U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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# FORM 10-QSB

Quarterly Report under Section 13 or 15 (d)
of the Securities and Exchange Act of 1934

For quarterly period ended December 31, 1997

Commission file number 10039

DYNAMICWEB ENTERPRISES, INC.
(Exact name of registrant as specified in this charter)

| | |
|---|---|
| New Jersey | 22-2267658 |
| (State or other Jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

271 Route 46 West, Building F
Suite 209, Fairfield, New Jersey 07004
(Address of Principal Executive Offices)

(973) 244-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES [ X ] NO [ ]

As of December 31, 1997, there were 2,141,370 shares of Common stock, $0.0001 par value, of the registrant outstanding.

## PART I

## FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

Condensed Consolidated Balance Sheets as at December 31, 1997 (unaudited) and September 30, 1997 and Pro Forma Balance Sheet (unaudited) as at December 31, 1997.

Condensed Consolidated Statements of Operations for the three months ended December 31, 1997 and 1996 (unaudited).

Condensed Consolidated Statement of Cash Flows for the three months ended December 31, 1997 and 1996 (unaudited).

Notes to Condensed Financial Statements

DYNAMICWEB ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED
PRO FORMA BALANCE SHEETS
(Unaudited)

<TABLE>

<CAPTION>

| <S> | December 31, 1997 Pro Forma (Unaudited) (Note D) <C> | December 31, 1997 (Unaudited) <C> | September 30, 1997 <C> |
|---|---|---|---|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $ 2,052,862 | $ 63,818 | $ 188,270 |
| Accounts receivable, less allowance for doubtful accounts | 82,736 | 82,736 | 100,425 |
| Prepaid expenses and other current assets | 19,170 | 19,170 | 20,738 |
| Total Current Assets | 2,154,768 | 165,724 | 309,433 |
| Property and equipment, less depreciation | 280,299 | 280,299 | 284,512 |
| Patents and trademarks, less accumulated amortization | 26,160 | 26,160 | 21,808 |
| Customer list, less accumulated amortization | 78,333 | 78,333 | 83,333 |
| Software development cost, less accumulated amortization | 45,993 | 45,993 | 0 |
| Deferred financing fees, less accumulated amortization | | | 51,373 |
| Deferred registration costs | | 124,129 | 128,169 |
| Other assets | 9,088 | 9,088 | 9,088 |
| Total | $ 2,594,641 | $ 729,726 | $ 887,716 |
| | | | |
| LIABILITIES AND CAPITAL DEFICIENCY | | | |
| Current Liabilities: | | | |
| Accounts payable | $ 311,939 | $ 311,939 | $ 182,340 |
| Accrued expenses | 181,586 | 233,812 | 165,941 |
| Current maturities of long-term debt | 7,720 | 7,720 | 7,925 |
| Loan payable - banks | | 95,996 | 24,049 |
| Loans from stockholders | | 207,163 | 117,163 |
| Deferred revenue | 16,910 | 16,910 | 15,065 |
| Subordinated loans payable - interim financing, less unamortized debt discount $259,127 at September 30, 1997 | | 1,000,000 | 840,873 |
| Total current liabilities | 518,155 | 1,973,540 | 1,353,356 |
| Long term debt, less current liabilities | 184,191 | 184,191 | 185,811 |
| Total liabilities | 702,346 | 2,157,731 | 1,539,167 |
| Commitments, contingencies and other matters | | | |
| Capital Deficiency | | | |
| Common stock, $.0001 par value, 50,000,000 shares authorized; 2,141,370 shares issued and outstanding at December 31, 1997 and September 30, 1997, and 2,874,704 shares outstanding pro forma | 287 | 214 | 214 |
| Additional paid-in capital | 10,457,380 | 7,137,153 | 3,530,324 |
| Unearned portion of compensatory stock options | (175,250) | (175,250) | (204,000) |
| Accumulated deficit | (4,383,293) | (4,383,293) | (3,577,989) |
| Total | 5,899,124 | 2,578,824 | (251,451) |
| Less treasury stock, at cost 721,257 shares at December 31, 1997 and September 30, 1997 | (4,006,641) | (4,006,829) | (400,000) |
| Total Capital Deficiency | 1,892,295 | (1,428,005) | (651,451) |
| Total liabilities and Capital Deficiency | $ 2,594,641 | $ 729,726 | $ 887,716 |

</TABLE>

The accompanying notes are an integral part of these financial statements.

