FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **2004-03-30** | Period of Report: **2003-12-31**
SEC Accession No. 0001144204-04-003970

(HTML Version on secdatabase.com)

FILER

LEVEL 8 SYSTEMS INC

CIK:**945384**| IRS No.: **112920559** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-26392** | Film No.: **04702381**
SIC: **7371** Computer programming services

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

|**X**| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003.

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from _____ to _____

Commission File Number: 0-26392

LEVEL 8 SYSTEMS, INC.
(Exact name of registrant as specified in its character)

Delaware	**11-2920559**
(State of incorporation)	(*I.R.S. Employer Identification No.*)

214 Carnegie Center, Suite 303, Princeton, New Jersey 08540
(Address of principal executive offices, including Zip Code)

(609) 987-9001
(*Registrant's telephone number, including area code)*

_____

Securities registered pursuant to Section 12(b) of the Act: **NONE**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $.001 par value**

_____

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 |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant' s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |**X**|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes |_| No |**X**|

Aggregate market value of the outstanding voting stock held by non-affiliates of the Registrant as of June 30, 2003 was approximately $6,403,409.

There were 32,426,037 shares of Common Stock outstanding as of February 29, 2004.

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LEVEL 8 SYSTEMS, INC.

Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2003

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PART I

Item 1. Business

Overview

Level 8 Systems, Inc. (the "Company" or "Level 8") provides next generation application integration products and services that are based on open technology standards, and are licensed to a wide range of customers. Level 8 helps organizations leverage their extensive system and business process investments, increase operational efficiencies, reduce costs and strengthen valued customer relationships by uniting disparate applications, systems, information and business processes.

The Company' s focus is on the emerging desktop integration market with our Cicero® product. Cicero is a business integration software product that maximizes end-user productivity, streamlines business operations and integrates systems and applications that would not otherwise work together. Cicero offers a proven, innovative departure from traditional, costly and labor-intensive approaches to application integration that enables clients to transform applications, business processes and human expertise into a seamless, cost effective business solution that provides a cohesive, task-oriented and role-centric interface that works the way people think.

By using Cicero, companies can decrease their customer management costs, increase their customer service level and more efficiently cross-sell the full range of their products and services resulting in an overall increase in return on their information technology investments. In addition, Cicero enables organizations to reduce the business risks inherent in replacement of mission-critical applications and extend the productive life and functional reach of their application portfolio.

Cicero is engineered to harness diverse business applications and shape them to more effectively serve the people who use them. Cicero provides an intuitive environment, which simplifies the integration of complex multi-platform applications. Cicero provides a unique approach that allows companies to organize components of their existing applications to better align them with tasks and operational processes. Cicero streamlines all activities by providing a single, seamless user interface for simple access to all systems associated with a task. Cicero enables automatic information sharing among line-of-business applications and tools. Cicero is ideal for deployment in contact centers where its highly productive, task-oriented user interface promotes user efficiency.

Until October 2002, we also offered products under our Geneva brand name to provide organizations with systems integration. Our systems integration products included Geneva Enterprise Integrator and Geneva Business Process Automator. These products were sold to EM Software Solutions Inc. in October 2002.

Level 8 Systems, Inc. was incorporated in New York in 1988, and re-incorporated in Delaware in 1999. Our principal executive offices are located to 214 Carnegie Center, Suite 303, Princeton, New Jersey 08540 and our telephone number is (609) 987-9001. Our web site is located at www.level8.com.

In the following narrative, all dollar amounts are in thousands.

Strategic Realignment

Historically, we have been a global provider of software solutions to help companies integrate new and existing applications as well as extend those applications to the Internet. This market segment is commonly known as “Enterprise Application Integration” or “EAI.” Historically, EAI solutions work directly at the server or back-office level allowing disparate applications to communicate with each other.

Until early 2001, we focused primarily on the development, sale and support of EAI solutions through our Geneva product suite. After extensive strategic consultation with outside advisors and an internal analysis of our products and services, we recognized that a new market opportunity had emerged. This opportunity was represented by the increasing need to integrate applications that are physically resident on different hardware platforms, a typical situation in larger companies. In most cases, companies with large customer bases utilize numerous different, or "disparate," applications that were not designed to effectively communicate and pass information. With Cicero, which integrates the functionality of these disparate applications at the desktop, we believe that we have found a novel solution to this disparate application problem. We believe that our existing experience in and understanding of the EAI marketplace coupled with the unique Cicero solution, which approaches traditional EAI needs in a more effective manner, position us to be a competitive provider of business integration solutions to the financial services industry and other industries with large deployed call centers.

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We originally licensed the Cicero technology and related patents on a worldwide basis from Merrill Lynch, Pierce, Fenner & Smith Incorporated in August of 2000 under a license agreement containing standard provisions and a two-year exclusivity period. On January 3, 2002, the license agreement was amended to extend our exclusive worldwide marketing, sales and development rights to Cicero in perpetuity

(subject to Merrill Lynch' s rights to terminate in the event of bankruptcy or a change in control of Level 8) and to grant ownership rights in the Cicero trademark. Merrill Lynch indemnifies us with regard to the rights granted to us by them. Consideration for the original Cicero license consisted of 1,000,000 shares of our common stock. In exchange for the amendment, we granted an additional 250,000 shares of common stock to MLBC, Inc., a Merrill Lynch affiliate and entered into a royalty sharing agreement. Under the royalty sharing agreement, we pay a royalty of 3% of the sales price for each sale of Cicero or related maintenance services. The royalties over the life of the agreement are not payable in excess of $20,000.

In connection with executing our strategic realignment and focusing on Cicero, we have restructured our business, reduced our number of employees and, in the fourth quarter of 2002, sold the remaining assets associated with Geneva Enterprise Integrator and Geneva Business Process Automator. In April 2001, management reassessed the methodology by which the Company would make operating decisions and allocate resources. Operating decisions and performance assessments were based on the following reportable segments: (1) Desktop Integration (Cicero), (2) System Integration (Geneva Enterprise Integrator and Geneva Business Process Automator) and (3) Messaging and Application Engineering (Geneva Integration Broker, Geneva Message Queuing, Geneva XIPC and Geneva AppBuilder). We have sold most of the assets comprising the Messaging and Application Engineering Products segment and all of the assets in the Systems Integration segment. The Company has recognized the Systems Integration segment as a discontinued business and, accordingly, has reclassified those assets and liabilities on the accompanying balance sheet for 2002 and segregated the results of operations under gain or loss from a discontinued business on the accompanying statement of operations. As such, the Systems Integration segment has been eliminated. Geneva Integration Broker is the only current software product represented in the Messaging and Application Engineering segment.

The Company' s future revenues are entirely dependent on acceptance of a newly developed and marketed product, Cicero, which has limited success in commercial markets to date. The Company has experienced negative cash flows from operations for the past three years. At December 31, 2003, the Company had a working capital deficiency of approximately $6,555. Accordingly, there is substantial doubt that the Company can continue as a going concern. In order to address these issues and to obtain adequate financing for the Company' s operations for the next twelve months, the Company is actively promoting and expanding its product line and continues to negotiate with significant customers that have begun or finalized the "proof of concept" stage with the Cicero technology. The Company is experiencing difficulty increasing sales revenue largely because of the inimitable nature of the product as well as customer concerns about the financial viability of the Company. The Company is attempting to solve the former problem by improving the market' s knowledge and understanding of Cicero through increased marketing and leveraging its limited number of reference accounts. Additionally, the Company is seeking additional equity capital or other strategic transactions in the near term to provide additional liquidity.

The Company has closed a strategic acquisition of an encryption technology asset in January 2004 and a private placement of its common stock wherein it has raised approximately $1,247. The Company expects that increased revenues will reduce its operating losses in future periods, however, there can be no assurance that management will be successful in executing as anticipated or in a timely manner. If these strategies are unsuccessful, the Company may have to pursue other means of financing that may not be on terms favorable to the Company or its stockholders. If the Company is unable to increase cash flow or obtain financing, it may not be able to generate enough capital to fund operations for the next twelve months. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements presented herein do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should Level 8 be unable to continue as a going concern.

Market Opportunity

Desktop Integration Segment Products - Cicero

Our initial target markets for Cicero are the customer contact centers of large consumer oriented businesses, such as in the financial services, insurance and telecommunications industries. Large scale customer contact centers are characterized by large numbers of customer service agents that process phone calls, faxes, e-mails and other incoming customer inquiries and requests. Our goal is to greatly increase the efficiency of customer service agents in our target markets, thereby lowering operating costs and increasing customer retention and customer satisfaction.

This increased efficiency is attained in a non-invasive manner, allowing companies to continue using their existing applications in a more productive manner.

Generally, managers of customer contact centers are under pressure to provide increased customer service at the lowest possible cost while dealing with high employee turnover and training costs. Some of the primary challenges faced by customer contact centers include:

- Customer Service. Currently, most customer contact centers require multiple transfers to different agents to deal with diverse customer service issues. A one call, one contact system enhances customer service by avoiding these multiple transfers. Ideally, the customer service agent provides the call-in customer with multi-channel customer interfaces with timely access to all information that the customer needs. Increasing customer service and customer intimacy is one of the primary metrics on which contact centers are evaluated by management.

- Contact Center Staffing. The contact center industry is characterized by high training costs, operational complexity, continuous turnover and increasing costs per call. These difficulties stem from increased customer expectations, the ever-increasing complexity and diversity of the business applications used by customer service agents, and pressure to decrease training time and increase the return on investment in customer service agents.

- Industry Consolidation. Many industries in our target market, including the financial services industry, are in a constant state of consolidation. When companies consolidate, the customer contact centers are generally merged to lower overall costs and to reduce redundancies. This consolidation generally leads to re-training and the use of multiple applications handling similar functions that can be quite difficult to integrate successfully.

Our Solution

We have been a provider of software that integrates an enterprise' s applications at the server level so that disparate applications can communicate with each other. Based on our experience in the EAI industry, we determined that a compelling product would be one that integrates disparate applications at a visual level in addition to at the server level. As a result, we proceeded to procure an exclusive license to develop and market Cicero. Cicero was developed internally by Merrill Lynch to increase the efficiency of 30,000 employees that have daily contact with Merrill Lynch customers. When coupled with our existing technologies or with solutions from other EAI vendors, Cicero becomes the comprehensive business solution and provides our customers with a front-to-back integrated system that appears as a single application to the end-user.

Cicero is a software product that allows companies to integrate their existing applications into a seamless integrated desktop. Cicero subordinates and controls most Windows-based applications and provides a seamless environment with a consistent look and feel. The end-user can navigate any number of applications whether local, client-server, mainframe legacy or web-browser in a consistent and intuitive way that is completely customizable by their firm.

The Cicero solution provides the following key features:

- Integrated End-User Environment. The end-user can use all of the applications necessary for his or her job function from a single environment with a consistent look and feel. Cicero integrates the execution and functionality of a variety of custom or packaged Windows-based applications. If a software product is designed to provide output into a Windows environment, Cicero can subordinate its presentation and control it through the Cicero environment. The Cicero desktop is constructed at run-time, so selected applications and user interface components are dynamically created and initialized. This makes the desktop environment very flexible and easily adapted and maintained as business conditions change.

- Information Center −The Information Center is a customizable hub of critical information that facilitates the effective execution of processes and minimizes the need to enter frequently accessed information repeatedly. The Cicero Information Center provides a configurable information hub to enable end users to interact with selected applications on a continuous basis. The information center

is frequently used to support incoming message alerts, scrolling headlines, key operational statistics, interaction with Integrated Voice Response systems, and real-time video. Any information that is time-sensitive or actionable can be displayed side-by-side with the currently selected application page and information can be readily exchanged between the Information Center and other applications.

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- Context Sharing − Cicero' s unique, patented architecture enables just the right information in any workstation application to be shared with the other applications that need it. Cicero' s context-sharing Application Bus largely eliminates the need for re-keying customer data, simplifies customer information updates, and reduces errors and re-work. Context is visually integrated into the Cicero desktop through the Information Center, enabling more efficient customer service.

- Advanced Integration Architecture − Cicero is a sophisticated application integration platform that subordinates and controls and non-invasively integrates any applications with a "footprint" in the Windows environment. Cicero' s publish and subscribe bus architecture provides for efficient inter-application communication. Its event management capabilities extend the usefulness and lifespan of legacy architectures and provide a common architecture for events across all platforms. Cicero also supports open platform architecture for communication and interoperability, native scripting languages and XML, and facilities to enable single sign-on solutions while respecting security standards and directory services.

- Management Tools. Comprehensive tools are built into the system for version management, automatic component updates and user preference configuration. Remote control and diagnostic tools are integrated to provide off-site help desk and troubleshooting personnel with access to assist them in their support duties.

Deployment of the Cicero solution can provide our customers with the following key benefits:

- Lower Average Cost Per Call and Average Call Time. Cicero increases the efficiency of the customer service agent by placing all productivity applications within a few mouse clicks and consolidating all standard applications into a single integrated desktop. Cost per call is lowered because the customer service agent is more productive in moving between disparate applications and is able to handle different requests without having to transfer the customer to another customer service agent.

- Reduce Staff Cost. Cicero reduces staff cost in two ways. First, by increasing the efficiency of each customer service agent, a contact center can handle the same volume of customer service requests with a smaller staff. Secondly, because Cicero simplifies the use of all contact center applications, training costs and time can be reduced, placing newly hired staff into productive positions faster than other contract center applications.

- Increase Cross-Selling Efficiency. The consolidation of all customer data and customer specific applications can increase the efficiency of cross selling of products and services. For instance, a Cicero enabled contact center might be configured to inform the customer service agent that the customer, while a brokerage services customer, does not use bill paying or other offered services. On the other hand, Cicero can help prevent customer service agents from selling a product that is inappropriate for that customer or a product or service that the customer already has through the company. Increasing the efficiency of cross selling can both increase revenues and avoid customer dissatisfaction.

- Deliver Best in Class Customer Service. Increasing customer service is one of the primary methods by which a company in highly competitive customer focused industries such as financial services can differentiate itself from its competition. By increasing the efficiency and training level of its agents, decreasing average time per call and increasing effective cross-selling, the Cicero enabled contact center presents its customers with a more intimate and satisfying customer service experience that can aid in both customer retention and as a differentiator for customer acquisition.

- Preserve Existing Information Technology Investment. Cicero integrates applications at the presentation level, which allows better use of existing custom designed applications and divergent computing platforms (e.g., midrange, client/server, LAN and Web),

which are not readily compatible with each other or with legacy mainframe systems. Linking together the newer computing applications to existing systems helps preserve and increase the return on the investments made by organizations in their information technology systems.

- Additionally, by visually and structurally linking the flexibility and innovations available on newer computing platforms and applications to the rich databases and functions that are typically maintained on the larger mainframe computers, organizations can utilize this information in new ways. The Cicero solution helps organizations bridge the gap between legacy systems and newer platforms and the result is the extension of existing capabilities to a modern streamlined interface in which the underlying system architectures, such as the Web, mainframe, mid-range or client-server, are transparent to the end-user customer service agent, thereby preserving the existing information technology investments and increasing efficiency between applications.

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- Support a Broad Range of Applications, Platforms and Standards. The IT departments of larger enterprises need solutions to integrate a broad array of applications and platforms using a wide variety of industry standards to ensure ease of implementation The Cicero solution provides visual application integration solutions that support common industry standards and can handle a wide array of disparate applications and data types while operating on a Windows NT, Windows XP or Windows 2000 platform. The Cicero solution can be used to link custom or packaged applications together regardless of the tools or programming language used to create the application by integrating those applications at the presentation level.

- Ease of Implementation and Enhanced Information Technology Productivity. The Cicero solution allows contact center and financial services managers to create comprehensive data transformation and information exchange solutions without the need for non-standard coding. Our products provide pre-built adapters for a wide variety of different systems that are pre-programmed for transforming data into the format required by that system and transporting it using the appropriate transport mechanism. This greatly simplifies and speeds implementation of new solutions into the deployed Cicero framework. For instance, while in operation at Merrill Lynch, Cicero was updated to include software for Siebel Systems over a period of only two days when Merrill Lynch decided to implement the Siebel Systems solution. The Cicero solution allows our target markets to rapidly integrate new and existing applications with little or no customization required.

Our Strategy

Our short-term goal is to be the recognized global leader in providing complete desktop level application integration to the financial services industry. The following are the key elements of our strategy:

- Leverage Our Existing Customers and Experience in the Financial Services Industry. We have had success in the past with our Geneva products in the financial services industry. We intend to utilize these long-term relationships and our understanding of the business to create opportunities for sales of the Cicero solution.

- Build on Our Successes to Expand into New Markets. Our short-term goal is to gain a significant presence in the financial services industry with the Cicero solution. The financial services industry is ideal for Cicero because each entity has a large base of installed users that use the same general groups of applications. Cicero, however, can be used in any industry that has large contact centers, such as telecommunications and insurance.

- Develop Strategic Partnerships. The critical success factor for customers implementing Customer Relationship Management (CRM) solutions in their contact centers is to have the right balance of technology and service provision. We are implementing a tightly focused strategic teaming approach with a selected group of well-known consultancy and systems integration firms that specialize in financial services as well as eCRM integrated solutions. Leveraging these organizations, who will provide such integration services as architecture planning, technology integration and business workflow improvement, allows us to focus on core application system

needs and how Cicero best addresses them, while our partners will surround the technology with appropriate industry and business knowledge.

- Leverage our In-House Expertise in the Cicero Software. Merrill Lynch originally developed Cicero internally for use by approximately 30,000 professionals worldwide. To approach the market from a position of strength, we have added members of the Merrill Lynch development team to our Cicero development team. We recruited and hired Anthony Pizi, First Vice President and Chief Technology Officer of Merrill Lynch' s Private Technology' s Architecture and Service Quality Group, and the Cicero project director as our Chairman, Chief Executive Officer and Chief Technology Officer as well as several of the primary Cicero engineers from Merrill Lynch to support our ongoing Cicero development efforts.

- Utilize Market Analyses to Demonstrate Tangible Return-On-Investment results. Most contact centers benchmark their operational and services levels against established industry norms. Metrics such as average waiting time in the call queue, call abandonment rates, after call service work and percentage of one-call completion are typically measured against norms and trends. We believe that use of Cicero will provide tangible, demonstrable improvements to these metrics.

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Products

Desktop Integration Segment Products - Cicero

Cicero runs on Windows NT, Windows XP, and Windows 2000 to organize applications under a book-chapter-section metaphor that keeps all the application functionality that the user needs within easy reach. For instance, selecting the "memo" tab might cause a Microsoft Word memo-template to be created within the Cicero desktop. The end-user need not even know that they are using Microsoft Word. Moreover, a customer-tracking database can be linked with customer relationship management software package. Virtually any application that is used in a customer contact center can be integrated under the Cicero book-chapter metaphor and be used in conjunction with other contact center applications.

The patented Cicero technology, as exclusively licensed from Merrill Lynch, consists of several components: The Event Manager, a Component Object Model (COM)-based messaging service; The Context Manager, which administers the "publish and subscribe" protocols; The Shell Script Interpreter, which supports communication with applications that do not support the required COM interfaces; and The Resource Manager, which starts and shuts down applications and ensures recovery from system errors. The system incorporates an application bus with underlying mechanisms to handle the inter-application connections.

Cicero provides non-intrusive integration of desktop and web applications, portals, third-party business tools, and even legacy mainframe and client server applications, so all co-exist and share their information seamlessly. Cicero' s non-invasive technology means that clients don' t risk modifying either fragile source code or sensitive application program interfaces - and they can easily integrate off-the-shelf products and emerging technologies.

Cicero allows end-users to access applications in the most efficient way possible, by only allowing them to use the relevant portions of that application. For instance, a contact center customer service representative does not use 90% of the functionality of Microsoft Word, but might need access to a memorandum and other custom designed forms as well as basic editing functionality. Cicero can be set to control access to only those templates and, in a sense, turn-off the unused functionality by not allowing the end-user direct access to the underlying application. Under the same Cicero implementation, however, a different Cicero configuration could allow the employees in the Marketing department full access to Word because they have need of the full functionality. The functionality of the applications that Cicero integrates can be modulated by the business goals of the ultimate client, the parent company. This ability to limit user access to certain functions within applications enables companies to reduce their training burden by limiting the portions of the applications on which they are required to train their customer service representatives.

Cicero is an ideal product for large customer contact centers. We believe that Cicero, by combining ease of use, a shorter learning curve and consistent presentation of information will allow our clients to leverage their exiting investments in Customer Relationship Management or CRM applications and further increase customer service, productivity, return on investment and decrease cost both per seat and across the contact center.

Messaging and Application Engineering Segment Products − Geneva Integration Broker.

Geneva Integration Broker is a transport independent message broker that enables an organization to rapidly integrate diverse business systems regardless of platform, transport, format or protocol. The key feature of Geneva Integration Broker is its support for XML and other standards for open data exchange on the Internet. The product provides a robust platform for building eBusiness applications that integrate with existing back-office systems. Geneva Integration Broker' s support for open data exchange and secure Internet transports make it an excellent platform for building Internet-based business-to-business solutions. Geneva Integration Broker does not represent a significant portion of the Company' s current business or prospects.

Services

We provide a full spectrum of technical support, training and consulting services across all of our operating segments as part of our commitment to providing our customers industry-leading business integration solutions. Experts in the field of systems integration with backgrounds in development, consulting, and business process reengineering staff our services organization. In addition, our services professionals have substantial industry specific backgrounds with extraordinary depth in our focus marketplace of financial services.

Maintenance and Support

We offer customers varying levels of technical support tailored to their needs, including periodic software upgrades, telephone support and twenty-four hour, seven days a week access to support-related information via the Internet. Cicero is frequently used in mission-critical business situations, and our maintenance and support services are accustomed to the critical demands that must be met to deliver world-class service to our clients. Many of the members of our staff have expertise in lights-out mission critical environments and are ready to deliver service commensurate with those unique client needs.

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Training Services

Our training organization offers a full curriculum of courses and labs designed to help customers become proficient in the use of our products and related technology as well as enabling customers to take full advantage of our field-tested best practices and methodologies. Our training organization seeks to enable client organizations to gain the proficiency needed in our products for full client self-sufficiency but retains the flexibility to tailor their curriculum to meet specific needs of our clients.

Consulting Services

We offer consulting services around our product offerings in project management, applications and platform integration, application design and development and application renewal, along with expertise in a wide variety of development environments and programming languages. We also have an active partner program in which we recruit leading IT consulting and system integration firms to provide services for the design, implementation and deployment of our customer contact center solutions. Our consulting organization supports third party consultants by providing architectural and enabling services.

Customers

Approximately 30,000 Merrill Lynch personnel are currently using the Cicero technology. We licensed the Cicero technology from Merrill Lynch during 2000 and have developed it to initially sell to the contact center industry. Our significant customers include Nationwide

Financial Services, Arvato Services, a division of Bertlesmann A.G., Bank of America and Gateway Electronic Medical Management Systems (GEMMS).

Merrill Lynch holds approximately four percent (4%) of the outstanding shares of our common stock. No one customer accounted for more than ten percent (10%) of operating revenues in 2001. Bank of America and Nationwide Financial Services individually accounted for more than ten percent (10%) of our operating revenues in 2002. In 2003, Bank of America, Nationwide Financial Services, and Gateway Electronic Medical Management Systems (GEMMS) each accounted for more than ten percent (10%) of our operating revenues.

Sales and Marketing

Sales

An important element of our sales strategy is to expand our relationships with third parties to increase market awareness and acceptance of our business integration software solutions. As part of these relationships, we will jointly sell and implement Cicero solutions with strategic partners such as systems integrators and embed Cicero along with other products through OEM relationships. Level 8 will provide training and other support necessary to systems integrators and OEMs to aid in the promotion of our products. To date we have signed partner agreements with ThinkCentric, Hewlett Packard, House of Code, Titan Systems Corporation, Silent Systems, Inc., Arvato Services, a division of Bertlesmann A.G, GEMMS, FI Systems Italia S.r.L. and Centrix Communications Services S.p.A.

Marketing

The target market for our products and services are large companies providing financial services and or customer relationship management to a large existing customer base. Increasing competitiveness and consolidation is driving companies in such businesses to increase the efficiency and quality of their customer contact centers. As a result, customer contact centers are compelled by both economic necessity and internal mandates to find ways to increase internal efficiency, increase customer satisfaction, increase effective cross-selling, decrease staff turnover cost and leverage their investment in current information technology.

Our marketing staff has an in-depth understanding of the financial services customer contact center software marketplace and the needs of customers in that marketplace, as well as experience in all of the key marketing disciplines. The staff also has broad knowledge of our products and services and how they can meet customer needs.

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Core marketing functions include product marketing, marketing communications and strategic alliances. We utilize focused marketing programs that are intended to attract potential customers in our target vertical industries and to promote Level 8 and our brands. Our programs are specifically directed at our target market such as speaking engagements, public relations campaigns, focused trade shows and web site marketing, while devoting substantial resources to supporting the field sales team with high quality sales tools and collateral. As product acceptance grows and our target markets increase, we will shift to broader marketing programs.

The marketing department also produces collateral material for distribution to prospects including demonstrations, presentation materials, white papers, case studies, articles, brochures, and data sheets. We also intend to implement a high level strategic partnership program to educate and support our partners with a variety of programs, incentives and support plans.

As part of our increased focus on the Cicero product line and initially the financial services customer contact center market, we have significantly decreased our marketing costs while increasing our marketing focus. We intend to continue to fine-tune our sales and marketing staff through continued training to meet our revised needs. We have decreased the marketing and sales budget to conserve financial resources and appropriately direct expenditures in line with our revised business strategy.

Research and Product Development

In connection with the narrowing of our strategic focus, and in light of the sale of our Systems Integration products, we anticipate an overall reduction in research and development costs. Since Cicero is a new product in a relatively untapped market, it is imperative to constantly enhance the feature sets and functionality of the product.

We incurred research and development expense of approximately $1,000, $1,900, and $5,400, in 2003, 2002, and 2001, respectively. The decrease in research and development costs in 2003 as compared with 2002 is the result of the impact of the closing of the Berkeley, California facility in June 2002. The decrease in research and development costs in 2002 is related to the sale of the Geneva AppBuilder line of business in October 2001. Approximately 100 employees, including the Geneva AppBuilder software development group, were transferred to the purchaser at that time.

The markets for our products are characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and short product life cycles. Our future success will depend to a substantial degree upon our ability to enhance our existing products and to develop and introduce, on a timely and cost-effective basis, new products and features that meet changing customer requirements and emerging and evolving industry standards.

Our budgets for research and development are based on planned product introductions and enhancements. Actual expenditures, however, may significantly differ from budgeted expenditures. Inherent in the product development process are a number of risks. The development of new, technologically advanced software products is a complex and uncertain process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends.

The introduction of new or enhanced products also requires us to manage the transition from older products in order to minimize disruption in customer ordering patterns, as well as ensure that adequate supplies of new products can be delivered to meet customer demand. There can be no assurance that we will successfully develop, introduce or manage the transition to new products.

We have in the past, and may in the future, experience delays in the introduction of our products, due to factors internal and external to our business. Any future delays in the introduction or shipment of new or enhanced products, the inability of such products to gain market acceptance or problems associated with new product transitions could adversely affect our results of operations, particularly on a quarterly basis.

Competition

The provision of custom contact center integration software includes a large number of participants in various segments, is subject to rapid changes, and is highly competitive. These markets are highly fragmented and served by numerous firms, many of which address only specific contact center problems and solutions. Clients may elect to use their internal information systems resources to satisfy their needs, rather than using those offered by Level 8.

The rapid growth and long-term potential of the market for business integration solutions to the contact centers of the financial services industry make it an attractive market for new competition. Many of our current and possible future competitors have greater name recognition, a larger installed customer base and greater financial, technical, marketing and other resources than we have.

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Representative Competitors for Cicero

- Portal software offers the ability to aggregate information at a single point, but not the ability to integrate transactions from a myriad of information systems on the desktop. Plumtree is a representative company in the Portal market.

- Middleware software provides integration of applications through messages and data exchange implemented typically in the middle tier of the application architecture. This approach requires modification of the application source code and substantial infrastructure

investments and operational expense. Reuters, TIBCO and IBM MQSeries are representative products in the middleware market.

- CRM software offers application tools that allow developers to build product specific interfaces and custom applications. This approach is not designed to be product neutral and is often dependent on deep integration with the company' s CRM technology. Siebel is a representative product in the CRM software category.

We believe that our ability to compete depends in part on a number of competitive factors outside our control, including the ability of our competitors to hire, retain and motivate senior project managers, the ownership by competitors of software used by potential clients, the development by others of software that is competitive with our products and services, the price at which others offer comparable services and the extent of our competitors' responsiveness to customer needs.

Intellectual Property

Our success is dependent upon developing, protecting and maintaining our intellectual property assets. We rely upon combinations of copyright, trademark and trade secrecy protections, along with contractual provisions, to protect our intellectual property rights in software, documentation, data models, methodologies, data processing systems and related written materials in the international marketplace. In addition, Merrill Lynch holds a patent with respect to the Cicero technology. Copyright protection is generally available under United States laws and international treaties for our software and printed materials. The effectiveness of these various types of protection can be limited, however, by variations in laws and enforcement procedures from country to country. We use the registered trademarks "Level 8 Systems" and "Cicero", and the trademarks "Level 8", "Level 8 Technologies", and "Geneva Integration Broker".

All other product and company names mentioned herein are for identification purposes only and are the property of, and may be trademarks of, their respective owners.

There can be no assurance that the steps we have taken will prevent misappropriation of our technology, and such protections do not preclude competitors from developing products with functionality or features similar to our products. Furthermore, there can be no assurance that third parties will not independently develop competing technologies that are substantially equivalent or superior to our technologies. Additionally, with respect to the Cicero line of products, there can be no assurance that Merrill Lynch will protect its patents or that we will have the resources to successfully pursue infringers.

Although we do not believe that our products infringe the proprietary rights of any third parties, there can be no assurance that infringement claims will not be asserted against our customers or us in the future. In addition, we may be required to indemnify our distribution partners and end users for similar claims made against them. Furthermore, we may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation, either as a plaintiff or defendant, would cause us to incur substantial costs and divert management resources from productive tasks whether or not said litigation is resolved in our favor, which could have a material adverse effect on our business operating results and financial condition.

As the number of software products in the industry increases and the functionality of these products further overlaps, we believe that software developers and licensors may become increasingly subject to infringement claims. Any such claims, with or without merit, could be time consuming and expensive to defend and could adversely affect our business, operating results and financial condition.

Employees

As of December 31, 2003, we employed 32 employees. Our employees are not represented by a union or a collective bargaining agreement.

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We believe that to fully implement our business plan we will be required to enhance our ability to work with the Microsoft Windows NT, Windows XP, and Windows 2000 operating systems as well as the Linux operating system by adding additional development personnel as

well as additional direct sales personnel to complement our sales plan. Although we believe that we will be successful in attracting and retaining qualified employees to fill these positions, no assurance can be given that we will be successful in attracting and retaining these employees now or in the future.

Available Information

Our web address is www.level8.com. We make available free of charge through our Web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities Exchange Commission.

Forward Looking and Cautionary Statements

Certain statements contained in this Annual Report may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). We may also make forward looking statements in other reports filed with the Securities and Exchange Commission, in materials delivered to shareholders, in press releases and in other public statements. In addition, our representatives may from time to time make oral forward-looking statements. Forward looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects," and similar expressions, may identify such forward looking statements. In accordance with the Reform Act, set forth below are cautionary statements that accompany those forward looking statements. Readers should carefully review these cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward-looking statements and from historical trends. The following cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in our filings with the Securities and Exchange Commission and in materials incorporated therein by reference: there may be a question as to our ability to operate as a going concern, our future success depends on the market acceptance of the Cicero product and successful execution of the new strategic direction; general economic or business conditions may be less favorable than expected, resulting in, among other things, lower than expected revenues; an unexpected revenue shortfall may adversely affect our business because our expenses are largely fixed; our quarterly operating results may vary significantly because we are not able to accurately predict the amount and timing of individual sales and this may adversely impact our stock price; trends in sales of our products and general economic conditions may affect investors' expectations regarding our financial performance and may adversely affect our stock price; our future results may depend upon the continued growth and business use of the Internet; we may lose market share and be required to reduce prices as a result of competition from our existing competitors, other vendors and information systems departments of customers; we may not have the ability to recruit, train and retain qualified personnel; rapid technological change could render the Company' s products obsolete; loss of any one of our major customers could adversely affect our business; our business is subject to a number of risks associated with doing business abroad including the effect of foreign currency exchange fluctuations on our results of operations; our products may contain undetected software errors, which could adversely affect our business; because our technology is complex, we may be exposed to liability claims; we may be unable to enforce or defend its ownership and use of proprietary technology; because we are a technology company, our common stock may be subject to erratic price fluctuations; and we may not have sufficient liquidity and capital resources to meet changing business conditions.

Market Risk

The Company was delisted from the NASDAQ SmallCap market effective January 23, 2003. The Company' s common stock presently is quoted on the OTC Bulletin Board.

Item 2. Properties

Our corporate headquarters is located in approximately 4,882 square feet in Princeton, New Jersey pursuant to a lease expiring in 2006. The United States operations group and administrative functions are based in offices of approximately 2,956 square feet in our Cary, North Carolina office pursuant to a lease expiring in 2006. The research and development and customer support groups are located in the Princeton, New Jersey and Cary, North Carolina facilities.

Item 3. Legal Proceedings

Various lawsuits and claims have been brought against the Company in the normal course of business. In January 2003, an action was brought against the Company in the Circuit Court of Loudon County Virginia for a breach of a real estate lease. The case was settled in August 2003. Under the terms of the settlement agreement, the Company agreed to assign a Note receivable with recourse equal to the unpaid portion of the Note should the note obligor default on future payments. The unpaid balance of the Note being transferred is $545 and matures in December 2007. The Company assessed the probability of liability under the recourse provisions using a weighted probability cash flow analysis and has recognized a long-term liability in the amount of $131.

In October 2003, the Company was served with a summons and complaint regarding unpaid invoices for services rendered by one of its subcontractors. The amount in dispute is approximately $200. The Company has reserved for this contingency.

Subsequent to 2003, the Company has been served with an additional summons and complaint regarding a security deposit for a sublease in Virginia. The amount in dispute is approximately $247. The Company disagrees with this allegation although it has reserved for this contingency.

Under the indemnification clause of the Company' s standard reseller agreements and software license agreements, the Company agrees to defend the reseller/licensee against third party claims asserting infringement by the Company' s products of certain intellectual property rights, which may include patents, copyrights, trademarks or trade secrets, and to pay any judgments entered on such claims against the reseller/ licensee.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market For Registrant' s Common Stock and Related Shareholder Matters.

Our common stock has been traded on the Nasdaq National Market under the symbol ' ' LVEL" from 1996 until December 23, 2002. From December 24, 2002, until January 23, 2003, our common stock traded on the Nasdaq SmallCap Market. As of January 23, 2003, our common stock was delisted from the Nasdaq SmallCap Market and is currently quoted on the over-the-counter bulletin board. We have never declared or paid any cash dividends on our common stock. We anticipate that all of our earnings will be retained for the operation and expansion of our business and do not anticipate paying any cash dividends for common stock in the foreseeable future. The chart below sets forth the high and low stock prices for the quarters of the fiscal years ended December 31, 2003 and 2002.

	2003		2002	
Quarter	**High**	**Low**	**High**	**Low**
First	$0.40	$0.15	$3.19	$1.26
Second	$0.35	$0.24	$1.70	$0.34
Third	$0.77	$0.24	$0.71	$0.25
Fourth	$0.48	$0.28	$0.56	$0.17

The closing price of the common stock on December 31, 2003 was $0.35 per share. As of February 29, 2004 we had 221 registered shareholders of record.

Recent Sales of Unregistered Securities

On October 15, 2003, the Company completed a private placement of its common stock wherein it raised approximately $853 of capital. The Company sold 1,894,444 shares of common stock at a price of $0.45 per share and issued warrants to purchase 473,611 shares of the Company' s common stock at an exercise price of $0.45 per share. The warrants expire three years from the date of grant. Such shares and warrants were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, for transactions by an issuer not involving a public offering. The Company did not receive proceeds from the issuance of the warrants. When the warrants are exercised, the Company expects to use the proceeds from the exercise for general corporate purposes.

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In January 2004, the Company acquired substantially all of the assets and certain liabilities of Critical Mass Mail, Inc., d/b/a Ensuredmail, a federally certified encryption software company. Under the terms of the purchase agreement, Level 8 issued 2,027,027 shares of common stock at a price of $0.37 per share. The total purchase price of the assets and certain liabilities being acquired was $750 and has been accounted for by the purchase method of accounting. The Company agreed to register the common stock for resale under the Securities Act of 1933, as amended.

Also in January 2004, and simultaneously with the asset purchase of Critical Mass Mail, Inc., the Company completed a common stock financing round wherein it raised $1,247of capital from several new investors as well as certain investors of Critical Mass Mail, Inc. The Company sold 3,369,192 shares of common stock at a price of $0.37 per share. As part of the financing, the Company has also issued warrants to purchase 3,369,192 shares of the Company' s common stock at an exercise price of $0.37 per share. The warrants expire three years from the date of grant. The Company also agreed to register the common stock and the warrants for resale under the Securities Act of 1933, as amended.

Item 6. Selected Financial Data.

The following selected financial data is derived from the consolidated financial statements of the Company. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information included herein.

See Item 7 for a discussion of the entities included in operations.

	Year Ended December 31,				
	(in thousands, except per share data)				
	1999	2000	2001	2002	2003
SELECTED STATEMENT OF OPERATIONS DATA					
Revenue	$52,920	$83,729	$17,357	$3,101	$530
Loss from continuing operations	$(15,477)	$(28,367)	$(58,060)	$(13,142)	$(9,874)
Loss from continuing operations per common share - basic and diluted	$(1.78)	$(2.10)	$(3.70)	$(0.75)	$(0.54)
Weighted average common and common equivalent shares outstanding- basic and diluted	8,918	14,019	15,958	18,877	21,463

	At December 31,				
	1999	2000	2001	2002	2003
SELECTED BALANCE SHEET DATA					

Working capital (deficiency)	$(36)	$28,311	$(4,529)	$(6,254)	$(6,555)
Total assets	133,581	169,956	35,744	11,852	5,362
Long-term debt, including current maturities	27,593	27,133	4,845	2,893	2,756
Senior convertible redeemable preferred stock	–	–	–	–	3,355
Loans from related companies, net of current maturities	4,000	–	–	–	–
Stockholders' equity (deficiency)	72,221	117,730	13,893	1,653	(6,103)

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Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations, (dollars in thousands, except share and per share amounts).

General Information

Level 8 Systems is a global provider of business integration software that enables organizations to integrate new and existing information and processes at the desktop with our Cicero product. Business integration software addresses the emerging need for a company' s information systems to deliver enterprise-wide views of the company' s business information processes.

