than in the ordinary course of business, or otherwise act or fail to act in a manner likely (directly or indirectly) to entitle any party thereto to claim that the Debtor is in material default under the terms thereof.

(e) The Debtor will not terminate or permit the termination of any material Assigned Agreement, except in accordance with its terms, other than in the ordinary course of business.

(f) Without the prior written consent of the Secured Party, the Debtor will not, other than in the ordinary course of business, waive or in any manner release or discharge any party to any material Assigned Agreement from any of the material obligations, covenants, conditions and agreements to be performed by it under such Assigned Agreement including, without limitation, the obligation to make all payments in the manner and at the time and places specified.

(g) If the Secured Party so requests after the occurrence and continuance of an Event of Default and, if prior to the Maturity Date, Acceleration, the Debtor will hold any payments received by it which are assigned and set over to the Secured Party by this Agreement for and on behalf of the Secured Party and turn them promptly over to the Secured Party forthwith in the same form in which they are received (together with any necessary endorsement) for application to amounts outstanding under the Notes in accordance with the terms of the Notes and, to the extent not provided therein, in such order as the Secured Party shall determine.

(h) The Debtor will appear in and defend every action or proceeding arising under, growing out of or in any manner connected with the Assigned Agreements or the obligations, duties or liabilities of the Debtor and any assignee thereunder.

(i) Should the Debtor fail to make any payment or to do any act as herein provided after 30 days' notice by the Secured Party, the Secured Party may (but without obligation on the Secured Party's part to do so and without notice to or demand on the Debtor and without releasing the Debtor from any obligation hereunder) make or do the same in such manner and to such extent as the Secured Party may deem reasonably necessary to protect the Security Interests provided hereby, including specifically, without limiting the general powers, the right to appear in and defend any action or proceeding purporting to affect the Security Interests provided hereby and the Debtor, and the Secured Party may also perform and discharge each and every obligation, covenant and agreement of the Debtor contained in any Assigned Agreement and, in exercising any such powers, pay necessary costs and expenses, employ counsel and incur and pay reasonable attorneys' fees.

(j) Upon the request of the Secured Party, the Debtor will send to the Secured Party copies of all material notices, documents and other papers furnished or received by it with respect to any of the Assigned Agreements.

Section 5. Special Provisions Concerning Receivables.

(a) As of the time when each Receivable arises, the Debtor shall be deemed to have warranted as to each such Receivable that such Receivable and all papers and documents relating thereto are genuine and in all respects what they purport to be, and that all papers and documents relating thereto:

(i) will be signed by the account debtor named therein (or such account debtor's duly authorized agent) or otherwise be binding on the account debtor;

(ii) will represent the genuine, legal, valid and binding obligation of the account debtor evidencing indebtedness unpaid and owed by such account debtor arising out of the performance of labor or services or the sale and delivery of merchandise or both;

(iii) to the extent evidenced by writings, will be the only original writings evidencing and embodying such obligation of the account debtor named therein; and

(iv) will be in compliance and will conform, in all material respects, with all applicable federal, state and local laws (including applicable usury laws) and applicable laws of any relevant foreign jurisdiction.

(b) The Debtor will keep and maintain at the Debtor's own cost and expense satisfactory and complete records of the Receivables, including, but not limited to, records of all payments received, all credits granted thereon, all merchandise returned and all other dealings therewith, and the Debtor will make the same available to the Secured Party, at the Debtor's own cost and expense, at any and all reasonable times during the existence of an Event of Default upon demand of the Secured Party. The Debtor shall, at the Debtor's own cost and expense, deliver the Receivables (including, without limitation, all documents evidencing the Receivables) and such books and records to the Secured Party or to its representatives upon its demand at any time during the existence of an Event of Default and, if prior to the Maturity Date, Acceleration. If the

Secured Party shall so request during the existence of an Event of Default, the Debtor shall legend, in form and manner satisfactory to the Secured Party, the Receivables and other books, records and documents of the Debtor evidencing or pertaining to the Receivables with an appropriate reference to the fact that the Receivables have been assigned to the Secured Party and that the Secured Party has a security interest therein.