DYNAMICWEB ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

| | Three Months Ended December 31, 1997 | 1996* |
|---|---|---|
| Net sales: | | |
| Transaction processing | $ 93,751 | $ 28,766 |
| Professional services | 55,804 | 48,512 |
| Other - systems | 17,097 | 17,619 |
| Total | 166,652 | 94,897 |

| | | |
|---|---|---|
| Cost of sales: | | |
| Transaction processing | 67,661 | 20,627 |
| Professional services | 28,821 | 4,244 |
| Other - systems | 9,222 | 13,343 |
| Total | 105,704 | 38,214 |
| Gross profit | 60,948 | 56,683 |
| Expenses: | | |
| Marketing and selling | 141,456 | 96,323 |
| General and administrative | 318,964 | 186,994 |
| Research and development | 61,783 | 27,225 |
| Total | 522,203 | 310,542 |
| Operating (loss) | (461,255) | (253,859) |
| Purchased research and development | 0 | (738,710) |
| Interest expense (including $310,500 of amortization of deferred financing fees and debt discount for 1997) | (344,706) | (4,045) |
| Interest income | 657 | 1,758 |
| Net (loss) | $ (805,304) | $ (994,856) |
| Basic net (loss) per common share | $ (0.43) | $ (0.55) |
| Weighted average number of shares outstanding | 1,875,485 | 1,812,825 |

* Reclassified to conform to current period presentation.

The accompanying notes are an integral part of these financial statements.

DYNAMICWEB ENTERPRISES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<TABLE>
<CAPTION>

| | Three Months Ended December 31, 1997 | 1996 |
|---|---|---|
| <S> | <C> | <C> |
| Cash flows from operating activities: | | |
| Net (loss) | $(805,304) | $(994,856) |
| Adjustments to reconcile net (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 16,608 | 10,251 |
| Purchased research and development | | 738,710 |
| Stock options issued for compensation | 28,750 | |
| Amortization of debt discount and deferred financing fees | 310,500 | |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | 17,689 | 21,664 |
| (Increase) decrease in prepaid expenses and other current assets | 1,568 | (2,539) |
| Increase in accounts payable | 129,599 | 28,931 |
| Increase in accrued expenses | 67,871 | (9,249) |
| Increase in deferred revenue | 1,845 | 4,313 |
| Net cash (used in) operating activities | $(230,874) | $(202,775) |
| Cash flows from financing activities: | | |
| Acquisition of property and equipment | (3,990) | (49,256) |
| Acquisition of patents and trademarks | (5,318) | |
| Increase in software development cost | (48,432) | |
| Cash acquired upon acquisition | - | 15,235 |
| Net cash used in investing activities | (57,740) | (34,021) |

| | | |
|---|---|---|
| Cash flows from financing activities: | | |
| Payment of long-term debt | (1,825) | (2,707) |
| Proceeds from issuance of stock | - | 250,000 |
| Proceeds from loans - banks | 71,947 | 4,750 |
| Loans from stockholders/officers | 90,000 | - |
| Payment of stockholders/officers loans | | |
| Refund of deferred registration costs | 4,040 | - |
| Net cash provided by financing activities | 164,162 | 252,043 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (124,452) | 15,247 |
| Cash and cash equivalents, beginning of period | 188,270 | 174,403 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 63,818 | $ 189,650 |

Supplemental disclosure of non-cash investing and financing activities:
On December 23, 1997, certain of the Company's stockholders contributed 654,597 shares of the Company common stock in exchange for warrants to purchase 125,000 shares of the Company's stock. The Company valued the 654,597 shares at market value of $3,606,829

</TABLE>

The accompanying notes are an integral part of these financial statements.

DYNAMICWEB ENTERPRISES, INC. and SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

(NOTE A) -- Basis of Presentation and the Company:

Basis of presentation:

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles or interim financial information (and with the instructions to Form 10-QSB and Article 3 of Regulations S-B). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results of the three-month period ended December 31, 1997 are not necessarily indicative of the results that may be expected for the year ending September 30, 1998.