In addition to software products, Level 8 also provides technical support, training and consulting services as part of its commitment to providing its customers industry-leading integration solutions. Level 8' s consulting team has in-depth experience in developing successful enterprise-class solutions as well as valuable insight into the business information needs of customers in the Global 5000. Level 8 offers services around its integration software products.

This discussion contains forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities, liquidity and capital resources and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause its actual results to differ materially from the anticipated results or other expectations expressed in the Company' s forward-looking statements. See "Item 1. Business–Forward Looking and Cautionary Statements.' '

The Company' s results of operations include the operations of the Company and its subsidiaries from the date of acquisition. During 2002, the Company identified the assets of the Systems Integration segment as being held for sale and thus a discontinued operation. Accordingly, the assets and liabilities have been reclassified to assets held for sale and the results of operations of that segment are now reclassified as loss from discontinued operations.

In August 2000, the Company acquired the rights to Cicero, a comprehensive integrated desktop computer environment from Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") in exchange for 1,000,000 shares of its common stock valued at $22,750. The cost of the technology acquired had been capitalized and amortized over a three-year period. In January 2002, the Company extended the exclusive perpetual license to develop and sell the Cicero application integration software from Merrill Lynch.

Due to the Company' s acquisition and divestiture activities, year-to-year comparisons of results of operations are not necessarily meaningful. Additionally, as a result of the Company' s pursuit of a growth strategy focusing on its software product sales and synergies gained as a result of eliminating duplicative functions, the results of operations are significantly different than the result of combining the previous operations of each acquired company into Level 8. Pro forma comparisons are therefore not necessarily meaningful. In 2001, the Company began to shift its primary focus from selling multiple Enterprise Application Integration ("EAI") products to selling Cicero, a desktop integration package, to the financial services industry with a decreased focus on services. During the last two fiscal quarters of 2001, the Company sold most of the products that comprised its Messaging and Application Engineering segment.

In 2002, the Company continued to reorganize and concentrate on the emerging desktop integration market and continued to dispose of non-strategic assets with the sale of the Star SQL and CTRC products from the Messaging and Application Engineering segment and the Geneva Enterprise Integrator and Business Process Automator from what was formerly the Systems Integration segment.

Business Strategy

During the second quarter of 2001, management reassessed how the Company would be managed and how resources would be allocated. At that time management then made operating decisions and assessed performance of the Company' s operations based on the following reportable segments: (1) Desktop Integration, (2) System Integration and (3) Messaging and Application Engineering. Previous reportable segments were: (1) software, (2) maintenance, (3) services, and (4) research and development. As noted above, the assets comprising the System Integration segment were identified as being held for resale and accordingly, the results of operations have been reclassified to gain or loss from a discontinued business and no segment information is presented.

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The principal product in the Desktop Integration segment is Cicero. Cicero is a business integration software product that maximizes end-user productivity, streamlines business operations and integrates disparate systems and applications.

The products that comprise the Messaging and Application Engineering segment are Geneva Integration Broker, Geneva Message Queuing, Geneva XIPC and Geneva AppBuilder. Geneva Integration Broker is a transport independent message broker that enables an organization to rapidly integrate diverse business systems regardless of platform, transport, format or protocol. Geneva Message Queuing is an enterprise connectivity product for Microsoft and non-Microsoft applications. The primary use is for transactional, once and only once connectivity of Window-based Web applications to back-office information resources like mainframes and other legacy systems. Geneva XIPC provides similar delivery of information between applications. While Geneva Message Queuing is based around a Microsoft standard, Geneva XIPC is for use with Linux and other brands of UNIX operating systems. Geneva AppBuilder is a set of application engineering tools that assists customers in developing, adapting and managing enterprise-wide computer applications for the Internet/intranets and client/server networks.

On October 1, 2001, the Company completed the sale of its Geneva AppBuilder product. Under the terms of the agreement, the Company sold the rights, title and interest in the Geneva AppBuilder product along with all receivables, unbilled and deferred revenues as well as all maintenance contracts. The Geneva AppBuilder product accounted for approximately 85% of total revenue within the Messaging and Application Engineering segment and approximately 99% of total revenue for all segments. As more fully described in Note 2 to the Consolidated Financial Statements, the Company received approximately $19,000 in cash plus a note receivable for $1,000 due February 2002. The Company subsequently liquidated $22,000 of its short-term debt using the proceeds received and cash on hand. As part of the sale transaction, approximately 100 employees were transferred to the acquiring company who also assumed certain facility and operating leases and entered into a sublease arrangement at the Cary, North Carolina facility. While future revenues have been negatively impacted by the sale of Geneva AppBuilder, the associated costs of doing business have been positively impacted by the overall reduction in operating costs.

During the quarter ended September 30, 2001, the Company sold two of its messaging products – Geneva Message Queuing and Geneva XIPC to Envoy Technologies, Inc. for $50 in cash and a note receivable for $400. Under the terms of the agreement, Envoy acquired all rights, title and interest to the products along with all customer and maintenance contracts.

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Results of Operations

The following table sets forth, for the years indicated, the Company' s results of continuing operations expressed as a percentage of revenue.

	Year Ended December 31,		
	2003	2002	2001
Revenue:			
Software	19.3 %	48.1 %	9.6 %
Maintenance	59.6 %	18.4 %	53.3 %
Services	21.1 %	33.5 %	37.1 %
Total	100.0 %	100.0 %	100.0 %
Cost of revenue:			
Software	783.4 %	238.5 %	85.3 %
Maintenance	70.4 %	5.8 %	18.7 %
Services	171.3 %	29.0 %	31.6 %
Total	1,025.1 %	273.3 %	135.6 %
Gross margin (loss)	(925.1)%	(173.3)%	(35.6)%
Operating expenses:			
Sales and marketing	317.0 %	90.6 %	63.6 %
Research and product development	191.9 %	61.3 %	30.9 %
General and administrative	482.6 %	126.9 %	55.5 %
Amortization of intangible assets	0.0 %	0.0 %	36.1 %
Impairment of intangible assets	0.0 %	0.0 %	45.7 %
(Gain)/loss on disposal of assets	78.3 %	14.9 %	(36.6)%
Restructuring, net	(157.4)%	41.9 %	49.8 %
Total	912.4 %	335.6 %	245.0 %
Loss from operations	(1,837.5)%	(508.9)%	(280.6)%
Other income (expense), net	(25.5)%	80.1 %	(51.0)%
Loss before taxes	(1,863.0)%	(428.8)%	(331.6)%
Income tax provision (benefit)	0.0 %	(5.0)%	2.9 %
Loss from continuing operations	(1,863.0)%	(423.8)%	(334.5)%
Loss from discontinued operations	(24.9)%	(162.5)%	(271.2)%
Net loss	(1,887.9)%	(586.3)%	(605.7)%

The following table sets forth data for total revenue for continuing operations by geographic origin as a percentage of total revenue for the periods indicated:

	2003	2002	2001
United States	90 %	96 %	36 %
Europe	9 %	4 %	55 %

Asia Pacific	–	–	3 %
Middle East	–	–	4 %
Other	1 %	–	2 %
Total	100 %	100 %	100 %

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The table below presents information about reported segments for the twelve months ended December 31, 2003 and 2002:

	Desktop Integration	Messaging/ Application Engineering	TOTAL
2003:			
Total revenue	$466	$64	$530
Total cost of revenue	5,371	62	5,433
Gross margin (loss)	(4,905)	2	(4,903)
Total operating expenses	4,999	256	5,255
Segment profitability (loss)	$(9,904)	$(254)	$(10,158)
2002:			
Total revenue	$2,148	$953	$3,101
Total cost of revenue	6,527	1,950	8,477
Gross margin (loss)	(4,379)	(997)	(5,376)
Total operating expenses	8,211	434	8,645
Segment profitability (loss)	$(12,590)	$(1,431)	$(14,021)
2001:			
Total revenue	$134	$17,223	$17,357
Total cost of revenue	9,427	14,109	23,536
Gross margin (loss)	(9,293)	3,114	(6,179)
Total operating expenses	18,858	7,179	26,037
Segment profitability (loss)	$(28,151)	$(4,065)	$(32,216)

A reconciliation of segment operating expenses to total operating expense follows:

	2003	2002	2001
Segment operating expenses	$5,255	$8,645	$26,037
Amortization of intangible assets	–	–	6,259
Write-off of intangible assets	–	–	7,929
(Gain)Loss on disposal of assets	415	461	(6,345)
Restructuring, net	(834)	1,300	8,650
Total operating expenses	$4,836	$10,406	$42,530

A reconciliation of total segment profitability to net loss for the fiscal years ended December 31:

	2003	2002	2001
Total segment profitability (loss)	$(10,158)	$(14,021)	$(32,216)
Amortization of intangible assets	–	–	(6,259)
Impairment of intangible assets	–	–	(7,929)
Gain/(loss) on disposal of assets	(415)	(461)	6,345
Restructuring	834	(1,300)	(8,650)
Interest and other income/(expense), net	(135)	2,485	(8,850)
Net loss before provision for income taxes	$(9,874)	$(13,297)	$(57,559)

Years Ended December 31, 2003, 2002, and 2001

Revenue and Gross Margin. The Company has three categories of revenue: software products, maintenance, and services. Software products revenue is comprised primarily of fees from licensing the Company' s proprietary software products. Maintenance revenue is comprised of fees for maintaining, supporting, and providing periodic upgrades to the Company' s software products. Services revenue is comprised of fees for consulting and training services related to the Company' s software products.

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The Company' s revenues vary from quarter to quarter, due to market conditions, the budgeting and purchasing cycles of customers and the effectiveness of the Company' s sales force. The Company typically does not have any material backlog of unfilled software orders and product revenue in any period is substantially dependent upon orders received in that quarter. Because the Company' s operating expenses are based on anticipated revenue levels and are relatively fixed over the short term, variations in the timing of the recognition of revenue can cause significant variations in operating results from period to period. Fluctuations in operating results may result in volatility of the price of the Company' s common stock.

Total revenues decreased 83% from $3,101 in 2002 to $530 in 2003 and decreased 82% from $17,357 in 2001 to $3,101 in 2002. During 2002, the Company executed software contracts with two major companies that totaled more than $1,200 in license revenues as well as significant integration services revenues. During 2003, no such contracts were executed. The decline in revenues may also be affected by the Company' s financial condition as well as the overall economy as certain prospective customers have deferred purchasing activity. The significant decrease in revenues from 2001 to 2002 is primarily the result of the sale of substantially all of the Messaging and Application Engineering segment products (approximately $17,200 of total revenues) at the start of the fourth quarter of 2001. Gross profit margin (loss) was (925)%, (173)%, and (36)% for 2003, 2002 and 2001, respectively.

The Desktop Integration segment had a gross margin (loss) of (1,053)% for the year ended December 31, 2003 and a gross margin (loss) of (204)% for the year ended December 31, 2002. Cicero is still a relatively new product and the software amortization expense was being recognized over a three-year period. In July 2002, the Company reassessed the life of the Cicero technology in light of the extension of the license and exclusivity provisions in perpetuity. As a result, the Company changed the estimated useful life to be 5 years, which resulted in a reduction in 2002 amortization expense by $2,407. At each balance sheet date, the Company reassesses the recoverability of the Cicero technology in accordance with FASB 86, *"Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed"*. This assessment was completed due to the Company' s continued operating losses and the limited software revenue generated by the Cicero technology over the past twelve to eighteen months. Currently, the Company is in negotiations with numerous customers to purchase licenses, which would have a significant impact on the cash flows from the Cicero technology and the Company. Since the negotiations have been in process for several months and expected completion of the transactions has been delayed, the Company has reduced its cash flow projections. Historical cash flows generated by the Cicero technology do not support the long-lived asset and accordingly the Company has impaired the

excess of the unamortized book value of the technology in excess of the expected net realizable value as of September 30, 2003 and at December 31, 2003. These charges, in the amount of $745 and $248 respectively, have been recorded as cost of software revenue.

The Messaging and Application Engineering segment gross margin for the year ended December 31, 2003 was insignificant. No future revenues are anticipated in that segment as all the products have been either sold or discontinued. For the year ended December 31, 2002, the Messaging and Application Engineering segment had a gross margin (loss) of (105%).

Software Products. Software product revenue decreased approximately 93% in 2003 from those results achieved in 2002 and decreased 10% in 2002 as compared to 2001. Software revenues in 2003 and 2002 are from the new Cicero product as the Company changed its strategic focus to the Desktop Integration segment. In 2001, software revenues primarily resulted from the Messaging and Application Engineering products, which were sold in the beginning of the fourth quarter of that year.

The gross margin on software products was (3,971)%, (396)% and (793)% for the 2003, 2002 and 2001 years ended, respectively. Cost of software is composed primarily of amortization of software product technology, amortization of capitalized software costs for internally developed software, impairment of software product technology, and royalties to third parties, and to a lesser extent, production and distribution costs. The decrease in cost of software for 2003 as compared with 2002 is due to the change in the amortization period from three years to five years, offset by impairment charges totaling $993. The decrease in cost of software from 2001 to 2002 reflects the impact of the sale of the AppBuilder product in the fourth quarter of 2001 of approximately $1,760, an impairment of $3,070 in the net realizable value of the CTRC technology in third quarter of 2001 and the impact of the change in the amortization period for the Cicero technology in July 2002 of $2,407.

The software product gross margin (loss) for the Desktop Integration segment was (3,971)% in 2003 and (309)% in 2002. The software product gross margin (loss) on the Messaging and Application Engineering segment was zero for 2003 and (1,162)% in 2002.

The Company expects to see significant increases in software sales related to the Desktop Integration segment coupled with improving margins on software products as Cicero gains acceptance in the marketplace. The Company' s expectations are based on its review of the sales cycle that has developed around the Cicero product

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since being released by the Company, its review of the pipeline of prospective customers and their anticipated capital expenditure commitments and budgeting cycles, as well as the establishment of viable reference points in terms of an installed customer base with Fortune 500 Companies. The Messaging and Application Engineering segment revenue is expected to be deminimus as the majority of the products comprising this segment have been sold.

Maintenance. Maintenance revenues for the year ended December 31, 2003 decreased by approximately 45% or $255 from 2002. The decline in maintenance revenues in 2003 as compared to 2002 is the result of the sale of the CTRC and Star SQL products in June 2002. Maintenance revenues declined by approximately $8,691 or 94% in 2002 as compared to 2001. The decline in maintenance revenue is directly related to the sale of the Messaging and Application Engineering segment products in the fourth quarter of 2001.

The Desktop Integration segment accounted for approximately 80% of total maintenance revenue and the Messaging and Application Engineering segment accounted for approximately 20% of total maintenance revenues in 2003.

Cost of maintenance is comprised of personnel costs and related overhead and the cost of third-party contracts for the maintenance and support of the Company' s software products. The Company experienced a gross margin (loss) on maintenance products of (18)% for 2003. Gross margins on maintenance products for 2002 and 2001 were 68% and 65% respectively.

Maintenance revenues are expected to increase, primarily in the Desktop Integration segment. The majority of the products comprising the Messaging and Application Engineering segment have been sold and thus future revenues will be significantly lower as will the cost of maintenance associated with this segment. The cost of maintenance should increase slightly for the Desktop Integration segment.

Services. Services revenue for the year ended December 31, 2003 decreased by approximately 89% or $927 from 2002. The decline in service revenues is directly attributed to the lack of software license revenues in 2003. Service revenues for 2002 as compared to 2001 declined by 84% or $5,398. This decline is attributed to the sale of the Messaging and Application Engineering segment products in 2001. The principal product within the Messaging and Application Engineering segment products was AppBuilder. This product enabled companies to build new applications and typically, those customers utilized the Company' s consultants to assist in the application development.

Cost of services primarily includes personnel and travel costs related to the delivery of services. Services gross margin (loss) was (711)%, 13% and 15% for the years ended 2003, 2002 and 2001 respectively.

Services revenues are expected to increase for the Desktop Integration segment as the Cicero product gains acceptance. The Messaging and Application Engineering segment service revenues will continue to be deminimus as the majority of the relevant products have been sold.

Sales and Marketing. Sales and marketing expenses primarily include personnel costs for salespeople, marketing personnel, travel and related overhead, as well as trade show participation and promotional expenses. Sales and marketing expenses decreased by 40% or approximately $1,128 in 2003 due to a reduction in the Company' s sales and marketing workforce, decreased promotional activities and a reduction in the sales compensation structure. Sales and marketing expenses decreased by 75% or approximately $8,234 in 2002 as a result of the Company' s restructuring activities and the sale of most of the Messaging and Application Engineering segment products in the fourth quarter of 2001.

Sales and marketing expenses are expected to increase slightly as the Company adds additional direct sales personnel and supports the sales function with collateral marketing materials. The Company' s emphasis for the sales and marketing groups will be the Desktop Integration segment.

Research and Development. Research and development expenses primarily include personnel costs for product authors, product developers and product documentation and related overhead. Research and development expense decreased by 47% or $885 in 2003 over the same period in 2002 and decreased by 65% or $3,463 in 2002 as compared to the same period in 2001. The decline in both periods is attributed to operational restructurings and reduction in workforce.

The Company intends to continue to make a significant investment in research and development while enhancing efficiencies in this area.

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General and Administrative. General and administrative expenses consist of personnel costs for the executive, legal, financial, human resources, IT and administrative staff, related overhead, and all non-allocable corporate costs of operating the Company. General and administrative expenses for the year ended December 31, 2003 decreased by 35% or $1,377 over the prior year. In fiscal 2002, general and administrative expenses decreased by 59% or $5,695. The sharp decline in general and administrative costs in 2003 and 2002 reflect the restructuring program conducted by the Company during 2001 and 2002. In addition, during 2001, the Company recognized a charge of approximately $3,800 from a significant customer who filed for Chapter 11 Bankruptcy.

General and administrative expenses are expected to decrease going forward as the Company experiences the synergies of its smaller size and the cost reductions associated with previous office closings.

Amortization of Goodwill and Other Intangible Assets. Amortization of goodwill was $0 for 2003 and 2002. Amortization of goodwill and other intangible assets during 2001 amounted to $6,259. The reduction in amortization expense in 2002 is primarily attributable to the sale of Geneva AppBuilder products in October 2001 as well as the effect of impairment on the intangible assets acquired from StarQuest. At December 31, 2003, 2002 and 2001, there was no remaining goodwill on the Company' s balance sheet.

Restructuring. As part of the Company' s plan to focus on the emerging desktop integration marketplace with its new Cicero product, the Company has completed substantial restructurings in 2002 and 2001. As of December 31, 2002, the Company' s accrual for restructuring was $772, which was primarily comprised of excess facility costs. As more fully discussed in Note 20 Contingencies, in 2003 the Company settled

litigation relating to these excess facilities. Accordingly, the Company has reversed the restructuring balance. Under the terms of the settlement agreement, the Company agreed to assign the note receivable from the sale of Geneva to EM Software Solutions, Inc., (see Note 2 Dispositions), with recourse equal to the unpaid portion of the note receivable should the note obligor, EM Software Solutions, Inc., default on future payments. The current unpaid principal portion of the note receivable assigned is approximately $545 and matures December 2007. The Company assessed the probability of liability under the recourse provisions using a probability weighted cash flow analysis and has recognized a long-term liability in the amount of $131.

During the second quarter of 2002, the Company announced an additional round of restructurings to further reduce its operating costs and streamline its operations. The Company recorded a restructuring charge in the amount of $1,300, which encompassed the cost associated with the closure of the Company' s Berkeley, California facility as well as a significant reduction in the Company' s European personnel.

During the first quarter of 2001, the Company announced and began implementation of an initial operational restructuring. The Company recorded restructuring charges of $6,650 during the quarter ended March 31, 2001 and an additional charge of $2,000 for the quarter ended June 30, 2001. Restructuring charges have been classified in "Restructuring" on the consolidated statements of operations. These operational restructurings involved the reduction of employee staff throughout the Company in all geographical regions in sales, marketing, services, development and all administrative functions.

The overall restructuring plan included the termination of 236 employees. The plan included a reduction of 107 personnel in the European operations and 129 personnel in the US operations. Employee termination costs comprised severance-related payments for all employees terminated in connection with the operational restructuring. Termination benefits did not include any amounts for employment-related services prior to termination.

Impairment of Intangible Assets. In May 2001, management reevaluated and modified its approach to managing the business and opted to conduct business and assess the efficiency of operations under a line-of-business approach. As such, the Company performed an assessment of the recoverability of its long-lived assets under a line-of-business approach, representing a change in accounting principle inseparate from the effect of the change in accounting estimates. This represents an accounting change from the Company' s previous policy of assessing impairment of intangible assets at the enterprise level, which is accounted for as a change in estimate. The change reflects management' s changed approach to managing the business.

During the third quarter of 2001, the Company was notified by one of its resellers that they would no longer engage in re-sales of the Company' s CTRC product, a component of the Messaging and Application Engineering segment. This reseller accounted for substantially all of the CTRC product sales. As a result, the Company performed an assessment of the recoverability of the Messaging and Application Engineering segment. The results of the Company' s analysis of undiscounted cash flows indicated that an impairment charge would be appropriate. The Company estimated the fair market value of the related assets through a discounted future cash flow valuation technique. The results of this analysis indicated the carrying value of these intangible assets exceeded their fair market values. The Company reduced the carrying value of the intangible assets and software product technology by approximately $7,929 and $3,070, respectively, as of September 30, 2001.

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Warrants Liability. The Company has issued warrants to Series A3 and Series B3 preferred stockholders which contain provisions that allow the warrant holders to force a cash redemption for events outside the control of the Company. The fair value of the warrants is accounted for as a liability and is re-measured at each balance sheet date. As of December 31, 2003, the warrant liability had a fair value of $198 and the Company had recorded the change in the fair value of the warrant liability of $133 for the year ended December 31, 2003 in the consolidated statements of operations.

Provision for Taxes. The Company' s effective income tax rate for continuing operations differs from the statutory rate primarily because an income tax benefit was not recorded for the net loss incurred in 2003, 2002 or 2001. Because of the Company' s inconsistent earnings history, the deferred tax assets have been fully offset by a valuation allowance. The income tax provision (credit) for the years ended December 31, 2002 and 2001 is primarily related to income taxes associated with foreign operations and foreign withholding taxes.

Impact of Inflation. Inflation has not had a significant effect on the Company' s operating results during the periods presented.

Liquidity and Capital Resources

Operating and Investing Activities

The Company utilized cash of $180 for the year ended December 31, 2003.

Operating activities utilized approximately $4,800 in cash, which was primarily comprised of the loss from operations of $10,000, offset by non-cash charges for depreciation and amortization of approximately $3,100, an impairment of software technology of $1,000 and a non-cash decrease in the fair value of its warrant liability of $100. In addition, the Company had a reduction in accounts receivable of $1,400, a reduction in assets and liabilities of discontinued operations of $100 and a reduction of prepaid expenses and other assets of $400.

The Company generated approximately $800 in cash from investing activities, which was primarily the result of the collection of various notes receivable.

The Company generated approximately $3,800 of cash during the year from financing activities as a result of proceeds from a private placement of common stock and warrants in the amount of $800, cash proceeds from warrant exercises of $400 and cash proceeds from the sale of Series D Preferred Stock of approximately $3,500 offset by cash held in escrow of $776. In addition, the Company incurred gross borrowings of $1,000 and repaid $1,200 against those borrowings.

By comparison, the Company utilized approximately $311 in cash during the year ended December 31, 2002.

Operating activities utilized approximately $7,200 of cash, which was primarily comprised of the loss from operations of $18,200, offset by non-cash charges for depreciation and amortization of approximately $8,000 and a non-cash decrease in the fair value of its warrant liability of $2,900. In addition, the Company had a reduction in assets held for sale of approximately $6,400 and used approximately $2,100 in fulfillment of its obligations to its creditors through its accounts payable.

The Company generated approximately $3,900 of cash from investing activities, which was primarily comprised of approximately $2,500 in proceeds from the collection of various notes receivable and approximately $1,000 in proceeds from the sale of a line of business.

The Company generated approximately $3,200 of cash during the year from financing activities as a result of proceeds from a private placement of common stock and warrants in the amount of $2,000 and cash proceeds of a Preferred Stock offering in the amount of $1,400.

Financing Activities

The Company funded its cash needs during the year ended December 31, 2003 with cash on hand from December 31, 2002, through the use of proceeds from a private placement of common stock and warrants, a private placement of preferred stock and warrants, and with cash from operations.

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The Company has a $1,971 term loan bearing interest at LIBOR plus 1% (approximately 2.13% at December 31, 2003), which is payable quarterly. There are no financial covenants and the term loan is guaranteed by Liraz, the Company' s former principal shareholder. During 2000, the loan and guaranty were amended to extend the due date from May 31, 2001 to November 30, 2003 and to provide the Company with additional borrowings. In exchange for the initial and amended guarantees, the Company issued Liraz a total of 170,000 shares of the Company' s common stock. Based upon fair market value at the time of issuance, the Company has recorded total deferred costs of $4,013 related to the guaranty. These costs are being amortized in the statement of operations as a component of interest expense over the term of the guaranty. In November 2003, the Company and Liraz Systems Ltd. agreed to extend its guaranty on the Company' s term loan and with Bank Hapoalim, the note holder, to extend the maturity date on the loan to November 8, 2004. Under the terms of the agreement with Liraz, the

Company has agreed to issue 300,000 shares of its common stock. Of that amount, 150,000 shares were issued upon execution of the agreement and the balance is to be issued on a pro rata basis on March 31, 2004, June 30, 2004 and September 30, 2004, provided that the loan is still outstanding.

On March 19, 2003, the Company completed a $3,500 private placement of Series D Convertible Redeemable Preferred Stock ("Series D Preferred Stock"), convertible at a conversion ratio of $0.32 per share of common stock into an aggregate of 11,031,250 shares of common stock. As part of the financing, the Company has also issued warrants to purchase an aggregate of 4,158,780 shares of common stock at an exercise price of $0.07 per share ("Series D-1 Warrants"). On October 10, 2003, the Company, consistent with its obligations, also issued warrants to purchase an aggregate of 1,665,720 shares of common stock at an exercise price the lesser of $0.20 per share or market price at the time of exercise ("Series D-2 Warrants"). The Series D-2 Warrants became exercisable on November 1, 2003, because the Company failed to report $6,000 in gross revenues for the nine-month period ended September 30, 2003. Both existing and new investors participated in the financing. The Company also agreed to register the common stock issuable upon conversion of the Series D Preferred Stock and exercise of the warrants for resale under the Securities Act of 1933, as amended. Under the terms of the financing agreement, a redemption event may occur if any one person, entity or group shall control more than 35% of the voting power of the Company' s capital stock. The Company allocated the proceeds received from the sale of the Series D Preferred Stock and warrants to the preferred stock and detachable warrants on a relative fair value basis, resulting in the allocation of $2,890 to the Series D Preferred Stock and $640 to the detachable warrants. Based upon the allocation of the proceeds, the Company determined that the effective conversion price of the Series D Preferred Stock was less than the fair value of the Company' s common stock on the date of issuance. The beneficial conversion feature was recorded as a discount on the value of the Series D Preferred Stock and an increase in additional paid-in capital. Because the Series D Preferred Stock was convertible immediately upon issuance, the Company fully amortized such beneficial conversion feature on the date of issuance.

As part of the financing, the Company and the lead investors have agreed to form a joint venture to exploit the Cicero technology in the Asian market. The terms of the agreement required that the Company deposit $1,000 of the gross proceeds from the financing into escrow to fund the joint venture. The escrow agreement allows for the immediate release of funds to cover organizational costs of the joint venture. During the quarter ended March 31, 2003, $225 of escrowed funds was released. Since the joint venture was not formed and operational on or by July 17, 2003, the lead investors have the right, but not the obligation, to require the Company to purchase $1,000 in liquidation value of the Series D Preferred Stock at a 5% per annum premium, less their pro-rata share of expenses. The Company and the lead investor have mutually agreed to extend the escrow release provisions until April 15, 2004.

Another condition of the financing required the Company to place an additional $1,000 of the gross proceeds into escrow, pending the execution of a definitive agreement with Merrill Lynch providing for the sale of all right, title and interest to the Cicero technology. Since a transaction with Merrill Lynch for the sale of Cicero was not consummated by May 18, 2003, the lead investors have the right, but not the obligation, to require the Company to purchase $1,000 in liquidation value of the Series D Preferred Stock at a 5% per annum premium. During the second quarter, $390 of escrowed funds was released. In addition, the Company and the lead investor agreed to extend the escrow release provisions until the end of July 2003 when all remaining escrow monies were released to the Company.

In connection with the sale of Series D Preferred Stock, the holders of the Company' s Series A3 Preferred Stock and Series B3 Preferred Stock (collectively, the "Existing Preferred Stockholders"), entered into an agreement whereby the Existing Preferred Stockholders have agreed to waive certain applicable price protection anti-dilution provisions. Under the terms of the waiver agreement, the Company is also permitted to issue equity securities representing aggregate proceeds of up to an additional $4,900 following the sale of the Series D Preferred Stock. Additionally, the Existing Preferred Stockholders have also agreed to a limited lock-up restricting their ability to sell common stock issuable upon conversion of their preferred stock and warrants and to waive the accrual of any dividends that may otherwise be payable as a result of the Company' s delisting from Nasdaq. As consideration for the waiver agreement, the Company has agreed to issue on a pro rata basis up to 1,000,000 warrants to all the Existing Preferred Stockholders on a pro rata basis at such time and from time to time as the Company closes financing transactions that represent proceeds in excess of $2,900, excluding the proceeds from the Series D Preferred Stock transaction and any investments made by a strategic investor in the software business. Such warrants will have an exercise price that is the greater of $0.40 or the same exercise price as the exercise price of the warrant, or equity security, that the Company issues in connection with the Company' s financing or loan transaction that exceeds the $2,900 threshold.

In October 2003, the Company completed a common stock financing round wherein it raised $853 of capital. The offering closed on October 15, 2003. The Company sold 1,894,444 shares of common stock at a price of $0.45 per share for a total of $853 in proceeds and issued warrants to purchase 473,611 shares of the Company' s common stock at an exercise price of $0.45. The warrants expire three years from the date of grant. As part of an agreement with Liraz Systems Ltd, the guarantor of the Company' s term loan, the Company used $200 of the proceeds to reduce the principal outstanding on the term loan to $1,971.

The Company incurred a loss of $10,000 for the year ended December 31, 2003 in addition to losses of more than $123,000 for the previous two fiscal years. The Company has experienced negative cash flows from operations for the past three years. At December 31, 2003, the Company had a working capital deficiency of approximately $6,555. The Company' s future revenues are entirely dependent on acceptance of a newly developed and marketed product, Cicero, which has limited success in commercial markets to date. Accordingly, there is substantial doubt that the Company can continue as a going concern. In order to address these issues and to obtain adequate financing for the Company' s operations for the next twelve months, the Company is actively promoting and expanding its product line and continues to negotiate with significant customers that have begun or finalized the "proof of concept" stage with the Cicero technology. The Company is experiencing difficulty increasing sales revenue largely because of the inimitable nature of the product as well as customer concerns about the financial viability of the Company. The Company is attempting to solve the former problem by improving the market' s knowledge and understanding of Cicero through increased marketing and leveraging its limited number of reference accounts. Additionally, the Company is seeking additional equity capital or other strategic transactions in the near term to provide additional liquidity.

The Company has closed a strategic acquisition of an encryption technology asset in January 2004 and a private placement of its common stock wherein it has raised approximately $1,247. The Company expects that increased revenues will reduce its operating losses in future periods, however, there can be no assurance that management will be successful in executing as anticipated or in a timely enough manner. If these strategies are unsuccessful, the Company may have to pursue other means of financing that may not be on terms favorable to the Company or its stockholders. If the Company is unable to increase cash flow or obtain financing, it may not be able to generate enough capital to fund operations for the next twelve months. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The financial statements presented herein do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should Level 8 be unable to continue as a going concern.

Subsequent Financing Event

In January 2004, the Company acquired substantially all of the assets and certain liabilities of Critical Mass Mail, Inc., d/b/a Ensuredmail, a federally certified encryption software company. Under the terms of the purchase agreement, Level 8 issued 2,027,027 shares of common stock at a price of $0.37. The total purchase price of the assets and certain liabilities being acquired was $750 and has been accounted for by the purchase method of accounting. The Company agreed to register the common stock for resale under the Securities Act of 1933, as amended.

Also in January 2004, and simultaneously with the asset purchase of Critical Mass Mail, Inc., the Company completed a common stock financing round wherein it raised $1,247 of capital from several new investors as well as certain investors of Critical Mass Mail, Inc. The Company sold 3,369,192 shares of common stock at a price of $0.37 per share. As part of the financing, the Company has also issued warrants to purchase 3,369,192 shares of the Company' s common stock at an exercise price of $0.37. The warrants expire three years from the date of grant. The Company also agreed to register the common stock and the warrants for resale under the Securities Act of 1933, as amended.

Contractual Obligations

Future minimum payments for all contractual obligations for years subsequent to December 31, 2003 are as follows:

	2004	2005	2006	2007	Total
Short and long-term debt, including interest payments	$2,625	–	–	$131	$2,756
Service purchase commitments	400	–	–	–	400
Operating leases	214	221	84	–	519
Total	$3,239	$221	$ 84	$131	$3,675

The Company is also obligated to file a Form S-1 registration statement for sales of Level 8 Systems securities. The Company anticipates the cost of such filing to approximate $100.

At December 31, 2003, the Company had $3,355 of Series D Convertible Redeemable Preferred Stock outstanding. Under the terms of the agreement, a redemption event may occur if any one person, entity or group shall control more than 35% of the voting power of the Company' s capital stock.

Under the employment agreement between the Company and Mr. Pizi effective January 1, 2003, the Company is to pay Mr. Pizi an annual base salary of $200, and a performance bonus in cash of up to $400 per annum based upon certain revenue goals, as determined by the Compensation Committee of the Board of Directors of the Company, in its discretion. Upon termination of Mr. Pizi' s employment by the Company without cause, the Company has agreed to pay Mr. Pizi (a) a lump sum payment of one year of Mr. Pizi' s then base salary within thirty (30) days of termination and (b) two hundred thousand (200,000) shares of the Company' s common stock.

Under the employment agreement between the Company and Mr. Broderick effective January 1, 2003, the Company pays Mr. Broderick a base salary of $200, and a performance bonus of cash up to 20% of Mr. Broderick' s base salary. Upon termination of Mr. Broderick' s employment by the Company without cause, the Company has agreed to provide Mr. Broderick with salary continuation of six months of Mr. Broderick' s then base salary beginning on the first payday after the date of termination.

Off Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements. We have no subsidiaries or other unconsolidated limited purpose entities, and we have not guaranteed or otherwise supported the obligations of any other entity.

Significant Accounting Policies and Estimates

The policies discussed below are considered by us to be critical to an understanding of our financial statements because they require us to apply the most judgment and make estimates regarding matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. With respect to the policies discussed below, we note that because of the uncertainties inherent in forecasting, the estimates frequently require adjustment.

Our financial statements and related disclosures, which are prepared to conform with accounting principles generally accepted in the United States of America, require us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and accounts receivable and expenses during the period reported. We are also required to disclose amounts of contingent assets and liabilities at the date of the financial statements. Our actual results in future periods could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the Consolidated Financial Statements in the period they are determined to be necessary.

We consider the most significant accounting policies and estimates in our financial statements to be those surrounding: (1) revenue recognition; (2) allowance for doubtful trade accounts receivable; (3) valuation of notes receivable; (4) capitalization and valuation of software product technology; (5) valuation of deferred tax assets; and (7) restructuring reserves. These accounting policies, the basis for any estimates and potential impact to our Consolidated Financial Statements, should any of the estimates change, are further described as follows:

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Revenue Recognition. Our revenues are derived principally from three sources: (i) license fees for the use of our software products; (ii) fees for consulting services and training; and (iii) fees for maintenance and technical support. We generally recognize revenue from software license fees when a license agreement has been signed by both parties, the fee is fixed or determinable, collection of the fee is probable, delivery of our products has occurred and no other significant obligations remain. For multiple-element arrangements, we apply the "residual method". According to the residual method, revenue allocated to the undelivered elements is allocated based on vendor specific objective evidence ("VSOE") of fair value of those elements. VSOE is determined by reference to the price the customer would be required to pay when the element is sold separately. Revenue applicable to the delivered elements is deemed equal to the remainder of the contract price. The revenue recognition rules pertaining to software arrangements are complicated and certain assumptions are made in determining whether the fee is fixed and determinable and whether collectability is probable. For instance, in our license arrangements with resellers, estimates are made regarding the reseller' s ability and intent to pay the license fee. Our estimates may prove incorrect if, for instance, subsequent sales by the reseller do not materialize. Should our actual experience with respect to collections differ from our initial assessment, there could be adjustments to future results.

Revenues from services include fees for consulting services and training. Revenues from services are recognized on either a time and materials or percentage of completion basis as the services are performed and amounts due from customers are deemed collectible and non-refundable. Revenues from fixed price service agreements are recognized on a percentage of completion basis in direct proportion to the services provided. To the extent the actual time to complete such services varies from the estimates made at any reporting date, our revenue and the related gross margins may be impacted in the following period.

Allowance for Doubtful Trade Accounts Receivable. In addition to assessing the probability of collection in conjunction with revenue arrangements, we continually assess the collectability of outstanding invoices. Assumptions are made regarding the customer' s ability and intent to pay and are based on historical trends, general economic conditions, and current customer data. Should our actual experience with respect to collections differ from our initial assessment, there could be adjustments to bad debt expense.

Valuation of Notes Receivable. We continually assess the collectability of outstanding notes receivable. Assumptions are made regarding the counter party' s ability and intent to pay and are based on historical trends and general economic conditions, and current financial data. As of December 31, 2003 the Company had no notes receivable.

Capitalization and Valuation of Software Product Technology. Our policy on capitalized software costs determines the timing of our recognition of certain development costs. In addition, this policy determines whether the cost is classified as development expense or cost of software revenue. Management is required to use professional judgment in determining whether development costs meet the criteria for immediate expense or capitalization. Additionally, we review software product technology assets for net realizable value at each balance sheet date. For the year ended December 31, 2003, the Company recorded a write down of software product technology totaling $993 and as of December 31, 2003 the Company had $4,063 in capitalized software product technology. Should we experience reductions in revenues because our business or market conditions vary from our current expectations, we may not be able to realize the carrying value of these assets and will record a write down at that time.

Valuation of Deferred Tax Assets. Income taxes are accounted for under 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 operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established to the extent that it is more likely than not, that we will be unable to utilize deferred income tax assets in the future. At December 31, 2003, we had a valuation allowance of $80,511 against $80,511 of gross deferred tax assets. We considered all of the available evidence to arrive at our position on the net deferred tax asset; however, should circumstances change and alter our judgment in this regard, it may have an impact on future operating results.

At December 31, 2003, the Company has net operating loss carryforwards of approximately $186,293, which may be applied against future taxable income. These carryforwards will expire at various times between 2005 and 2023. A substantial portion of these carryforwards is restricted to future taxable income of certain of the Company' s subsidiaries or limited by Internal Revenue Code Section 382. Thus, the utilization of these carryforwards cannot be assured.