(c) Except in the ordinary course of business prior to an Event of Default and, if prior to the Maturity Date, Acceleration, the Debtor will not rescind or cancel any indebtedness evidenced by any Receivable or modify any term thereof or make any adjustment with respect thereto, or extend or renew the same, or compromise or settle any dispute, claim, suit or legal proceeding relating thereto, or sell any Receivable or interest therein, without the prior written consent of the Secured Party, except that the Debtor may grant discounts in connection with the prepayment of any Receivable in an amount which is customary in the line of business in which the Debtor is engaged and consistent with the Debtor's past practices.

(d) The Debtor will duly fulfill all obligations on its part to be fulfilled under or in connection with the Receivables and will do nothing to impair the rights of the Secured Party in the Receivables.

(e) The Debtor shall endeavor to collect or cause to be collected from the account debtor named in each Receivable, as and when due (including, without limitation, Receivables which are delinquent, such Receivables to be collected in accordance with generally accepted lawful collection procedures) any and all amounts owing under or on account of such Receivable, and credit forthwith (on a daily basis) upon receipt thereof all such amounts as are so collected to the outstanding balance of such Receivable. The costs and expenses (including

attorney's fees) of collection, whether incurred by the Debtor or the Secured Party, shall be borne by the Debtor.

(f) If any of the Receivables becomes evidenced by an Instrument (other than a check received in payment of a Receivable and deposited in the ordinary course of business), the Debtor will notify the Secured Party thereof, and, upon request by the Secured Party after an Event of Default, promptly deliver such Instrument to the Secured Party appropriately endorsed to the order of the Secured Party as further security for the satisfaction in full of the Secured Obligations.

(g) Upon request of the Secured Party, at any time when an Event of Default and, if prior to the Maturity Date, Acceleration shall exist, the Debtor shall promptly notify (in manner, form and substance satisfactory to the Secured Party) all Persons who are at any time obligated under any Receivable that the Secured Party possesses a Security Interest in such Receivable and that all payments in respect thereof are to be made to such account as the Secured Party directs.

Section 6. Special Provisions Concerning Equipment. The Debtor will do nothing to impair the rights of the Secured Party in the Equipment. The Debtor shall cause the Equipment to at all times constitute and remain personal property. The Debtor retains all liability and responsibility in connection with the Equipment and the liability of the Debtor to pay the Secured Obligations shall in no way be affected or diminished by reason of the fact that such

Equipment may be lost, destroyed, stolen, damaged or for any reason whatsoever unavailable to the Debtor.

Section 7. Financing Statements; Documentary Stamp Taxes.

(a) The Debtor will, at its own expense, make, execute, endorse, acknowledge, file and/or deliver to the Secured Party from time to time such lists, descriptions and designations of Inventory, warehouse receipts, bills of lading, documents of title, vouchers, invoices, schedules, confirmatory assignments, conveyances, financing statements, transfer endorsements, powers of attorney, certificates, reports and other assurances or instruments and take such further steps relating to the Collateral and other property or rights covered by the Security Interest hereby granted, which the Secured Party reasonably deems appropriate or advisable to perfect, preserve or protect its Security Interest in the Collateral. The Debtor hereby constitutes the Secured Party its attorney-in-fact to execute and file in the name and on behalf of the Debtor such additional financing statements as the Secured Party may reasonably request, such acts of such attorney being hereby ratified and confirmed; such power, being coupled with an interest, is irrevocable until the Secured Obligations are paid in full. Further, to the extent permitted by applicable law, the Debtor authorizes the Secured Party to file any such financing statements without the signature of the Debtor and Secured Party shall use reasonable efforts to notify Debtor of any such filings. The Debtor will pay all applicable filing fees and related expenses in connection with any such financing statements.

(b) The Debtor agrees to procure, pay for, affix to any and all documents and cancel any documentary tax stamps required by and in accordance with, applicable law and the Debtor will indemnify and hold the Secured Party harmless against any liability (including interest and penalties) in respect of such documentary stamp taxes.