The balance sheet at September 30, 1997 has been derived from the audited financial statements at the date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the audited financial statements and footnotes thereto included in the annual report on Form 10-KSB.

The accompanying financial statements include the accounts of DynamicWeb Enterprises, Inc. ("DWE") and its wholly owned subsidiaries, Megascore, Inc., DynamicWeb Transactions Systems, Inc. ("DWTS") and Software Associates, from the date of its acquisition (November 30, 1996) (collectively the "Company"). All significant intercompany balances and transactions have been eliminated.

The Company:

DWE is in the business of facilitating electronic commerce transactions between business entities, developing, marketing and supporting software products and other services that enable business entities to engage in electronic commerce utilizing the Internet and traditional Electronic Data Interchange ("EDI"). DWE offers electronic commerce solutions in EDI and Internet-based transactions processing.

Megascore, Inc. is a full-service systems integrator specializing in distribution, accounting and point-of-sale computer software consulting services for suppliers and retailers.

Software Associates, Inc. is a service bureau engaged in the business of helping companies realize the benefits of expanding their data processing and electronic communications infrastructures through the use of EDI.

(NOTE B) -- Summary of Significant Accounting Policies:

[1] Basic loss per share of common stock:

The Company adopted Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"). Basic loss per share of common stock is based on the weighted average number of shares outstanding. Contingent shares issuable in connection with the acquisition of Software Associates, Inc. are excluded from the weighted average shares outstanding. The adoption of SFAS No. 128, which requires a retroactive adjustment did not have a material effect on the Company's financial statement.

[2] Software development costs:

Costs relating to the conceptual formulation and design of software are expensed as research and development. Costs incurred subsequent to establishment of technological feasibility to produce the finished product are generally capitalized. Technological feasibility was established when a product design and a working model were completed. Capitalized software costs are amortized by the straight-line method over a maximum of five years or the expected life of the product whichever is less.

(NOTE C) -- Contribution of Stock By Certain Shareholders:

On December 23, 1997, certain of the Company's existing shareholders, who in the aggregate held approximately 79% of the issued and outstanding common stock of the Company, contributed 40% of their common stock to the capital of the Company in exchange for Warrants to purchase an aggregate of 125,000 shares of common stock (the "Contribution of Stock"). The total number of shares contributed was 654,597 shares, representing approximately 32% of the issued and outstanding common stock at the time of contribution. The effect of the Contribution of Stock transaction was to reduce the outstanding number of shares of common stock from 2,074,710 to 1,420,113. The Company valued such transactions, based upon the market value of the Company stock which aggregated $3,606,829.

(NOTE D) -- Public Offering:

On February 6, 1998 the Company completed a public offering of 733,334 shares of common stocks at $6.00 a share. The Company received net proceeds of approximately $3,300,000. The balance sheet gives a pro forma basis to reflect the completion of the offering.

(NOTE E) -- Reverse Stock Split:

At the Company's Annual Meeting held on June 12, 1997, the Company's shareholders approved an Amendment and Restatement of the Company's Certificate of Incorporation (the "Amendment and Restatement") which, among other things, effected a 0.2608491 - for-one reverse stock split of the Company's common stock (the "Reverse Stock Split"). The Amendment and Restatement was filed with the New Jersey Secretary of State and took effect on January 9, 1998. Pursuant to the Reverse Stock Split, each share of Common stock outstanding on the effective date was converted into 0.2608491 of one share, except that no fractional shares were issued and shareholders who would otherwise receive a fractional share as a result of the Reverse Stock Split will receive cash in lieu thereof. The financial statements have been retroactively adjusted for this transaction.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the financial statements included in this report and in conjunction with the description of the Company's business included in the Company's Form 10-KSB for the year ended September 30, 1997. It is intended to assist the reader in understanding and evaluating the financial position of the Company.

This discussion contains, in addition to historical information, forward looking statements that involve risks and uncertainty. The Company's actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed in the Company's Form 10-KSB for the year ended September 30, 1997.