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Restructuring Reserves. At December 31, 2002, the Company' s restructuring liabilities totaled $772, which represented estimated excess facilities costs. In August 2003, the Company settled litigation relating to these excess facilities. Accordingly, the Company has reversed the restructuring balance. Under the terms of the settlement agreement, the Company agreed to assign the note receivable from the sale of Geneva to EM Software Solutions, Inc., (see Note 2 Dispositions), with recourse equal to the unpaid portion of the note receivable should the note obligor, EM Software Solutions, Inc., default on future payments. The current unpaid principal portion of the note receivable at assignment is approximately $545 and matures December 2007. The Company assessed the probability of liability under the recourse provisions using a probability weighted cash flow analysis and has recognized a long-term liability in the amount of $131.

Recent Accounting Pronouncements:

In January 2003, the FASB issued Interpretation No. 46 or FIN 46 "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements". In October 2003, the FASB issued FASB Staff Position FIN 46-6, "Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities" deferring the effective date for applying the provisions of FIN 46 for public entities' interests in variable interest entities or potential variable interest entities created before February 1, 2003 for financial statements of interim or annual periods that end after December 15, 2003. FIN 46 establishes accounting guidance for consolidation of variable interest entities that function to support the activities of the primary beneficiary. In December 2003, the FASB issued FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities." This revised interpretation is effective for all entities no later than the end of the first reporting period that ends after March 15, 2004. The Company has no investment in or contractual relationship or other business relationship with a variable interest entity and therefore the adoption of this interpretation did not have any impact on its consolidated financial position or results of operations. However, if the Company enters into any such arrangement with a variable interest entity in the future or an entity with which we have a relationship is reconsidered based on guidance in FIN 46 to be a variable interest entity, the Company' s consolidated financial position or results of operations might be materially impacted.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements". The adoption of this statement did not have a material impact on the Company' s results of operations and financial condition.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement 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. This statement requires that companies having a year-end after December 15, 2002 follow the prescribed format and provide the additional disclosures in their annual reports. The adoption of this statement did not have a material impact on the Company' s results of operations and financial condition.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of this statement did not have a material impact on our results of operations and financial condition.

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Item 7a.Quantitative and Qualitative Disclosures about Market Risk

As the Company has sold most of its European based business and has closed several European sales offices, the majority of revenues are generated from US sources. The Company expects that trend to continue for the next year. As such, there is minimal foreign currency risk at present. Should the Company continue to develop a reseller presence in Europe and Asia, that risk will be increased.

Item 8. Financial Statements and Supplementary Data

The information required by this item appears beginning on page F-1 of this report.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

On November 24, 2003, Deloitte & Touche LLP resigned as the Company' s independent public accountants. During the two most recent fiscal years preceding such resignation, neither of Deloitte & Touche' s reports on our financial statements contained an adverse opinion or a disclaimer of opinion, however, both reports contained qualifications as to uncertainty. During this same period, there were no qualifications as to audit scope or accounting principles, nor were there disagreements between the Company and Deloitte & Touche on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Deloitte & Touche, would have caused them to make a reference to the subject matter of the disagreements in connection with their reports on the financial statements for such years. There were no reportable events as described in Item 304(a)(1)(v) of Regulation S-K. The Company has provided Deloitte & Touche with a copy of the foregoing disclosures and Deloitte & Touche has furnished the Company with a letter addressed to the SEC attached hereto as an exhibit.

On February 2, 2004, Level 8 Systems appointed Margolis & Company P.C. as the Company' s new independent public accountants.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures: Disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) are designed only to provide reasonable assurance that they will meet their objectives. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company' s management, including the Company' s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company' s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, the Company' s Chief Executive Officer and Chief Financial Officer have concluded that the Company' s disclosure controls and procedures are effective to provide the reasonable assurance discussed above.

(b) Internal Control Over Financial Reporting: Regulations under the Securities Exchange Act of 1934 require public companies, including our company, to evaluate any change in our "internal control over financial reporting," which is defined as a process to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. In connection with their evaluation of our disclosure controls and procedures as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer did not identify any change in our internal control over financial reporting during the three-month period ended December 31, 2003 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

As of February 28, 2004, the Board of Directors of the Company consisted of Anthony Pizi, Bruce Hasenyager, Nicholas Hatalski, Kenneth Neilsen and Jay Kingley. All Directors were elected at the 2003 Annual Meeting of Stockholders and will serve until the election and qualification of their successors or until their earlier death, resignation or removal. Mr. Frank Artale resigned from the Board in January 2004.

Mr. Artale' s resignation was not the result of a disagreement with the Company or its management. Set forth below with respect to each director is his name, age, principal occupation and business experience for the past five years and length of service as a director of the Company.

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Anthony C. Pizi

Director since August 2000. Age: 44

Mr. Pizi has served as Chairman of the Board of Directors and as Chief Technology Officer since December 1, 2000. He has served as Chief Executive Officer since February 1, 2001. Mr. Pizi has been a director since August 2000. Until December 2000, he was First Vice President and Chief Technology Officer of Merrill Lynch' s Private Client Technology Architecture and Service Quality Group. Mr. Pizi' s 16 years with Merrill Lynch included assignments in Corporate MIS, Investment Banking and Private Client. Mr. Pizi earned his BS in Engineering from West Virginia University.

Nicholas Hatalski, MBA

Director since September 2002. Age: 42

Mr. Hatalski has been a director of Level 8 since September 2002. Since January 2004, Mr. Hatalski has served as the Vice President of Business Development and Product Strategy at MedSeek, Inc., a company dedicated to providing web-based solutions to the healthcare sector. Since December 2000, he was the Senior Vice President of the iServices Group of Park City Solutions, Inc. Prior to joining PCS, he was the Practice Manager for Technology Consulting at Siemens Health Services. His tenure at Siemens (and their acquisition Shared Medical Systems) was 1984-2000.

Bruce W. Hasenyager

Director since October 2002. Age: 62

Mr. Hasenyager has been a director of Level 8 since October 2002. Since April 2002, Mr. Hasenyager has served as Director of Business and Technology Development at the Hart eCenter at Southern Methodist University. Prior to that, Mr. Hasenyager served as Senior Vice President and CTO of Technology and Operations at MobilStar Network Corporation since April 1996.

Kenneth W. Nielsen

Director since October 2002. Age: 44

Mr. Nielsen has been a director of Level 8 since October 2002. Since December 1998, Mr. Nielsen has served as President and CEO of Nielsen Personnel Services, Inc., a personal staffing firm. Prior to that, Mr. Nielsen was District Operations Manager for Outsource International, Inc.

Jay R. Kingley

Director since November 2002. Age: 42

Mr. Kingley has been a director of Level 8 since November 2002. Since 2001, Mr. Kingley has served as CEO of Warren Partners, LLC, a software development and consultancy company. Mr. Kingley is also currently the CEO of Kingley Institute LLC, a medical wellness company. Prior to that, Mr. Kingley was Managing Director of a business development function of Zurich Financial Services Group from

1999-2001. Prior to joining Zurich Financial Services Group, Mr. Kingley was Vice President of Diamond Technology Partners, Inc., a management-consulting firm.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is currently comprised of Messrs. Hatalski, Kingley and Neilsen. Mr. Artale also served on the Committee until his resignation from the Board in January 2004. None of the current members of the Compensation Committee has served as an executive officer of the Company, and no executive officer of the Company has served as a member of the Compensation Committee of any other entity of which Messrs. Hatalski, Kingley and Neilsen have served as executive officers. There were no interlocking relationships between the Company and other entities that might affect the determination of the compensation of the directors and executive officers of the Company.

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Director Compensation

In May 1999, stockholders of the Company approved the Outside Director Stock Incentive Plan of the Company. Under this plan, the outside directors may be granted an option to purchase 12,000 shares of common stock at a price equal to the fair market value of the common stock as of the grant date. In January 2002, the Board of Directors approved an amendment to the Outside Director Stock Incentive Plan to provide an increase in the number of options to be granted to outside directors to 24,000. These options vest over a three-year period in equal increments upon the eligible Director' s election to the Board, with the initial increment vesting on the date of grant. The Outside Director Stock Incentive Plan also permits eligible directors to receive partial payment of director fees in common shares in lieu of cash, subject to approval by the Board of Directors. In addition, the plan permits the Board of Directors to grant discretionary awards to eligible directors under the plan. None of the Company' s Directors received additional monetary compensation for serving on the Board of Directors of the Company in 2001, other than reimbursement of reasonable expenses incurred in attending meetings.

In October 2002, the Board of Directors approved an amendment to the stock incentive plan for all non-management directors. Under the amendment, each non-management director will receive 100,000 options to purchase common stock of the Company at the fair market value of the common stock on the date of grant. These shares will vest in three equal increments with the initial increment vesting on the date of grant. The option grant contains an acceleration of vesting provision should the Company incur a change in control. A change in control is defined as a merger or consolidation of the Company with or into another unaffiliated entity, or the merger of an unaffiliated entity into the Company or another subsidiary thereof with the effect that immediately after such transaction the stockholders of the Company immediately prior to the transaction hold less than fifty percent (50%) of the total voting power of all securities generally entitled to vote in the election of directors, managers or trustees of the entity surviving such merger or consolidation. Under the amendment, there will be no additional compensation awarded for committee participation. The shares allocated to the Board of Directors are being issued out of the Level 8 Systems, Inc. 1997 Employee Stock Plan.

Executive Officers

The Company' s current executive officers are listed below, together with their age, position with the Company and business experience for the past five years.

Anthony C. Pizi Age: 44

Mr. Pizi currently serves as the Chairman of the Board, Chief Executive Officer and Chief Technology Officer of the Company since February 1, 2001. Prior to joining the Company, Mr. Pizi was First Vice President and Chief Technology Officer of Merrill Lynch' s Private Client Technology Architecture and Service Quality Group. Mr. Pizi' s 16 years with Merrill Lynch included assignments in Corporate MIS, Investment Banking and Private Client. Mr. Pizi earned his BS in Engineering from West Virginia University.

John P. Broderick Age: 54

Mr. Broderick has served as the Chief Operating Officer of the Company since June 2002, as the Chief Financial Officer of the Company since April 2001, and as Corporate Secretary since August 2001. Prior to joining the Company, Mr. Broderick was Executive Vice President of Swell Inc., a sports media e-commerce company where he oversaw the development of all commerce operations and served as the organization' s interim CFO. Previously, Mr. Broderick served as chief financial officer for Programmer' s Paradise, a publicly held (NASDAQ: PROG) international software marketer. Mr. Broderick received his B.S. in accounting from Villanova University.

The Board of Directors has determined that the members of the Audit Committee are independent as defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards. Until his resignation in January 2004, Mr. Frank Artale was designated the "audit committee financial expert" as defined in Item 401(h) of Regulation S-K. To date, the Company has not named anyone to the position.

Our Board of Directors has adopted a code of ethics and a code of conduct that applies to all of our directors, Chief Executive Officer, Chief Financial Officer, and employees. We will provide copies of our code of conduct and code of ethics without charge upon request. To obtain a copy of the code of ethics or code of conduct, please send your written request to Level 8 Systems, Suite 542, 8000 Regency Pkwy, Cary, North Carolina 27511, Attn: Corporate Secretary. The code of ethics is also available on the Company' s website at www.level8.com.

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Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company' s officers, directors and persons who own more than ten percent of the Company' s Common Stock (collectively, "Reporting Persons") to file reports of ownership and changes in ownership with the SEC and Nasdaq. Reporting Persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports they file. Based solely on its review of the copies of such reports received by it and written representations all Section 16(a) reports were filed in a timely manner.

Item 11. Executive Compensation.

The following summary compensation table sets forth the compensation earned by all persons serving as the Company' s executive officers during fiscal year 2003, serving or having served at the end of fiscal 2001 whose salary and bonus exceeded $100,000 for services rendered to the Company during fiscal 2003 and one other former executive officer who would be included but for the fact that he no longer served as executive officer at the end of fiscal 2002. The table reflects compensation earned for each of the last three years or for such shorter period of service as an executive officer as is reflected below. For the principal terms of the options granted during fiscal 2003, see "Option Grants in Fiscal 2003."

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary	Bonus	Securities Underlying Options	All Other Annual Compensation
Anthony C. Pizi	2003	$200,000(2)	$100,000	500,000	$–
Chief Executive Officer, Chief	2002	$337,500(3)	$–	500,000	$–
Technology Officer and	2001	$527,038	$–	500,000	$–
Chairman (1)					$
John P. Broderick	2003	$200,000(4)	$60,000	500,000	$–
Chief Operating and Financial	2002	$200,000	$40,000	100,000	$–
Officer, Corporate Secretary	2001	$146,788	$40,000	165,900	–
Paul Rampel	2002	$133,333	$–	404,300	$76,400(6)
Former President (5)	2001	$231,310	$60,000		$–

(1) Mr. Pizi began his service as Chief Executive Officer of the Company in February 2001.

(2) Mr. Pizi' s base salary for fiscal 2003 was $200,000. Mr Pizi had voluntarily elected to defer $31,250 of salary from 2003. During 2003, a salary deferral of $37,500 from 2002 was repaid to Mr. Pizi.

(3) Mr. Pizi' s base salary for fiscal 2002 was $300,000. Mr. Pizi had voluntarily elected to defer $75,000 of salary from 2001, which was paid in 2002, and to defer $37,500 of 2002 salary.

(4) Mr. Broderick' s base salary for 2003 was $200,000. Mr. Broderick voluntarily elected to defer $31,250 of salary from 2003.

(5) Mr. Rampel resigned his position as President in June 2002.

(6) Represents the fair market value of stock issued to Mr. Rampel as part of his separation from the Company as well as a forgiveness of debt to the Company in the amount of $32,500.

The following table sets forth information regarding each grant of stock options to each of the Named Executives during fiscal 2003. The Company is required to withhold from the shares issued upon exercise a number of shares sufficient to satisfy applicable withholding tax obligations. The Company did not award any stock appreciation rights ("SARs") during fiscal 2003.

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Option Grants in Fiscal 2003

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Appreciation for Option Term	
Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/share)	Expiration Date	5% ($)	10% ($)
Anthony C. Pizi	500,000	19.48 %	$ 0.26	04/17/13	81,756	207,187
John P. Broderick	500,000	19.48 %	$ 0.26	04/17/13	81,756	207,187

The following table sets forth information concerning the options exercised during fiscal 2003 and held at December 31, 2003 by the Named Executives.

Fiscal 2003 Year- End Option Holdings and Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2003		Value of Unexercised In-the-Money Options at December 31, 2003(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Anthony C. Pizi	–	–	666,616	833,384	43,329	86,671
John P. Broderick	–	–	310,571	455,329	43,329	86,671

(1) Based on $0.35 per share, the December 31, 2003, closing price as quoted on the OTC Bulletin Board.

Employment Agreements, Termination of Employment and Change-In-Control Arrangements

Under the employment agreement between the Company and Mr. Pizi effective January 1, 2003, the Company is to pay Mr. Pizi an annual base salary of $200, and a performance bonus in cash of up to $400 per annum based upon certain revenue goals, as determined by the Compensation Committee of the Board of Directors of the Company, in its discretion. Upon termination of Mr. Pizi' s employment by the Company without cause, the Company has agreed to pay Mr. Pizi (a) a lump sum payment of one year of Mr. Pizi' s then base salary within thirty (30) days of termination and (b) two hundred thousand (200,000) shares of the Company' s common stock. In the event there occurs a substantial change in Mr. Pizi' s job duties, there is a decrease in or failure to provide the compensation or vested benefits under the employment agreement or there is a change in control of the Company, the Company has agreed to grant Mr. Pizi two hundred thousand (200,000) shares of the Company' s common stock. If Mr. Pizi' s employment is terminated for any reason, Mr. Pizi has agreed that, for one (1) year after such termination, he will not directly or indirectly solicit or divert business from the Company or assist any business in attempting to do so or solicit or hire any person who was an employee of the Company during the term of his employment agreement or assist any business in attempting to do so.

Under the employment agreement between the Company and Mr. Broderick effective January 1, 2003, the Company pays Mr. Broderick a base salary of $200, and a performance bonus of cash up to 20% of Mr. Broderick' s base salary. Upon termination of Mr. Broderick' s employment by the Company without cause, the Company has agreed to provide Mr. Broderick with salary continuation of six months of Mr. Broderick' s then base salary beginning on the first payday after the date of termination. In the event there occurs a substantial change in Mr. Broderick' s job duties, there is a decrease in or failure to provide the compensation or vested benefits under the employment agreement or there is a change in control of the Company, the Company has agreed to grant Mr. Broderick fifty thousand (50,000) shares of the Company' s common stock, a salary continuation amounting to six months of Mr. Broderick' s then base salary and immediately vest all unvested stock options held by Mr. Broderick. Mr. Broderick will have thirty (30) days from the date written notice is given about either a change in his duties or the announcement and closing of a transaction resulting in a change in control of the Company to resign and execute his rights under this agreement. If Mr. Broderick' s employment is terminated for any reason, Mr. Broderick has agreed that, for one (1) year after such termination, he will not directly or indirectly solicit or divert business from the Company or assist any business in attempting to do so or solicit or hire any person who was an employee of the Company during the term of his employment agreement or assist any business in attempting to do so.

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Under the separation agreement between the Company and Mr. Rampel dated June 18, 2002, the Company has agreed, among other things, to provide to Mr. Rampel: (a) forgiveness of a $33 debt owed to the Company by Mr. Rampel; (b) immediate vesting of all unvested stock options and the extension of the period for exercise of these options to 12 months from the date of separation; and (c) a grant of 100,000 shares of common stock of the Company. All the payments above were subject to applicable withholding. In return for this compensation, Mr. Rampel executed a release of employment related claims and agreed to forfeit 310,000 vested stock options with exercise prices between $5.87 and $6.10.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth information as of February 29, 2004 with respect to beneficial ownership of shares by (i) each person known to the Company to be the beneficial owner of more than 5% of the outstanding common stock, (ii) each of the Company' s directors, (iii) the executive officers of the Company named in the Summary Compensation Table (the "Named Executives") and (iv) all current directors and executive officers of the Company as a group. Unless otherwise indicated, the address for each person listed is c/o Level 8 Systems, Inc., 214 Carnegie Center Suite 303, Princeton, New Jersey 08540.

The named person has furnished stock ownership information to the Company. Beneficial ownership as reported in this section was determined in accordance with Securities and Exchange Commission regulations and includes shares as to which a person possesses sole or shared voting and/or investment power and shares that may be acquired on or before April 16, 2004 upon the exercise of stock options. The chart is based on 32,426,037 shares outstanding as of February 29, 2004. Except as otherwise stated in the footnotes below, the named persons have sole voting and investment power with regard to the shares shown as beneficially owned by such persons.

Name of Beneficial Owner	Common Stock			
	No. of Shares		Percent of Class	
MLBC, Inc. (1)	1,166,000	(2)	3.6	%
Seneca Capital International, Ltd.(3)	1,902,771	(4)	5.9	%
Seneca Capital, L.P.(5)	1,207,288	(6)	3.7	%
Anthony C. Pizi	1,276,057	(7)	3.9	%
John P. Broderick	310,571	(8)	1.0	%
Nicholas Hatalski	66,660	(9)	*	
Kenneth W. Nielsen	66,660	(9)	*	
Bruce W. Hasenyager	66,660	(9)	*	
Jay R. Kingley	66,660	(9)	*	
All current directors and executive officers as a group (6 persons)	1,853,268	(10)	5.7	%

* Represents less than one percent of the outstanding shares.

(1) The address of MLBC, Inc. is c/o Merrill Lynch & Co., Inc., Corporate Law Department, 222 Broadway- 17th Floor, New York, New York 10038.

(2) MLBC, Inc. is an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated. See "Certain Relationships and Related Transactions."

(3) The address of Seneca Capital International, Ltd. is 527 Madison Avenue, 11th Floor, New York, New York 10022.

(4) Includes 779,826 shares of common stock issuable upon conversion of Series B3 Preferred Stock and 1,122,945 shares issuable upon exercise of warrants at an exercise price of $0.40. Mr. Douglas Hirsch exercises sole voting or dispositive power with respect to the shares held of record by Seneca Capital International, Ltd.

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(5) The address of Seneca Capital L.P. is 527 Madison Avenue, 11th Floor, New York, New York 10022.

(6) Includes 417,205 shares of common stock issuable upon conversion of Series B3 Preferred Stock, 188,408 shares of common stock issuable upon conversion of Series A3 Preferred Stock and 790,083 shares issuable upon exercise of warrants at an exercise price of $0.40 per share. Mr. Douglas Hirsch exercises sole voting or dispositive power with respect to the shares held of record by Seneca Capital L.P.

(7) Includes 766,636 shares subject to stock options exercisable within sixty (60) days, 394,737 shares of common stock issuable upon the conversion of Series C Preferred Stock and 98,684 shares of common stock issuable upon the exercise of warrants at an exercise price of $0.38 per share of common stock subject to adjustment.

(8) Consists of 310,571 shares subject to stock options exercisable within sixty (60) days.

(9) Consists of 66,660 shares subject to stock options exercisable within sixty (60) days.

(10) Includes shares issuable upon exercise of options and warrants exercisable within sixty (60) days as described in Notes 7-9.

Item 13. Certain Relationships and Related Transactions.

Loan from Related Parties

From time to time during 2003, the Company entered into short term notes payable with Anthony Pizi, the Company' s Chairman and Chief Executive Officer for various working capital needs. The Notes bear interest at 1% per month and are unsecured. At December 31, 2003, the Company was indebted to Mr. Pizi in the amount of $85. In January 2004, the Company repaid Mr. Pizi $75.

In December 2001, the Company entered into an agreement with Messrs. Rampel and Pizi, which provided for borrowings from them for up to $250 and are secured by notes and accounts receivable. The borrowings bear interest at 10% and are payable quarterly. In connection with Mr. Rampel' s resignation from the Company on June 18, 2002 and the sale of the StarQuest assets to an entity affiliated with Mr. Rampel as described above, the Company repaid $150 of the borrowings to Mr. Rampel. In August 2002, Mr. Pizi elected to convert approximately $150 of his indebtedness from the Company into equity and participated in the Series C Convertible Redeemable Preferred Stock Offering on the same terms as the other investors and as a result this agreement has been terminated**.**

Assignment of Note Receivable from Profit Key

In October 2002, the Company assigned its interest in a Note Receivable from Profit Key Acquisition LLC to a group of investors including Nicholas Hatalski and Paul Rampel, members of our Board of Directors, and Anthony C. Pizi, the Chief Executive Officer of the Company. Pursuant to the terms of the agreement, Level 8 assigned its interest in a Note Receivable in the principal amount of $500, due March 31, 2003 with interest at 9% per annum in return for $400 cash. The Company solicited a competitive bid before finalizing the transaction.

Sale of StarQuest Assets

On June 18, 2002, the Company and its subsidiary Level 8 Technologies, Inc. entered into an Asset Purchase Agreement with Starquest Ventures, Inc., a California corporation and an affiliate of Paul Rampel, a member of the Board of Directors of Level 8 and a former executive officer. Pursuant to the terms and conditions of the Asset Purchase Agreement, Level 8 sold its Star/SQL and CTRC software products to Starquest Ventures for $365 and the assumption of certain maintenance liabilities. $150 of the proceeds of the sale transaction was used to repay borrowings from Mr. Rampel. The Company solicited and received a fairness opinion on the transaction.

Transactions with Merrill Lynch

On January 3, 2002, the Company entered into a Purchase Agreement with MLBC, Inc., an affiliate of Merrill Lynch. Pursuant to the Purchase Agreement, the Company issued 250,000 shares of its common stock to MLBC and entered into a royalty sharing agreement for sales of Cicero. Under the royalty sharing agreement, the Company is obligated to pay a royalty of 3% of the sales price for each sale of Cicero or related maintenance services. The royalties are not payable in excess of $20,000. As consideration for the issuance of the shares and the royalty payments, Merrill Lynch has entered into an amendment to the Cicero license agreement, which extends our exclusive worldwide marketing, sales, and development rights to Cicero and granted us certain ownership rights in the Cicero trademark. Pursuant to the Purchase Agreement, the Company also entered into a Registration Rights Agreement granting MLBC certain rights to have the shares of common stock it received under the Purchase Agreement registered under the Securities Act.

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Preferred Stock and Warrant Exchange

On March 19, 2003, Level 8 Systems, Inc. completed a $3,500 private placement of Series D Convertible Preferred Stock ("Series D Preferred Stock"), convertible at a conversion ratio of $0.32 per share of common stock into an aggregate of 11,031,250 shares of common stock. As part of the financing, the Company has also issued warrants to purchase an aggregate of 4,158,780 shares of common stock at an exercise price of $0.07 per share ("Series D-1 Warrants"). On October 10, 2003, the Company, consistent with its obligations, also issued warrants to purchase an aggregate of 1,665,720 shares of common stock at an exercise price the lesser of $0.20 per share or market price at the time of exercise ("Series D-2 Warrants"). The Series D-2 Warrants became exercisable on November 1, 2003, because the Company failed to report $6,000 in gross revenues for the nine-month period ended September 30, 2003. Both existing and new investors participated in the financing.

The Company also agreed to register the common stock issuable upon conversion of the Series D Preferred Stock and exercise of the warrants for resale under the Securities Act of 1933, as amended. Under the terms of the financing agreement, a redemption event may occur if any one person, entity or group shall control more than 35% of the voting power of the Company' s capital stock. The Company allocated the proceeds received from the sale of the Series D Preferred Stock and warrants to the preferred stock and detachable warrants on a relative fair value basis, resulting in an allocation of $2,890 to the Series D Preferred Stock and $640 to the detachable warrants. Based upon the allocation of the proceeds, the Company determined that the effective conversion price of the Series D Preferred Stock was less than the fair value of the Company' s common stock on the date of issuance. The beneficial conversion feature was recorded as a discount on the value of the Series D Preferred Stock and an increase in additional paid-in capital. Because Series D Preferred Stock was convertible immediately upon issuance, the Company fully amortized such beneficial conversion feature on the date of issuance.

On October 25, 2002, we effected an exchange of all of our outstanding shares of Series A2 Convertible Redeemable Preferred Stock ("Series A2 Preferred Stock") and Series B2 Convertible Redeemable Preferred Stock ("Series B2 Preferred Stock") and related warrants for an equal number of shares of newly created Series A3 Convertible Redeemable Preferred Stock ("Series A3 Preferred Stock") and Series B3 Convertible Redeemable Preferred Stock ("Series B3 Preferred Stock") and related warrants. This exchange was made to correct a deficiency in potential conversion price adjustments from the prior exchange of Series A1 and B1 Preferred Stock and related warrants for Series A2 and B2 Preferred Stock and related warrants on August 29, 2002. The conversion price for the Series A3 Preferred Stock and the conversion price for the Series B3 Preferred Stock remain the same as the previously issued Series A1 and A2 Preferred Stock and Series B1 and B2 Preferred Stock, at $8.333 and $12.531, respectively. The exercise price for the aggregate 753,640 warrants relating to the Series A3 Preferred Stock was increased from $0.38 to $0.40 per share which is a reduction from the $1.77 exercise price of the warrants relating to the Series A1 Preferred Stock. The exercise price for the aggregate 1,047,382 warrants relating to the Series B3 Preferred Stock was increased from $0.38 to $0.40 per share which is a reduction from the $1.77 exercise price of the warrants relating to the Series B1 Preferred Stock. The adjusted exercise price was based on the closing price of the Company' s Series C Convertible Redeemable Preferred Stock and warrants on August 14, 2002, plus $0.02, to reflect accurate current market value according to relevant Nasdaq rules. This adjustment was made as part of the agreement under which the holders of the Company' s Preferred Stock agreed to waive their price-protection anti-dilution protections to allow the Company to issue the Series C Preferred Stock and warrants without triggering the price-protection anti-dilution provisions and excessively diluting its Common Stock.

Under the terms of the agreement, we are authorized to issue equity securities in a single or series of financing transactions representing aggregate gross proceeds to the Company of approximately $5,000, or up to an aggregate 17,500 shares of common stock, whichever occurs first, without triggering the price-protection anti-dilution provisions in the Series A3 Preferred Stock and B3 Preferred Stock and related warrants. In exchange for the waiver of these price-protection anti-dilution provisions, we repriced the warrants as described above and have agreed to issue on a pro rata basis up to 4,600 warrants to the holders of Series A3 Preferred Stock and Series B3 Preferred Stock at such time and from time to time as the Company closes subsequent financing transactions up to the $5,000 issuance cap or the 17,500 share issuance cap. As a result of the Series C Preferred Stock financing which represented approximately $1,600 of the Company' s $5,000 in allowable equity issuances, the Company is obligated to issue an aggregate of 1,462,801 warrants at an exercise price of $0.40 per share to the existing Preferred Stockholders. Additionally, the Company has agreed to issue a warrant to purchase common stock to the existing Preferred Stockholders on a pro rata basis for each warrant to purchase common stock that the Company issues to a third-party lender in connection with the closing of a qualified loan transaction. The above referenced warrants will have the same exercise price as the exercise price of the warrant, or equity security, that the Company issues in connection with the Company' s subsequent financing or loan transaction or $0.40 per share (adjusted for recapitalizations, stock splits and the like), whichever is greater.

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As a result of the Series D preferred Stock financing which represented approximately $3,500 against the allowable equity issuances, the Company was obligated to issue an aggregate of 3,048,782 warrants at an exercise price of $0.40 per share to the existing Series A3 and Series B3 Preferred shareholders. The warrants were issued on October 8, 2003 and had a fair value of $1,062, which was recorded as a deemed dividend to preferred stockholders.

Additionally, the Company has agreed to issue a warrant to purchase common stock to the existing Preferred Stockholders on a pro rata basis for each warrant to purchase common stock that the Company issues to a third-party lender in connection with the closing of a qualified loan transaction. The above referenced warrants will have the same exercise price as the exercise price of the warrant, or equity security, that the Company issues in connection with the Company' s subsequent financing or loan transaction or $0.40, whichever is greater. These warrants are not classified as a liability under EITF 00-19.

Previously, on October 16, 2001, the Company effected an exchange of all of its outstanding shares of Series A 4% Convertible Redeemable Preferred Stock and Series B 4% Convertible Redeemable Preferred Stock and related warrants for an equal number of shares of our newly created Series A1 Convertible Redeemable Preferred Stock ("Series A1 Preferred Stock") and Series B1 Convertible Redeemable Preferred Stock ("Series B1 Preferred Stock") and related warrants. Advanced Systems Europe, B.V. ("ASE"), a wholly owned subsidiary of Level 8' s principal stockholder at the time, exchanged 10,000 shares of Series A Preferred Stock for the newly created Series A1 Preferred Stock. The effect of the exchange with respect to ASE is as follows: The conversion price for the Series A1 Preferred Stock was reduced from $10.00 to $8.333 per share, and the total number of shares of common stock into which such shares may be converted increased from 1,000,000 to 1,200,048. No dividends are payable on the Series A1 Preferred Stock. Liraz and ASE may no longer be considered related parties because of their divestments of capital stock of the Company.

Loans to Related Parties

On January 27, 2001, the Company extended a loan to Paul Rampel, the then President and a director of the Company, in the amount of $75. The loan carried an interest rate of 10% per annum on the principal balance and the loan was due and payable in full on January 27, 2002. The loan was secured by 15,000 shares of common stock of the Company held by Mr. Rampel under a Stock Pledge agreement between the Company and Mr. Rampel. In March of 2002, Mr. Rampel, as part of his new employment agreement with the Company, gave back the 15,000 shares of stock as partial payment on the Note and agreed to pay the rest of the Note off monthly during 2002. The remainder of the balance was settled in connection with Mr. Rampel' s separation agreement entered into in June 2002.

Borrowings and Commitments from Liraz

As part of the acquisition of Template software, the Company obtained $10,000 in financing in the form of a 17-month term loan. The financing was guaranteed by Liraz, the Company' s principal stockholder, in return for 60,000 shares of the Company' s common stock. The number of shares of common stock provided in exchange for the guarantee, was determined by the independent directors of the Company in consultation with an outside appraisal firm and based upon market conditions and the Company' s anticipated financing needs at closing. In the third quarter of 2000, this term loan was amended to provide the Company with an additional $5,000 in borrowings and to extend the due date from May 31, 2001 to November 30, 2001. Liraz subsequently extended its guarantee of the amended loan through November 30, 2001 in exchange for 110,000 shares of the Company' s common stock. The value of the shares issued will be capitalized and amortized over the term of the loan as a component of interest expense. In May of 2001, Liraz extended its guarantee until April 30, 2002. The commitment provides for an interest rate equal to the London Interbank Offered Rate plus 1% annually. As part of the sale of the Geneva AppBuilder Product to a subsidiary of Liraz in October 2001, the company utilized the proceeds from the transaction and other assets to liquidate approximately $12,000 of the outstanding debt. At the same time, Liraz extended its guarantee and the maturity date on the balance of the Note until November 2003. In November 2003, The Company and Liraz agreed to extend the guaranty and with the approval of the lender, agreed to extend the maturity of the debt obligation until November 8, 2004. The Company issued common stock to Liraz in exchange for this debt extension and will issue additional stock on March 31, 2004, June 30, 2004 and September 30, 2004 unless the debt is repaid before those dates.

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Item 14. Principal Accountant Fees and Services

The information required by Item 14 as to principal accountant fees and services is incorporated by reference from the Company' s Proxy Statement to be filed by the Company with the Securities and Exchange Commission within 120 days after the end of the fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(A)1. FINANCIAL STATEMENTS

The following financial statements of the Company and the related reports of independent accountants thereon are set forth immediately following the Index of Financial Statements which appears on page F-1 of this report:

Independent Auditors' Reports

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Operations for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Comprehensive Loss for the years ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

2. FINANCIAL STATEMENT SCHEDULES

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

3. EXHIBITS

The exhibits listed under Item 15(c) hereof are filed as part of this Annual Report on Form 10-K.

(B) REPORTS ON FORM 8-K

On February 6, 2004, Level 8 Systems filed a Form 8-K reporting the appointment of Margolis & Company P.C. as the Company' s new independent public accountants.

On November 26, 2003, Level 8 Systems filed a Form 8 K reporting the resignation of Deloitte & Touche LLP as the Company' s independent public accountants.

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(C) EXHIBITS

Exhibit Number	Description
2.1	Asset Purchase Agreement, dated as of December 13, 2002, by and among Level 8 Systems, Inc., Level

8 Technologies, Inc. and EMSoftware Solutions, Inc. (exhibits and schedules omitted but will be furnished supplementally to the Securities and Exchange Commission upon request) (incorporated by reference to exhibit 2.1 to Level 8' s Form 8-K filed December 30, 2002).

3.1 Certificate of Incorporation of Level 8 Systems, Inc., a Delaware corporation, as amended August 4, 2003 (filed herewith).

3.2 Bylaws of Level 8 Systems, Inc., a Delaware corporation (incorporated by reference to exhibit 3.2 to Level 8' s Form 10-K filed April 2, 2002).

3.3 Certificate of Designations, Preferences and Rights dated March 19, 2003 relating to Series D Convertible Redeemable Preferred Stock (incorporated by reference to exhibit 3.1 to Level 8' s Form 8-K, filed March 31, 2003).

3.4 Certificate of Designation relating to Series A3 Convertible Redeemable Preferred Stock. (incorporated by reference to exhibit 3.1 to Level 8' s Form 10-Q filed November 15, 2002).

3.5 Certificate of Designation relating to Series B3 Convertible Redeemable Preferred Stock. (incorporated by reference to exhibit 3.1 to Level 8' s Form 10-Q filed November 15, 2002).

3.6 Certificate of designation relating to Series C Convertible Redeemable Preferred Stock (Incorporated by reference to exhibit 3.1 to Level 8' d Form 8-K filed August 27, 2002

4.1 Registration Rights Agreement dated as of March 19, 2003 by and among Level 8 Systems, Inc. and the Purchasers listed on Schedule I thereto relating to the Series D Convertible Redeemable Preferred Stock (incorporated by reference to exhibit 4.1 to Level 8' s Form 8-K, filed March 31, 2003).

4.2 Registration Rights Agreement dated as of October 15, 2003 by and among Level 8 Systems, Inc. and the Purchasers in the October Private Placement listed on schedule I thereto (filed herewith)

4.3 Registration Rights Agreement, dated as of January 16, 2002, by and among Level 8 Systems, Inc. and the Purchasers in the January Private Placement listed on Schedule I thereto (incorporated by reference to exhibit 4.1 to Level 8' s Report on Form 8-K, filed January 25, 2002).

4.4 Registration Rights Agreement, dated as of January 3, 2002, between Level 8 Systems, Inc. and MLBC, Inc. (incorporated by reference to exhibit 4.1 to Level 8' s Report on Form 8-K, filed January 11, 2002).

4.5 Registration Rights Agreement, dated as of August 29, 2002, entered into by and between Level 8 Systems, Inc. and the holders of Series A2/A3 Preferred Stock and Series B2/B3 Preferred Stock (incorporated by reference to exhibit 10.4 to Level 8' s Form 8-K filed August 30, 2002).

4.5A First Amendment to Registration Rights Agreement, dated as of October 25, 2002, entered into by and between Level 8 Systems, Inc. and the holders of Series A2/A3 Preferred Stock and Series B2/B3 Preferred Stock (incorporated by reference to exhibit 10.4 to Level 8' s Form 10-Q filed November 15, 2002).

4.6 Registration Rights Agreement, dated as of June 13, 1995, between Level 8 Systems, Inc. and Liraz Systems Ltd. (incorporated by reference to exhibit 10.24 to Across Data Systems, Inc.' s (Level 8' s predecessor) Registration Statement on Form S-1, filed May 12, 1995, File No. 33-92230).

4.6A First Amendment to Registration Rights Agreement, dated as of August 8, 2001, to the Registration

Rights Agreement dated as of June 13, 1995, by and between Across Data Systems, Inc. (Level 8' s predecessor) and Liraz Systems Ltd. (incorporated by reference to exhibit 4.1 to Level 8' s Report on Form 8-K, filed August 14, 2001).