Section 8. Special Provisions Concerning Remedies and Sale.

(a) In addition to any rights and remedies now or hereafter granted under applicable law and not by way of limitation of any such rights and remedies, during the existence of an Event of Default and, if prior to the Maturity Date, Acceleration, the Secured Party shall have all of the rights and remedies of a secured party under the NYUCC as enacted in any applicable jurisdiction in addition to the rights and remedies provided herein, in the Notes and in any other agreement executed in connection with the Notes whereby the Debtor has granted any Lien to the Secured Party. Without in any way limiting the foregoing, at any time when an Event of Default and, if prior to the Maturity Date, Acceleration shall exist upon the giving of notice to the Debtor of

Secured Party's intent to pursue any one or all of the following or any other remedies the Secured Party shall have the right, in the name of the Debtor or in the name of the Secured Party or otherwise:

(i) to ask for, demand, collect, receive, compound and give acquittance for the Receivables or any part thereof;

(ii) to extend the time of payment of, compromise or settle for cash, credit or otherwise, but only upon commercially reasonable terms and conditions, any of the Receivables;

(iii) to endorse the name of the Debtor on any checks, drafts or other orders or instruments for the payment of moneys payable to the Debtor which shall be issued in respect of any Receivable;

(iv) to file any claims, commence, maintain or discontinue any actions, suits or other proceedings deemed by the Secured Party necessary or advisable for the purpose of collecting or enforcing payment of any Receivable;

(v) to make test verifications of the Receivables or any portion thereof;

(vi) to notify any or all account debtors under any or all of the Receivables to make payment thereof directly to the Secured Party for the account of the Secured Party and to require the Debtor to forthwith give similar notice to the account debtors;

(vii) to require the Debtor forthwith to account for and transmit to the Secured Party in the same form as received all proceeds (other than physical property) of collection of Receivables received by the Debtor and, until so transmitted, to hold the same in trust for the Secured Party and not commingle such proceeds with any other funds of the Debtor;

(viii) to take possession of any or all of the Collateral and, for that purpose, to enter, with the aid and assistance of any Person or Persons and with or without legal process, any premises where the Collateral, or any part thereof, are, or may be, placed or assembled, and to remove any of such Collateral;

(ix) to execute any instrument and do all other things necessary and proper to protect and preserve and realize upon the Collateral and the other rights contemplated hereby;

(x) upon notice to such effect, to require the Debtor to deliver, at the Debtor's expense, any or all Collateral to the Secured Party at a place designated by the Secured Party;

(xi) without obligation to resort to other security, at any time and from time to time, to sell, re-sell, assign and deliver all or any of the Collateral, in one or more parcels at the same or different times, and all right, title and interest, claim and demand therein and right of redemption thereof, at public or private sale, for cash, upon credit or for future delivery, and at such price or prices and on such terms as the Secured Party may determine, with the amounts realized from any such sale to be applied to the Secured Obligations in the manner determined by the Secured Party;

(xii) to enforce (and shall have the exclusive right to enforce), at any time (without assuming any liability or obligation thereunder), against any licensee or sublicensee, all rights and remedies of Debtor in, to and under any one or more license agreements with respect to the Intellectual Property, and take or refrain from taking any action under any thereof, and Debtor hereby releases the Secured Party from, and agrees

to hold the Secured Party free and harmless from and against any claims arising out of, any action taken or omitted to be taken with respect to any such license agreement;

(xiii) in addition to the foregoing, in order to implement the assignment, sale or other disposal of any of the Intellectual Property pursuant to this Agreement, the Secured Party may, at any time, pursuant to the authority granted in the Power of Attorney described herein (such authority becoming effective on the occurrence or continuation as hereinabove provided of an Event of Default), execute and deliver on behalf of the applicable Debtor, one or more instruments of assignment of the Patents or Trademarks (or any application or registration thereof), in form suitable for filing, recording or registration in any country. Debtor agrees to pay when due all reasonable costs incurred in any such transfer of the Patents or Trademarks, including any taxes, fees and reasonable attorneys' fees, and all such costs shall be added to the Secured Obligations.