The financial statements included in this report are consolidated for the Company and its three subsidiaries, DynamicWeb Transaction Services, Inc. (DWTS), Megascore, Inc. (Megascore) and Software Associates, Inc. (Software Associates).

### Financial Condition

As of December 31, 1997, the Company had cash of approximately $63,000 and total current assets of approximately $166,000.

The Company had a net loss of approximately $805,000 for the three months ended December 31, 1997 and negative operating cash flow of approximately $231,000. The Company's negative cash flow for the three months was funded by cash from short-term officer's loans of approximately $90,000, credit lines of approximately $73,000, and previously funded primarily through a private placement of units consisting of $500,000 aggregate principal amount of subordinated unsecured promissory notes and 66,660 shares of common stock.

On December 31, 1997, the capital resources available to the Company were not adequate to finance the Company's activities for the full year ended September 30, 1998. On February 6, 1998, however, the Company completed a public offering of 733,334 shares of common stock at $6.00 per share that provided net proceeds of approximately $3,300,000 which will be sufficient to meet the Company's short-term working capital requirements. The Company will require substantial additional financing during the 1998 calendar year to continue its operations. There is no assurance that the Company will receive additional financing.

### Results of Operations

Beginning with this Report, the format of the Company's financial reports has been changed to better reflect its goals and objectives as an electronic commerce company. As such, revenues will be presented for the Company's two principal segments: transaction processing and professional services. Similarly, expenses for marketing and sales have been separated from expenses of general and administration to more accurately reflect the Company's increased focus on marketing and sales. Management believes that continuous investments in marketing and sales are necessary to grow the Company's business, and that a similar commitment to research and development will allow the Company's technology to achieve and to maintain a value added proposition in the marketplace.

The Company recognized net sales of approximately $166,000 for the three months ended December 31, 1997, compared to approximately $94,000 for the same period in 1996, an increase of approximately $72,000, or 76%. The increase in sales was attributable to increased sales of the Company's new EDI/Internet products and services, particularly transaction processing services offered through the Company's EDI service bureau. The increase also includes approximately $9,000 in revenues from the sale of EDIxchange to Southern New England Telecommunications ("SNET"). SNET selected EDIxchange through an open and competitive process involving products from other leaders in the electronic commerce industry.

Sales from transaction processing and its ancillary products and services were approximately $93,000 in the three months ended December 31, 1997, as compared to approximately $28,000 in the same period in 1996, an increase of approximately $65,000 or 232%. Approximately $39,000 of the increase is attributable to an increase in sales of the Company's EDI/Internet products and services including new transaction processing customers. The remainder of the increase reflects sales for transaction processing associated with Software Associates' customers. Software Associates was acquired by the Company on November 30, 1996.

Sales from professional services were approximately $55,000 for the three months ended December 31, 1997 as compared to approximately $48,000 for the same period in 1996, an increase of approximately $7,000 or 15%. The small increase is attributable to the shift in focus of the Company's core business from its system integration services to electronic commerce services. For most of calendar year 1997 the Company focused on generating sales of transaction processing rather than sales of system integration services. The Company intends to replace system integration services with electronic commerce professional services.

Sales from other products were approximately $17,000 for the three months ended December 31, 1997 as compared to $17,600 for the same period in 1996. The decrease is attributable to the internal de-emphasis of system sales that were ancillary to the Company's system integration services to electronic commerce services.

Cost of transaction processing was approximately $67,000 for the three months ended cost of transaction processing of approximately December 31, 1997, or a gross profit of 28%. This compares to $20,000 or 27% for the same period in 1996. The increase in profitability is attributable to sales of high margin customized EDI software that are integrated into transaction processing through the EDI service bureau. However, the Company's gross profit margin was negatively affected by higher monthly fixed costs associated with a re-engineered, scaleable network infrastructure, consisting of new computer and communications hardware and software.

Cost of professional service revenues provided by the Company was approximately $28,000 for the three months ended December 31, 1997 or a gross profit of 48%. This compares to $4,000 or 92% for the same period in 1996. The decrease is attributable to a reallocation of expenses from research and development to cost of professional services to more accurately reflect the cost of providing system integration services.