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Exhibit Number	Description
4.7	Registration Rights Agreement, dated as of August 14, 2002, entered into by and between Level 8 Systems, Inc. and the investors in Series C Preferred Stock (incorporated by reference to exhibit 4.1 to Level 8' s Form 8-K filed August 27, 2002).
4.8	Form of Warrant issued to the Purchasers in the Series D Preferred Stock transaction dated as of March 19, 2003 (incorporated by reference to exhibit 4.2 to Level 8' s Form 8-K, filed March 31, 2003)
4.8A	Form of Warrant issued to the Purchasers in the Series D Preferred Stock transaction dated as of March 19, 2003 (incorporated by reference to exhibit 4.2 to Level 8' s Form 8-K, filed March 31, 2003)
4.9	Form of Stock Purchase Warrant issued to Purchasers in the October 2003 Private Placement (filed herewith)
4.10	Form of Stock Purchase Warrant issued to the Purchasers in the January Private Placement (incorporated by reference to exhibit 10.2 to Level 8' s Report on Form 8-K, filed January 25, 2002).
4.11	Form of Series A3 Stock Purchase Warrant (incorporated by reference to exhibit 10.2 of Level 8' s Form 10-Q filed November 15, 2002).
4.12	Form of Series B3 Stock Purchase Warrant (incorporated by reference to exhibit 10.3 of Level 8' s Form 10-Q filed November 15, 2002).
4.13	Form of Series C Stock Purchase Warrant (incorporated by reference to exhibit 10.2 to Level 8' s Form 8-K filed August 27, 2002).
10.1	Securities Purchase Agreement dated as of March 19, 2003 by and among Level 8 Systems, Inc. and the Purchasers (incorporated by reference to exhibit 10.1 to Level 8' s Form 8-K, filed March 31, 2003).
10.2	Securities Purchase Agreement dated as of October 15, 2003 by and among Level 8 Systems, Inc. and the Purchasers in the October Private Placement (filed herewith)
10.3	Securities Purchase Agreement, dated as of January 16, 2002, by and among Level 8 Systems, Inc. and the Purchasers in the January Private Placement (incorporated by reference to exhibit 10.1 to Level 8' s Report on Form 8-K, filed January 25, 2002).
10.4	Purchase Agreement, dated as of January 3, 2002, between Level 8 Systems, Inc. and MLBC, Inc. (incorporated by reference to exhibit 10.1 to Level 8' s Report on Form 8-K, filed January 11, 2002).
10.4A	Purchase Agreement, dated as of July 31, 2000, between Level 8 Systems, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 10.1 to Level 8' s Report on

Form 8-K, filed August 11, 2000).

10.5 Securities Purchase Agreement, dated as of August 14, 2002, by and among Level 8 Systems, Inc. and the purchasers of the Series C Preferred Stock (incorporated by reference to exhibit 10.1 to Level 8' s Form 8-K filed August 27, 2002).

10.6 Agreement by and among Level 8 Systems, Inc. and the holders of Series A1/A2/A3 and B1/B2/B3 Preferred Stock, dated as of August 14, 2002 (incorporated by reference to exhibit 10.3 to Level 8' s Form 8-K filed August 27, 2002).

10.7 Exchange Agreement among Level 8 Systems, Inc., and the various stockholders identified and listed on Schedule I, dated as of August 29, 2002 (incorporated by reference to exhibit 10.1 to Level 8' s Form 8-K filed August 30, 2002).

10.7A First Amendment to Exchange Agreement, dated as of October 25, 2002, among Level 8 Systems, Inc., and the various stockholders identified and listed on Schedule I to that certain Exchange Agreement, dated as of August 29, 2002 (incorporated by reference to exhibit 10.1 to Level 8' s Form 10-Q filed November 15, 2002).

10.7B Securities Purchase Agreement, dated as of June 29, 1999, among Level 8 Systems, Inc. and the investors named on the signature pages thereof for the purchase of Series A Preferred Stock (incorporated by reference to exhibit 10.1 to Level 8' s Form 8-K filed July 23, 1999).

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Exhibit Number	Description
10.8	Amended PCA Shell License Agreement, dated as of January 3, 2002, between Level 8 Systems, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to exhibit 10.2 to Level 8' s Form 8-K, filed January 11, 2002).
10.8A	PCA Shell License Agreement between Level 8 Systems, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to exhibit 10.2 to Level 8' s Report on Form 8-K, filed September 11, 2000).
10.9	Asset Purchase Agreement by and among Level 8 Systems, Inc., Level 8 Technologies, Inc. and Starquest Ventures, Inc., dated as of May 31, 2002 (incorporated by reference to exhibit 10.2 to Level 8' s Form 8-K filed June 25, 2002).
10.10	Promissory Note of Level 8 Systems, Inc., dated as of September 28, 2001, among Level 8 Systems, Inc. and Bank Hapoalim (incorporated by reference to exhibit 10.2 to Level 8' s Form 10-K filed April 2, 2002).
10.10A	Amendment to Promissory Note of Level 8 Systems, Inc., dated as of November 15,2003 among Level 8 Systems, Inc. and Bank Hapoalim (filed herewith).
10.11	Employment Agreement between Anthony Pizi and the Company effective January 1, 2003 (filed herewith).*

10.12	Employment Agreement between John P. Broderick and the Company effective January 1, 2002 (incorporated by reference to exhibit 10.11 of Level 8' s Form 10-K filed April 1, 2002).*
10.13	Separation Agreement and Mutual Limited Release between Level 8 Systems, Inc. and Paul Rampel (incorporated by reference to exhibit 10.1 of Level 8' s Form 8-K filed June 25, 2002).*
10.14	Level 8 Systems Inc. 1997 Stock Option Plan, as Amended and Restated (incorporated by reference to exhibit 10.2 to Level 8' s Registration Statement of Form S-1/A, filed September 22, 2000, File No. 333-44588).*
10.14A	Fifth Amendment to Level 8 Systems Inc. 1997 Stock Option Plan (incorporated by reference to exhibit 10.9A to Level 8' s Form 10-K filed April 2, 2002).*
10.14B	Seventh Amendment to Level 8 Systems Inc. 1997 Stock Option Plan (filed herewith).
10.15	Level 8' s February 2, 1995 Non-Qualified Option Plan (incorporated by reference to exhibit 10.1 to Across Data Systems, Inc.' s (Level 8' s predecessor) Registration Statement on Form S-1, filed May 12, 1995, File No. 33-92230).*
10.16	Lease Agreement for Cary, N.C. offices, dated March 31, 1997, between Seer Technologies, Inc. and Regency Park Corporation (incorporated by reference to exhibit 10.47 to Seer Technologies, Inc.' s Quarterly Report on Form 10-Q for the period ended March 31, 1997, File No. 000-26194).
10.16A	Addendum #1 to the Lease Agreement for Cary, N.C. offices, dated July 6, 1998 (incorporated by reference to exhibit 10.58 to Seer Technology Inc.' s Quarterly Report on Form 10-Q for the period ended June 30, 1998, File No. 000-26194).
10.16B	Amendment to Lease Agreement for Cary, N.C. offices, dated January 21, 1999 (incorporated by reference to exhibit 10.21A to Level 8' s Annual Report on Form 10-K for the fiscal year ended December 31, 1998).
10.17	Lease Agreement for Cary, N.C. offices, dated November 7, 2003, between Level 8 Systems, Inc. and Regency Park Corporation (filed herewith)

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Exhibit Number	Description
10.18	Office Lease Agreement, dated April 25, 1996, between Template Software, Inc. and Vintage Park Two Limited Partnership (incorporated by reference to an exhibit to Template Software, Inc.' s Registration Statement on Form S-1, File No. 333-17063).
10.18A	Amendment to Office Lease Agreement, dated August 18, 1997, between Template Software, Inc. and Vintage Park Two Limited Partnership (incorporated by reference to an exhibit to Template Software, Inc.' s Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No. 000-21921).
10.19	Lease Agreement, dated February 23, 2001, between Level 8 Systems, Inc. and Carnegie 214

Associates Limited Partnership (incorporated by reference to exhibit 10.15 to Level 8' s Annual Report on Form 10-K, filed March 29, 2001).

14.1 Code of Ethics (filed herewith).

16.1 Letter from Deloitte & Touche LLP regarding change of accountant (incorporated by reference to Exhibit 16 to Level 8' s Current Report on Form 8-K, filed November 26, 2003).

21.1 List of subsidiaries of the Company (filed herewith).

23.1 Consent of Margolis & Company LLP (filed herewith).

23.2 Consent of Deloitte & Touche LLP (filed herewith).

99.1 Certification of Anthony C. Pizi Pursuant to 18 USC § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

99.2 Certification of John P. Broderick Pursuant to 18 USC § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* Management contract or compensatory agreement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LEVEL 8 SYSTEMS, INC.

/s/
By: Anthony C. Pizi

Anthony C. Pizi
Chairman of the Board and Chief Executive Officer
Date: March 29, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant and in the capacities and on the dates indicated have signed this Report below.

Signature	Title	Date
/s/ Anthony C. Pizi Anthony C. Pizi	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 30, 2004
/s/ John P. Broderick John P. Broderick	Chief Financial and Operating Officer (Principal Chief Accounting Officer)	March 30, 2004
/s/ Nicholas Hatalski Nicholas Hatalski	Director	March 30, 2004
./s/ Bruce Hasenyager Bruce Hasenyager	Director	March 30, 2004
/s/ Kenneth Neilsen Kenneth Neilsen	Director	March 30, 2004
/s/ Jay Kingley Jay Kingley	Director	March 30, 2004

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INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITOR' S REPORT

To the Board of Directors and Stockholders of
Level 8 Systems, Inc.
Princeton, New Jersey

We have audited the accompanying consolidated balance sheet of Level 8 Systems, Inc. and subsidiaries (the "Company") as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity (deficit), cash flows, and comprehensive loss for the year then ended. 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, the financial statements referred to above present fairly, in all material respects, the financial position of Level 8 Systems, Inc. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company' s recurring losses from operations and working capital deficiency 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Margolis & Company PC

Bala Cynwyd, PA
February 12, 2004

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Level 8 Systems, Inc.

Princeton, New Jersey

We have audited the accompanying consolidated balance sheet of Level 8 Systems, Inc. and subsidiaries (the "Company") as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity (deficit), cash flows, and comprehensive loss for the two years then ended. These financial statements are the responsibility of the Company' s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Level 8 Systems, Inc. and subsidiaries as of December 31, 2002, and the results of their operations and their cash flows for the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company' s recurring losses from operations and working capital deficiency 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
March 28, 2003

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LEVEL 8 SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$19	$199
Cash held in escrow	776	–
Assets of operations to be abandoned	149	453
Trade accounts receivable, net	12	1,291
Receivable from related party	–	73
Notes receivable, net	–	867
Prepaid expenses and other current assets	270	731
Total current assets	1,226	3,614
Property and equipment, net	26	162
Software product technology, net	4,063	7,996
Other assets	47	80
Total assets	$5,362	$11,852
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Short term debt	$2,625	$2,893

Accounts payable	2,545	3,537
Accrued expenses:		
Salaries, wages, and related items	508	107
Restructuring	–	772
Other	1,613	1,332
Liabilities of operations to be abandoned	451	916
Deferred revenue	39	311
Total current liabilities	7,781	9,868
Long-term debt	131	–
Warrant liability	198	331
Senior convertible redeemable preferred stock	3,355	–
Commitments and contingencies (Notes 19 and 20)		
Stockholders' equity (deficit):		
Convertible preferred stock, $0.001 par value, 10,000,000 shares authorized.		
Series A3 - 10,070 shares issued and 4,070 and 10,070 shares outstanding at December 31, 2003 and 2002, respectively, $1,000 per share liquidation preference (aggregate liquidation value of $4,070)	–	–
Series B3 - 30,000 shares issued and outstanding, $1,000 per share liquidation preference (aggregate liquidation value of $30,000)	–	–
Series C - 1,590 shares issued and 1,340 and 1,590 outstanding at December 31, 2003 and 2002, respectively, $1,000 per share liquidation preference (aggregate liquidation value of $1,340)	–	–
Common stock, $0.001 par value, 85,000,000 and 60,000,000 shares authorized at December 31, 2003 and 2002, respectively; 26,645,062 and 19,202,763 issued and outstanding at December 31, 2003 and 2002, respectively	27	19
Additional paid-in-capital	206,149	202,916
Accumulated other comprehensive loss	(6)	(717)
Accumulated deficit	(212,273)	(200,565)
Total stockholders' equity (deficit)	(6,103)	1,653
Total liabilities and stockholders' equity (deficit)	$5,362	$11,852

The accompanying notes are an integral part of the consolidated financial statements.

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LEVEL 8 SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Years Ended December 31,		
	2003	**2002**	**2001**
Revenue:			
Software	$ 102	$ 1,491	$ 1,658

Maintenance	316	571	9,262
Services	112	1,039	6,437
Total operating revenue	530	3,101	17,357
Cost of revenue:			
Software	4,152	7,396	14,800
Maintenance	373	181	3,249
Services	908	900	5,487
Total cost of revenue	5,433	8,477	23,536
Gross margin (loss)	(4,903)	(5,376)	(6,179)
Operating expenses:			
Sales and marketing	1,680	2,808	11,042
Research and product development	1,017	1,902	5,365
General and administrative	2,558	3,935	9,630
Amortization of intangible assets	–	–	6,259
Impairment of intangible assets	–	–	7,929
(Gain)/loss on disposal of assets	415	461	(6,345)
Restructuring, net	(834)	1,300	8,650
Total operating expenses	4,836	10,406	42,530
Loss from operations	(9,739)	(15,782)	(48,709)
Other income (charges):			
Interest income	33	180	820
Interest expense	(196)	(471)	(4,346)
Other-than-temporary decline in fair value of marketable securities	–	–	(3,845)
Change in fair value of warrant liability	133	2,947	(885)
Other expense	(105)	(171)	(594)
	(135)	2,485	(8,850)
Loss before provision for income taxes	(9,874)	(13,297)	(57,559)
Income tax provision (benefit)	–	(155)	501
Loss from continuing operations	(9,874)	(13,142)	(58,060)
Loss from discontinued operations	(132)	(5,040)	(47,075)
Net loss	($10,006)	($18,182)	($105,135)
Preferred dividends	–	–	926
Accretion of preferred stock and deemed dividends	1,702	995	–
Net loss applicable to common stockholders	($11,708)	($19,177)	($106,061)
Loss per share:			
Loss from continuing operations - basic and diluted	($0.54)	($0.75)	($3.70)

Loss from discontinued operations - basic and diluted	–	(0.27)	(2.95)
Net loss applicable to common stockholders - basic and diluted	($0.54)	($1.02)	($6.65)
Weighted average common shares outstanding - basic and diluted	21,463	18,877	15,958

The accompanying notes are an integral part of the consolidated financial statements.

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LEVEL 8 SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)

	Common Stock		Preferred Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated (Deficit)	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2000	15,786	$16	42	$–	$196,944	$ (75,327)	$(3,903)	$117,730
Shares issued as compensation	369	–			1,199			1,199
Preferred stock dividend						(926)		(926)
Reclassification of warrant liability					(2,100)			(2,100)
Foreign currency translation adjustment							(287)	(287)
Reclassification of unrealized loss included in income-other than temporary decline							3,765	3,765
Unrealized losses on marketable securities							(353)	(353)
Net loss						(105,135)		(105,135)
Balance at December 31, 2001	16,155	16	42	–	196,043	(181,388)	(778)	13,893
Shares issued as compensation	108	–			139			139
Shares issued in private placement of common stock	2,382	3			3,571			3,574
Shares issued for litigation settlement	142	–			270			270
Shares issued for Cicero license agreement	250	–			622			622
Shares forfeited for repayment of notes receivable	(15)	–			(21)			(21)
Shares issued in private placement of series C preferred		–	2		1,590			1,590
Conversion of preferred shares to common	181	–	(2)		–			–
Warrants issued for financing					373	(373)		–
Accretion of preferred stock					329	(329)		–
Deemed dividend						(293)		(293)
Foreign currency translation adjustment							61	61
Net loss						(18,182)		(18,182)
Balance at December 31, 2002	19,203	19	42	–	202,916	(200,565)	(717)	1,653
Conversion of preferred shares to common	1,378	1	(6)		–			1

Shares issued as compensation	95	–		48				48
Shares issued for bank guarantee	150	–		51				51
Exercises of stock options	27	–		6				6
Conversion of warrants	3,352	4		402				406
Conversion of senior convertible redeemable preferred stock	546	1		174				175
Accretion of preferred stock				640	(640)			–
Shares issued in private placement of common stock	1,894	2		850				852
Deemed dividend				1,062	(1,062)			–
Foreign currency translation adjustment							(6)	(6)
Reclassification of unrealized loss included in income							717	717
Net loss					(10,006)			(10,006)
Balance at December 31, 2003	26,645	$27	36	$–	$206,149	$(212,273)	$ (6)	$ (6,103)

The accompanying notes are an integral part of the consolidated financial statements.

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LEVEL 8 SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Years ended December 31,		
	2003	**2002**	**2001**
Net loss	($10,006)	($18,182)	($105,135)
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	(6)	(199)	(287)
Reclassification of accumulated foreign currency translation adjustments for dissolved subsidiaries	–	260	–
Unrealized loss on available-for-sale securities	–	–	(353)
Reclassification of unrealized loss included in income - other than temporary decline	717	–	3,765
Comprehensive loss	($9,295)	($18,121)	($102,010)

The accompanying notes are an integral part of the consolidated financial statements.

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LEVEL 8 SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	2003	2002	2001
Cash flows from operating activities:			
Net loss	($10,006)	($18,182)	($105,135)
Adjustments to reconcile net loss to net cash (used in) operating activities:			
Depreciation and amortization	3,116	8,042	27,758
Change in fair value of warrant liability	(133)	(2,947)	885
Stock compensation expense	48	139	1,199
Unrealized loss on marketable securities-other than temporary decline	–	–	3,845
Impairment of intangible assets and software product technology	993	–	46,923
Provision for doubtful accounts	(52)	(477)	3,812
(Gain) loss on disposal of assets	(23)	461	(6,346)
Other	–	98	(188)
Changes in assets and liabilities, net of assets acquired and liabilities assumed:			
Trade accounts receivable and related party receivables	1,404	352	10,454
Assets and liabilities held for sale - systems integration	–	6,409	–
Assets and liabilities of operations to be abandoned	101	473	–
Due from Liraz	–	(56)	(3)
Prepaid expenses and other assets	420	803	834
Accounts payable and accrued expenses	(351)	(2,181)	(5,284)
Merger-related and restructuring	–	–	952
Deferred revenue	(273)	(122)	657
Net cash (used in) operating activities	(4,756)	(7,188)	(19,637)
Cash flows from investing activities:			
Proceeds from sale of available for sale securities	–	175	–
Purchases of property and equipment	(36)	(11)	(198)
Cash payments secured through notes receivable	–	–	(77)
Repayment of note receivable	867	2,460	675
Cash received from sale of property	–	–	2,236
Cash received from sale of line of business assets	–	1,300	19,900
Additions to software product technology	–	–	(2,310)
Net cash provided by investing activities	831	3,924	20,226
Cash flows from financing activities:			
Proceeds from issuance of common shares, net of issuance costs	859	1,974	–
Proceeds from issuance of preferred shares, net of issuance costs	–	1,380	–
Proceeds from issuance of convertible redeemable stock, less escrow of $776	2,754	–	–
Proceeds from exercise of warrants	406	–	–
Dividends paid for preferred shares	–	–	(1,345)
Bank note guarantee		–	1,600
Payments under capital lease obligations and other liabilities	–	–	(133)
Net borrowings on line of credit	–	–	245
Borrowings under credit facility, term loans and notes payable	980	381	–
Repayments of term loans, credit facility and notes payable	(1,248)	(583)	(24,000)
Net cash provided by (used in) financing activities	3,751	3,152	(23,633)

Effect of exchange rate changes on cash	(6)	(199)	(302)
Net (decrease) in cash and cash equivalents	(180)	(311)	(23,346)
Cash and cash equivalents at beginning of year	199	510	23,856
Cash and cash equivalents at end of year	$ 19	$ 199	$510
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid (refunds) during the year for:			
Income taxes	($18)	$ 117	$280
Interest	$ 218	$ 274	$1,339

The accompanying notes are an integral part of the consolidated financial statements.

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LEVEL 8 SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(dollar amounts in thousands, except share and per share amounts)

Non-Cash Investing and Financing Activities

2003

During 2003, the Company issued 161,438 shares of common stock to vendors for outstanding liabilities valued at $73. Of this total, 66,667 shares or $25, were issued as part of the 1,894,444 shares issued in the October 2003 private placement.

In November 2003, the Company issued 150,000 shares of common stock to a designated subsidiary of Liraz Systems Ltd. as compensation for extension of a bank debt guarantee valued at $51.

During 2003, the Company issued 546,875 shares of Level 8 Systems common stock upon conversion of 175 shares of Series D Convertible Redeemable Preferred Stock.

In October 2003, the Company issued 3,048,782 warrants to holders of the Series A3 Convertible Redeemable Preferred Stock and Series B3 Convertible Redeemable Preferred Stock under an existing agreement and in consideration for the waiver of certain price protection anti-dilution provisions of the Series A3 Preferred Stock and Series B3 Preferred Stock agreements. The warrants have a strike price of $0.40 valued at $1,062. (See Note 11.)

In April 2003, the Company agreed to exchange the warrants issued in the January 2002 private placement priced at $2.50 each for new warrants priced at $0.60 each and has extended the expiration date to until March 2007. This exchange was made as a result of a waiver by such warrant holders of certain terms and conditions that would trigger payments by the Company if the Company did not keep such shares registered under the Securities Act of 1933, as amended.

2002

During 2002, the Company issued 109,672 shares of common stock to employees for retention bonuses and severance. The bonus was valued at $92. (See Note 11.)

In January 2002, the Company extended the exclusive, perpetual license to develop and sell the Cicero application integration software and obtain ownership of the registered trademark from Merrill Lynch in exchange for 250,000 shares of common stock. Total consideration was valued at $622. (See Note 6.)

In June 2002, the Company issued 141,658 shares of common stock to a former reseller of the Company as part of a settlement agreement. The settlement agreement was valued at $270.

In August 2002, as part of the Series C Convertible Redeemable Preferred Stock offering, ("Series C Preferred Stock") the Company exchanged approximately $150 of indebtedness to Anthony Pizi, the Chairman of the Company, for Series C Preferred Stock.

In August 2002, the Company completed an exchange of 11,570 shares of Series A1 Convertible Redeemable Preferred Stock ("Series A1 Preferred Stock") and 30,000 shares of Series B1 Convertible Redeemable Preferred Stock ("Series B1 Preferred Stock") for 11,570 shares of Series A2 Convertible Preferred Stock ("Series A2 Preferred Stock") and 30,000 shares of Series B2 Convertible Preferred Stock ("Series B2 Preferred Stock"), respectively. (See Note 11.)

In October 2002, the Company completed an exchange of all of the outstanding shares of Series A2 Convertible Redeemable Preferred Stock ("Series A2 Preferred Stock") and Series B2 Convertible Redeemable Preferred Stock ("Series B2 Preferred Stock") and related warrants for an equal number of shares of newly created Series A3 Convertible Redeemable Preferred Stock ("Series A3 Preferred Stock") and Series B3 Convertible Redeemable Preferred Stock ("Series B3 Preferred Stock") and related warrants. This exchange was affected to correct a deficiency in the conversion price from the prior exchange of Series A1 and B1 Preferred Stock and related warrants for Series A2 and B2 Preferred Stock and related warrants. (See Note 11.)

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In December 2002, the Company issued 1,462,801 warrants to holders of the Series A3 Convertible Redeemable Preferred Stock and Series B3 Convertible Redeemable Preferred Stock under an existing agreement and in consideration for the waiver of certain price protection anti-dilution provisions of the Series A3 Preferred Stock and Series B3 Preferred Stock agreements. The warrants have a strike price of $0.40. (See Note 11.)

In December 2002, the Company received $744 and $617 in notes receivable related to the sale of assets related to Systems Integration segment products. (See Note 2.)

2001

During 2001, the Company issued 369,591 shares of common stock to employees for retention bonuses, severance and consulting. These amounts were valued at $1,199. (See Note 11.)

In September and October 2001, the Company received $400 and $1,000 in notes receivable related to the sale of Message Queuing/XIPC and AppBuilder assets, respectively. (See Note 2.)

During 2001, the Company recorded a $3,765 unrealized loss on marketable securities related to an other-than-temporary decline in fair value.

During 2001, the Company performed consulting services valued at $750 in exchange for common shares of a strategic partner.

In September 2001, the Company retired a note receivable from a related party, (director and officer) totaling $495 in exchange for the forfeiture of certain retirement benefits.

On October 16, 2001, the Company completed an exchange of 11,570 shares of Series A 4% Convertible Redeemable Preferred Stock ("Series A Preferred Stock") and 30,000 shares of Series B 4% Convertible Redeemable Preferred Stock ("Series B Preferred Stock") for 11,570 shares of Series A1 Preferred Stock and 30,000 shares of Series B1 Preferred Stock, respectively. (See Note 11.)

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LEVEL 8 SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share and per share data)

NOTE 1. SUMMARY OF OPERATIONS, SIGNIGICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

Level 8 Systems, Inc. (“Level 8”or the “Company”) is a global provider of business integration software that enables organizations to integrate new and existing information and processes at the desktop. Business integration software addresses the emerging need for a company’ s information systems to deliver enterprise-wide views of the company’ s business information processes.

Going Concern:

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred a loss of $10,006 for the year ended December 31, 2003 and has experienced negative cash flows from operations for each of the years ended December 31, 2003, 2002 and 2001. At December 31, 2003, the Company had a working capital deficiency of approximately $6555. The Company’ s future revenues are entirely dependent on acceptance of a newly developed and marketed product, Cicero, which has had limited success in commercial markets to date. These factors among others raise substantial doubt about the Company’ s ability to continue as a going concern for a reasonable period of time

The financial statements presented herein do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should Level 8 be unable to continue as a going concern. In order to address these issues and to obtain adequate financing for the Company’ s operations for the next twelve months, the Company is actively promoting and expanding its Cicero-related product line and continues to negotiate with significant customers that have begun or finalized the “proof of concept” stage with the Cicero technology. The Company is experiencing difficulty increasing sales revenue largely because of the inimitable nature of the product as well as customer concerns about the financial viability of the Company. The Company is attempting to address the financial concerns of potential customers by pursuing strategic partnerships with companies that have significant financial resources, although the Company has not experienced significant success to date with this approach. In January 2004, the Company completed a private placement of its common stock wherein it raised approximately $1,247 of new capital. Management expects that it will be able to raise additional capital and to continue to fund operations and also expects that increased revenues will reduce its operating losses in future periods, however, there can be no assurance that management’ s plan will be executed as anticipated.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. See Note 2 regarding the sales of subsidiaries. All of the Company’ s subsidiaries are wholly-owned for the periods presented.

All significant inter-company accounts and transactions are eliminated in consolidation.

Use of Estimates:

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

Financial Instruments:

The carrying amount of the Company' s financial instruments, representing accounts receivable, notes receivable, accounts payable and debt approximate their fair value.

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Foreign Currency Translation:

The assets and liabilities of foreign subsidiaries are translated to U.S. dollars at the current exchange rate as of the balance sheet date. The resulting translation adjustment is recorded in other comprehensive income as a component of stockholders' equity. Statements of operations items are translated at average rates of exchange during each reporting period.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Cash and Cash Equivalents:

Cash and cash equivalents include all cash balances and highly liquid investments with maturity of three months or less from the date of purchase. For these instruments, the carrying amount is considered to be a reasonable estimate of fair value. The Company places substantially all cash and cash equivalents with various financial institutions in both the United States and several foreign countries. At times, such cash and cash equivalents in the United States may be in excess of FDIC insurance limits.

Property and Equipment:

Property and equipment purchased in the normal course of business is stated at cost, and property and equipment acquired in business combinations is stated at its fair market value at the acquisition date. All property and equipment is depreciated using the straight-line method over estimated useful lives.

Expenditures for repairs and maintenance are charged to expense as incurred. The cost and related accumulated depreciation of property and equipment are removed from the accounts upon retirement or other disposition and any resulting gain or loss is reflected in the Consolidated Statements of Operations.

Software Development Costs:

The Company capitalizes certain software costs after technological feasibility of the product has been established. Generally, an original estimated economic life of three years is assigned to capitalized software costs, once the product is available for general release to customers. Costs incurred prior to the establishment of technological feasibility are charged to research and development expense.

Additionally, the Company has recorded software development costs for its purchases of developed technology through acquisitions. (See Note 6.)

Capitalized software costs are amortized over related sales on a product-by-product basis using the straight-line method over the remaining estimated economic life of the product. (See Note 6.)

The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technologies.

Long-Lived Assets:

The Company reviews the recoverability of long-lived intangible assets when circumstances indicate that the carrying amount of assets may not be recoverable. This evaluation is based on various analyses including undiscounted cash flow projections. In the event undiscounted cash flow projections indicate impairment, the Company would record an impairment based on the fair value of the assets at the date of the impairment. Effective January 1, 2002, the Company accounts for impairments under the Financial Accounting Standards Board ("FSAB") Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Prior to the adoption of this standard, impairments were accounted for using SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of' which was superceded by SFAS No. 144. During 2003, the Company recorded impairments associated with its Cicero technology. During 2002, the Company recorded impairments associated with the sale of the Geneva and Star SQL and CTRC operations. (See Note 6.)

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Revenue Recognition:

The Company recognizes license revenue from end-users and third party resellers in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition", as amended by SOP 98-9, "Modification of SOP 97-2, "Software Revenue Recognition," with Respect to Certain Transactions". The Company reviews each contract to identify elements included in the software arrangement. SOP 97-2 and SOP 98-9 require that an entity recognize revenue for multiple element arrangements by means of the "residual method" when (1) there is vendor-specific objective evidence ("VSOE") of the fair values of all of the undelivered elements that are not accounted for by means of long-term contract accounting, (2) VSOE of fair value does not exist for one or more of the delivered elements, and (3) all revenue recognition criteria of SOP 97-2 (other than the requirement for VSOE of the fair value of each delivered element) are satisfied. VSOE of the fair value of undelivered elements is established on the price charged for that element when sold separately. Software customers are given no rights of return and a short-term warranty that the products will comply with the written documentation. The Company has not experienced any product warranty returns.

Revenue from recurring maintenance contracts is recognized ratably over the maintenance contract period, which is typically twelve months. Maintenance revenue that is not yet earned is included in deferred revenue. Any unearned receipts from service contracts result in deferred revenue.

Revenue from consulting and training services is recognized as services are performed. Any unearned receipts from service contracts result in deferred revenue.

Cost of Revenue:

The primary components of the Company' s cost of revenue for its software products are software amortization on internally developed and acquired technology, royalties on certain products, and packaging and distribution costs. The primary component of the Company' s cost of revenue for maintenance and services is compensation expense.

Advertising Expenses:

The Company expenses advertising costs as incurred. Advertising expenses were approximately $9, $53, and $1,198 for the years ended December 31, 2003, 2002 and 2001, respectively.

Research and Product Development:

Research and product development costs are expensed as incurred.

Income Taxes:

The Company uses SFAS No. 109, “Accounting for Income Taxes”, to account for income taxes. This statement requires an asset and liability approach that recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company’ s financial statements or tax returns. In estimating future tax consequences, all expected future events, other than enactments of changes in the tax law or rates, are generally considered. A valuation allowance is recorded when it is “more likely than not”that recorded deferred tax assets will not be realized. (See Note 9.)

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Discontinued Operations:

During the third quarter of 2002, the Company made a decision to dispose of the Systems Integration segment and entered into negotiations with potential buyers. The Systems Integration segment qualified for treatment as a discontinued operation in accordance with SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, and the Company reclassified the results of operations for the Systems Integration segment in 2002 and 2001 to “loss from discontinued operations” in the Consolidated Statements of Operations. The Consolidated Statements of Cash Flows for 2001 has not been restated to reflect the discontinued operations as the information is not available and is impractical to obtain. The sale of the Systems Integration segment was completed in December 2002. (See Note 2.)

Loss Per Share:

Basic loss per share is computed based upon the weighted average number of common shares outstanding. Diluted loss per share is computed based upon the weighted average number of common shares outstanding and any potentially dilutive securities. During 2003, 2002, and 2001, potentially dilutive securities included stock options, warrants to purchase common stock, and preferred stock.

The following table sets forth the potential shares that are not included in the diluted net loss per share calculation because to do so would be anti-dilutive for the periods presented:

	2003	2002	2001
Stock options	5,625,878	3,834,379	4,366,153
Warrants	10,926,706	5,315,939	2,568,634
Preferred stock	16,893,174	7,812,464	3,782,519
	33,445,758	16,962,782	10,717,306

In 2003 and 2002, no dividends were declared on preferred stock. In 2001, dividends totaled $926, and were included in the loss per share calculations.

Stock-Based Compensation:

The Company has adopted the disclosure provisions of SFAS 123, “Accounting for Stock-Based Compensation”, and has applied Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”, and related Interpretations in accounting for its stock-based compensation plans. Had compensation cost for the Company’ s stock option plans been determined based on the fair value at the grant dates for awards under the plans, consistent with the method required by SFAS No. 123, the Company’ s net loss and diluted net loss per common share would have been the pro forma amounts indicated below.

	Years ended December 31,		
	2003	2002	2001
Net loss applicable to common stockholders, as reported	($11,708)	$(19,177)	($106,061)

Less: Total stock-based employee compensation expense under fair value based method for all awards, net of related tax effects	(1,016)	(3,387)	(2,735)
Pro forma loss applicable to common stockholders	($12,724)	($22,564)	($108,796)
Loss per share:			
Basic and diluted, as reported	$ (0.54)	$ (1.02)	$ (6.65)
Basic and diluted, pro forma	$ (0.59)	$ (1.20)	$ (6.82)

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The fair value of the Company' s stock-based awards to employees was estimated as of the date of the grant using the Black-Scholes option-pricing model, using the following weighted-average assumptions:

	2003	2002	2001
Expected life (in years)	8.33 years	10 years	5 years
Expected volatility	126 %	96 %	90 %
Risk free interest rate	4.00 %	4.25 %	4.50 %
Expected dividend yield	0 %	0 %	0 %

Warrants Liability:

The Company has issued warrants to Series A3 and Series B3 preferred stockholders which contain provisions that allow the warrant holders to force a cash redemption for events outside the control of the Company. The fair value of the warrants are accounted for as a liability and are re-measured through the Consolidated Statements of Operations at each balance sheet date.

Reclassifications:

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the 2003 presentation. Such reclassifications had no effect on previously reported net income or stockholder' s equity.

Recent Accounting Pronouncements:

In January 2003, the FASB issued Interpretation No. 46 or FIN 46"Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements". In October 2003, the FASB issued FASB Staff Position FIN 46-6, "Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities" deferring the effective date for applying the provisions of FIN 46 for public entities' interests in variable interest entities or potential variable interest entities created before February 1, 2003 for financial statements of interim or annual periods that end after December 15, 2003.

FIN 46 establishes accounting guidance for consolidation of variable interest entities that function to support the activities of the primary beneficiary. In December 2003, the FASB issued FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities." This revised interpretation is effective for all entities no later than the end of the first reporting period that ends after March 15, 2004. The Company has no investment in or contractual relationship or other business relationship with a variable interest entity and therefore the adoption of this interpretation did not have any impact on its consolidated financial position or results of operations. However, if the Company enters into any such arrangement with a variable interest entity in the future or an entity with which we have a relationship is reconsidered based on guidance in FIN 46 to be a variable interest entity, the Company' s consolidated financial position or results of operations might be materially impacted.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements". The adoption of this statement did not have a material impact on the Company' s results of operations and financial condition.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement 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. This statement requires that companies having a year-end after December 15, 2002 follow the prescribed format and provide the additional disclosures in their annual reports. The adoption of this statement did not have a material impact on the Company' s results of operations and financial condition.

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In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of this statement did not have a material impact on our results of operations and financial condition.

NOTE 2. DISPOSITIONS

Sale of Geneva:

Effective October 1, 2002, the Company sold its Systems Integration software business to EM Software Solutions, Inc. Under the terms of the agreement, EM Solutions acquired all rights, title and interest to the Geneva Enterprise Integrator and Geneva Business Process Automator products along with certain receivables, deferred revenue, maintenance contracts, fixed assets and certain liabilities. The Company had identified these assets as being held for sale during the third quarter of 2002 and, as such, reclassified the results of operations to "income/loss from discontinued operations". The Company received total proceeds of $1,637; $276 in cash, a short-term note in the amount of $744 and a five-year note payable monthly in the aggregate amount of $617. The short-term note was due by February 13, 2003 and was repaid subsequent to December 31, 2002. The five-year note was recorded net of an allowance of $494. The carrying value of the assets sold was approximately $374 resulting in a loss on the disposal of discontinued operations of $769. Revenues for the Systems Integration segment were $3,700 in 2002 and $5,700 in 2001. (See Note 6.)

Sale of Star SQL and CTRC:

In June 2002, the Company entered into an Asset Purchase Agreement with StarQuest Ventures, Inc., a California company and an affiliate of Paul Rampel, a former member of the Board of Directors of Level 8 Systems and a former executive officer. Under the terms of the Asset Purchase Agreement, Level 8 sold its Star SQL and CTRC products and certain fixed assets to StarQuest Ventures for $365 and the assumption of certain maintenance liabilities. The Company received $300 in cash and a note receivable of $65. The loss on sale of the assets was $74. The Company used $150 from the proceeds to repay borrowings from Mr. Rampel.

Sale of AppBuilder Assets:

On October 1, 2001, the Company sold its Geneva AppBuilder software business to BluePhoenix Solutions, a wholly owned subsidiary of Liraz Systems Ltd. Under the terms of the agreement, the Company sold the rights, title and interest in the AppBuilder product and certain receivables, unbilled, deferred revenue, maintenance contracts, fixed assets and certain liabilities. The AppBuilder product accounted for

approximately 99% of total revenues for the year and approximately 85% of total revenues within the messaging and application engineering segment. The Company received total proceeds of $20,350; $19,000 in cash, a note receivable for $1,000 due February 2002 and a cash payment for the net assets. The carrying value of the net assets sold was approximately $15,450. The resulting gain of approximately $4,900 was recorded in the gain on disposal of asset. The Company subsequently repaid $22,000 of its short-term debt using the proceeds received and cash on hand. In March 2002, the $1,000 note was repaid with cash of $825 and settlement of other liabilities. At December 31, 2001, the $1,000 note was recorded as note receivable from related party and $863, including $57 classified as assets to be abandoned, was recorded as a receivable from a related party representing amounts due to the Company from BluePhoenix Solutions for the net asset amount noted above and the reimbursement for certain general and administrative expenses performed by the Company.

Sale of Message Queuing and XIPC Assets:

Also during the quarter ended September 30, 2001, the Company sold two of its messaging products – Geneva Message Queuing and Geneva XIPC to Envoy Technologies, Inc. Under the terms of the agreement, Envoy acquired all rights, title and interest to the products along with all customer and maintenance contracts. The Company retained all accounts receivable, received $50 in cash and a note receivable for $400. The resulting gain of $342 has been recorded in the gain on disposal of assets.

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Assets and Liabilities to be Abandoned:

At December 31, 2002, the Company had made the decision to close its remaining foreign subsidiaries.

In December 2002, the Company received notification of the finalization of the bankruptcy proceeding in France and recorded a gain on the closure of the subsidiary of $332 in Gain (loss) on disposal of assets.

In March 2003, the Company received notification of the finalization of the bankruptcy proceeding in the United Kingdom and recorded a gain on the closure of the subsidiary of $216 in Gain (loss) on disposal of assets.