(b) In the event of any license, assignment, sale or other disposition of the Intellectual Property, or any of it, after the occurrence or continuation as hereinabove provided of an Event of Default, Debtor shall supply its know-how and expertise relating to the manufacture and sale of the products bearing or in connection with the Trademarks or Patents, and its customer lists and other records relating to the Trademarks or Patents and to the distribution of said products, to the Secured Party or its designee.

(c) The Secured Party shall not be obligated to do any of the acts hereinabove authorized, but in the event that the Secured Party elects to do any such act, the Secured Party shall not be responsible to the Debtor except for its gross negligence or willful misconduct.

(d) Such remedies may be exercised from time to time separately or in combination with respect to or all or any part of the Collateral and are in addition to and not in substitution for any other rights of the Secured Party, however created. The Secured Party may proceed by way of any action, suit or other proceeding available at law or in equity and no right, remedy or power of the Secured Party shall be exclusive of or dependent on any other. The Secured Party may exercise any of its rights, remedies or powers separately or in combination and at any time.

(e) The Secured Party shall not be bound to exercise any such right, remedy or power and the exercise of such right, remedy and power shall be without prejudice to the rights of the Secured Party in respect of the Secured Obligations including the right to claim for any deficiency. At any time when an Event of Default and, if prior to the Maturity Date, Acceleration shall exist, the Secured Party may take legal proceedings for the appointment of a receiver or receivers (to which the Secured Party shall be entitled as a matter of right) to take possession of the Collateral pending the sale thereof pursuant either to the powers of sale granted by this Agreement or to a judgment, order or decree made in any judicial proceeding for the foreclosure or involving the enforcement of this Agreement. If, after the exercise of any or all of such rights and remedies, any of the Secured Obligations shall remain unpaid, the Debtor shall remain liable for any deficiency. After the indefeasible payment in full of the Secured Obligations, any proceeds of the Collateral received or held by the Secured Party shall be turned over to the Debtor and the Collateral shall be reassigned to the Debtor by the Secured Party without recourse to the Secured Party and without any representations, warranties or agreements of any kind.

(f) Upon any sale of any of the Collateral, whether made under the power of sale hereby given or under judgment, order or decree in any judicial proceeding for the foreclosure or involving the enforcement of this Agreement:

(i) the Secured Party may, to the extent permitted by law, bid for and purchase the property being sold, and upon compliance with the terms of sale may hold, retain and possess and dispose of such property in its own absolute right without further accountability, and may, in paying the purchase money therefor, deliver any Notes or claims for interest thereon and any other instruments evidencing the Secured Obligations or agree to the satisfaction of all or a portion of the Secured Obligations in lieu of cash in payment of the amount which shall be payable thereon, and the Notes and such instruments, in case the amounts so payable thereon shall be less than the amount due thereon, shall be returned to the Secured Party after being appropriately stamped to show partial payment;

(ii) the Secured Party may make and deliver to the purchaser or purchasers a good and sufficient deed, bill of sale and instrument of assignment and transfer of the property sold;

(iii) the Secured Party is hereby irrevocably appointed the true and lawful attorney-in-fact of the Debtor in its name and stead, to make all necessary deeds, bills of sale and instruments of assignment and transfer of the property thus sold and for such other purposes as are necessary or desirable to effectuate the provisions (including, without limitation, this Section 8) of this Agreement, and for that purpose it may execute and deliver all necessary deeds, bills of sale and instruments of assignment and transfer, and may substitute one or more Persons with like power, the Debtor hereby ratifying and confirming all that its said attorney, or such substitute or substitutes, shall lawfully do by virtue hereof; but if so requested by the Secured Party or by any purchaser, the Debtor shall ratify and confirm any such sale or transfer by executing and delivering to the Secured Party or to such purchaser all property, deeds, bills of sale, instruments or assignment and transfer and releases as may be designated in any such request;