Cost of other products was approximately $9,000 for the three months ended December 31, 1997, or a gross profit of 46%, as compared to approximately $13,000, or a gross profit of 16% in 1997. This increase is attributable to the transition from sales of low margin computer products ancillary to system integration services and a re-deployment of resources.

Quarterly marketing and sales expenses increased approximately $45,000 or 47% from approximately $96,000 for the three months ended December 31, 1996 to approximately $141,000 in the same period in 1997. The increase is attributable to salaries for new hires and the costs of attendance at trade shows associated with the Company's efforts to market its EDI/Internet services. The increase is also a result of an outreach program directed at the electronic commerce community which management expects to provide the Company with an electronic commerce network to support all aspects of the Company's operations. There is no assurance that the outreach program will be successful.

General and administrative expenses increased by approximately $132,000 or 70%, from approximately $187,000 for the three months ended December 31, 1996 to approximately $319,000 for the same period in 1997. The increase is attributable to new hiring of employees, professional services, the cost of benefits and administrative support for new hires in other departments, the cost of insurance coverage for the Company's directors, the addition of a senior executive, and compensation expense for the 1997 Employee Stock Ownership Plan.

Research and development expenses increased by approximately $34,000 or 126%, for the three months, from approximately $27,000 for the three months ending December 31, 1996 to approximately $61,000 in 1997. The increase is attributable to expanded development of existing services, and ongoing development of new services.

Purchased research and development of $738,710 for the three months ended December 31, 1996 was a result of the allocation of the purchase price for the acquisition of Software Associates, Inc. which occurred on November 30, 1996.

Interest expense increased from approximately $4,000 for the three months ended December 31, 1996 to approximately $340,000 for the same period in 1997. The increase is attributable to amortization of debt discount and deferred financing fees of $310,500 and related interest on interim financings of $22,000.

## PART II

## OTHER INFORMATION

Item 1. Legal Proceedings
Not applicable

Item 2. Changes in Securities
Not applicable

Item 3. Defaults Upon Senior Securities
Not applicable

Item 4. Submission of Matters to a Vote of Securities Holders
Not applicable

Item 5. Other Information

(a) Contribution of Stock By Certain Shareholders

On December 23, 1997, certain of the Company's existing shareholders, who in the aggregate held approximately 79% of the issued and outstanding common stock of the Company, contributed 40% of their Common stock to the capital of the Company in exchange for Warrants to purchase an aggregate of 125,000 shares of common stock (the "Contribution of Stock"). The total number of shares contributed was 654,597 shares, representing approximately 32% of the issued and outstanding Common stock at the time of contribution. The effect of the contribution of Stock transaction was to reduce the outstanding number of shares of common stock from 2,074,710 to

1,420,113.

(b) Reverse Stock Split

At the Company's Annual Meeting held on June 12, 1997, the Company's shareholders approved an Amendment and Restatement of the Company's Certificate of Incorporation (the "Amendment and Restatement") which, among other things, effected a 0.2608491-for-one reverse stock split of the Company's common stock (the "Reverse Stock Split"). The Amendment and Restatement was filed with the New Jersey Secretary of State and took effect on January 9, 1998. Pursuant to the Reverse Stock Split, each share of Common stock outstanding on the effective date was converted into 0.2608491 of one share, except that no fractional shares were issued and shareholders who would otherwise receive a fractional share as a result of the Reverse Stock Split will receive cash n lieu thereof.

(c) Public Offering Completed

On February 6, 1998 the Company completed a public offering of 733,334 shares of common stock at $6.00 a share. The Company received net proceeds of approximately $3,300,000.

Item 6. Exhibits and Reports on Form 8 -K

(a) Exhibits

27 Financial Data Schedule

(b) Reports on Form 8-K

Not applicable

SIGNATURES

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

DynamicWeb Enterprises, Inc.
(Registrant)

February 17, 1998

By: /s/ Steve Vanechanos, Jr.
Chief Executive Officer

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THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE
CONSOLIDATION
STATEMENTS OF OPERATIONS AND CONSOLIDATED BALANCE SHEETS OF
DYNAMICWEB
ENTERPRISES, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE
TO SUCH
FINANCIAL STATEMENTS.
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