In December 2003, the Company received notification of the liquidation of the Denmark subsidiary and the Company recorded a gain on the closure of the subsidiary of $62 in Gain (loss) on disposal of assets.

NOTE 3. ACCOUNTS RECEIVABLE

Trade accounts receivable was composed of the following at December 31:

	2003	2002
Current trade accounts receivable	$20	$1,434
Less: allowance for doubtful accounts	(8)	(143)
	$12	$1,291

Approximately $0 and $9 of current trade receivables were unbilled at December 31, 2003 and 2002, respectively.

The (credit) provision for uncollectible amounts was ($623), ($477) and $3,812 for the years ended December 31, 2003, 2002 and 2001 respectively. Write-offs (net of recoveries) of accounts receivable were ($488), ($437) and $6,047 for the years ended December 31, 2003,

2002 and 2001, respectively. Included in the write-offs for 2001 was approximately $3,800 from one customer who filed for Chapter 11 Protection under the U.S. Bankruptcy laws.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment was composed of the following at December 31:

	2003	2002
Computer equipment	$242	$206
Furniture and fixtures	8	8
Office equipment	138	138
	388	352
Less: accumulated depreciation and amortization	(362)	(190)
	$26	$162

Depreciation and amortization expense of property and equipment was $167, $402 and $945 for the years ended December 31, 2003, 2002, and 2001, respectively.

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NOTE 5. NOTES RECEIVABLE

As discussed in Note 2, in 2002 the Company disposed of the remaining assets of the Systems Integration segment through a sale to EM Software Solutions, Inc. As part of the proceeds, the Company received two notes receivable from the purchaser. The first note was due on February 13, 2003 in the amount of $744 and bore interest at prime plus 2.25%. This note was repaid in February 2003. The second note was in the principal amount of $617 and bears interest at prime plus 1%. Principal and interest is payable monthly and the note matures in 2007. Due to the uncertainty of the collection of the note at the time, the Company recorded the note net of an allowance of $494.

As more fully discussed in Note 20, the Company had been party to litigation for breach of a real estate lease. That case was settled in August 2003. Under the terms of the settlement agreement, the Company agreed to assign the note receivable due from EM Software Solutions, with recourse equal to the unpaid portion of the Note should the Note obligor default on future payments. The principal balance outstanding on the Note at the time of assignment was $545. The Company assessed the probability of liability under the recourse provisions using a weighted probability cash flow analysis and has recognized a long-term liability in the amount of $131. In addition, the Company wrote off the unreserved portion of the Note or $51.

In conjunction with the sale of Profit Key on April 6, 1998, the Company received a note receivable from the purchaser for $2,000. The remaining balance on the note totaled $1,000 and was due in equal annual installments beginning on March 31, 2001. The note bore interest at 9% per annum. In 2002, the Company sold its remaining interest in the note to a group of investors including Nicholas Hatalski and Paul Rampel, both members of the Company' s Board of Directors at the time, and Anthony Pizi, the Company' s Chairman for $400, and recorded a loss on the sale of $100.

NOTE 6. SOFTWARE PRODUCT TECHNOLOGY

As of December 31, 2003, all of the Company' s software product technology relates to the Cicero technology. Effective July 2002, the Company determined that the estimated asset life of the Cicero technology has been extended as a result of the January 2002 amended license

agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") wherein the exclusive right to modify, commercialize, and distribute the technology was extended in perpetuity. Accordingly, the Company reassessed the estimated life of the technology and extended it from three years to five years. The effect of the change in the estimated life resulted in a reduction of $4,608 and $2,407 of amortization expense for the years ended December 31, 2003 and 2002, respectively. The impact on the net loss applicable to common stockholders – basic and diluted was $(0.21) per share for December 31, 2003 and $(0.13) per share for December 31, 2002.

In accordance with FASB 86 *"Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed",* the Company completed an assessment of the recoverability of the Cicero product technology as of September 30, 2003 and again at December 31, 2003. This assessment was completed due to the Company' s continued operating losses and the limited software revenue generated by the Cicero technology over the past twelve months. Currently, the Company is in negotiations with numerous customers to purchase licenses, which would have a significant impact on the cash flows from the Cicero technology and the Company. Since the negotiations have been in process for several months and expected completion of the transactions has been delayed, the Company has reduced its cash flow projections. Historical cash flows generated by the Cicero technology do not support the long-lived asset and accordingly the Company has impaired the unamortized book value of the technology in excess of the expected net realizable value as of December 31, 2003. This impairment charge, in the amount of $993, has been recorded in cost of software revenue.

During the third quarter of 2001, the Company reduced its carrying value by $3,070 of the capitalized software cost recorded as part of the StarQuest acquisition to its fair value based upon an evaluation of its net realizable value. In May 2002, based upon the potential sale of the assets to a third party, the Company determined that an additional impairment had occurred in the amount of $1,564, which was recorded as software amortization. The Company has been assessing its assets to determine which assets if any are to be considered non-strategic and, in May 2002, the Company received an unsolicited offer to purchase the Star/SQL and CTRC products. In June 2002, the Company sold the Star/SQL and CTRC asset. (See Note 2.)

During the years ended December 31, 2003, 2002 and 2001, the Company recognized $3,933 of which $993 is an impairment charge, and $7,375 and $11,600, respectively, of expense related to the amortization of these costs, which is recorded as cost of software revenue in the consolidated statements of operations. Accumulated amortization of capitalized software costs was $20,436 and $16,503 at December 31, 2003 and 2002, respectively.

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NOTE 7. IDENTIFIABLE AND UNIDENTIABLE INTANGIBLE ASSETS

Identifiable and unidentifiable intangible assets primarily included goodwill, existing customer base, assembled workforce and trademarks recorded in connection with the Company' s previous acquisitions. At December 31, 2003 and 2002, the Company had no identifiable and unidentifiable intangible assets. Pro forma net loss applicable to common stockholders as if the provisions of SFAS 142, "Goodwill and Other Intangible Assets", had been adopted for the year ended December 31, 2001 would have been ($98,023).

Sale of Seer Technologies Assets (AppBuilder):

As described in Note 2, Sale of AppBuilder Assets, the Company sold the intangible assets acquired from Seer Technologies to BluePhoenix Solutions (a wholly-owned subsidiary of Liraz Systems Ltd.) in October 2001, which resulted in a net reduction of $11,052 in intangible assets.

Asset Impairments:

During the quarter ended September 30, 2001, the Company was notified by one of its resellers that they would no longer engage in re-sales of the Company' s CTRC products acquired from StarQuest. This reseller accounted for substantially all of the product sales and as a result, the Company performed an assessment of the recoverability of the Message Application Engineering Segment. The results of the Company' s analysis of undiscounted cash flows indicated that an impairment had occurred. The Company estimated the fair market value of the related assets through a discounted future cash flow valuation technique. The results of this analysis indicated that the carrying value of these

intangible assets exceeded their fair market values. The Company has reduced the carrying value of these intangible assets by approximately $10,999 as of September 30, 2001, of which $3,070 was recorded as software amortization costs. (See Note 6.)

NOTE 8. SHORT TERM DEBT

Short-term debt was composed of the following at December 31:

	2003	2002
Term loan (a)	$1,971	$2,512
Note payable; related party (b)	85	–
Notes payable (c)	444	381
Short term convertible note (d)	125	–
	$2,625	$2,893

(a) The Company has a $1,971 term loan bearing interest at LIBOR plus 1% (approximately 2.13% at December 31, 2003). Interest is payable quarterly. There are no financial covenants and the term loan is guaranteed by Liraz Systems Ltd., the Company' s former principal shareholder. The loan matures on November 8, 2004. (See Note 16.)

(b) In December 2003, the Company entered into a promissory note with the Company' s Chairman. The Note bears interest at 12% per annum.

(c) The Company is attempting to secure a revolving credit facility and on an interim basis and from time to time has issued a series of short term promissory notes with private lenders, which provides for short term borrowings both unsecured and secured by accounts receivable. The Notes bear interest at 12% per annum.

(d) In December 2003, the Company entered into a promissory note with a private lender. The Note bears interest at 12% per annum and allows for the conversion of the principal amount due into common stock of the Company. The Note is convertible at $0.28 per share.

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NOTE 9. INCOME TAXES

Income tax expense were composed of the following for the years ended December 31:

	2003	2002	2001
Federal - current	$ –	$–	$ –
State and local - current	–	–	–
Foreign taxes (benefit) and withholdings	–	(155)	501
Current taxes	–	(155)	501
Federal - deferred	–	–	–
State and local - deferred	–	–	–

Deferred taxes	–	–	–
Total income tax provision (benefit)	$ –	$(155)	$501

A reconciliation of expected income tax at the statutory federal rate with the actual income tax provision is as follows for the years ended December 31:

	2003	2002	2001
Expected income tax benefit at statutory rate (34%)	$(3,402)	$(6,235)	$(35,200)
State taxes, net of federal tax benefit	(405)	(358)	(5,158)
Effect of foreign operations including withholding taxes	(31)	(68)	801
Effect of change in valuation allowance	3,769	6,362	37,076
Amortization and write-off of non-deductible goodwill	–	–	1,906
Non-deductible expenses	69	144	1,076
Total	$–	$(155)	$501

Significant components of the net deferred tax asset (liability) at December 31 were as follows:

	2003	2002
Current assets:		
Allowance for doubtful accounts	$85	$41
Accrued expenses, non-tax deductible	200	200
Noncurrent assets:		
Loss carry forwards	74,517	71,448
Depreciation and amortization	5,709	4,486
	80,511	76,175
Less: valuation allowance	(80,511)	(76,175)
	$–	$–

At December 31, 2003, the Company had net operating loss carryforwards of approximately $186,293, which may be applied against future taxable income. These carryforwards will expire at various times between 2005 and 2023. A substantial portion of these carryforwards is restricted to future taxable income of certain of the Company' s subsidiaries or limited by Internal Revenue Code Section 382. Thus, the utilization of these carryforwards cannot be assured. Net operating loss carryforwards include tax deductions for the disqualifying dispositions of incentive stock options. When the Company utilizes the net operating loss related to these deductions, the tax benefit will be reflected in additional paid-in capital and not as a reduction of tax expense. The total amount of these deductions included in the net operating loss carryforwards is $21,177.

The undistributed earnings of certain foreign subsidiaries are not subject to additional foreign income taxes nor considered to be subject to U.S. income taxes unless remitted as dividends. The Company intends to reinvest such undistributed earnings indefinitely; accordingly, no provision has been made for U.S. taxes on those earnings. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable.

The Company provided a full valuation allowance on the total amount of its deferred tax assets at December 31, 2003 since management does not believe that it is more likely than not that these assets will be realized.

NOTE 10. SENIOR CONVERTIBLE REDEEMABLE PREFERRED STOCK

On March 19, 2003, the Company completed a $3,500 private placement of Series D Convertible Preferred Stock ("Series D Preferred Stock"), convertible at a conversion ratio of $0.32 per share of common stock into an aggregate of 11,031,250 shares of common stock. As part of the financing, the Company has also issued warrants to purchase an aggregate of 4,158,780 shares of common stock at an exercise price of $0.07 per share ("Series D-1 Warrants"). On October 10, 2003, the Company, consistent with its obligations, also issued warrants to purchase an aggregate of 1,665,720 shares of common stock at an exercise price the lesser of $0.20 per share or market price at the time of exercise ("Series D-2 Warrants"). The Series D-2 Warrants became exercisable on November 1, 2003, because the Company failed to report $6,000 in gross revenues for the nine month period ended September 30, 2003. Both existing and new investors participated in the financing. The Company also agreed to register the common stock issuable upon conversion of the Series D Preferred Stock and exercise of the warrants for resale under the Securities Act of 1933, as amended. Under the terms of the financing agreement, a redemption event may occur if any one person, entity or group shall control more than 35% of the voting power of the Company' s capital stock. The Company allocated the proceeds received from the sale of the Series D Preferred Stock and warrants to the preferred stock and detachable warrants on a relative fair value basis, resulting in an allocation of $2,890 to the Series D Preferred Stock and $640 to the detachable warrants. Based upon the allocation of the proceeds, the Company determined that the effective conversion price of the Series D Preferred Stock was less than the fair value of the Company' s common stock on the date of issuance. The beneficial conversion feature was recorded as a discount on the value of the Series D Preferred Stock and an increase in additional paid-in capital. Because Series D Preferred Stock was convertible immediately upon issuance, the Company fully amortized such beneficial conversion feature on the date of issuance.

As part of the financing, the Company and the lead investors have agreed to form a joint venture to exploit the Cicero technology in the Asian market. The terms of the agreement require that the Company place $1,000 of the gross proceeds from the financing into escrow to fund the joint venture. The escrow agreement allows for the immediate release of funds to cover organizational costs of the joint venture. During the quarter ended March 31, 2003, $225 of escrowed funds was released. Since the joint venture was not formed and operational on or by July 17, 2003, the lead investors have the right, but not the obligation, to require the Company to purchase $1,000 in liquidation value of the Series D Preferred Stock at a 5% per annum premium, less their pro-rata share of expenses. The Company and the lead investor have mutually agreed to extend the escrow release provisions until April 15, 2004.

Another condition of the financing requires the Company to place an additional $1,000 of the gross proceeds into escrow, pending the execution of a definitive agreement with Merrill Lynch, providing for the sale of all right, title and interest to the Cicero technology. Since a transaction with Merrill Lynch for the sale of Cicero was not consummated by May 18, 2003, the lead investors have the right, but not the obligation, to require the Company to purchase $1,000 in liquidation value of the Series D Preferred Stock at a 5% per annum premium. During the second quarter, $390 of escrowed funds was released. In addition, the Company and the lead investor agreed to extend the escrow release provisions until the end of July 2003 when all remaining escrow monies were released to the Company.

NOTE 11. STOCKHOLDERS' EQUITY

Common Stock:

In October 2003, the Company entered into a Securities Purchase Agreement with several investors wherein the Company agreed to sell 1,894,444 shares of its common stock and issue 473,611 warrants to purchase the Company' s common stock at a price of $0.45 per share for a total of $853 in proceeds. This offering closed on October 15, 2003. The warrants expire in three years from the date of grant. These shares were issued in reliance upon the exemption from registration under Rule 506 of Regulation D and on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for transactions by an issuer not involving a public offering.

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In January 2002, the Company entered into a Securities Purchase Agreement with several investors wherein the Company agreed to sell up to 3,000,000 shares of its common stock and warrants. The common stock was valued at $1.50 per share and warrants to purchase additional shares were issued with an exercise price of $2.75 per share. This offering closed on January 16, 2002. Of the 3,000,000 shares, the Company sold 2,381,952 shares of common stock for a total of $3,574 and granted 476,396 warrants to purchase the Company' s common stock at an exercise price of $2.75 per share. The warrants expire in three years from the date of grant and have a call feature that forces exercise if the Company' s common stock exceeds $5.50 per share. These shares were issued in reliance upon the exemption from registration under Rule 506 of Regulation D and on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for transactions by an issuer not involving a public offering. Under this Private Placement, the Company had agreed to certain terms and conditions that would trigger payments by the Company if the Company did not keep such shares registered under the Securities Act of 1933, as amended. In April 2003, in exchange for a waiver of such provisions the Company agreed to exchange the warrants from the January 2002 Private Placement priced at $2.50 for new warrants priced at $0.60 and has extended the expiration date until March 2007. Each participant is required to execute a waiver prior to receiving the repriced warrants.

Stock Grants:

During 2002, the Company issued 109,672 shares of common stock to employees for retention bonuses and severance. The grants represented compensation for services previously performed and were valued and recorded based on the fair market value of the stock on the date of grant, which totaled $92. During 2003, no stock awards were made to employees.

Stock Options:

The Company maintains two stock option plans, the 1995 and 1997 Stock Incentive Plans, which permit the issuance of incentive and nonstatutory stock options, stock appreciation rights, performance shares, and restricted and unrestricted stock to employees, officers, directors, consultants, and advisors. In July 2003, stockholders approved a proposal to increase the number of shares reserved within these plans to a combined total of 10,900,000 shares of common stock for issuance upon the exercise of awards and provide that the term of each award be determined by the Board of Directors. The Company also has a stock incentive plan for outside directors and the Company has set aside 120,000 shares of common stock for issuance under this plan.

Under the terms of the Plans, the exercise price of the incentive stock options may not be less than the fair market value of the stock on the date of the award and the options are exercisable for a period not to exceed ten years from date of grant. Stock appreciation rights entitle the recipients to receive the excess of the fair market value of the Company' s stock on the exercise date, as determined by the Board of Directors, over the fair market value on the date of grant. Performance shares entitle recipients to acquire Company stock upon the attainment of specific performance goals set by the Board of Directors. Restricted stock entitles recipients to acquire Company stock subject to the right of the Company to repurchase the shares in the event conditions specified by the Board are not satisfied prior to the end of the restriction period. The Board may also grant unrestricted stock to participants at a cost not less than 85% of fair market value on the date of sale. Options granted vest at varying periods up to five years and expire in ten years.

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Activity for stock options issued under these plans for the fiscal years ending December 31, 2003, 2002 and 2001 was as follows:

	Plan Activity	Option Price Per Share	Weighted Average Exercise Price
Balance at December 31, 2000	3,857,517	1.37-39.31	15.83

Granted	3,037,581	1.74 - 6.13	3.60
Forfeited	(2,528,945)	1.37 - 39.31	16.38
Balance at December 31, 2001	4,366,153	1.37 - 39.31	6.92
Granted	1,942,242	0.34 - 1.70	0.58
Forfeited	(2,474,016)	0.39-39.31	6.76
Balance at December 31, 2002	3,834,379	0.34-39.31	3.81
Granted	2,566,126	0.22 - 0.57	0.24
Exercised	(121,434)	0.22 - 0.22	0.22
Forfeited	(653,193)	0.22- 39.31	2.60
Balance at December 31, 2003...	5,625,878	0.20-39.31	2.43

The weighted average grant date fair value of options issued during the years ended December 31, 2003, 2002, and 2001 was equal to $0.24, $0.58, and $2.59 per share, respectively. There were no option grants issued below fair market value during 2003, 2002 or 2001.

At December 31, 2003, 2002 and 2001, options to purchase approximately 2,770,126, 1,409,461, and 1,313,826 shares of common stock were exercisable, respectively, pursuant to the plans at prices ranging from $0.22 to $39.32. The following table summarizes information about stock options outstanding at December 31, 2003:

EXERCISE PRICE	NUMBER OUTSTANDING	REMAINING CONTRACTUAL LIFE FOR OPTIONS OUTSTANDING	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 0.22 - 3.93	4,514,878	8.8	1,870,153	$0.62
3.94 -7.86	846,650	5.4	635,623	6.27
7.87-11.79	93,650	4.3	93,650	8.92
11.80-15.72	40,000	0.5	40,000	12.29
15.73-19.66	7,500	6.6	7,500	18.81
19.67-23.59	3,000	6.5	3,000	20.00
23.60-27.52	0	0.0	0	0.00
27.53-31.45	3,000	6.0	3,000	30.25
31.46-35.38	0	0.0	0	0.00
35.39-39.32	117,200	1.0	117,200	38.03
	5,625,878	8.0	2,770,126	$4.05

Preferred Stock:

In connection with the sale of Series D Preferred Stock, the holders of the Company' s Series A3 Preferred Stock and Series B3 Preferred Stock (collectively, the "Existing Preferred Stockholders"), entered into an agreement whereby the Existing Preferred Stockholders have agreed to waive certain applicable price protection anti-dilution provisions. Under the terms of the waiver agreement, the Company is also permitted to issue equity securities representing aggregate proceeds of up to an additional $4,900 following the sale of the Series D Preferred

Stock. Additionally, the Existing Preferred Stockholders have also agreed to a limited lock-up restricting their ability to sell common stock issuable upon conversion of their preferred stock and warrants and to waive the accrual of any dividends that may otherwise be payable as a result of the Company' s delisting from Nasdaq. As consideration for the waiver agreement, the Company has agreed to issue on a pro rata basis up to 1,000 warrants to all the Existing Preferred Stockholders on a pro rata basis at such time and from time to time as the Company closes financing transactions that represent proceeds in excess of $2,900, excluding the proceeds from the Series D Preferred Stock transaction. Such warrants will have an exercise price that is the greater of $0.40 or the same exercise price as the exercise price of the warrant, or equity security, that the Company issues in connection with the Company' s financing or loan transaction that exceeds the $2,900 threshold.

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On August 14, 2002, the Company completed a $1,600 private placement of Series C Convertible Preferred Stock ("Series C Preferred Stock"), convertible at a conversion ratio of $0.38 per share of common stock into an aggregate of 4,184,211 shares of common stock. As part of the financing, the Company has also issued warrants to purchase an aggregate of 1,046,053 shares of common stock at an exercise price of $0.38 per share. As consideration for the $1,600 private placement, the Company received approximately $1,400 in cash and allowed certain debt holders to convert approximately $150 of debt and $50 accounts payable to equity. The Chairman and CEO of the Company, Anthony Pizi, converted $150 of debt owed to him into shares of Series C Preferred Stock and warrants. Both existing and new investors participated in the financing. The Company also agreed to register the common stock issuable upon conversion of the Series C Preferred Stock and exercise of the warrants for resale under the Securities Act of 1933, as amended. The Company allocated the proceeds received from the sale of the Series C Preferred Stock and warrants to the preferred stock and the detachable warrants on a relative fair value basis, resulting in the allocation $1,271 to the Series C Preferred Stock and $329 to the detachable warrants. Based on the allocation of the proceeds, the Company determined that the effective conversion price of the Series C Preferred Stock was less than the fair value of the Company' s common stock on the date of issuance. As a result, the Company recorded a beneficial conversion feature in the amount of $329 based on the difference between the fair market value of the Company' s common stock on the closing date of the transaction and the effective conversion price of the Series C Preferred Stock. The beneficial conversion feature was recorded as a discount on the value of the Series C Preferred Stock and an increase in additional paid-in capital. Because the Series C Preferred Stock was convertible immediately upon issuance, the Company fully amortized such beneficial conversion feature on the date of issuance**.**

In connection with the sale of Series C Preferred Stock, the Company agreed with the existing holders of its Series A1 Convertible Preferred Stock (the "Series A1 Preferred Stock") and the Series B1 Convertible Preferred Stock (the "Series B1 Preferred Stock"), in exchange for their waiver of certain anti-dilution provisions, to reprice an aggregate of 1,801,022 warrants to purchase common stock from an exercise price of $1.77 to $0.38. The Company entered into an Exchange Agreement with such holders providing for the issuance of 11,570 shares of Series A2 Convertible Preferred Stock ("Series A2 Preferred Stock") and 30,000 Series B2 Convertible Preferred Stock ("Series B2 Preferred Stock"), respectively. Series A2 Preferred Stock and Series B2 Preferred Stock are convertible into an aggregate of 1,388,456 and 2,394,063 shares of the Company' s common stock at $8.33 and $12.53 per share, respectively. The exchange is being undertaken in consideration of the temporary release of the anti-dilution provisions of the Series A1 Preferred Stockholders and Series B1 Preferred Stockholders. Based on a valuation performed by an independent valuation firm, the Company recorded a deemed dividend of $293, to reflect the increase in the fair value of the preferred stock and warrants as a result of the exchange. (See "Stock Warrants" for fair value assumptions.) The dividend increased the fair value of the warrant liability. As of December 31, 2003, no warrants had been exercised.

On October 25, 2002, the Company effected an exchange of all of our outstanding shares of Series A2 Convertible Redeemable Preferred Stock ("Series A2 Preferred Stock") and Series B2 Convertible Redeemable Preferred Stock ("Series B2 Preferred Stock") and related warrants for an equal number of shares of newly created Series A3 Convertible Redeemable Preferred Stock ("Series A3 Preferred Stock") and Series B3 Convertible Redeemable Preferred Stock ("Series B3 Preferred Stock") and related warrants. This exchange was made to correct a deficiency in the conversion price from the prior exchange of Series A1 and B1 Preferred Stock and related warrants for Series A2 and B2 Preferred Stock and related warrants on August 29, 2002. The conversion price for the Series A3 Preferred Stock and the conversion price for the Series B3 Preferred Stock remain the same as the previously issued Series A1 and A2 Preferred Stock and Series B1 and B2 Preferred Stock, at $8.33 and $12.53, respectively. The exercise price for the aggregate 753,640 warrants relating to the Series A3 Preferred Stock ("Series A3 Warrants") was increased from $0.38 to $0.40 per share which is a reduction from the $1.77 exercise price of the warrants

relating to the Series A1 Preferred Stock. The exercise price for the aggregate 1,047,382 warrants relating to the Series B3 Preferred Stock ("Series B3 Warrants") was increased from $0.38 to $0.40 per share which is a reduction from the $1.77 exercise price of the warrants relating to the Series B1 Preferred Stock. The adjusted exercise price was based on the closing price of the Company' s Series C Convertible Redeemable Preferred Stock and warrants on August 14, 2002, plus $0.02, to reflect accurate current market value according to relevant Nasdaq rules. This adjustment was made as part of the agreement

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under which the holders of the Company' s Preferred Stock agreed to waive their price-protection anti-dilution protections to allow the Company to issue the Series C Preferred Stock and warrants without triggering the price-protection anti-dilution provisions and excessively diluting its common stock. The Company may cause the redemption of the Series A3 Preferred Stock warrants and the Series B3 Preferred Stock warrants for $.0001 at any time if the closing price of the Company' s common stock over 20 consecutive trading days is greater than $5.00 and $7.50 per share, respectively. The holders of the Series A3 and Series B3 Warrants may cause the warrants to be redeemed for cash at the difference between the exercise price and the fair market value immediately preceding a redemption event as defined in the contract. As such, the fair value of the warrants at issuance has been classified as a warrant liability in accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company' s Own Stock". As of December 31, 2003, no warrants have been exercised and the fair value of the liability is $198.

Under the terms of the agreement, the Company is authorized to issue equity securities in a single or series of financing transactions representing aggregate gross proceeds to the Company of approximately $5,000, or up to an aggregate 17,500 shares of common stock, without triggering the price-protection anti-dilution provisions in the Series A3 Preferred Stock and B3 Preferred Stock and related warrants. In exchange for the waiver of these price-protection anti-dilution provisions, the Company repriced the warrants as described above and have agreed to issue on a pro rata basis up to 4,600 warrants to the holders of Series A3 Preferred Stock and Series B3 Preferred Stock at such time and from time to time as the Company closes subsequent financing transactions up to the $5,000 issuance cap or the 17,500 share issuance cap. As a result of the Series C Preferred Stock financing, which represented approximately $1,600 of the Company' s $5,000 in allowable equity issuances, the Company is obligated to issue an aggregate of 1,462,801 warrants at an exercise price of $0.40 per share to the existing preferred stockholders. The warrants were issued on December 31, 2002 and had a fair value of $373, which was recorded as a dividend to, Preferred stockholders. As a result of the Series D preferred Stock financing which represented approximately $3,500 against the allowable equity issuances, the Company was obligated to issue an aggregate of 3,048,782 warrants at an exercise price of $0.40 per share to the existing Series A3 and Series B3 preferred shareholders. The warrants were issued on October 8, 2003 and had a fair value of $1,062, which was recorded as a deemed dividend to preferred stockholders. Additionally, the Company has agreed to issue a warrant to purchase common stock to the existing preferred stockholders on a pro rata basis for each warrant to purchase common stock that the Company issues to a third-party lender in connection with the closing of a qualified loan transaction. The above referenced warrants will have the same exercise price as the exercise price of the warrant, or equity security, that the Company issues in connection with the Company' s subsequent financing or loan transaction or $0.40, whichever is greater. These warrants are not classified as a liability under EITF 00-19.

During 2003 and 2002 there were 6,250 shares of preferred stock converted into 1,377,921 shares of the Company' s common stock and 1,500 shares of preferred stock converted into 180,007 shares of the Company' s common stock, respectively. There were 4,070 shares of the Series A3 Preferred Stock and 30,000 shares of Series B3 Preferred Stock, 1,340 shares of Series C Preferred Stock, and 3,355 shares of Series D Preferred Stock outstanding at December 31, 2003.

Stock Warrants:

The Company values warrants based on the Black-Scholes pricing model. Warrants granted in 2003, 2002, and 2001were valued using the following assumptions:

Expected Life in Years	Expected Volatility	Risk Free Interest Rate	Expected Dividend	Fair Value of Common Stock

December 2000 Commercial Lender Warrants	4	87	%	5	%	None	$	6.19
Preferred Series A3 and B3 Warrants	4	107.5	%	4	%	None	$	1.89
2002-2003 Financing Warrants	5	97	%	2	%	None	$	0.40
Preferred Series C Warrants	5	117	%	3	%	None	$	0.38
Preferred Series D-1 Warrants	5	117	%	3	%	None	$	0.07
Preferred Series D-2 Warrants	5	102	%	3	%	None	$	0.20
Private Placement	3	102	%	3	%	None	$	0.45

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During December 2000, the Company issued a commercial lender rights to purchase up to 172,751 shares of the Company' s common stock at an exercise price of $4.34 in connection with a new credit facility. The warrants were valued at $775 or $4.49 per share and are exercisable until December 28, 2004. As of December 31, 2003, no warrants have been exercised.

Increase in Capital Stock:

In July 2003, the stockholders approved a proposal to amend the Amended and Restated Certificate of Incorporation to increase the aggregate number of shares of Common Stock that the Company is authorized to issue from 60,000,000 to 85,000,000.

NOTE 12. EMPLOYEE BENEFIT PLANS

As of January 1, 2001, the Company sponsored one defined contribution plan for its U.S. employees - the Level 8 Systems 401(k). On December 31, 2000, the Company amended the Level 8 Systems 401(k) plan to provide a 50% matching contribution up to 6% of an employee' s salary. Participants must be eligible Level 8 plan participants and employed at December 31 of each calendar year to be eligible for employer matching contributions. Matching contributions to the Plan included in the Consolidated Statement of Operations totaled $14, $7, and $7 for the years ended December 31, 2003, 2002, and 2001, respectively.

The Company also had employee benefit plans for each of its foreign subsidiaries, as mandated by each country' s laws and regulations. There was $0, $12, and $260 in expense recognized under these plans for the years ended December 31, 2003, 2002, and 2001, respectively. The Company no longer maintains foreign subsidiaries.

NOTE 13. SIGNIFICANT CUSTOMERS AND CONCENTRATION OF CREDIT RISK

In 2003, three customers accounted for 42.1%, 19.5% and 12.7% of operating revenues. In 2002, two customers accounted for 38.7% and 26.7% of operating revenues.

NOTE 14. FOREIGN CURRENCIES

As of December 31, 2003, the Company had $0 and $8 of U.S. dollar equivalent cash and trade receivable balances, respectively, denominated in foreign currencies.

As of December 31, 2002, the Company had $73 and $87 of U.S. dollar equivalent cash and trade receivable balances, respectively, denominated in foreign currencies. The Company' s net foreign currency transaction losses were $31, $171, and $198 for the years ended 2003, 2002 and 2001, respectively.

The more significant trade accounts receivable denominated in foreign currencies as a percentage of total trade accounts receivable were as follows:

	2003	**2002**

Euro	41.2 %	4.0 %
Pound Sterling	–	2.1 %

NOTE 15. SEGMENT INFORMATION AND GEOGRAPHIC INFORMATION

During the first quarter of 2001, management reassessed how the Company would be managed and how resources would be allocated. Management now makes operating decisions and assesses performance of the Company' s operations based on the following reportable segments: (1) Desktop Integration segment, and (2) Messaging and Application Engineering segment. The Company previously had three reportable segments but the Company has reported the Systems Integration segment as discontinued operations.

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The principal product in the Desktop Integration segment is Cicero. Cicero is a business integration software product that maximizes end-user productivity, streamlines business operations and integrates disparate systems and applications.

The products that comprise the Messaging and Application Engineering segment are Geneva Integration Broker, Geneva Message Queuing, Geneva XIPC, Geneva AppBuilder, CTRC and Star/SQL. During 2001, the Company sold three of its messaging products, Geneva Message Queuing, Geneva XIPC and AppBuilder. During 2002, the Company sold its CTRC and Star/SQL products.

Segment data includes a charge allocating all corporate headquarters costs to each of its operating segments based on each segment' s proportionate share of expenses. During 2002, the Company reported the operations of its Systems Integration segment as discontinued operations and has reallocated the corporate overhead for the Systems Integration segment in 2002 and 2001. The Company evaluates the performance of its segments and allocates resources to them based on earnings (loss) before interest and other income/(expense), taxes, in-process research and development, and restructuring.

The table below presents information about reported segments for the twelve months ended December 31, 2003 and 2002:

	Desktop Integration	Messaging/ Application Engineering	TOTAL
2003:			
Total revenue	$466	$64	$530
Total cost of revenue	5,371	62	5,433
Gross margin	(4,905)	2	(4,903)
Total operating expenses	4,999	256	5,255
Segment profitability (loss)	$(9,904)	$(254)	$(10,158)
2002:			
Total revenue	$2,148	$953	$3,101
Total cost of revenue	6,527	1,950	8,477
Gross margin	(4,379)	(997)	(5,376)
Total operating expenses	8,211	434	8,645
Segment profitability (loss)	$(12,590)	$(1,431)	$(14,021)
2001:			
Total revenue	$134	$17,223	$17,357
Total cost of revenue	9,427	14,109	23,536
Gross margin (loss)	(9,293)	3,114	(6,179)

Total operating expenses	18,858	7,179	26,037
Segment profitability (loss)	$(28,151)	$(4,065)	$(32,216)

A reconciliation of segment operating expenses to total operating expense follows:

	2003	2002	2001
Segment operating expenses	$5,255	$8,645	$26,037
Amortization of intangible assets	–	–	6,259
Write-off of intangible assets	–	–	7,929
(Gain)Loss on disposal of assets	415	461	(6,345)
Restructuring, net	(834)	1,300	8,650
Total operating expenses	$4,836	$10,406	$42,530

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A reconciliation of total segment profitability to net loss for the fiscal years ended December 31:

	2003	2002	2001
Total segment profitability (loss)	$(10,158)	$(14,021)	$(32,216)
Amortization of intangible assets	–	–	(6,259)
Impairment of intangible assets	–	–	(7,929)
Gain/(loss) on disposal of assets	(415)	(461)	6,345
Restructuring	834	(1,300)	(8,650)
Interest and other income/(expense), net	(135)	2,485	(8,850)
Net loss before provision for income taxes	$(9,874)	$(13,297)	$(57,559)

The following table presents a summary of long-lived assets by segment as of December 31:

	2003	2002
Desktop Integration	$4,089	$8,096
Messaging/Application Engineering	–	62
Total assets	$4,089	$8,158

The following table presents a summary of revenue by geographic region for the years ended December 31:

	2003	2002	2001
Australia	$–	$–	$141
Denmark	32	20	2,333

France	–	7	30
Germany	–	35	757
Israel	–	4	659
Italy	18	32	813
Norway	–	1	491
Switzerland	–	–	667
United Kingdom	–	13	1,929
USA	476	2,989	6,402
Other	4	–	3,135
	$530	$3,101	$17,357

Presentation of revenue by region is based on the country in which the customer is domiciled. As of December 31, 2003 and 2002, all of the long-lived assets of the Company are located in the United States. The Company reimburses the Company' s foreign subsidiaries for their costs plus an appropriate mark-up for profit. Intercompany profits and losses are eliminated in consolidation.

NOTE 16. RELATED PARTY INFORMATION

Liraz Systems Ltd. guarantees certain debt obligations of the Company. In November 2003, the Company and Liraz agreed to extend the guarantee and with the approval of the lender, agreed to extend the maturity of the debt obligation until November 8, 2004. The Company issued 150,000 shares of common stock to Liraz in exchange for this debt extension and will issue additional stock on March 31, 2004, June 30, 2004 and September 30, 2004 unless the debt is repaid before those dates. (See Note 8.)

From time to time during 2003, the Company entered into short term notes payable with Anthony Pizi, the Company' s Chairman and Chief Executive Officer. The Notes bear interest at 1% per month and are unsecured. At December 31, 2003, the Company was indebted to Mr. Pizi in the amount of $85. In January 2004, the Company repaid Mr. Pizi $75.

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On December 26, 2003, the Company entered into a short term note payable with Mark Landis who is related by marriage to Anthony Pizi, the Company' s Chairman and Chief Executive Officer. The note, in the amount of $125, bears interest at 1% per month and is convertible into common stock of the Company at a conversion rate of $0.32 per share.

In October 2001, the Company sold its AppBuilder assets to BluePhoenix (a wholly owned subsidiary of Liraz) for $19,000 cash, a note receivable of $1,000 and of payment for net assets of $350. See Note 2.

Liraz paid the salaries and expenses of certain company employees and was reimbursed by the Company. Salaries and expenses paid by Liraz amounted to $67 during 2001.

NOTE 17. RESTRUCTURING CHARGES

As part of the Company' s plan to focus on the emerging desktop integration marketplace with its new Cicero product, the Company completed substantial restructurings in 2002 and 2001. At December 31, 2002, the Company' s accrual for restructuring was $772, which was primarily comprised of excess facility costs. As more fully discussed in Note 20 Contingencies, subsequent to September 30, 2003, the Company settled litigation relating to these excess facilities. Accordingly, the Company has reversed the restructuring balance, as of September 30, 2003. Under the terms of the settlement agreement, the Company agreed to assign the note receivable from the sale of Geneva to EM Software Solutions, Inc., (see Note 2 Dispositions), with recourse equal to the unpaid portion of the note receivable should the note obligor, EM Software Solutions, Inc., default on future payments. The current unpaid principal portion of the note receivable assigned is

approximately $545 and matures December 2007. The Company assessed the probability of liability under the recourse provisions using a probability weighted cash flow analysis and has recognized a long-term liability in the amount of $131.

During the second quarter of 2002, the Company announced an additional round of restructurings to further reduce its operating costs and streamline its operations. The Company recorded a restructuring charge in the amount of $1,300, which encompassed the cost associated with the closure of the Company' s Berkeley, California facility as well as a significant reduction in the Company' s European personnel.

During the first quarter of 2001, the Company announced and began implementation of an initial operational restructuring. The Company recorded restructuring charges of $6,650 during the quarter ended March 31, 2001 and an additional charge of $2,000 for the quarter ended June 30, 2001. Restructuring charges have been classified in "Restructuring" on the consolidated statements of operations. These operational restructuring involved the reduction of employee staff throughout the Company in all geographical regions in sales, marketing, services, development and all administrative functions.

The overall restructuring plan included the termination of 236 employees. The plan included a reduction of 107 personnel in the European operations and 129 personnel in the US operations. Employee termination costs were comprised of severance-related payments for all employees terminated in connection with the operational restructuring. Termination benefits did not include any amounts for employment-related services prior to termination.