(iv) all right, title, interest, claim and demand whatsoever, either at law or in equity or otherwise, of the Debtor of, in and to the property so sold shall be divested; such sale shall be a perpetual bar both at law and in equity against the Debtor, its successors and assigns, and against any and all Persons claiming or who may claim the property sold or any part thereof from, through or under the Debtor, its successors or assigns;

(v) the receipt of the Secured Party or of the officer thereof making such sale shall be a sufficient discharge to the purchaser or purchasers at such sale for his or their purchase money, and such purchaser or purchasers, and his or their assigns or personal representatives, shall not, after paying such purchase money and receiving such receipt of the Secured Party or of such officer therefor, be obliged to see to the application of such purchase money or be in any way answerable for any loss, misapplication or nonapplication thereof; and

(vi) to the extent that it may lawfully do so, and subject to any legal requirement that the Secured Party act in a commercially reasonable manner, the Debtor agrees that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any appraisement, valuation, stay, extension or redemption laws, or any law permitting it to direct the order in which the Collateral or any part thereof shall be sold, now or at any time hereafter in force, which may delay, prevent or otherwise affect the performance or enforcement of this Agreement, the Notes or any other agreement executed in connection with the Notes whereby the Debtor has granted any Lien to the Secured Party, and the Debtor hereby expressly waives all benefit or advantage of any such laws and covenants that it will not hinder, delay or impede the execution of any power granted or delegated to the Secured Party in this Agreement, but will suffer and permit the execution of every such power as though no such laws were in force. In the event of any sale of Collateral pursuant to this Section, the Secured Party shall, at least 10 days before such sale, give the Debtor written, telecopied or telex notice of its intention to sell.

(g) Any receiver appointed by the Secured Party shall be vested with the rights and remedies which could be exercised by the Secured Party in respect of the Debtor or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any instrument or instruments supplemental thereto. The identity of the received, any replacement thereof and any remuneration thereof shall be within the sole and unfettered discretion of the Secured Party. Any receiver appointed by the Secured Party shall act as agent for the Secured Party for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below and with respect to its discharge), as agent for the Debtor or as agent for the Secured Party (but in all cases shall take direction from the Secured Party) as the Secured Party may determine in its sole and unfettered discretion. The Debtor agrees to ratify and confirm all actions of the receiver acting as agent for the Debtor, and to release and indemnify the receiver in respect of all such

actions. The Secured Party, in appointing or refraining from appointing any receiver, shall not incur liability to the receiver, the Debtor or otherwise and shall not be responsible for any misconduct or negligence of such receiver.

Section 9. Application of Moneys.

(a) Except as otherwise provided herein or in the Notes, all moneys which the Secured Party shall receive, in accordance with the provisions hereof, shall be applied (to the extent thereof) in the following manner: First, to the payment of all costs and expenses reasonably incurred in connection with the administration and enforcement of, or the preservation of any rights under, this Agreement or any of the reasonable expenses and disbursements of the Secured Party (including, without limitation, the reasonable fees and disbursements of its counsel and agents); Second, to the payment of all Secured Obligations arising out of the Notes in accordance with the terms of the Notes and, if not therein provided, in such order as the Secured Party may determine; and Third, to the payment of all other Secured Obligations in such order as the Secured Party may determine.

(b) If after applying any amounts which the Secured Party has received in respect of the Collateral any of the Secured Obligations remain unpaid, the Debtor shall continue to be liable for any deficiency, together with interest.

Section 10. Fees and Expenses, etc. Any and all reasonable fees, costs and expenses of whatever kind or nature, including but not limited to the reasonable attorneys' fees and legal expenses incurred by the Secured Party in connection with this Agreement, the filing or recording of any documents (including all taxes in connection therewith) in public offices, the payment or discharge of any taxes, counsel fees, maintenance fees, fees and other costs relating to the encumbrances or otherwise protecting, maintaining, preserving the Collateral, or in defending or prosecuting any actions or proceedings arising out of or related to the Collateral, shall be borne and paid by the Debtor on written demand by the Secured Party setting forth in reasonable detail the nature of such expenses and until so paid shall be added to the principal amount of the Secured Obligations and shall bear interest at the rate accruing thereon. In addition, the Debtor will pay, and indemnify and hold the Secured Party harmless from and against, any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the Collateral, including (without limitation) claims of patent or trademark infringement and any claim of unfair competition or anti-trust violation, other than liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements arising as a result of Secured Party's gross negligence or willful misconduct.