NOTE 18. FUNDED RESEARCH AND DEVELOPMENT

In July 2001, the Company and a significant customer entered into a multi-year agreement to fund the development of the next generation of Level 8' s Geneva Enterprise Integrator and Geneva Business Process Automator software. The terms of the agreement provided $6,500 in funding for research and development for 18 months in exchange for a future fully paid and discounted licensing arrangement. In May 2002, the Company and Amdocs Ltd. agreed to terminate the funded development agreement and enter into a non-exclusive license to develop and sell its Geneva J2EE technology. Under the terms of the agreement to terminate the funded research and development program, Amdocs Ltd. assumed full responsibility for the development team of professionals located in the Company' s Dulles, Virginia facility. The Geneva products comprised the Systems Integration segment and were subsequently identified as being held for sale. Accordingly, the Company reclassified the Systems Integration segment to discontinued operations. The business was eventually sold to EM Software Solutions, Inc, in December 2002.

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NOTE 19. LEASE COMMITMENTS

The Company leases certain facilities and equipment under various operating leases. Future minimum lease commitments on operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2003 were as follows:

	Lease Commitments
2004	$ 214
2005	221
2006	84
	$ 519

Rent expense for the years ended December 31, 2003, 2002 and 2001 was $586, $2,980 and $1,835, respectively. Sublease income was $241, $2,487 and $221 for the fiscal years ended December 31, 2003, 2002 and 2001, respectively. As of December 31, 2003, the Company had no sublease arrangements.

NOTE 20. CONTINGENCIES

Various lawsuits and claims have been brought against the Company in the normal course of business. In January 2003, an action was brought against the Company in the Circuit Court of Loudon County Virginia for a breach of a real estate lease. The case was settled in August 2003. Under the terms of the settlement agreement, the Company agreed to assign a note receivable with recourse equal to the unpaid portion of the note should the note obligor default on future payments. The unpaid balance of the note being transferred was $545 and matures in December 2007. The Company assessed the probability of liability under the recourse provisions using a weighted probability cash flow analysis and has recognized a long-term liability in the amount of $131.

In October 2003, the Company was served with a summons and complaint regarding unpaid invoices for services rendered to the Company by one of its vendors. The amount in dispute is approximately $200 and is included in accounts payable.

Subsequent to 2003, the Company has been served with an additional summons and complaint regarding a security deposit for a sublease in Virginia. The amount in dispute is approximately $247. The Company disagrees with this allegation although it has reserved for this contingency.

Under the indemnification clause of the Company' s standard reseller agreements and software license agreements, the Company agrees to defend the reseller/licensee against third party claims asserting infringement by the Company' s products of certain intellectual property rights, which may include patents, copyrights, trademarks or trade secrets, and to pay any judgments entered on such claims against the reseller/ licensee.

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NOTE 21. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
2003:				
Net revenues	$ 143	$ 177	$ 113	$97
Gross profit/(loss)	(1,037)	(968)	(1,734)	(1,164)
Net loss from continuing operations	(2,974)	(2,424)	(2,468)	(2,008)
Net loss discontinued operations	(46)	(20)	(58)	(8)
Net loss	(3,020)	(2,444)	(2,526)	(2,016)
Net loss/share continued operations - basic and diluted	$ (0.19)	$ (0.12)	$ (0.12)	$(0.11)
Net loss/share discontinued operations - basic and diluted	–	–	–	–
Net loss/share - basic and diluted	$ (0.19)	$ (0.12)	$ (0.12)	$(0.11)
2002:				
Net revenues	$ 446	$ 630	$ 823	$1,202
Gross profit/(loss)	(3,548)	(1,749)	(422)	343
Net loss from continuing operations	(5,409)	(5,062)	(1,948)	(723)
Net loss discontinued operations	(676)	(5,481)	484	633
Net loss	(6,085)	(10,543)	(1,464)	(90)
Net loss/share continued operations - basic and diluted	$ (0.29)	$ (0.26)	$ (0.12)	$(0.07)
Net loss/share discontinued operations - basic and diluted	$ (0.04)	$ (0.29)	$ 0.03	$0.03
Net loss/share - basic and diluted	$ (0.33)	$ (0.55)	$ (0.09)	$(0.04)

NOTE 22. SUBSEQUENT EVENTS

In January 2004, the Company acquired substantially all of the assets and certain liabilities of Critical Mass Mail, Inc., d/b/a Ensuredmail, a federally certified encryption software company. Under the terms of the purchase agreement, the Company issued 2,027,027 shares of common stock at a price of $0.37. The total purchase price of the assets and certain liabilities being acquired was $750 and has been accounted for by the purchase method of accounting. The Company agreed to register the common stock for resale under the Securities Act of 1933, as amended.

Also in January 2004, and simultaneously with the asset purchase of Critical Mass Mail, Inc., the Company completed a common stock financing round wherein it raised $1,247 of capital from several new investors as well as certain investors of Critical Mass Mail, Inc. The Company sold 3,369,192 shares of common stock at a price of $0.37 per share. As part of the financing, the Company has also issued warrants to purchase 3,369,192 shares of the Company' s common stock at an exercise price of $0.37. The warrants expire three years from the date of grant. The Company also agreed to register the common stock and the warrants for resale under the Securities Act of 1933, as amended.

Exhibit 3.1

CERTIFICATE OF AMENDMENT

OF

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

LEVEL 8 SYSTEMS, INC.

* * * * *

Level 8 Systems, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"),

DOES HEREBYCERTIFY:

FIRST: That the Board of Directors of the Corporation, at a meeting of its members, filed with the minutes of the board, duly adopted resolutions setting forth a proposed amendment to the Amended and Restated Certificate of Incorporation of the Corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of the Corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, The text of Article Six of the Corporation's Amended and Restated Certificate of Incorporation prior to the start of subsection 6.A. PREFERRED STOCK will be deleted and replaced in its entirety with the following:

"6. The total number of shares of capital stock which the Corporation is authorized to issue is ninety five million (95,000,000) shares, consisting of:

(i) eighty five million (85,000,000) shares of common stock, par value $.001 per share ("Common Stock"); and

(ii) ten million (10,000,000) shares of preferred stock, par value $.001 per share ("Preferred Stock").

The following is a statement of the designations and the powers, privileges and rights, and the qualifications, limitations or restrictions thereof in respect of each class of capital stock of the Corporation."

SECOND: That thereafter, pursuant to resolution of its Board of Directors, an annual meeting of the stockholders of the Corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law

of the State of Delaware, at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by John P. Broderick, its Chief Financial and Operating Officer and Corporate Secretary, this 4th day of August, 2003.

/s/ John P. Broderick

By: John P. Broderick
Chief Financial and Operating Officer,
Corporate Secretary

Exhibit 4.2

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of October __, 2003, is entered into by and between LEVEL 8 SYSTEMS, INC., a Delaware corporation (the "Company"), and the investors signatory hereto (each investor is sometimes individually referred to herein as a "Purchaser" and all such investors are sometimes collectively referred to herein as the "Purchasers").

W I T N E S S E T H :

This Agreement is made pursuant to that certain Securities Purchase Agreement, dated as of the date hereof, by and among the Company and the Purchasers (the "Purchase Agreement").

The Company and the Purchasers hereby agree as follows:

1. Definitions. Unless otherwise defined herein, terms defined in the Purchase Agreement are used herein as therein defined, and the following shall have (unless otherwise provided elsewhere in this Agreement) the following respective meanings (such meanings being equally applicable to both the singular and plural form of the terms defined):

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "control," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise, and the terms "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" shall mean this Registration Rights Agreement, including all amendments, modifications and supplements and any exhibits or schedules to any of the foregoing, and shall refer to the Agreement as the same may be in effect at the time such reference becomes operative.

"Business Day" shall mean any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of New York.

"Commission" shall mean the Securities and Exchange Commission or any other federal agency then administering the Securities Act and other federal securities laws.

"Holder or Holders" means the holder or holders, as the case may be, from time to time the Registrable Securities.

"NASD" shall mean the National Association of Securities Dealers, Inc., or any successor corporation thereto.

"Registrable Securities" shall mean the shares of Common Stock issuable pursuant to the terms of the Purchase Agreement and any shares of Common Stock issued or issuable upon exercise of the Warrants.

2. Registration. As soon as practicable following the Closing Date and within sixty (60) days of the Closing Date, the Company shall prepare and file with the Commission a Registration Statement (the "Registration Statement") which shall cover all of the Registrable Securities. The Registration Statement shall be on Form S-1 or any successor form. The Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act within one hundred twenty (120) days of the Closing Date.

3.Registration Procedures. Subject to the provisions of Section 2, the Company will:

(a)prepare and file with the Commission a Registration Statement with respect to such securities and use its best efforts to cause such Registration Statement to become and remain effective for a period of time required for the disposition of such securities by the Holder thereof, but not to exceed two (2) years;

(b) prepare and file with the Commission such amendments and supplements to such Registration Statement and the prospectus used in connection therewith as may be necessary to keep such Registration Statement effective and to comply with the provisions of the Securities Act with respect to the sale or other disposition of all securities covered by such Registration Statement until the earlier of such time as all of such securities have been disposed of in a public offering or the expiration of two (2) years;

(c) furnish to each Holder such number of copies of a summary prospectus or other prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents, as such Holder may reasonably request;

(d) use its best efforts to register or qualify the securities covered by such Registration Statement under such other securities or blue sky laws of such jurisdictions within the United States as each Holder shall reasonably request to the extent such registration or qualification is required in such jurisdictions (provided, however, that the Company shall not be obligated to qualify as a foreign corporation to do business under the laws of any jurisdiction in which it is not then qualified or to file any general consent to service of process), and do such other reasonable acts and things as may be required of it to enable such Holder to consummate the disposition in such jurisdiction of the securities covered by such Registration Statement;

(e) furnish, at the request of any Holder during registration of Registrable Securities pursuant to Section 2, on the date that such shares of Registrable Securities are delivered to the underwriters for sale pursuant to such registration or, if such Registrable Securities are not being sold through underwriters, on the date that the Registration Statement with respect to such shares of Registrable Securities becomes effective, (1) an opinion, dated as of such date, of the independent counsel representing the Company for the purposes of such registration, addressed to the underwriters, if any, and if such Registrable Securities are not being sold through underwriters, then to the Holder making such request, in customary form and covering matters of the type customarily covered in such legal opinions; and (2) a comfort letter dated such date, from the independent certified public accountants of the Company, addressed to the underwriters, if any, and if such Registrable Securities are not being sold through underwriters, then to the Holder making such request and, if such accountants refuse to deliver such letter to such Holder, then to the Company, in a customary form and covering matters of the type customarily covered by such comfort letters and as the underwriters or such Holder shall reasonably request;

(f) enter into customary agreements (including an underwriting agreement in customary form) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities;

(g) notify each Holder as promptly as practicable upon the occurrence of any event as a result of which the prospectus included in a Registration Statement, as then in effect, contains an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, and as promptly as possible, prepare, file and furnish to such Holder a reasonable number of copies of a supplement or an amendment to such prospectus as may be necessary so that such prospectus does not contain an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(h) provide each Holder and its representatives the opportunity to conduct reasonable inquiry of the Company's financial and other records during normal business hours and make available its officers, directors and employees for questions regarding information which such Holder may reasonably request in order to conduct any due diligence; and

(i) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to the Holders, as soon as reasonably practicable, but not later than eighteen (18) months after the effective date of the Registration Statement, an earnings statement covering the period of at least twelve (12) months beginning with the first full month after the effective date of such Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act.

4. Expenses. All expenses incident to the Company's compliance with the terms of this Agreement, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, expenses of any special audits incident to or required by any such registration and expenses of complying with the securities or blue sky laws of any jurisdiction pursuant to Section 3(d), shall be paid by the Company, except that:

(a)all such expenses in connection with any amendment or supplement to the Registration Statement or prospectus filed more than two (2) years after the effective date of such Registration Statement because any Holder has not effected the disposition of the securities requested to be registered shall be paid by such Holder;

(b) the Company shall not be liable for any fees, discounts or commissions to any underwriter or any fees or disbursements of counsel for any underwriter in respect of the securities sold by such Holder; and

(c) any incremental expenses incurred by the Company as a result of the inclusion of a Holder's Registrable Securities in an underwritten offering where the Holder or any of its Affiliates is an underwriter of the Registrable Securities which inclusion of such Holder's Registrable Securities requires a "qualified independent underwriter" under the applicable rules of the NASD shall be paid by such Holder.

5. Indemnification and Contribution. (a) In the event of any registration of any Registrable Securities under the Securities Act pursuant to this Agreement, the Company shall indemnify and hold harmless the Holder of such Registrable Securities, such Holder's directors and officers, and each other person (including each underwriter) who participated in the offering of such Registrable Securities and each other person, if any, who controls such Holder or such participating person within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such Holder or any such director or officer or participating person or controlling person may become subject under the Securities Act or any other statute or at common law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any alleged untrue statement of any material fact contained, on the effective date thereof, in any Registration Statement under which such securities were registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, or (ii) any alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse such Holder or such

director, officer or participating person or controlling person for any legal or

any other expenses reasonably incurred by such Holder or such director, officer or participating person or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action. Notwithstanding anything to the contrary set forth in this Section 5(a), the Company shall not be liable to indemnify any person in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon (1) any actual or alleged untrue statement or actual or alleged omission either (x) made in such Registration Statement, preliminary prospectus, prospectus or amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Holder specifically for use therein or so furnished for such purposes by any underwriter or (y) that had been corrected in a preliminary prospectus, prospectus supplement or amendment which had been furnished to such Holder prior to any distribution of the document alleged to contain the untrue statement or omission to offerees or purchasers, (2) any offer or sale of Registrable Securities after receipt by such Holder of a Standstill Notice under Section 3(g) and prior to the delivery of the prospectus supplement or amendment contemplated by Section 3(g), or (3) the Holder's failure to comply with the prospectus delivery requirements under the Securities Act or failure to distribute its Registrable Securities in a manner consistent with its intended plan of distribution as provided to the Company and disclosed in the Registration Statement. Notwithstanding the foregoing, the Company shall not be required to indemnify any person for amounts paid in settlement of any claim without the prior written consent of the Company, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Holder or such director, officer or participating person or controlling person, and shall survive the transfer of such securities by such Holder.

(b) Each Holder, by acceptance hereof, agrees to indemnify and hold harmless the Company, its directors and officers and each person who participated in such offering and each other person, if any, who controls the Company within the meaning of the Securities Act against any losses, claims, damages or liabilities, joint or several, to which the Company or any such director or officer or any such person may become subject under the Securities Act or any other statute or at common law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) information in writing provided to the Company by the Holder specifically for use in the following documents and contained, on the effective date thereof, in any Registration Statement under which securities were registered under the Securities Act at the request of the Holder, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, (ii) Holder's offer or sale of Registrable Securities after receipt by such Holder of a Standstill Notice under Section 3(g) and prior to the delivery of the prospectus supplement or amendment contemplated by Section 3(g), (iii) Holder's failure to comply with the prospectus delivery requirements under the Securities Act or failure to distribute its Registrable Securities in a manner consistent with its intended plan of distribution as provided to the Company and disclosed in the Registration Statement, (iv) Holder's failure to comply with Regulation M under the Exchange Act, or (v) Holder's failure to comply with any rules and regulations applicable because the Holder is, or is an Affiliate of, a registered broker-dealer. Notwithstanding

the provisions of this paragraph (b) or paragraph (c) below, no Holder shall be required to indemnify any person pursuant to this Section 5 or to contribute pursuant to paragraph (c) below in an amount in excess of the amount of the aggregate net proceeds received by such Holder in connection with any such registration under the Securities Act.

(c) If the indemnification provided for in this Section 5 from the indemnifying party is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified parties in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified parties shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified parties, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(c) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

6. Certain Limitations on Registration Rights. Notwithstanding the other provisions of this Agreement:

(a) the Company shall not be obligated to register the Registrable Securities of Holders if, in the opinion of counsel to the Company reasonably satisfactory to the Holder and its counsel (or, if the Holder has engaged an investment banking firm, to such investment banking firm and its counsel), the sale or other disposition of such Holder's Registrable Securities, in the manner proposed by such Holder (or by such investment banking firm), may be effected without registering such Registrable Securities under the Securities Act;

(b) the Company shall not be obligated to register the Registrable Securities of any Holder pursuant to Section 2 if the Company has had a registration statement, under which the Holder had a right to have its Registrable Securities included pursuant to Section 2, declared effective within one hundred and twenty (120) days prior to the date of the request pursuant to Section 2; and

(c) the Company shall have the right to delay the filing or effectiveness of the registration statement required pursuant to Section 2 hereof during one or more periods aggregating not more than forty five (45) days in any twelve-month period in the event that (i) the Company would, in accordance with the advice of its counsel, be required to disclose in the prospectus information not otherwise then required by law to be publicly disclosed and (ii) in the judgment of the Company's Board of Directors, there is a reasonable likelihood that such disclosure would materially and adversely affect any existing or prospective material business situation, transaction or negotiation or otherwise materially and adversely affect the Company.

7. Selection of Managing Underwriters. The managing underwriter or underwriters for any offering of Registrable Securities to be registered pursuant to Section 2 shall be selected by the Holders of a majority of the shares being so registered and shall be reasonably acceptable to the Company.

8. Holder Agreements. (a) No Holder may participate in an underwritten offering provided for hereunder unless such Holder (i) agrees to sell the Holder's Registrable Securities on the basis provided in the underwriting arrangements contemplated for such offering as reasonably requested by the managing underwriter, (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements as reasonably requested by the managing underwriter, and (iii) agrees to bear the Holder's pro rata portion of all underwriting discounts and commissions.

(b) Each Holder agrees to comply with Regulation M under the Exchange Act in connection with its offer and sale of Registrable Securities.

(c) Each Holder agrees that it will not sell any Registrable Securities registered under the Securities Act pursuant to the terms of this Agreement until a Registration Statement (and any associated post-effective amendment) relating thereto has been declared effective and the Holder has been provided copies of the related prospectus, as amended or supplemented to date.

(d) Each Holder agrees to comply with the prospectus delivery requirements of the Securities Act as applicable in connection with the sale of Registrable Securities registered under the Securities Act pursuant to a Registration Statement.

(e) Each Holder agrees that upon receipt of a Standstill Notice pursuant to Section 3(g), the Holder shall immediately discontinue offers and sales of Registrable Securities registered under the Securities Act pursuant to any Registration Statements covering such Registrable Securities until such Holder

receives copies of the supplemented or amended prospectus contemplated by Section 3(g) or notice from the Company that no such supplement or amendment is required.

9. Miscellaneous.

(a) No Inconsistent Agreements. The Company will not hereafter enter into any agreement with respect to its securities which conflicts with the rights granted to the Holders in this Agreement.

(b) Remedies. Each Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Agreement and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate. In any action or proceeding brought to enforce any provision of this Agreement or where any provision hereof is validly asserted as a defense, the successful party shall be entitled to recover reasonable attorneys' fees in addition to any other available remedy.

(c) Amendments and Waivers. Except as otherwise provided herein, the provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departure from the provisions hereof may not be given unless the Company has obtained the written consent of the Holder.

(d) Notice Generally. Any notice, demand, request, consent, approval, declaration, delivery or other communication hereunder to be made pursuant to the provisions of this Agreement shall be sufficiently given or made if in writing and either delivered in person with receipt acknowledged or sent by registered or certified mail, return receipt requested, postage prepaid, or by telecopy and confirmed by telecopy answerback, addressed as follows:

If to the Company: Level 8 Systems, Inc.
214 Carnegie Center, Suite 303
Princeton, New Jersey 08540
Attn: John P. Broderick

With a Copy to: Powell, Goldstein, Frazer & Murphy LLP
191 Peachtree Street, 16th Floor
Atlanta, Georgia 30303
Attn: Scott D. Smith, Esq.

If to the Holders: At the address set forth with such Holder's name on Schedule I to the Purchase Agreement.

or at such other address as may be substituted by notice given as herein provided. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Every notice, demand, request, consent, approval, declaration, delivery or other communication hereunder shall be deemed to have been duly given or served on the date on which personally delivered, with receipt acknowledged, telecopied and confirmed by telecopy answerback or three (3) Business Days after the same shall have been deposited in the United States mail.

(e) Rule 144. With a view to making available to the Holders the benefits of Rule 144 under the Securities Act ("Rule 144") and any other rule or regulation of the Commission that may at any time permit the Holder to sell securities of the Company to the public without registration, the Company agrees that it will:

(i) make and keep public information available, as those terms are understood and defined in Rule 144;

(ii) file with the Commission in a timely manner all reports and other documents required of the Company under the Exchange Act; and

(iii) furnish to a Holder, so long as such Holder owns any Registrable Securities, forthwith upon request (A) a written statement by the Company, if true, that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act, (B) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (C) such other information as may be reasonably requested in availing such Holder of any rule or regulation of the Commission which permits the selling of any such securities without registration.

(f) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto including any person to whom Registrable Securities are transferred.

(g) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(h) Governing Law; Jurisdiction. This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Delaware without giving effect to the conflict of laws provisions thereof. Service of process on the parties in any action arising out of or relating to this Agreement shall be effective if mailed to the parties in accordance with Section 9(d) hereof. The parties hereto waive all right to trial by jury in any action or proceeding to enforce or defend any rights hereunder.

(i) Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such

provision or the remaining provisions of this Agreement.

(j) Entire Agreement. This Agreement, together with the Purchase Agreement, represents the complete agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein. This Agreement supersedes all prior agreements and understandings between the parties with respect to the subject matter hereof.

(k)Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together 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, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

[SIGNATURE PAGES ATTACHED HERETO]

Exhibit 4.2

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

LEVEL 8 SYSTEMS, INC.

By:

John P. Broderick,
Chief Operating and Financial Officer

PURCHASERS:

[COUNTERPART SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

PURCHASER:

(Name of Purchaser)

By:

(Signature of Purchaser(s))

Name:

(Name of Signatory if Purchaser is an Entity)

Title:

(if Purchaser is an Entity)

Exhibit 4.9

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

OCTOBER 15, 2003

XXX SHARES Warrant No. 2003PP-XX

LEVEL 8 SYSTEMS, INC.

STOCK PURCHASE WARRANT

THIS IS TO CERTIFY THAT TBN (the "Holder"), or its registered assigns, is entitled, at any time prior to the Expiration Date (as hereinafter defined), to purchase from LEVEL 8 SYSTEMS, INC., a Delaware corporation (the "Company") (the Company and the Holder are hereinafter referred to collectively as the "Parties" and individually as a "Party"), XXX shares of Common Stock (as hereinafter defined and subject to adjustment as provided herein), in whole or in part, at a purchase price of $0.45 per share (subject to adjustment as provided herein), on the terms and conditions and pursuant to the provisions hereinafter set forth.

1. DEFINITIONS

As used in this Warrant, the following terms have the respective meanings set forth below:

"Additional Shares of Common Stock" shall mean all shares of Common Stock issued by the Company after the Closing, other than Warrant Stock.

"Business Day" shall mean any day that is not a Saturday or Sunday or a day on which banks are required or permitted to be closed in the State of New York.

"Closing Date" shall have the meaning set forth in the Purchase Agreement.

"Commission" shall mean the Securities and Exchange Commission or any other Federal agency then administering the Securities Act and other Federal securities laws.

"Common Stock" shall mean (except where the context otherwise indicates)

the common stock, $.001 par value, of the Company as constituted on the Closing Date, and any capital stock into which such Common Stock may thereafter be changed, and shall also include (i) capital stock of the Company of any other class (regardless of how denominated) issued to the holders of shares of Common Stock upon any reclassification thereof which is also not preferred as to dividends or assets over any other class of stock of the Company and which is not subject to redemption and (ii) shares of common stock of any successor or acquiring corporation (as defined in Section 4.4) received by or distributed to the holders of Common Stock of the Company in the circumstances contemplated by Section 4.4.

"Convertible Securities" shall mean evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable, with or without payment of additional consideration in cash or property, for Additional Shares of Common Stock, either immediately or upon the occurrence of a specified date or a specified event.

"Current Market Price" shall mean, in respect of any share of Common Stock on any date herein specified (i) the closing sales price on such day on the NASDAQ National Market System ("NASDAQ") or the principal stock stock exchange on which such Common Stock is listed or admitted to trading, (ii) if no sale takes place on such day on NASDAQ or any such exchange, the average of the last reported closing bid and asked prices on such day as officially quoted on NASDAQ or any such exchange, (iii) if the Common Stock is not then listed or admitted to trading on NASDAQ or any stock exchange, the average of the last reported closing bid and asked prices on such day in the over-the-counter market, as furnished by the National Association of Securities Dealers Automatic Quotation

System or the National Quotation Bureau, Inc., (iv) if neither such corporation at the time is engaged in the business of reporting such prices, as furnished by any similar firm then engaged in such business, or (v) if there is no such firm, as furnished by any member of the NASD selected mutually by the Holder and the Company or, if they cannot agree upon such selection, as selected by two such members of the NASD, one of which shall be selected by the Holder and one of which shall be selected by the Company.

"Current Warrant Price" shall mean, in respect of a share of Common Stock at any date herein specified, $0.45 per share of Common Stock as of the date hereof, subject to adjustment as provided herein.

"Date of Exercise" shall have the meaning set forth in Section 2.1(b).

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any similar Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect from time to time.

"Exercise Period" shall mean the period during which this Warrant is exercisable pursuant to Section 2.1.

"Expiration Date" shall mean October 16, 2006.

"Holder" shall mean the Person in whose name the Warrant set forth herein is registered on the books of the Company maintained for such purpose.

"NASD" shall mean the National Association of Securities Dealers, Inc., or any successor corporation thereto.

"Other Property" shall have the meaning set forth in Section 4.4.

"Outstanding" shall mean, when used with reference to Common Stock, at any date as of which the number of shares thereof is to be determined, all issued shares of Common Stock, except shares then owned or held by or for the account of the Company or any subsidiary thereof, and shall include all shares issuable in respect of outstanding scrip or any certificates representing fractional interests in shares of Common Stock.

"Person" shall mean any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government (whether Federal, state, county, city, municipal or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof).

"Purchase Agreement" shall mean the Securities Purchase Agreement dated as of the date hereof by and between the Company and the Holder.

"Proceeding" shall have the meaning set forth in Section 14.8.

"Restricted Common Stock" shall mean shares of Common Stock which are, or which upon their issuance on the exercise of this Warrant would be, evidenced by a certificate bearing the restrictive legend set forth in the Purchase Agreement.

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Trading Day(s)" shall mean any day on which the primary market on which such shares of Common Stock are listed is open for trading.

"Warrants" shall mean this Warrant and all warrants issued upon transfer, division or combination of, or in substitution for, any thereof. All Warrants shall at all times be identical as to terms and conditions and date, except as to the number of shares of Common Stock for which they may be exercised.

"Warrant Price" shall mean an amount equal to (i) the number of shares of Common Stock being purchased upon exercise of this Warrant pursuant to Section

2.1, multiplied by (ii) the Current Warrant Price as of the date of such exercise.

"Warrant Stock" shall mean the shares of Common Stock purchased by the holders of the Warrants upon the exercise thereof.

2. EXERCISE OF WARRANT

2.1. Manner of Exercise. (a) From and after the Closing Date and until 6:30 P.M., New York time, on the Expiration Date, the Holder may exercise this Warrant, for all or any part of the number of shares of Common Stock purchasable hereunder.

(b) In order to exercise this Warrant, in whole or in part, the Holder shall deliver to the Company at its office at 8000 Regency Parkway, Cary, North Carolina 27511, or at the office or agency designated by the Company pursuant to Section 13, (i) a written notice of the Holder's election to exercise this Warrant, which notice shall specify the number of shares of Common Stock to be purchased, (ii) payment of the Warrant Price and (iii) this Warrant. Such notice shall be substantially in the form of the subscription form appearing at the end of this Warrant as Exhibit A, duly executed by the Holder or its agent or attorney. Upon receipt thereof, the Company shall, as promptly as practicable, and in any event within three (3) Business Days thereafter, issue or cause to be issued and deliver or cause to be delivered to the Holder a certificate or

certificates representing the aggregate number of full shares of Common Stock issuable upon such exercise, together with cash in lieu of any fraction of a share, as hereinafter provided. The stock certificate or certificates so delivered shall be, to the extent possible, in such denomination or denominations as such Holder shall request in the notice and shall be registered in the name of the Holder or, subject to Section 8, such other name as shall be designated in the notice. This Warrant shall be deemed to have been exercised and such certificate or certificates shall be deemed to have been issued, and the Holder or any other Person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the notice, together with the cash or check or checks and this Warrant, is received by the Company as described above and all taxes required to be paid by the Holder, if any, pursuant to Section 2.2 prior to the issuance of such shares have been paid (such date, the "Date of Exercise"). If this Warrant shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing Warrant Stock, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased shares of Common Stock called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant, or, at the request of the Holder, appropriate notation may be made on this Warrant and the same returned to the Holder. Notwithstanding any provision herein to the contrary, the Company

shall not be required to register shares in the name of any Person who acquired this Warrant (or part hereof) or any Warrant Stock otherwise than in accordance with this Warrant. If the Company fails to deliver to the Holder the required Warrant Stock in accordance with and pursuant to this Section by the third Trading Day after the Date of Exercise, then the Holder will have the right to rescind such exercise.

(c) The Company's obligations to issue and deliver Warrant Stock in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of Warrant Stock.

(d) Payment of the Warrant Price shall be made at the option of the Holder by (i) wire transfer to an account designated by the Company, (ii) certified or official bank check, and/or (iii) by the Holder's surrender to the Company of that number of shares of Warrant Stock (or the right to receive such number of shares) or shares of Common Stock having an aggregate Current Market Price equal to or greater than the Current Warrant Price for all shares then being purchased (including those being surrendered), or (iv) any combination thereof, duly endorsed by or accompanied by appropriate instruments of transfer duly executed by the Holder or by the Holder's attorney duly authorized in writing.

2.2. Payment of Taxes. All shares of Common Stock issuable upon the exercise of this Warrant pursuant to the terms hereof shall be validly issued, fully paid and nonassessable and without any preemptive rights. The Company shall pay all expenses in connection with, and all taxes and other governmental charges that may be imposed with respect to, the issue or delivery thereof, unless such tax or charge is imposed by law upon the Holder, in which case such taxes or charges shall be paid by the Holder. The Holder or its transferee shall pay any transfer tax due and payable in respect of a transfer of this Warrant or the Warrant Stock to a party other than the Holder.

2.3. Fractional Shares. The Company shall not be required to issue a fractional share of Common Stock upon exercise of any Warrant. As to any fraction of a share which the Holder of one or more Warrants, the rights under which are exercised in the same transaction, would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of (x) the Current Market Price per share of Common Stock on the date of exercise, so long as there continues to be a public market for the Common Stock, or (y) in the event there is no public market for the Common Stock, the fair market value thereof as reasonably determined by the Board of Directors of the Company.

2.4. Continued Validity. A holder of shares of Common Stock issued upon the exercise of this Warrant, in whole or in part (other than a holder who

acquires such shares after the same have been publicly sold pursuant to a Registration Statement under the Securities Act or sold pursuant to Rule 144 thereunder), shall continue to be entitled to all rights, and subject to all obligations, to which it would have been entitled or obligated, as applicable, as the Holder under Sections 8, 9 and 14 of this Warrant. The Company will, at the time of each exercise of this Warrant, in whole or in part, upon the request of the holder of the shares of Common Stock issued upon such exercise hereof, acknowledge in writing, in form reasonably satisfactory to such holder, its continuing obligation to afford to such holder all such rights; provided,

however, that if such holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to such holder all such rights.

2.5 Limitation on Exercise. Notwithstanding anything to the contrary contained herein, the number of shares of Common Stock that may be acquired by the Holder upon any exercise of this Warrant (or otherwise in respect hereof) shall be limited to the extent necessary to insure that, following such exercise (or other issuance), the total number of shares of Common Stock then beneficially owned by such Holder and its affiliates and any other Persons whose beneficial ownership of Common Stock would be aggregated with the Holder's for purposes of Section 13(d) of the Exchange Act, does not exceed 4.999% of the total number of issued and outstanding shares of Common Stock (including for such purpose the shares of Common Stock issuable upon such exercise). For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. Each delivery of a notice of exercise under Section 2.1 will constitute a representation by the Holder that it has evaluated the limitation set forth in this paragraph and determined that issuance of the full number of Warrant Shares requested in such notice of exercise is permitted under this paragraph. By written notice to the Company, the Holder may waive the provisions of this Section but (i) any such waiver will not be effective until the 61st day after such notice is delivered to the Company, and (ii) any such waiver will apply only to the Holder and not to any other holder of Warrants.

3. TRANSFER; DIVISION AND COMBINATION

3.1. Transfer. Subject to compliance with Section 10, transfer of this Warrant and all rights hereunder, in whole or in part, shall be registered on the books of the Company to be maintained for such purpose, upon surrender of this Warrant at the principal office of the Company specified in Section 2.1 or the office or agency designated by the Company pursuant to Section 11, together with a written assignment of this Warrant substantially in the form of Exhibit B hereto duly executed by the Holder or its agent or attorney. Upon such surrender, the Company shall, subject to Section 8, execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the

denomination specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned in compliance with Section 8, may be exercised by a new Holder for the purchase of shares of Common Stock without having a new Warrant issued.

3.2. Division and Combination. Subject to Section 8, this Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office or agency of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 3.1 and with Section 8, as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

3.3. Expenses. The Company shall prepare, issue and deliver at its own expense the new Warrant or Warrants to be delivered under this Section 3.

3.4. Maintenance of Books. The Company agrees to maintain, at its aforesaid office or agency, books for the registration and the registration of transfer of the Warrants.

4. ADJUSTMENTS.

The number of shares of Common Stock for which this Warrant is exercisable, or the price at which such shares may be purchased upon exercise of this Warrant, shall be subject to adjustment from time to time as set forth in this Section 4. The Company shall give each Holder notice of any event described below which requires an adjustment pursuant to this Section 4 at the time of such event.

4.1. Stock Dividends, Subdivisions and Combinations. If at any time the Company shall:

(a) take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, Additional Shares of Common Stock;

(b) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock; or

(c) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock;

then (i) the number of shares of Common Stock for which this Warrant is

exercisable immediately after the occurrence of any such event shall be adjusted to equal the number of shares of Common Stock which a record holder of the same number of shares of Common Stock for which this Warrant is exercisable immediately prior to the occurrence of such event would own or be entitled to receive after the happening of such event, and (ii) the Current Warrant Price shall be adjusted to equal (A) the Current Warrant Price multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (B) the number of shares for which this Warrant is exercisable immediately after such adjustment.

4.2. Certain Other Distributions. If at any time the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend or other distribution of:

(a) cash;

(b) any evidences of its indebtedness, any shares of its stock or any other securities or property of any nature whatsoever (other than cash, Convertible Securities or Additional Shares of Common Stock); or

(c) any warrants or other rights to subscribe for or purchase any evidences of its indebtedness, any shares of its stock or any other securities or property of any nature whatsoever (other than cash, Convertible Securities or Additional Shares of Common Stock);

then (i) the number of shares of Common Stock for which this Warrant is exercisable shall be adjusted to equal the product of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such adjustment by a fraction (A) the numerator of which shall be the Current Market Price per share of Common Stock at the date of taking such record and (B) the denominator of which shall be such Current Market Price per share of Common Stock minus the amount allocable to one share of Common Stock of any such cash so distributable and of the fair value (as determined in good faith by the Board of Directors of the Company) of any and all such evidences of indebtedness, shares of stock, other securities or property or warrants or other subscription or purchase rights so distributable, and (ii) the Current Warrant Price shall be adjusted to equal (A) the Current Warrant Price multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (B) the number of shares for which this Warrant is exercisable immediately after such adjustment. A reclassification of the Common Stock (other than a change in par value, or from par value to no par value or from no par value to par value) into shares of Common Stock and shares of any other class of stock shall be deemed a distribution by the Company to the holders of its Common Stock of such shares of such other class of stock within the meaning of this Section 4.2 and, if the outstanding shares of Common Stock shall be changed into a larger or smaller number of shares of Common Stock as a part of such reclassification, such change shall be deemed a subdivision or combination, as the case may be, of the outstanding shares of Common Stock within the meaning of Section 4.1.

4.3. Other Provisions Applicable to Adjustments under this Section. The

following provisions shall be applicable to the making of adjustments of the number of shares of Common Stock for which this Warrant is exercisable and the Current Warrant Price provided for in this Section 4:

(a) When Adjustments to Be Made. The adjustments required by this Section 4 shall be made whenever and as often as any specified event requiring an adjustment shall occur, except that any adjustment of the number of shares of Common Stock for which this Warrant is exercisable that would otherwise be required may be postponed (except in the case of a subdivision or combination of shares of Common Stock, as provided for in Section 4.1) up to, but not beyond the date of exercise if such adjustment either by itself or with other adjustments not previously made adds or subtracts less than 1% of the shares of Common Stock for which this Warrant is exercisable immediately prior to the making of such adjustment. Any adjustment representing a change of less than such minimum amount (except as aforesaid) which is postponed shall be carried forward and made as soon as such adjustment, together with other adjustments required by this Section 4 and not previously made, would result in a minimum

adjustment or on the date of exercise. For the purpose of any adjustment, any specified event shall be deemed to have occurred at the close of business on the date of its occurrence.

(b) Fractional Interests. In computing adjustments under this Section 4, fractional interests in Common Stock shall be taken into account to the nearest 1/10th of a share.

(c) When Adjustment Not Required. If the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or distribution and shall, thereafter and before the distribution to stockholders thereof, legally abandon its plan to pay or deliver such dividend or distribution, then thereafter no adjustment shall be required by reason of the taking of such record and any such adjustment previously made in respect thereof shall be rescinded and annulled.

(d) Escrow of Warrant Stock. If after any property becomes distributable pursuant to this Section 4 by reason of the taking of any record of the holders of Common Stock, but prior to the occurrence of the event for which such record is taken, and the Holder exercises this Warrant, any Additional Shares of Common Stock issuable upon exercise by reason of such adjustment shall be deemed the last shares of Common Stock for which this Warrant is exercised (notwithstanding any other provision to the contrary herein) and such shares or other property shall be held in escrow for the Holder by the Company to be issued to the Holder upon and to the extent that the event actually takes place, upon payment of the then Current Warrant Price. Notwithstanding any other provision to the contrary herein, if the event for which such record was taken fails to occur or is rescinded, then such escrowed

shares shall be cancelled by the Company and escrowed property returned.

4.4. Reorganization, Reclassification, Merger, Consolidation or Disposition of Assets. In case the Company shall reorganize its capital, reclassify its capital stock, consolidate or merge with or into another corporation or other business entity (where the Company is not the surviving corporation or where there is a change in or distribution with respect to the Common Stock of the Company), or sell, transfer or otherwise dispose of all or substantially all its property, assets or business to another corporation or other business entity and, pursuant to the terms of such reorganization, reclassification, merger, consolidation or disposition of assets, shares of common stock of the successor or acquiring corporation, or any cash, shares of stock or other securities or property of any nature whatsoever (including warrants or other subscription or purchase rights) in addition to or in lieu of common stock of the successor or acquiring corporation ("Other Property"), are to be received by or distributed to the holders of Common Stock of the Company, then each Holder shall have the right thereafter to receive, upon exercise of such Warrant, the number of shares of common stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and Other Property receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event. In case of any such reorganization, reclassification, merger, consolidation or disposition of assets, at the Holder's option and request, any successor to the Company or surviving entity shall expressly assume the due and punctual observance and performance of each and every covenant and condition of this Warrant to be performed and observed by the Company and all the obligations and liabilities hereunder in order to provide for adjustments of shares of Common Stock for which this Warrant is exercisable which shall be as nearly equivalent as practicable to the adjustments provided for in this Section 4 and issue to the Holder a new warrant substantially in the form of this Warrant and consistent with the foregoing provisions and evidencing the Holder's right to purchase the Other Property for the aggregate Current Market Price upon exercise thereof. For purposes of this Section 4.4, "common stock of the successor or acquiring corporation" shall include stock of such corporation of any class which is not preferred as to dividends or assets over any other class of stock of such corporation and which is not subject to redemption and shall also include any evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for any such stock, either immediately or upon the arrival of a specified date or the happening of a specified event and any warrants or other rights to subscribe for or purchase any such stock. The foregoing provisions of this Section 4.4 shall similarly apply to successive reorganizations, reclassifications, mergers, consolidations or disposition of assets.

5. NOTICES TO WARRANT HOLDERS

5.1. Notice of Adjustments. Whenever the number of shares of Common Stock for which this Warrant is exercisable, or whenever the price at which a share of such Common Stock may be purchased upon exercise of the Warrants, shall be adjusted pursuant to Section 4, the Company shall forthwith prepare a

certificate to be executed by the chief financial officer of the Company setting

forth, in reasonable detail, the event requiring the adjustment and the method by which such adjustment was calculated (including a description of the basis on which the Board of Directors of the Company determined the fair value of any evidences of indebtedness, shares of stock, other securities or property or warrants or other subscription or purchase rights referred to in Section 4.2) specifying the number of shares of Common Stock for which this Warrant is exercisable and (if such adjustment was made pursuant to Section 4.4) describing the number and kind of any other shares of stock or Other Property for which this Warrant is exercisable, and any change in the purchase price or prices thereof, after giving effect to such adjustment or change. The Company shall promptly cause a signed copy of such certificate to be delivered to each Holder in accordance with Section 14.2. The Company shall keep at its office or agency designated pursuant to Section 11 copies of all such certificates and cause the same to be available for inspection at said office during normal business hours by any Holder or any prospective purchaser of a Warrant designated by a Holder thereof.

5.2. Notice of Corporate Action. If at any time:

(a) the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend (other than a cash dividend payable out of earnings or earned surplus legally available for the payment of dividends under the laws of the jurisdiction of incorporation of the Company) or other distribution, or any right to subscribe for or purchase any evidences of its indebtedness, any shares of stock of any class or any other securities or property, or to receive any other right;

(b) there shall be any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any consolidation or merger of the Company with, or any sale, transfer or other disposition of all or substantially all the property, assets or business of the Company to, another corporation; or

(c) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of such cases, the Company shall give to the Holder (i) at least ten (10) days' prior written notice of the date on which a record date shall be selected for such dividend, distribution or right or for determining rights to vote in respect of any such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up, and (ii) in the case of any such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up, at least ten (10) days' prior written notice of the date when the same shall

take place. Such notice in accordance with the foregoing clause also shall specify (A) the date on which any such record is to be taken for the purpose of such dividend, distribution or right, the date on which the holders of Common Stock shall be entitled to any such dividend, distribution or right, and the amount and character thereof, and (B) the date on which any such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up is to take place and the time, if any such time is to be fixed, as of which the holders of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up. Each such written notice shall be sufficiently given if addressed to the Holder and delivered in accordance with Section 14.2.

6. RESERVATION AND AUTHORIZATION OF COMMON STOCK; REGISTRATION WITH OR APPROVAL OF ANY GOVERNMENTAL AUTHORITY

From and after the Closing Date, the Company shall at all times reserve and keep available for issue upon the exercise of Warrants such number of its authorized but unissued shares of Common Stock as will be sufficient to permit the exercise in full of all outstanding Warrants. All shares of Common Stock which shall be so issuable, when issued upon exercise of any Warrant and payment therefor in accordance with the terms of such Warrant, shall be duly and validly issued and fully paid and nonassessable, and not subject to preemptive rights.

Before taking any action which would result in an adjustment in the number of shares of Common Stock for which this Warrant is exercisable or in the Current Warrant Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

If any shares of Common Stock required to be reserved for issuance upon exercise of Warrants require registration or qualification with any governmental authority or other governmental approval or filing under any Federal or state law (otherwise than as provided in Section 8) before such shares may be so issued, the Company will in good faith and as expeditiously as possible and at its expense endeavor to cause such shares to be duly registered.

7. TAKING OF RECORD; STOCK AND WARRANT AND WARRANT TRANSFER BOOKS

In the case of all dividends or other distributions by the Company to the holders of its Common Stock with respect to which any provision of Section 4 refers to the taking of a record of such holders, the Company will in each such case take such a record and will take such record as of the close of business on a Business Day. The Company will not at any time, except upon dissolution, liquidation or winding up of the Company, close its stock transfer books or

Warrant transfer books so as to result in preventing or delaying the exercise or transfer of any Warrant.

8. RESTRICTIONS ON TRANSFERRABILITY

The Warrants and the Warrant Stock shall not be transferred except in accordance with the terms and conditions of the Purchase Agreement.

9. SUPPLYING INFORMATION

The Company shall cooperate with each Holder of a Warrant and each holder of Restricted Common Stock in supplying such information as may be reasonably necessary for such holder to complete and file any information reporting forms presently or hereafter required by the Commission as a condition to the availability of an exemption from the Securities Act for the sale of any Warrant or Restricted Common Stock.

10. LOSS OR MUTILATION

Upon receipt by the Company from any Holder of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of this Warrant and indemnity reasonably satisfactory to it, and in case of mutilation upon surrender and cancellation hereof, the Company will execute and deliver in lieu hereof a new Warrant of like tenor to such Holder; provided, in the case of mutilation, no indemnity shall be required if this Warrant in identifiable form is surrendered to the Company for cancellation.

11. OFFICE OF COMPANY

As long as any of the Warrants remain outstanding, the Company shall maintain an office or agency (which may be the principal executive offices of the Company) where the Warrants may be presented for exercise, registration of transfer, division or combination as provided in this Warrant.

12. FILINGS

So long as the Company has a class of equity securities registered pursuant to Section 12 of the Exchange Act, the Company will file on or before the required date all regular or periodic reports (pursuant to the Exchange Act) required to be filed with the Commission pursuant to the Exchange Act and will deliver to the Holder promptly upon their becoming available (unless such reports are available through the Commission's EDGAR system) one copy of each report, notice or proxy statement sent by the Company to its stockholders generally, and of each regular or periodic report (pursuant to the Exchange Act) and any Registration Statement, prospectus or written communication (other than transmittal letters) (pursuant to the Securities Act), filed by the Company with (a) the Commission or (b) any securities exchange on which shares of Common Stock are listed.

13. NO RIGHTS AS STOCKHOLDERS; LIMITATIONS OF LIABILITY

Except as otherwise provided herein, this Warrant shall not entitle the Holder to any rights as a stockholder of the Company, including, without limitation, the right to vote, to receive dividends and other distributions or to receive notice of or attend meetings of stockholders or any other proceedings of the Company unless and to the extent exercised for shares of Common Stock in accordance with the terms hereof. No provision hereof, in the absence of affirmative action by the Holder to exercise its rights to purchase shares of Common Stock hereunder, and no enumeration herein of the rights or privileges of the Holder hereof, shall give rise to any liability of such Holder for the

purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

14. MISCELLANEOUS

14.1. Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of the Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies. If the Company fails to make, when due, any payments provided for hereunder, or fails to comply with any other provision of this Warrant, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

14.2. Notice Generally. Any notice, demand, request, consent, approval, declaration, delivery or other communication hereunder to be made pursuant to the provisions of this Warrant shall be sufficiently given or made if in writing and either delivered in person with receipt acknowledged or sent by registered or certified mail, return receipt requested, postage prepaid, or by telecopy and confirmed by telecopy answerback, addressed as follows:

If to the Company: Level 8 Systems, Inc.
214 Carnegie Center, Suite 303
Princeton, New Jersey 08540
Attn: John P. Broderick

With a Copy to: Powell, Goldstein, Frazer & Murphy LLP
191 Peachtree Street, 16th Floor
Atlanta, Georgia 30303
Attn: Scott D. Smith, Esq.

If to the Holder:At its last known address appearing on the books and records of the Company maintained for such purpose.

or at such other address as may be substituted by notice given as herein provided. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Every notice, demand, request, consent, approval, declaration or other communication hereunder shall be deemed to have been duly given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section prior to 6:30 p.m. (New York City time) on a business day, (b) the next business day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section on a day that is not a business day or later than 6:30 p.m. (New York City time) on any business day, (c) the business day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. As used herein, a "business day" means any day except Saturday, Sunday and any day which shall be a federal legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

14.3. Remedies. Each holder of Warrant and Warrant Stock, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

14.4. Successors and Assigns. Subject to the provisions of Sections 3.1 and 8, this Warrant and the rights evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and assigns of the Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and, with respect to

Section 8 hereof, holders of Warrant Stock, and shall be enforceable by any such Holder or holder of Warrant Stock.

14.5. Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

14.6 Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Warrant.

14.7 Headings. The headings used in this Warrant are for the convenience

of reference only and shall not, for any purpose, be deemed a part of this Warrant.

14.8 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware, without regard to the principles of conflicts of law thereof. Each party agrees that all proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Warrant (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) (each a "Proceeding") shall be commenced exclusively in the state and federal courts sitting in the City of New York, Borough of Manhattan. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of this Warrant), and hereby irrevocably waives, and agrees not to assert in any Proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such Proceeding is improper. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Warrant 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 hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Warrant or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of this Warrant, then the prevailing party in such Proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed and its corporate seal to be impressed hereon as of the day and year first above written.

LEVEL 8 SYSTEMS, INC.

By:
John P. Broderick,
Chief Financial and Operating Officer

EXHIBIT A

SUBSCRIPTION FORM

[To be executed only upon exercise of Warrant]

The undersigned registered owner of this Warrant irrevocably exercises this Warrant for the purchase of _____ Shares of Common Stock of LEVEL 8 SYSTEMS, INC., and herewith makes payment therefor, all at the price and on the terms and conditions specified in this Warrant and requests that certificates for the shares of Common Stock hereby purchased (and any securities or other property issuable upon such exercise) be issued in the name of and delivered to _____ whose address is _____ and, if such shares of Common Stock shall not include all of the shares of Common Stock issuable as provided in this Warrant, that a new Warrant of like tenor and date for the balance of the shares of Common Stock issuable hereunder be delivered to the undersigned.

(Name of Registered Owner)

(Signature of Registered Owner)

(Street Address)

(City) (State) (Zip Code)

NOTICE: The signature on this subscription must correspond with the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatsoever.

Exhibit 4.9

EXHIBIT B
ASSIGNMENT FORM

FOR VALUE RECEIVED the undersigned registered owner of this Warrant hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under this Warrant, with respect to the number of shares of Common Stock set forth below:

Name and Address of Assignee	No. of Shares of Common Stock

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and does hereby irrevocably constitute and appoint _____ attorney-in-fact to register such transfer on the books of LEVEL 8 SYSTEMS, INC., maintained for the purpose, with full power of substitution in the premises.

Dated: Print Name:
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Signature:

Witness:

NOTICE: The signature on this subscription must correspond with the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatsoever.

Exhibit 10.2

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT (this "Agreement") is dated as of OCTOBER 15, 2003, by and between LEVEL 8 SYSTEMS, INC., a Delaware corporation (the "Company"), and the various purchasers listed on Schedule I hereto (each referred to herein as a "Purchaser" and, collectively, the "Purchasers").

WHEREAS, the Company and the Purchasers are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by Rule 506 under Regulation D as promulgated by the United States Securities and Exchange Commission (the "Commission") under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act");

WHEREAS, subject to the terms and conditions set forth in this Agreement, the Company desires to issue and sell to the Purchasers, and the Purchasers desire to acquire from the Company, shares of common stock of the Company, par value $.001 per share (the "Common Stock"), and a stock purchase warrant (each a "Warrant", and, collectively, the "Warrants"), in the form of Exhibit A annexed hereto to purchase shares of the Company's Common Stock; and

WHEREAS, contemporaneously with the execution and delivery of this Agreement, the parties hereto are executing and delivering a Registration Rights Agreement substantially in the form of Exhibit B attached hereto (the "Registration Rights Agreement") pursuant to which the Company has agreed to provide certain registration rights under the Securities Act and the rules and regulations promulgated thereunder, and applicable state securities laws.

NOW, THEREFORE, in consideration of the promises and mutual covenants and agreements hereinafter, the Company and the Purchasers hereby agree as follows:

Article I.

PURCHASE AND SALE

1.1 Purchase and Sale. On the Closing Date (as defined below), subject to the terms and conditions set forth herein, the Company shall issue and sell to each Purchaser and each Purchaser, severally and not jointly, shall purchase from the Company the shares of Common Stock as set forth on Schedule I (the "Shares") and a Warrant exercisable for the amount of Common Stock as set forth on Schedule I for such Purchaser. The aggregate purchase price for the Shares and Warrant purchased by the Purchasers shall be $852,500.

1.2 Closing. The closing (the "Closing") of the purchase and sale of the Common Stock and the Warrants shall take place at the offices of Powell, Goldstein, Frazer & Murphy LLP, 191 Peachtree Street, N.E., Suite 1600, Atlanta, Georgia 30303, immediately following the execution hereof or such later date or different location as the parties shall agree, but in no event prior to the date that the conditions set forth in Section 4.1 have been satisfied or waived by the appropriate party (such date of the Closing, the "Closing Date"). At the Closing:

a. Each Purchaser shall deliver to the Company (1) this Agreement, duly executed by such Purchaser, (2) the Registration Rights Agreement, duly executed by such Purchaser and (3) its portion of the purchase price as set forth next to its name on Schedule I in United States dollars in immediately available funds to an account or accounts designated in writing by the Company; and

b. The Company shall deliver to each Purchaser (1) this Agreement, duly executed by the Company, (2) the Registration Rights Agreement, duly executed by the Company, (3) a Warrant representing the Purchaser's right to acquire the number of shares of Common Stock as set forth on Schedule I hereto registered in the name of such Purchaser, and (4) a certificate evidencing the number of shares of Common Stock purchased by such Purchaser as set forth on Schedule I hereto, registered in the name of such Purchaser.

Article II

REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties of the Company. The Company represents and warrants to each of the Purchasers that the statements contained in this Section 2.1 are true, correct and complete as of the date hereof, and will be true correct and complete as of the Closing Date (unless specifically made as of another date), except as specified to the contrary in the

corresponding paragraph of the disclosure schedule prepared by the Company accompanying this Agreement (the "Company Disclosure Schedules"):

a. Organization and Qualification. The Company duly incorporated, validly existing and in good standing under the laws of Delaware, with the requisite corporate power and authority to own and use its properties and assets and to carry on its business as currently conducted. Except as set forth on Schedule 2.1(a), the Company is duly qualified as a foreign corporation to do business and is in good standing as a foreign corporation in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not, individually or in the aggregate, (x) adversely affect the legality, validity or enforceability of any of this Agreement or the Transaction Documents (as defined in Section 2.1(b)) or any of the transactions contemplated hereby or thereby, (y) have or result in a material adverse effect on the results of operations, assets, or financial condition of the Company, taken as a whole or (z) impair the Company's ability to perform fully on a timely basis its obligations under any Transaction Document (any of (x), (y) or (z), being a "Material Adverse Effect"). The Company has made available to the Purchaser true and correct copies of the Company's Certificate of Incorporation, as amended and as in effect on the date hereof (the "Certificate of Incorporation"), and the Company's Bylaws, as in effect on the date hereof (the "Bylaws").

b. Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and the Registration Rights Agreement and the Warrants (collectively, the "Transaction Documents"), and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of each of this Agreement and the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action by the Company. Each of this Agreement and the Transaction Documents has been duly executed by the Company and when delivered in accordance with the terms hereof will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application and except that rights to indemnification and contribution may be limited by Federal or state securities laws or public policy relating thereto.

c. Capitalization. As of the date hereof, the authorized capital stock of the Company is as set forth in Schedule 2.1(c). All of such outstanding shares of capital stock have been, or upon issuance will be, validly authorized and issued, fully paid and nonassessable. No securities of the Company are entitled to preemptive or similar rights, and no Person (as hereinafter defined) has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as a result of the purchase and sale of the Shares and Warrant, there are no outstanding options, warrants, script rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any subsidiary is or may become bound to issue additional shares of Common Stock, or securities or rights convertible or exchangeable into shares of Common Stock. The issue and sale of the Shares and Warrants will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under such securities.

d. Authorization and Validity; Issuance of Shares. The Shares and the shares of Common Stock issuable upon exercise of the Warrants (the "Warrant Shares") are and will at all times hereafter continue to be duly authorized and reserved for issuance and, when issued and paid for in accordance with this Agreement and the Transaction Documents, will be validly issued, fully paid and non-assessable, free and clear of all liens.

e. No Conflicts. The execution, delivery and performance of this Agreement and each of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including the issuance of the Warrant Shares) do not and will not (i) conflict with or violate any provision of the Certificate of Incorporation, Bylaws or other

organizational documents of the Company, (ii) subject to obtaining the consents referred to in Section 2.1(f), 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 agreement, indenture, patent, patent license or instrument (evidencing a Company debt or otherwise) to which the Company is a party or by which any property or asset of the Company is bound or affected, except where such conflict or violation has not resulted or would not reasonably be expected

to result, individually or in the aggregate, in a Material Adverse Effect, or (iii) result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company is subject (including Federal and state securities laws and regulations and the rules and regulations of the principal market or exchange on which the Common Stock is traded or listed), or by which any material property or asset of the Company is bound, except where such conflict has not resulted or would not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect.

f. Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority, regulatory or self regulatory agency, or other Person in connection with the execution, delivery and performance by the Company of this Agreement or the Transaction Documents, other than (i) the filing of a registration statement with the Commission, which shall be filed in accordance with and in the time periods set forth in the Registration Rights Agreement and (ii) any filings, notices or registrations under applicable Federal or state securities laws (together with the consents, waivers, authorizations, orders, notices and filings referred to on Schedule 2.1(f), the "Required Approvals"), except where failure to do so has not resulted or would not reasonably result, individually, or in the aggregate, in a Material Adverse Effect. "Person" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

g. Litigation; Proceedings. Except as specifically set forth on Schedule 2.1(h) or in the SEC Documents (as hereinafter defined), there is no action, suit, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its subsidiaries or any of their respective properties before or by any court, governmental or administrative agency or regulatory authority (Federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of any of this Agreement or the Transaction Documents or (ii) would reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect. Neither the Company nor any subsidiary, nor, to the knowledge of the Company, any officer thereof, is or has been, nor, to the knowledge of the Company, any director thereof is or has been for the last three years, the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and, to the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director that was a director of the Company at any time during the last three years or officer of the Company. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any subsidiary under the Exchange Act or the Securities Act.

h. No Default or Violation. The Company (i) is not in default under or in violation of any indenture, loan or other credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound and which is required to be included as an exhibit to any SEC Document (as defined in Section 2.1(j)) or will be required to be included as an exhibit to the Company's next filing under either the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (ii) is in violation of any order of any court, arbitrator or governmental body applicable to it, (iii) is in violation of any statute, rule or regulation of any governmental authority to which it is subject, (iv) is in default under or in violation of its Certificate of Incorporation, Bylaws or other organizational documents, respectively in the case of (i), (ii) and (iii), except where such violations have not resulted or would not reasonably result, individually or in the aggregate, in a Material Adverse Effect.

i. Private Offering. The Company and all Persons acting on its behalf have not made, directly or indirectly, and will not make, offers or sales of any

securities or solicited any offers to buy any security under circumstances that would require registration of the Common Stock or the Warrants or the issuance of such securities under the Securities Act. Subject to the accuracy and completeness of the representations and warranties of the Purchasers contained in Section 2.2, the offer, sale and issuance by the Company to the Purchasers of each of the Common Stock and the Warrants and the issuance of the Warrant Shares is exempt from the registration requirements of the Securities Act.

j. SEC Documents; Financial Statements. The Common Stock of the Company is registered pursuant to Section 12(g) of the Exchange Act. Since December 31, 2001, the Company has filed all reports, schedules, forms, statements and other documents required to be filed by it, with the Commission, pursuant to Section 13, 14 or 15(d) of the Exchange Act (the foregoing materials and all exhibits included therein and financial statements and schedules thereto and documents (other than exhibits to such documents) incorporated by reference therein being collectively referred to herein as the "SEC Documents"), on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Documents prior to the expiration of any such extension. As of their respective

dates, the SEC Documents complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Documents, when filed, 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. The financial statements of the Company included in the SEC Documents comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

k. Material Changes. Since the date of the latest audited financial statements included within the SEC Documents, except as specifically disclosed in the SEC Documents, (i) there has been no event, occurrence or development that has had or that could result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or required to be disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting or the identity of its auditors, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock, and (v) the Company has not issued any equity securities to any officer, director or affiliate, except pursuant to existing Company stock option plans. The Company does not have pending before the Commission any request for confidential treatment of information.

l. Patents and Trademarks. The Company and its subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, licenses and other similar rights that are necessary or material for use in connection with their respective businesses as described in the SEC Documents and which the failure to so have could have, or reasonably be expected to result in, a Material Adverse Effect (collectively, the "Intellectual Property Rights"). Neither the Company nor any subsidiary has received a written notice that the Intellectual Property Rights used by the Company or any subsidiary violates or infringes upon the rights of any Person which if determined adversely to the Company would, individually or in the aggregate have a Material Adverse Effect. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights.

m. Transactions With Affiliates and Employees. Except as set forth in SEC Documents, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company or any subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or

by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

n. Eligibility to Register Shares. The Company is eligible to register the resale of its Common Stock and the Warrant Shares for resale by the Purchasers under Form S-1 promulgated under the Securities Act.

o. Registration Rights. The Company has not granted or agreed to grant to any Person any rights (including "piggy-back" registration rights) to have any securities of the Company registered with the Commission or any other governmental authority that have not been satisfied.

p. Broker's Fees. No fees or commissions or similar payments with respect to the transactions contemplated by this Agreement or the Transaction Documents have been paid or will be payable by the Company to any third party broker, financial advisor, finder, investment banker, or bank. The Purchaser shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section 2.1(p) that may be due in connection with the transactions contemplated by this Agreement and the Transaction Documents.

q. Disclosure. Except for information regarding the transaction contemplated by this Agreement and the Transaction Documents and the terms and conditions hereof and thereof, the Company confirms that neither it nor any other Person acting on its behalf has provided any of the Purchasers or their agents or counsel with any information the Company believes constitutes material, non-public information. The Company understands and confirms that the Purchasers will rely on the foregoing representations in effecting transactions in securities of the Company. All disclosure provided to the Purchasers regarding the Company, its business and the transactions contemplated hereby,

including the Schedules to this Agreement, furnished by or on behalf of the Company are true and correct and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

2.2 Representations and Warranties of the Purchasers. Each of the Purchasers, severally and not jointly, hereby represents and warrants to the Company as follows:

a. Organization; Authority. Such Purchaser, as applicable, is a corporation or a limited liability company or limited partnership duly formed, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation with the requisite power and authority, corporate or otherwise, to enter into and to consummate the transactions contemplated hereby and by this Agreement and the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The purchase by such Purchaser, as applicable, of the shares of Common Stock and the Warrant hereunder has been duly authorized by all necessary action on the part of such Purchaser. Each of this Agreement and the Transaction Documents has been duly executed and delivered by each Purchaser and constitutes the valid and legally binding obligation of each Purchaser, enforceable against such Purchaser in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity and except that rights to indemnification and contribution may be limited by Federal or state securities laws or public policy relating thereto.

b. Investment Intent. Such Purchaser is acquiring the shares of Common Stock and the Warrant for its own account and not with a present view to or for distributing or reselling the shares of Common Stock, the Warrant or the Warrant Shares or any part thereof or interest therein in violation of the Securities Act. Nothing contained herein shall be deemed a representation or warranty by such Purchaser to hold the Shares or Warrant or Warrant Shares for any period of time. Such Purchaser is acquiring the Shares or Warrant or Warrant Shares hereunder in the ordinary course of its business. Such Purchaser does not have any agreement or understanding, directly or indirectly, with any Person to distribute any of the Shares.

c. Purchaser Status. At the time such Purchaser was offered the Common Stock and the Warrant, and at the Closing Date and each date such Purchaser

exercises the Warrant, (i) it was and will be an "accredited investor" as defined in Rule 501 under the Securities Act and (ii) such Purchaser, either alone or together with its representatives, had and will have such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Common Stock, the Warrant and the Warrant Shares. Such Purchaser is not a registered broker-dealer under Section 15 of the Exchange Act.

d. Reliance. Such Purchaser understands and acknowledges that (i) the Common Stock, the Warrant and the Warrant Shares are being offered and sold to the Purchaser without registration under the Securities Act in a private placement that is exempt from the registration provisions of the Securities Act under Section 4(2) of the Securities Act or Regulation D promulgated thereunder and (ii) the availability of such exemption depends in part on, and the Company will rely upon the accuracy and truthfulness of, the representations set forth in this Section 2.2 and such Purchaser hereby consents to such reliance.

e. Information. Such Purchaser and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Common Stock and the Warrant which have been requested by such Purchaser or its advisors. Such Purchaser and its advisors, if any, have been afforded the opportunity to ask questions of the Company. The Purchaser understands that its investment in the Common Stock and Warrant involves a significant degree of risk. Neither such inquiries nor any other investigation conducted by or on behalf of such Purchaser or its representatives or counsel shall modify, amend or affect such Purchaser's right to rely on the truth, accuracy and completeness of the Company's representations and warranties contained in this Agreement or the Transaction Documents.

f. Governmental Review. Such Purchaser understands that no United States Federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Common Stock or Warrants.

g. Residency. Such Purchaser is a resident of the jurisdiction set forth immediately beside such Purchaser's name on Schedule I hereto.

The Company acknowledges and agrees that the Purchasers make no representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in this Section 2.2.

Article III
OTHER AGREEMENTS

3.1 Transfer Restrictions.

a. If any Purchaser should decide to dispose of the Common Stock, the Warrant, or the Warrant Shares held by it, such Purchaser understands and agrees that it may do so (1) only pursuant to an effective registration statement under the Securities Act, (2) pursuant to an available exemption from the registration requirements of the Securities Act, (3) to an affiliate of the Purchaser, or (4) pursuant to Rule 144 promulgated under the Securities Act ("Rule 144"). In connection with any transfer of any Common Stock, the Warrant or Warrant Shares other than pursuant to an effective registration statement, Rule 144, to the Company or to an affiliate of the Purchasers, the Company may require the transferor thereof to provide to the Company a written opinion of counsel experienced in the area of United States securities laws selected by the transferor, the form and substance of which opinion shall be customary for opinions of counsel in comparable transactions and reasonably acceptable to the Company, to the effect that such transfer does not require registration of such transferred securities under the Securities Act; provided, however, that if the Common Stock, the Warrant, or Warrant Shares may be sold pursuant to Rule 144(k), no written opinion of counsel shall be required from any Purchaser if such Purchaser provides reasonable assurances that such security can be sold pursuant to Rule 144(k). Notwithstanding the foregoing, the Company hereby consents to and agrees to register any transfer by any Purchaser to an affiliate of such Purchaser, provided that the transferee certifies to the Company that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act. Any such transferee shall agree in writing to be bound by the terms of this Agreement and the Transaction Documents and shall have the rights of a Purchaser under this Agreement and the Transaction Documents. The Company shall not require an opinion of counsel in connection with the transfer of the shares of Common Stock, the Warrant or the Warrant Shares to an affiliate of a Purchaser.

b. The Purchasers agree to the imprinting, so long as is required by this Section 3.1(b), of the following legend on the Common Stock, the Warrant and the Warrant Shares:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THESE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SHARES.

The Company acknowledges and agrees that a Purchaser may from time to time pledge pursuant to a bona fide margin agreement or grant a security interest in some or all of the shares of Common Stock, the Warrant or the Warrant Shares and, if required under the terms of such arrangement, such Purchaser may transfer pledged or secured shares of Common Stock, Warrant or Warrant Shares to the pledgees or secured parties. Such a pledge or transfer would not be subject to approval of the Company and no legal opinion of the pledgee, secured party or pledgor shall be required in connection therewith. Further, no notice shall be required of such pledge. At the appropriate Purchaser's expense, the Company will execute and deliver such reasonable documentation as a pledgee or secured party reasonably request in connection with a pledge or transfer of the shares of Common Stock, the Warrant or the Warrant Shares, including the preparation and filing of any required prospectus supplement under Rule 424(b)(3) of the Securities Act or other applicable provision of the Securities Act to appropriately amend the list of selling stockholders thereunder.

The Company agrees that it will provide any Purchaser, upon request, with a certificate or certificates representing shares of Common Stock, the Warrant or the Warrant Shares, free from such legend at such time as such legend is no longer required hereunder. If such certificate or certificates had previously been issued with such a legend or any other legend, the Company shall, upon request and upon the delivery of the legended certificate(s), reissue such

certificate or certificates free of any legend. The Company agrees that following the effective date of the registration statement meeting the requirements set forth in the Registration Rights Agreement and covering the resale of the Shares and Warrant Shares by the Purchasers or at such time as such legend is no longer required under this Section 3.1, it will, no later than three Trading Days (as such term is defined in the Registration Rights Agreement) following the delivery by a Purchaser to the Company or the Company's transfer agent of a certificate representing Shares and Warrant Shares issued with a restrictive legend, deliver or cause to be delivered to such Purchaser a certificate representing such Shares and Warrant Shares that is free from all restrictive and other legends.

3.2 Stop Transfer Instruction. The Company may not make any notation on its records or give instructions to any transfer agent of the Company which enlarge the restrictions on transfer set forth in Section 3.1.

3.2 Reservation of Warrant Shares. The Company at all times shall reserve a sufficient number of shares of its authorized but unissued Common Stock to provide for the full conversion of the Warrant. If at any time the number of shares of Common Stock authorized and reserved for issuance is insufficient to cover the number of Warrant Shares issued and issuable upon exercise of the Warrant (based on the Exercise Price (as defined in the Warrant) of the Warrant in effect from time to time) without regard to any limitation on exercises, the Company will promptly take all corporate action necessary to authorize and reserve such shares including, without limitation, calling a special meeting of stockholders to authorize additional shares to meet the Company's obligations under this Section 3.3, in the case of an insufficient number of authorized shares, and using best efforts to obtain stockholder approval of an increase in such authorized number of shares.

3.4 Furnishing of Information. As long as any Purchaser owns shares of Common Stock, the Warrant or the Warrant Shares, the Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company

after the date hereof pursuant to the Exchange Act. Upon the request of any such Person, the Company shall deliver to such Person a written certification of a duly authorized officer as to whether it has complied with the preceding sentence. As long as any Purchaser owns shares of Common Stock, the Warrant or the Warrant Shares, if the Company is not required to file reports pursuant to such laws, it will prepare and furnish to the Purchasers and make publicly available in accordance with Rule 144(c) such information as is required for the Purchasers to sell the Shares under Rule 144.

3.5 Integration. The Company shall not, and shall use its best efforts to ensure that no affiliate of the Company shall, sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the shares of Common Stock hereunder in a manner that would require the registration under the Securities Act of the sale of the shares Common Stock to the Purchasers, or that would be integrated with the offer or sale of the Shares for purposes of the rules and regulations of the Nasdaq National Market, if such integration would result in a violation of any such rule or regulation.

3.6 Use of Proceeds. The Company shall use the net proceeds from the sale of the shares of Common Stock hereunder for working capital purposes.

3.7 Best Efforts. Each of the parties hereto shall use its best efforts to satisfy each of the conditions to be satisfied by it as provided in Article IV of this Agreement.

ARTICLE IV
CONDITIONS

4.1 Closing.

a. Conditions Precedent to the Obligation of the Company to Sell the Shares of Common Stock and the Warrants. The obligation of the Company to sell the shares of Common Stock and the Warrants is subject to the satisfaction or waiver by the Company, at or before the Closing Date, of each of the following conditions:

(i) Accuracy of the Purchasers' Representations and Warranties. The representations and warranties of each Purchaser in this Agreement shall be true and correct in all material respects as of the date when made and as of the Closing Date;

(ii) Performance by the Purchasers. Each Purchaser shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by such Purchaser at or before the Closing Date; and

(iii) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which

prohibits the consummation of any of the transactions contemplated by this Agreement or the Transaction Documents.

b. Conditions Precedent to the Obligation of the Purchasers to Purchase the Shares of Common Stock and Warrants at the Closing. The obligation of each Purchaser hereunder to acquire and pay for the shares of Common Stock and the Warrant at the Closing is subject to the satisfaction or waiver by Purchaser, at or before the Closing Date, of each of the following conditions:

(i) Accuracy of the Company's Representations and Warranties. The representations and warranties of the Company set forth in this Agreement shall be true and correct in all respects as of the date when made and as of the Closing Date;

(ii) Performance by the Company. The Company shall have performed, satisfied and complied in all respects with all covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or before the Closing Date;

(iii) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which

prohibits the consummation of any of the transactions contemplated by this Agreement and the Transaction Documents;

(iv) Required Approvals. All Required Approvals shall have been obtained; and

(v) Shares of Common Stock. The Company shall have duly reserved the number of shares of Common Stock and the number or Warrant Shares issuable upon the exercise of the Warrants acquired by the Purchasers on the Closing Date.

ARTICLE V
INDEMNIFICATION

5.1 Indemnification. The Company will indemnify and hold the Purchasers and their directors, officers, shareholders, partners, employees and agents (each, a "Purchaser Party") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any misrepresentation, breach or inaccuracy, or any allegation by a third party that, if true, would constitute a breach or inaccuracy, of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents; or (b) any cause of action, suit or claim brought or made against such Purchaser Party and solely arising out of or solely resulting from the execution, delivery, performance or enforcement of this Agreement or any of the other Transaction Documents. The Company will reimburse such Purchaser for its reasonable legal and other expenses (including the cost of any investigation, preparation and travel in connection therewith) incurred in connection therewith, as such expenses are incurred. Notwithstanding the foregoing, the Company shall not be required to indemnify any the Purchaser under the terms of this Article V with respect to any claim or violation for which indemnification is expressly excluded under the Registration Rights Agreement.

ARTICLE VI
MISCELLANEOUS

6.1 Entire Agreement. This Agreement, together with the Exhibits and Schedules hereto and the Transaction Documents contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters.

6.2 Notices. Whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by another, or whenever any of the parties desires to give or serve upon another any such communication with respect to this Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and either shall be delivered in person with receipt acknowledged or by registered or certified mail, return receipt requested, postage prepaid, or by telecopy and confirmed by telecopy answerback addressed as follows:

If to the Company:

Level 8 Systems, Inc.
214 Carnegie Center, Suite 303
Princeton, New Jersey 08540

Attn:John P. Broderick

With a Copy to:

Powell, Goldstein, Frazer & Murphy LLP
191 Peachtree Street, 16th Floor
Atlanta, Georgia 30303
Attn:Scott D. Smith, Esq.

If to the Purchasers: To the address set forth on the counterpart signature page of such Purchaser.

or at such other address as may be substituted by notice given as herein provided. The giving of any notice required hereunder may be waived in writing

by the party entitled to receive such notice. Every notice, demand, request, consent, approval, declaration or other communication hereunder shall be deemed to have been duly given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section prior to 6:30 p.m. (New York City time) on a business day, (b) the next business day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section on a day that is not a business day or later than 6:30 p.m. (New York City time) on any business day, (c) the business day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. As used herein, a "business day" means any day except Saturday, Sunday and any day which shall be a federal legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

6.3 Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by both the Company and each of the Purchasers or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter.

6.4 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

6.5 References. References herein to Sections are to Sections of this Agreement, unless otherwise expressly provided.

6.6. Successors and Assigns; Assignability. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by either the Company or the Purchasers without the prior written consent of the other party. In the event that such prior written consent is obtained and this Agreement is assigned by either party, all covenants contained herein shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

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

6.8. Governing Law; Waiver of Jury Trial. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware, without regard to the principles of conflicts of law thereof. Each party agrees that all proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) (each a "Proceeding") shall be commenced exclusively in the state and federal courts sitting in the City of New York, Borough of Manhattan. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of the any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any

Proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such Proceeding is improper. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this 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 hereto hereby

irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of a Transaction Document, then the prevailing party in such Proceeding shall be reimbursed by the other party for its attorneys fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

6.9 Survival. The representations, warranties, agreements and covenants contained herein shall survive following the Closing.

6.10 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together 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, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

6.11 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

6.12 Publicity. The Purchasers shall not issue any press release or make any public disclosure regarding the transactions contemplated hereby unless such press release or public disclosure is approved by the Company in advance. Notwithstanding the foregoing, each of the parties hereto may, in documents required to be filed by it with the SEC or other regulatory bodies, make such statements with respect to the transactions contemplated hereby as each may be advised by counsel is legally necessary or advisable, and may make such disclosure as it is advised by its counsel is required by law.

6.13 Severability. In case any one or more of the provisions of this Agreement shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision which shall be a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

6.14 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 Agreement and the consummation of the transactions contemplated hereby.

6.15 Replacement of Certificates. If any certificate or instrument evidencing any shares of Common Stock is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof, or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity, if requested. The applicants for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs associated with the issuance of such replacement shares.

6.16 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under this Agreement or the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agrees to waive in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

6.17 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under this Agreement or any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under this Agreement or any Transaction Document. Nothing contained herein or in any TRANSACTION Document, and no

action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by this Agreement or any the Transaction Document. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose.

6.18 Fees and Expenses. Except as set forth in the Registration Rights Agreement, and except as provided herein, each Party shall pay the fees and expenses of its advisers, accountants and other experts.

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized persons as of the day and year first above written.

LEVEL 8 SYSTEMS, INC.