Section 11. Power of Attorney.

Concurrently with the execution and delivery hereof, the Debtor is executing and delivering to the Secured Party, in the form of Exhibit 2 hereto, three originals of a Power of Attorney for the implementation of the assignment, sale or other disposal of the Collateral, including the Trademarks and Patents pursuant to this Agreement and Debtor hereby releases the Secured Party from any claims, causes of action and demands at any time arising out of or with respect to any actions taken or omitted to be taken by the Secured Party under the powers of attorney granted herein, other than actions taken or omitted to be taken through the gross negligence or willful misconduct of the Secured Party.

Section 12. Miscellaneous.

(a) All notices, communications and distributions hereunder shall be in writing (including telecopied communication) and mailed by certified mail, telecopied, personally delivered or delivered by Federal Express or other reputable overnight courier service, if to the Debtor addressed to it at its address set forth opposite its signature below, if to the Secured Party, addressed to it at its address set forth opposite its signature below, or as to either party at such other address as shall be designated by such party in a written notice to such other party complying as to delivery with the terms of this Section. All such notices and other communications shall be effective (i) if mailed by certified mail, three days after the date of deposit thereof with the U.S. Postal Service, properly addressed with postage prepaid, (ii) if telecopied, upon receipt by the addressee, (iii) if personally delivered, upon

such delivery and (iv) if delivered by overnight courier service, on the business day following delivery thereof to such courier service in time for next-business-day delivery.

(b) No delay on the part of the Secured Party in exercising any of its rights, remedies, powers and privileges hereunder or partial or single exercise thereof, shall constitute a waiver thereof. None of the terms and conditions of this Agreement may be changed, waived, modified or varied in any manner

whatsoever unless in writing duly signed by the Debtor and the Secured Party. No notice to or demand on the Debtor in any case shall entitle the Debtor to any other or further notice or demand in similar or other circumstances or constitute a waiver of any of the rights of the Secured Party to any other or further action in any circumstances without notice or demand.

(c) The obligations of the Debtor hereunder shall remain in full force and effect without regard to, and shall not be impaired by, (i) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or the like of the Debtor; (ii) any exercise or non-exercise, or any waiver of, any right, remedy, power or privilege under or in respect of the Notes, this Agreement or any other agreement executed in connection with the Notes whereby the Debtor has granted any Lien to the Secured Party or any other agreement executed in connection with any of the foregoing, the Secured Obligations or any security for any of the Secured Obligations; or (iii) any amendment to or modification of any of the foregoing; whether or not the Debtor shall have notice or knowledge of any of the foregoing. The rights and remedies of the Secured Party herein provided are cumulative and not exclusive of any rights or remedies which the Secured Party would otherwise have.

(d) This Agreement shall be binding upon the Debtor and its successors and assigns and shall inure to the benefit of the Secured Party and its successors and assigns, except that the Debtor may not transfer or assign any of its obligations, rights or interest hereunder without the prior written consent of the Secured Party and any such purported assignment by the Debtor shall be void. All agreements, representations and warranties made herein shall survive the execution and delivery of this Agreement. (e) The descriptive headings of the several sections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

(f) Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(g) All rights, remedies and powers provided by this Agreement may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and the provisions hereof are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited to the extent necessary so that they will not render this Agreement invalid, unenforceable in whole or in part or not entitled to be recorded, registered or filed under the provisions of any applicable law.

(h) This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the laws of the State of New York except to the extent that matters of title, or creation, perfection and priority of the Security Interests created hereby, or procedural issues of foreclosure are required to be governed by the laws of the state in which the Collateral, or part thereof, is located.

(i) It is expressly agreed, anything herein, in the Notes or in any other agreement or instrument executed in connection with the Notes to the contrary notwithstanding, that the Debtor shall remain liable to perform all of the obligations, if any, assumed by it with respect to the Collateral and the Secured Party shall not have any obligations or liabilities with respect to any

Collateral by reason of or arising out of this Agreement, nor shall the Secured Party be required or obligated in any manner to perform or fulfill any of the obligations of the Debtor under or pursuant to any or in respect of any Collateral.

(j) This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which counterparts taken together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

EB2B COMMERCE, INC.

as Debtor

By: _____
Name:
Title:

_____
Robert Priddy, as Investor
Representative and Secured Party

Schedule 1

LOCATION OF CERTAIN INVENTORY AND EQUIPMENT COLLATERAL

Current place(s) of business of the Debtor:
- ----------

Corporate Headquarters:

665 Broadway, New York, New York 10012

29 West 38th Street, New York, New York 10018

Locations of Inventory and Equipment:
- ----------

Same as above

Currently Existing Lien Which Constitutes a Permitted Lien:
- ----------

Security interest of holders of 7% senior subordinated secured convertible notes issued on January 11, 2002, but subject to the subordination agreement related thereto.

Schedule 2

EXISTING FINANCING STATEMENTS

Secured Party	Date of Financing Statement	Number of Financing Statement	Location Filed	Description of Collateral	Amount of Indebtedness Secured
Cisco Systems Capital Corporation	12/4/00	232456	NYSOS		

- ---

OTHER NAMES UNDER WHICH DEBTOR HAS CONDUCTED BUSINESS

DynamicWeb Enterprises, Inc.

Seahawk Capital Corporation

Seahawk Oil International, Inc.

Netlan Inc.

Schedule 2-A

TRADEMARKS

Trademark	Status/Registration Date	Registration Number
EB2B	Pending	75/677470
EB2B Commerce	Pending	75/677469
EB2B.com	Pending	75/677471
DynamicWeb	Active	2380214
NETLAN	Active	1984055
Former Netlan N Logo Design	Active	1979722

Schedule 2-B

PATENTS

NONE

The definition of Intellectual Property shall also include the Domain Names listed below.

DOMAIN NAMES

Description	Domain Name
EB2B	Domain Name
EB2B Commerce	Domain Name
EB2B.com	Domain Name
EB2B Buy	Domain Name
DynamicWeb	Domain Name
Netlan.com	Domain Name
Icisolutions.com	Domain Name
Buyspots.com	Domain Name
Interactivecom.com	Domain Name
Softmail.com	Domain Name

Schedule B

LICENSES

Exhibit 1 to Security Agreement

SCHEDULE 1-A TO ASSIGNMENT FOR SECURITY

(TRADEMARKS)

WHEREAS, eB2B Commerce, Inc., a New Jersey corporation (herein referred to as "Assignor"), has adopted, used and is using the trademarks listed on Schedule 1-A annexed hereto as part hereof (the "Trademarks");

WHEREAS, Assignor is obligated to Robert Priddy as investor representative (referred to herein as the "Assignee") for the investors to whom Assignor has issued a series of 7% senior subordinated secured convertible notes in the aggregate principal amount of up to $1,350,000 and Assignor has entered into a Security Agreement dated the date hereof (the "Agreement") in favor of Assignee; and

WHEREAS, pursuant to the Agreement, Assignor has assigned to Assignee and granted to Assignee a security interest in, and mortgage on, all right, title and interest of Assignor in and to the Trademarks, together with the goodwill of the business symbolized by the Trademarks and the applications and registrations thereof, and all proceeds thereof, including, without limitation, any and all causes of action which may exist by reason of infringement thereof (the "Collateral"), to secure the payment, performance and observance of the Secured Obligations (as defined in the Agreement);

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, Assignor does hereby further assign unto Assignee and grant to Assignee a security interest in, and mortgage on, the Collateral to secure the prompt payment, performance and observance of the Secured Obligations.

Assignor does hereby further acknowledge and affirm that the rights and remedies of Assignee with respect to the assignment of, security interest in and mortgage on the Collateral made and granted hereby are more fully set forth in the Agreement, the terms and provisions of which are hereby incorporated herein by reference as if fully set forth herein.

Assignee's address is 665 Broadway, New York, New York 10012 .

IN WITNESS WHEREOF, Assignor has caused this Assignment to be duly executed by its officer thereunto duly authorized as of the day of _____, 2002.

EB2B COMMERCE, INC.

By: ---

Name: ---

Title: ---

SCHEDULE 1-A TO ASSIGNMENT FOR SECURITY

TRADEMARKS

Trademark	Status/Registration Date	Registration Number

EB2B	Pending	75/677470
EB2B Commerce	Pending	75/677469
EB2B.com	Pending	75/677471
DynamicWeb	Active	2380214
NETLAN	Active	1984055
Former Netlan N Logo Design	Active	1979722

Exhibit 2 to
Security Agreement

SPECIAL POWER OF ATTORNEY

STATE OF NEW YORK)
: ss.:
COUNTY OF NEW YORK)

KNOW ALL MEN BY THESE PRESENTS, THAT eB2B Commerce, Inc., a New Jersey corporation with its principal office at 665 Broadway, New York, New York 10012 (hereinafter called "Assignor") hereby appoints and constitutes Robert Priddy (referred to herein as the "Assignee") for the investors to whom Assignor has issued a series of 7% senior subordinated secured convertible notes in the aggregate principal amount of up to $1,350,000 its true and lawful attorney, with full power of substitution, and with full power and authority to perform the following acts on behalf of Assignor:

1. For the purpose of assigning, selling, licensing or otherwise disposing of all right, title and interest of Assignor in and to any letters patent of the United States or any other country or political subdivision thereof, and all registrations, recordings, reissues, continuations, continuations-in-part and extensions thereof, and all pending applications therefor, and for the purpose of the recording, registering and filing of, or accomplishing any other formality with respect to, the foregoing, to execute and deliver any and all agreements, documents, instruments of assignment or other papers necessary or advisable to effect such purpose;

2. For the purpose of assigning, selling, licensing or otherwise disposing of all right, title and interest of Assignor in and to any trademarks, trade names, trade styles and service marks, and all registrations, recordings, reissues, extensions and renewals thereof, and all pending applications therefor, and for the purpose of the recording, registering and filing of, or accomplishing any other formality with respect to, the foregoing, to execute and deliver any and all agreements, documents, instruments of assignment or other papers necessary or advisable to effect such purpose;

3. To execute any and all documents, statements, certificates or other papers necessary or advisable in order to obtain the purposes described above as Assignee may in its sole discretion determine.

This power of attorney is made pursuant to a Security Agreement, dated the date hereof, between Assignor and Assignee and takes effect solely for the purposes of Section 8 thereof and is subject to the conditions thereof and may not be revoked until the payment in full of all "Secured Obligations" as defined in such Security Agreement.

Dated: _____, 2002

[Corporate Seal] EB2B COMMERCE INC.

By: _____

Name: _____

Title: _____

STATE OF NEW YORK)
: ss.:
COUNTY OF NEW YORK)

On this _____ day of _____ 200_, before me personally appeared [_____], to me known, who, being by me duly sworn, did depose and say that he resides at _____ and that he is _____ of eB2B Commerce, Inc., the New Jersey corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was affixed pursuant to authority of the Board of Directors of said corporation, and that he signed his name thereto pursuant to such authority.

_____
Notary Public

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of eB2B Commerce, Inc. (the "Company") on Form 10-KSB for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard S. Cohan, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard S. Cohan

Richard S. Cohan
Chief Executive Officer and
President (Principal Executive and
Financial Officer)

Dated: April 15, 2003

A signed original of this written statement required by Section 906 has been provided to eB2B Commerce, Inc. and will be retained by eB2B Commerce, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.