By:

John P. Broderick
Chief Operating and Financial Officer

PURCHASERS:

[COUNTERPART SIGNATURE PAGES FOLLOW]

<TABLE>
<CAPTION>

NAME AND ADDRESS OF PURCHASER	RESIDENCE	NUMBER OF SHARES OF COMMON STOCK AT CLOSING DATE	NUMBER OF WARRANT SHARES	PURCHASE PRICE
<S>	<C>	<C>	<C>	<C>
Advanced Systems Europe, B.V. Azrieli Center 3, Triangle Bldg. 2nd Floor Tel Aviv 67023 Israel	Israel	444,444	111,111	200,000.00
Leonard J. Corwin, M.D. 90 Millburn Avenue Millburn, NJ 07041	New Jersey	44,444	11,111	20,000.00
Delphi Partners, Ltd. Bruce Miller P.O. Box 246 Nantucket, MA 02554	Massachusetts	55,556	13,889	25,000.00
C. Glenn Dugdale, Trustee Box 4550 Greenville, DE 19807	Delaware	111,111	27,778	50,000.00
Alice F. Emerson 39 New Street P.O. Box 206 Siasconset, MA 02564	Massachusetts	55,556	13,889	25,000.00
Steven Grodko 596 South Forest Drive Teaneck, NJ 07666	New Jersey	50,000	12,500	22,500.00
Joan B. Lemery 10 Railroad Place Saratoga Spring, NY 12866	New York	33,333	8,333	15,000.00
Hailey Mack 7-99 Trust Fred Mack, Trustee 2115 Linwood Ave.				

Fort Lee, NJ 07024	New Jersey	16,667	4,167	7,500.00
Jason Mack 7-99 Trust Fred Mack, Trustee 2115 Linwood Ave. Fort Lee, NJ 07024	New Jersey	16,667	4,167	7,500.00
Fredric Mack 2115 Linwood Avenue Fort Lee, NJ 07024	New Jersey	88,889	22,222	40,000.00
Earle I. Mack Charitable Trust A 2115 Linwood Avenue Fort Lee, NJ 07024	New Jersey	166,667	41,667	75,000.00
Bruce D. Miller P.O. Box 246 Nantucket, MA 02554	Massachusetts	111,111	27,778	50,000.00

Exhibit 10.2

NAME AND ADDRESS OF PURCHASER	RESIDENCE	NUMBER OF SHARES OF COMMON STOCK AT CLOSING DATE	NUMBER OF WARRANT SHARES	PURCHASE PRICE
John Robinson 12 Great Wood Lane Malvern, PA 19355	Pennsylvania	55,556	13,889	25,000.00
Silvergraph Studios LLC James R. Simpson 455 Reservation Road, Suite G Marina, CA 93933	California	66,667	16,667	30,000.00
Virginia Spivak 899 Worcester Lane Lakeworth, FL 33467	Florida	44,444	11,111	20,000.00
James M. Stevens 8818 Ashridge Park Drive Spring, TX 77379	Texas	111,111	27,778	50,000.00
Blackrock Turnpike Medical Group FBO - Hervey Weitzman 68 North Park Avenue Easton, CT 06612	Connecticut	55,556	13,889	25,000.00
Larry B. Whelden Box 388 Nantucket, MA 02554	Massachusetts	111,111	27,778	50,000.00
James Wilkins, Ph.D. 21 Clark Road Woodbridge, CT 06525	Connecticut	55,556	13,889	25,000.00
Roger A. Wittenbach 10 Woodward Lane Lutherville, MD 21093	Maryland	55,556	13,889	25,000.00
Jack Wolfe 1212 Avenue of the Americas New York, NY 10104	New York	33,333	8,333	15,000.00
C.G. & J.O. Dugdale CRT 1/17/90 Matthew Yaakovian, Trustee P.O. Box 4550 Greenville, DE 19807	Delaware	111,111	27,778	50,000.00

</TABLE>

Exhibit 10.11

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is made effective this 1st day of January, 2003, by and between LEVEL 8 SYSTEMS, INC., a Delaware corporation (the "Company"), and Anthony Pizi, a resident of the State of New Jersey (the "Employee").

In consideration of the mutual covenants, promises and conditions set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Employment. The Company hereby employs Employee and Employee hereby accepts such employment upon the terms and conditions set forth in this Agreement.

2. Duties of Employee. Employee's title will be Chief Executive Officer and Chief Technology Officer. Employee will be based in New Jersey. Employee agrees to perform and discharge such other duties as may be assigned to Employee from time to time by the Company to the reasonable satisfaction of the Company, and such duties will be consistent with those duties regularly and customarily assigned by the Company to the position of Chief Executive Officer and Chief Technology Officer. In addition, Employee shall serve as Chairman of the Board of Directors so long as he is elected to such post by the Board of Directors according to the By-Laws of the Company. Employee also agrees to comply with all of the Company's policies, standards and regulations and to follow the instructions and directives as promulgated by the Board of Directors of the Company. Employee will devote Employee's full professional and business-related time, skills and best efforts to such duties and will not, during the term of this Agreement, be engaged (whether or not during normal business hours) in any other business or professional activity, whether or not such activity is pursued for gain, profit or other pecuniary advantage, without the prior written consent of the Board of Directors of the Company. This Section will not be construed to prevent Employee from (a) investing personal assets in businesses which do not compete with the Company in such form or manner that will not require any services on the part of Employee in the operation or the affairs of the companies in which such investments are made and in which Employee's participation is solely that of an investor; (b) purchasing securities in any corporation whose securities are listed on a national securities exchange or regularly traded in the over-the-counter market, provided that Employee at no time owns, directly or indirectly, in excess of one percent (1%) of the outstanding stock of any class of any such corporation engaged in a business competitive with that of the Company; or (c) participating in conferences, preparing and publishing papers or books, teaching or joining or participating in any professional associations or trade group.

3. Term. The term of this Agreement will be at-will, and can be terminated by either party at any time, with or without cause, subject to the provisions of Section 4 of this Agreement.

4. Termination.

(a) Termination by Company for Cause. The Company may terminate this Agreement and all of its obligations hereunder immediately, including the obligation to pay Employee severance, vacation pay or any further benefits or remuneration, if any of the following events occur:

(i) Employee materially breaches any of the terms or conditions set forth in this Agreement and fails to cure such breach within ten (10) days after Employee's receipt from the Company of written notice of such breach (notwithstanding the foregoing, no cure period shall be applicable to breaches by Employee of Sections 6, 7 or 8 of this Agreement);

(ii) Employee commits any other act materially detrimental to the business or reputation of the Company;

(iii) Employee engages in dishonest or illegal activities or commits or is convicted of any crime involving fraud, deceit or moral turpitude; or

(iv) Employee dies or becomes mentally or physically incapacitated or disabled so as to be unable to perform Employee's duties under this Agreement even with a reasonable accommodation. Without limiting the generality of the foregoing, Employee's inability adequately to perform services under this Agreement for a period of sixty (60) consecutive days will be conclusive evidence of such mental or physical incapacity or disability, unless such inability adequately to perform services under this Agreement is pursuant to a mental or physical incapacity or disability covered by the Family Medical Leave Act, in which case such sixty (60) day period shall be extended to a one hundred and twenty (120) day period.

(b) Termination by Company Without Cause. The Company may terminate Employee's employment pursuant to this Agreement for reasons other than those stated in Section 4(a) upon at least thirty (30) days' prior written notice to Employee. In the event Employee's employment with the Company is terminated by the Company without cause, the Company shall be obligated to pay Employee a lump sum severance payment equal to one (1) year of

Employee's then base salary payable within thirty (30) days of the date of termination. In addition, all Employee's then outstanding but unvested stock options shall vest one hundred percent (100%). Other than the severance payment and vesting of outstanding options set forth in this Section 4(b), Employee will be entitled to receive no further remuneration and will not be entitled to participate in any Company benefit programs following his termination by the Company, whether such termination is with or without cause. Furthermore, should Employee's employment with the Company be terminated without cause, Employee shall be entitled to an award of 200,000 shares of the Company's Common Stock. Employee shall not be entitled to any further remuneration of any kind whatsoever for his termination without cause.

(c) Termination by Employee for Cause. In the event there occurs a substantial change in the Employee's job duties, there is a decrease in or a failure to provide the compensation or vested benefits under this Agreement or there is a Change in Control (as defined below) of the Company, Employee shall have the right to resign his employment and will be entitled to receive a severance payment equal to an award of 200,000 shares of the Company's common stock. For avoidance of doubt, this award shall be in lieu of the 200,000 common stock shares awarded Employee under Section 4(b) above. In addition, all Employee's then outstanding but unvested stock options shall vest one hundred percent (100%). Employee shall have thirty (30) days from the date written notice is given to Employee about either (a) a change in his duties or (b) the announcement and closing of a transaction resulting in a Change in Control of the Company to resign or this Section 4(c) shall not apply. In the event Employee resigns from the Company for any other reason, Employee will not be entitled to receive or accrue any further Company benefits or other remuneration under this Agreement, and Employee specifically agrees that he will not be entitled to receive any severance pay.

For purposes of this Section 4, a Change in Control shall be deemed to have occurred if any of the following occur:

(i) the merger of consolidation of the Company with or into another unaffiliated entity, or the merger of another unaffiliated entity into the Company or another subsidiary thereof with the effect that immediately after such transaction the stockholders of the Company immediately prior to such transaction hold less than fifty percent (50%) of the total voting power of all securities generally entitled to vote in the election of directors, managers or trustees of the entity surviving such merger or consolidation;

(ii) the sale or transfer of more than fifty-one percent (51%) of the Company's then outstanding voting stock (other than a restructuring event which results in the continuation of the Company's business by an affiliated entity) to unaffiliated person or group (as such term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended); or

(iii) the adoption by the stockholders of the Company of a plan relating to the liquidation or dissolution of the Company.

5. Compensation and Benefits.

(a) Annual Salary. During the term of this Agreement and for all services rendered by Employee under this Agreement, the Company will pay Employee a base salary of Two Hundred Thousand Dollars ($200,000.00) per annum in equal bi-monthly installments. Such annual salary will be subject to adjustments by any increases given in the normal course of business.

(b) Incentive Compensation. Employee shall be eligible to receive incentive compensation in the form of a cash bonus, the amount of such cash bonus is explained on Exhibit C, upon the Company reaching sales goals for the calendar year as set forth in the operating plan for the Company which was approved by the Board of Directors. Said bonus will be payable after the annual accounts have been presented to the Compensation Committee. Exhibit C attached hereto provides the benchmarks associated with achieving the Incentive Compensation.

6. Vacation. Employee shall be eligible for four (4) weeks of paid vacation annually, provided that such vacation is scheduled at such times that do not interfere with the Company's legitimate business needs.

7. Other Benefits. Employee will be entitled to such fringe benefits as may be provided from time-to-time by the Company to its employees, including, but not limited to, group health insurance, life and disability insurance, and any other fringe benefits now or hereafter provided by the Company to its employees, if and when Employee meets the eligibility requirements for any such benefit. The Company reserves the right to change or discontinue any employee benefit plans or programs now being offered to its employees; provided, however, that all benefits provided for employees of the same position and status as Employee will be provided to Employee on an equal basis.

8. Business Expenses. Employee will be reimbursed for all reasonable expenses incurred in the discharge of Employee's duties under this Agreement pursuant to the Company's standard reimbursement policies.

9. Withholding. The Company will deduct and withhold from the payments made to Employee under this Agreement, state and federal income taxes, FICA and other amounts normally withheld from compensation due employees.

10. Non-Disclosure of Proprietary Information. Employee recognizes and acknowledges that the Trade Secrets (as defined below) and Confidential Information (as defined below) of the Company and its affiliates and all physical embodiments thereof (as they may exist from time-to-time, collectively, the "Proprietary Information") are valuable, special and unique assets of the Company's and its affiliates' businesses. Employee further acknowledges that access to such Proprietary Information is essential to the performance of Employee's duties under this Agreement. Therefore, in order to obtain access to such Proprietary Information, Employee agrees that, except with respect to those duties assigned to him by the Company, Employee shall hold in confidence all Proprietary Information and will not reproduce, use, distribute, disclose, publish or otherwise disseminate any Proprietary Information, in whole or in part, and will take no action causing, or fail to take any action necessary to prevent causing, any Proprietary Information to lose its character as Proprietary Information, nor will Employee make use of any such information for Employee's own purposes or for the benefit of any person, firm, corporation, association or other entity (except the Company) under any circumstances.

For purposes of this Agreement, the term "Trade Secrets" means information, including, but not limited to, any technical or nontechnical data, formula, pattern, compilation, program, device, method, technique, drawing, process, financial data, financial plan, product plan, list of actual or potential customers or suppliers, or other information similar

to any of the foregoing, which derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can derive economic value from its disclosure or use. For purposes of this Agreement, the term "Trade Secrets" does not include information that Employee can show by competent proof (i) was known to Employee and reduced to writing prior to disclosure by the Company (but only if Employee promptly notifies the Company of Employee's prior knowledge); (ii) was generally known to the public at the time the Company disclosed the information to Employee; (iii) became generally known to the public after disclosure by the Company through no act or omission of Employee; or (iv) was disclosed to Employee by a third party having a bona fide right both to possess the information and to disclose the information to Employee. The term "Confidential Information" means any data or information of the Company, other than trade secrets, which is valuable to the Company and not generally known to competitors of the Company. The provisions of this Section 6 will apply to Trade Secrets for so long as such information remains a trade secret and to Confidential Information during Employee's employment with the Company

and for a period of two (2) years following any termination of Employee's employment with the Company for whatever reason.

11. Non-Solicitation Covenants. Employee agrees that during Employee's employment by the Company and for a period of one (1) year following the termination of Employee's employment for whatever reason, Employee will not, directly or indirectly, on Employee's own behalf or in the service of or on behalf of any other individual or entity, divert, solicit or attempt to divert or solicit any individual or entity (i) who is a client of the Company at any time during the six (6)-month period prior to Employee's termination of employment with the Company ("Client"), or was actively sought by the Company as a prospective client, and (ii) with whom Employee had material contact while employed by the Company to provide similar services or products as such provided by Employee for the Company to such Clients or prospects. Employee further agrees and represents that during Employee's employment by the Company and for a period of one (1) year following any termination of Employee's employment for whatever reason, Employee will not, directly or indirectly, on Employee's own behalf or in the service of, or on behalf of any other individual or entity, divert, solicit or hire away, or attempt to divert, solicit or hire away, to or for any individual or entity which is engaged in providing similar services or products to that provided by the Company, any person employed by the Company for whom Employee had supervisory responsibility or with whom Employee had material contact while employed by the Company, whether or not such employee is a full-time employee or temporary employee of the Company, whether or not such employee is employed pursuant to written agreement and whether or not such employee is employed for a determined period or at-will. For purposes of this Agreement, "material contact" exists between Employee and a Client or potential Client when (1) Employee established and/or nurtured the Client or potential Client; (2) the Client or potential Client and Employee interacted to further a business relationship or contract with the Company; (3) Employee had access to confidential information and/or marketing strategies or programs regarding the Client or potential Client; and/or (4) Employee learned of the Client or potential Client through the efforts of the Company providing Employee with confidential Client information, including but not limited to the Client's identify, for purposes of furthering a business relationship.

12. Existing Restrictive Covenants. Except as provided in Exhibit B, Employee has not entered into any agreement with any employer or former employer (a) to keep in confidence any confidential information or (b) to not compete with any former employer. Employee represents and warrants that Employee's employment with the Company does not and will not breach any agreement which Employee has with any former employer to keep in confidence confidential information or not to compete with any such former employer. Employee will not disclose to the Company or use on its behalf any confidential information of any other party required to be kept confidential by Employee.

13. Return of Proprietary Information. Employee acknowledges that as a result of Employee's employment with the Company, Employee may come into the

possession and control of Proprietary Information, such as proprietary documents, drawings, specifications, manuals, notes, computer programs, or other proprietary material. Employee acknowledges, warrants and agrees that Employee will return to the Company all such items and any copies or excerpts thereof, and any other properties, files or documents obtained as a result of Employee's employment with the Company, immediately upon the termination of Employee's employment with the Company.

14. Proprietary Rights. During the course of Employee's employment with the Company, Employee may make, develop or conceive of useful processes, machines, compositions of matter, computer software, algorithms, works of authorship expressing such algorithm, or any other discovery, idea, concept, document or improvement which relates to or is useful to the Company's Business (the "Inventions"), whether or not subject to copyright or patent protection, and which may or may not be considered Proprietary Information. Employee acknowledges that all such Inventions will be "works made for hire" under United States copyright law and will remain the sole and exclusive property of the Company. Employee also hereby assigns and agrees to assign to the Company, in perpetuity, all right, title and interest Employee may have in and to such Inventions, including without limitation, all copyrights, and the right to apply for any form of patent, utility model, industrial design or similar proprietary right recognized by any state, country or jurisdiction. Employee further agrees, at the Company's request and expense, to do all things and sign all documents or instruments necessary, in the opinion of the Company, to eliminate any ambiguity as to the ownership of, and rights of the Company to, such Inventions, including filing copyright and patent registrations and defending and enforcing in litigation or otherwise all such rights.

Employee will not be obligated to assign to the Company any Invention made by Employee while in the Company's employ which does not relate to any business or activity in which the Company is or may reasonably be expected to become engaged, except that Employee is so obligated if the same relates to or is based on Proprietary Information to which Employee will have had access during and by virtue of Employee's employment or which arises out of work assigned to Employee by the Company. Employee will not be obligated to assign any Invention which may be wholly conceived by Employee after Employee leaves the employ of the Company, except that Employee is so obligated if such Invention involves the utilization of Proprietary Information obtained while in the employ of the Company. Employee is not obligated to assign any Invention that relates to or would be useful in any business or activities in which the Company is engaged if such Invention was conceived and reduced to practice by Employee prior to Employee's employment with the Company. Employee agrees that any such Invention is set forth on Exhibit "A" to this Agreement.

15. Remedies. Employee agrees and acknowledges that the violation of any of the covenants or agreements contained in Sections 6, 7, and 10 of this Agreement would cause irreparable injury to the Company, that the remedy at law for any such violation or threatened violation thereof would be inadequate, and that the Company will be entitled, in addition to any other remedy, to temporary and permanent injunctive or other equitable relief without the necessity of proving actual damages or posting a bond.

16. Severability. In case one or more of the provisions contained in this Agreement is for any reason held to be invalid, illegal or unenforceable in any respect, the parties agree that it is their intent that the same will not affect any other provision in this Agreement, and this Agreement will be construed as if such invalid or illegal or unenforceable provision had never been contained herein. It is the intent of the parties that this Agreement be enforced to the maximum extent permitted by law.

17. Entire Agreement. This Agreement embodies the entire agreement of the parties relating to the subject matter of this Agreement and supersedes all prior agreements, oral or written, regarding the subject matter hereof. No amendment or modification of this Agreement will be valid or binding upon the parties unless made in writing and signed by the parties.

18. Governing Law. This Agreement is entered into and will be interpreted and enforced pursuant to the laws of the State of New Jersey. The parties hereto hereby agree that the appropriate forum and venue for any disputes between any of the parties hereto arising out of this Agreement shall be any federal court in the state where the Employee has his principal place of residence and each of the parties hereto hereby submits to the personal jurisdiction of any such court. The foregoing shall not limit the rights of any party to obtain execution of judgment in any other jurisdiction. The parties further agree, to the extent permitted by law, that a final and unappealable judgment against either of them in any action or proceeding contemplated above shall be conclusive and may be enforced in any other jurisdiction within or outside the United States by suit on the judgment, a certified exemplified copy of which shall be conclusive evidence of the fact and amount of such judgment.

19. Surviving Terms. Sections 4, 6, 7, 10, 11 and 14 of this Agreement shall survive termination of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

COMPANY: EMPLOYEE:

LEVEL 8 SYSTEMS, INC.

By:

Name: Anthony Pizi
Title:

EXHIBIT A

INVENTIONS

Employee represents that there are no Inventions.

Employee Initials

EXHIBIT B

EXISTING RESTRICTIVE COVENANTS

EXHIBIT C
INCENTIVE COMPENSATION

Variable Compensation Plan for Anthony Pizi

OTC: $400,000
TARGETED REVENUES: $13,279,000

Revenue Range From	To	Variable %	Variable $
$ 15,934,801		130%	$ 520,000
$ 14,606,900	$ 15,934,800	120%	$ 480,000
$ 13,411,790	$ 14,474,110	105%	$ 420,000
$ 12,615,050	$ 13,279,000	100%	$ 400,000
$ 10,623,200	$ 12,482,260	80%	$ 320,000
$ 9,295,300	$ 10,490,410	70%	$ 280,000
$ 7,967,400	$ 9,162,510	60%	$ 240,000
$ 6,639,500	$ 7,834,610	50%	$ 200,000
$ -	$ 6,639,499	25%	$ 100,000

[LOGO OF BANK HAPOALIM]

As of November 15, 2003

Level 8 Systems, Inc.
8000 Regency Parkway
Cary, NC 27511

RE: TERM LOAN EXTENDED BY BANK HAPOALIM B.M. (THE "BANK") TO LEVEL 8 SYSTEMS, INC. (THE "BORROWER") DATED MARCH 6, 2002 IN PRESENT OUTSTANDING AMOUNT OF $1,971,000.00 (THE "LOAN")

Gentlemen:

This will confirm that, at the request of the Borrower, the Bank has agreed, subject to the conditions set forth below, to extend the maturity date of the Loan from November 15, 2003 to November 8, 2004. The effectiveness of the extension of the maturity date of the Loan is subject to the Bank's receipt of such documentation as it may request, including, but not limited to the following, each in form and substance satisfactory to the Bank: (a) this Letter Agreement dated the date hereof, (b) a new Promissory Note in the amount of $1,971,000.00 dated the date hereof executed by the Borrower in favor of the Bank in substitution of and replacement for the existing Promissory Note in the amount of $3,000,000.00 by the Borrower in favor of the Bank dated March 6, 2002, (c) a Letter of Undertaking from Bank Hapoalim B.M. Rishon Le Zion Branch in amount not less than $2,171,000.00, (d) an opinion of Borrower's counsel and (e) any other documents as the Bank may require. The effectiveness of the terms of this Letter Agreement is also subject to repayment by the Borrower to the Bank in immediately available funds in lawful money of the United States of such amount necessary, if any, to reduce the outstanding balance under the Loan to $1,971,000.00. The Borrower shall also pay the Bank a documentation fee of $350.00.

Please indicate your acknowledgment of and agreement to the foregoing by signing and returning the enclosed copy of this letter to the attention of Maxine Levy, Vice President.

Very truly yours,

BANK HAPOALIM B.M.

By: _____

Title: _____

Acknowledged and Agreed to

LEVEL 8 SYSTEMS, INC.

By: _____

Title: _____

By: _____

Title: _____

By: _____

Title: _____

NEW YORK BRANCHES

1177 Avenue of the Americas New York NY 10036-2790 T. 212 782 2000 F. 212 782 2222 www.hapoalimusa.com

SEVENTH AMENDMENT TO THE LEVEL 8 SYSTEMS, INC. 1997 STOCK OPTION PLAN

This SEVENTH AMENDMENT is made on this ___ day of June, 2003, by Level 8 Systems, Inc., a corporation organized and existing under the laws of the State of Delaware (hereinafter called the "Company").

INTRODUCTION

The Company maintains the Level 8 Systems, Inc. 1997 Stock Option Plan (the "Plan"). The Company wishes to amend the Plan to increase the number of shares reserved for issuance under the Plan.

AMENDMENT

NOW, THEREFORE, the Company does hereby amend Section 4.1 of the Plan, effective as of June __, 2003, by replacing the phrase "6,500,000 shares" with the phrase "10,000,000 shares."

This Seventh Amendment is conditioned upon stockholder approval within 12 months following the adoption of the Seventh Amendment by the Board of Directors of the Company, and in the event that such stockholder approval is not obtained, the Seventh Amendment shall be null and void.

IN WITNESS WHEREOF, the Company has caused this Seventh Amendment to be executed as of the day and year first above written.

LEVEL 8 SYSTEMS, INC.

By:

John P. Broderick
Chief Financial and Operating Officer,
Corporate Secretary

Exhibit 10.17

L E A S E A G R E E M E N T

NORTH CAROLINA

COUNTY OF WAKE

THIS LEASE AGREEMENT dated the 7th day of November, 2003, and entered into between REGENCY PARK CORPORATION, a North Carolina corporation having its principal place of business in Cary, North Carolina (the "Landlord"), and Level 8 Systems, Inc. a New York corporation having its principal place of business in Cary, North Carolina (the "Tenant").

W I T N E S S E T H:

DEFINITIONS:

The following definitions shall be deemed to control herein.

ADDITIONAL RENT: Any adjustments to Annual Rental and other sums due Landlord from Tenant.

BASE OPERATING EXPENSES: Means Operating Expenses for the Operating Year ending November 30, 2001, which amount shall be as certified by Landlord's auditors.

BASE REAL ESTATE TAXES: Means the lesser of:

a. the real estate taxes levied or imposed for the tax year ending December 31, 2003, which amount shall be as certified by Landlord's auditors; or

b. such lesser amount as may be fixed, settled, and compromised, consented to, or determined as a result of contestation or otherwise.

BUILDING: 8000 Regency Parkway located in Cary, North Carolina.

LEASE: This Lease Agreement with all Exhibits and Riders attached thereto.

LEASE YEAR: As used herein (i) shall mean each and every 12-month period during the term of this Lease, or (ii) (in the event of Lease expiration or termination) shall mean the period between the last 12-month period and said expiration or termination. The first such 12-month period shall commence on the 1st day of October, 2003, and end on the 30th day of September, 2004.

OPERATING EXPENSES: The Landlord's cost of operating the Building and Property as more particularly described in Exhibit E attached hereto and made a part hereof by this reference.

OPERATING YEAR: Means a year commencing on December 1, and terminating on November 30, provided that Landlord shall be permitted at any time and from time to time to change the commencement and termination dates of any operating year of the Landlord.

PREMISES: The space as outlined on the floor plan which is attached hereto as Exhibit A and made a part hereof by this reference. The Premises constitutes two thousand nine hundred fifty-six (2,956) rentable square feet located on the 5th floor of the Building and is designated as Suite 342.

PROPERTY: The land upon which the Building is located, which land is more particularly described in Exhibit B attached hereto and made a part hereof by this reference.

RENTABLE AREA: One hundred forty-four thousand eight hundred seventy-six (144,876) square feet located within the Building.

REAL ESTATE TAXES: Includes (i) personal property taxes (attributable to the year in which assessed) imposed upon the furniture, fixtures, machinery, equipment, apparatus, systems, and appurtenances used in connection with the Building and the Property for the operating thereof; and (ii) real estate taxes, assessments, sewer rents, rates and charges, taxes based upon the receipt of rent and any other federal, state, or local governmental charge, general, special, ordinary, or extraordinary (but not including income or franchise taxes or any other taxes imposed upon or measured by Landlord's income or profits, unless the same shall be imposed in lieu of real estate taxes) or any other tax which may now or hereafter be levied or assessed against the Property, the Building, any other improvements hereinafter constructed on the Property, or the rents derived from the Property, the Building and such other improvements. (In the case of special taxes or assessments which may be payable in installment, only the amount of each installment paid during a calendar year shall be included in the taxes for that year.)

REAL ESTATE TAX YEAR: Means each successive 12-month period following and corresponding to the period in respect of which the base real estate taxes are established irrespective of the period or periods which may from time to time in the future be established by competent authority for the purposes of levying or imposing real estate taxes.

PREMISES

Landlord, for and in consideration of the rents, covenants, agreements, and stipulations herein contained, to be paid, kept and performed by the Tenant, has leased and by these presents leases unto the Tenant, and Tenant hereby agrees to lease upon the terms and conditions herein contained, the Premises

located in the Building situate upon the Property.

FINISHING OF PREMISES

The Premises shall be finished by the Landlord at its expense in accordance with the provisions of Exhibit C which is attached to and forms a part of this Lease.

All other improvements to the Premises shall be made at the Tenant's expense and must be performed in accordance with accurate working drawings and specifications that are to be submitted to and approved by the Landlord in writing prior to the commencement of such work.

1.0 TERM

The term of this Lease shall be for a period of three (3) years commencing on the 1st day of October, 2003, (hereinafter referred to as the "Commencement Date"), and ending on the 31st day of December, 2006, inclusive. If, however, for any reason Landlord is unable to deliver possession of the Premises to Tenant upon the Commencement Date, Landlord shall not be liable for any damage caused thereby, nor shall this Lease become void or voidable but, rather, the term specified herein shall commence upon the date of delivery of possession of the Premises to Tenant and shall terminate three (3) years subsequent to the Commencement Date. Tenant shall not be liable for any rent hereunder until such time as Landlord shall have delivered possession of the Premises to Tenant and substantially completed the work described in Exhibit C unless the delay is caused by Tenant. If, however, Landlord is unable to deliver possession of the Premises to Tenant within six (6) months after the Commencement Date for any reason other than the fault or neglect of Tenant, then this Lease may be terminated by either party without liability to the other upon fifteen (15) days prior written notice to the other party. Should the lease term commence upon any date other than the Commencement Date hereinabove specified, Landlord and Tenant shall execute and acknowledge a written statement setting forth the actual date of commencement of the lease term, which statement may be recorded by either party and a copy of which shall be attached as Exhibit D to this Lease.

2.0 ANNUAL RENTAL AND ADJUSTMENTS THEREOF

2.01 ANNUAL RENTAL: Tenant agrees to pay Landlord, at Regency Park Corporation , P.O. Box 501034, St. Louis, MO 63150-1034, or at such other place as Landlord may designate in writing, without demand, deduction, credit or setoff and in lawful money of the United States of America:

Rental of zero Dollars ($0.00) per year ("Annual Rent"), payable in equal monthly installments of zero Dollars ($0.00), in advance, on or before the first day of each calendar month during the term; October 1, 2003 up to and including December 31, 2003, provided, however, that if the term of this Lease commences on a date other than the first day of a calendar month, rent shall be prorated

for the fractional month at the beginning of the term and paid on the date the term commences; and in that event, rent for the fractional month at the end of the term shall also be prorated.

Rental of fifty-four thousand six hundred twelve and 00/100 Dollars ($54,612.00) per year ("Annual Rent"), payable in equal monthly installments of four thousand five hundred fifty-one and 00/100 Dollars ($4,551.00), in advance, on or before the first day of each calendar month during the term; January 1, 2004 up to and including December 31, 2005.

Rental of fifty six thousand one hundred sixty-four and 00/100 Dollars ($56,164.00) per year ("Annual Rent"), payable in equal monthly installments of four thousand eighty and 33/100 Dollars ($4,680.33), in advance, on or before the first day of each calendar month during the term; January 1, 2006 up to and including December 31, 2006

The Tenant is also obligated to pay to the Landlord Additional Rent and certain other sums as provided for herein.

2.02 ADDITIONAL RENT: Any adjustment to Annual Rent and other sums due Landlord from Tenant shall be referred to collectively as "Additional Rent."

2.02.01 OPERATING EXPENSES: Prior to commencement of each Operating Year or as soon thereafter as is reasonably possible, Landlord will furnish to Tenant as estimate of the Operating Expenses for such Operating Year and if the same shall be in excess of the Base Operating Expenses, the installments of rent payable hereunder in respect of each month of such Operating Year shall be increased by way of Additional Rent by an amount equal to one-twelfth (1/12) of two percent (2%) of such excess and Tenant shall make payment thereof to Landlord accordingly ("Tenant's Estimated Share").

After the end of each Operating Year, the Landlord shall furnish to Tenant a statement of Landlord's actual Operating Expenses for such Operating Year and Tenant shall pay to Landlord an amount equal to two percent (2%) of the excess of such Operating Expenses over the Base Operating Expenses ("Tenant's Actual Share"). If Tenant's Actual Share is greater than the amount paid by Tenant to Landlord as Tenant's Estimated Share, then Tenant shall pay this difference to Landlord within fourteen (14) days after delivery of such statement. If Tenant's Actual Share is less than the amount paid by Tenant to Landlord as Tenant's Estimated Share, then Landlord shall refund the excess to Tenant within fourteen (14) days after delivery of such statement.

Nothing contained in this Article shall be construed at any time so as to reduce the monthly installments of rent payable hereunder below the amount stipulated in Article 2.01.

If this Lease shall terminate other than on the expiry of an Operating Year in any Operating Year, then in computing the amount payable by Tenant under

this Article for the period from the commencement of the Operating Year in which the Lease terminates until the date of termination, the Base Operating Expenses shall be deducted from the Operating Expenses for such Operating Year and Tenant shall pay one-three hundred sixty-fifth (1/365) of two percent (2%) for each day of such Operating Year during which this Lease shall have been in full force and effect.

The obligations of the parties hereto to adjust sums owed pursuant to this Article shall survive the expiration of the term of this Lease

Failure of Landlord to furnish a statement of actual Operating Expenses or to give notice of an adjustment to Annual Rent under this Article in a timely manner shall not prejudice or act as a waiver of Landlord's right to furnish such statement or give such notice at a subsequent time or to collect any adjustments to the Base Rent for any preceding period.

2.02.02 REAL ESTATE TAXES: If at any time or from time to time during the term of this Lease, the Real Estate Taxes for or attributable to any Real Estate Tax Year shall be in excess of the Base Real Estate Taxes, and/or if any new tax or increase of the effective rate of present taxes shall become effective after the date hereof but before the normal tax escalation provision shall take effect, the rent payable hereunder in respect of such year shall be increased by an amount equal to two percent (2%) of such excess and/or such new tax or increase (the "Tenant's Tax Share"). Tenant shall pay to Landlord, not later than the sixty (60) days prior to the tax due date, or such other date as may be specified in writing to Tenant by Landlord, the Tenant's Tax Share for such year. Where at any time such amount has become payable to Landlord hereunder, in addition to such amount, subsequent monthly installments of rent shall be increased by an amount equal to one-twelfth (1/12) of the Tenant's Tax Share, and such monthly amounts when paid to Landlord shall be available (without interest) as a credit against subsequent obligations of Tenant to Landlord under

this Article. Landlord shall furnish to Tenant upon the specific written request of Tenant copies of all notices of valuation and assessment and all tax bills received by Landlord.

Tenant shall pay to Landlord as Additional Rent two percent (2%) of any expenses incurred by Landlord in obtaining or attempting to obtain a reduction of any Real Estate Taxes. Real Estate Taxes which are being contested by Landlord shall nevertheless be included for purposes of the computation of the liability of Tenant under this Article; provided, however, that in the event that Tenant shall have paid any amount of increased rent pursuant to this Article and Landlord shall thereafter receive a refund of any portion of the Real Estate Taxes on which such payment shall have been based, Landlord shall pay to Tenant the appropriate portion of such refund after deduction of the

aforementioned expenses.

Landlord shall have no obligation to contest, object to or to litigate the levying or imposition of any Real Estate Taxes and may settle, compromise, consent to, waive or otherwise determine in its discretion any Real Estate Taxes without notice to, consent or approval of Tenant.

Nothing contained in this Article shall be construed at any time so as to reduce the monthly installments of rent payable hereunder below the amount stipulated in Article 2.01.

If the termination date of the Lease shall not coincide with the end of a Real Estate Tax Year, then in computing the amount payable under this Article for the period between the commencement of the applicable Real Estate Tax Year in question and the termination date of this Lease, the Base Real Estate Taxes shall be deducted from the Real Estate Taxes for the applicable Real Estate Tax Year and, if such Real Estate Taxes exceed the Base Real Estate Taxes, the Tenant shall pay one-three hundred sixty-fifth (1/365) of two percent (2%) for each day of such Real Estate Tax Year during which the Lease shall have been in full force and effect.

Tenant's obligation to pay under this Article for the final period of the Lease shall survive the expiration of the term of this Lease.

Failure of Landlord to furnish a statement of actual Tax Expenses or to give notice of an adjustment to Annual Rent under this Article in a timely manner shall not prejudice or act as a waiver of Landlord's right to furnish such statement or give such notice as a subsequent time or to collect any adjustments to the Annual Rent for any preceding period.

2.02.03 INTEREST FOR LATE PAYMENT: Any payment provided for herein to be made by the Tenant and not received by Landlord on the due date specified in this Lease shall accrue interest from the due date at the rate of two percent (2%) above the published prime rate of First Union National Bank of North Carolina in effect from time to time (the "Prime Rate").

For purposes of computing interest hereunder, changes in the Prime Rate shall be effective on the date of each change.

2.03 SECURITY DEPOSIT: Landlord acknowledges that it has received from Tenant the sum of nine thousand fourteen thousand and 33/100 Dollars ($9,114.37), equal to one (1) monthly installment of Annual Rent (herein called "Security Deposit"), which amount shall be security for the full and faithful performance and observance by Tenant of the covenants, terms and conditions of this Lease, including, without limitation, the payment of Annual Rent and Additional Rent, on the part of Tenant to be kept and performed. No interest shall be payable on the Security Deposit. Tenant acknowledges that the Security Deposit is not an advance payment of rent or a measure of Landlord's damages in the case of default by Tenant. Upon the occurrence of an Event of Default under the Lease, Landlord may use, apply or retain the whole or any part of the Security Deposit so deposited to the extent required for the payment of any

Annual Rent and Additional Rent or any other sum as to which Tenant is in default or for the payment of any other damage, injury, expense or liability resulting from any Event of Default. Following any such application of the Security Deposit, Tenant shall pay to Landlord on demand the amount necessary to restore the Security Deposit to its original amount. In the event that Tenant shall fully and faithfully comply with all of the terms, provisions, covenants and conditions of this Lease, the Security Deposit shall be returned to Tenant within thirty (30) days after the termination of this Lease subject to the retention of an amount estimated by Landlord to be sufficient to satisfy Tenant's Additional Rent obligations hereunder. In the event of a sale of the Building or a lease of the Building, subject to this Lease, Landlord shall be released from all liability for the return of the Security Deposit and Tenant shall look to the new landlord for the return of the Security Deposit. This provision shall apply to every transfer or assignment made of the Security Deposit to a new landlord. The Security Deposit shall not be assigned or encumbered by Tenant without the written consent of Landlord, and such assignment or encumbrance without Landlord's consent shall be void.

3.0 USE

The Premises shall be used and occupied only for general office use and shall not be used or occupied for any other purpose without the prior written consent of Landlord. Tenant shall not display any signs on the Property without prior written consent of Landlord. Tenant shall not conduct, or allow to be conducted, on the Premises any business, or permit any act, (i) which constitutes a nuisance, (ii) which is contrary to or in violation of the laws, statutes, or ordinances of the United States, or the State or City in which the Premises are located, or (iii) which is dangerous to persons or property or which may invalidate (or increase the premium for) any policy of insurance carried on the Building or the Premises. Tenant will comply with all police, fire, sanitary and all other laws and regulations imposed by any governmental or municipal authority or body or by Landlord's fire insurance underwriters. Any violation of this provision by the Tenant shall be an Event of Default entitling Landlord to exercise any rights or remedies contained herein or provided by law.

4.0 SERVICES OF LANDLORD

The Landlord shall provide, at the Landlord's expense except as otherwise provided, the following services:

a. Janitorial service in and about the Premises, Saturdays, Sundays and holidays excepted.

b. Heat and air-conditioning, daily from 8:00 a.m. to 6:00 p.m., and 8:00 a.m. to 1:00 p.m. on Saturdays (if not a holiday), Sundays and holidays

excepted, sufficient to maintain comfortable temperature on the basis of one person per 100 square feet of space reasonably subdivided. This paragraph shall conform to any government regulations preserving limitations thereon and such conformity shall be deemed to satisfy this Landlord obligation.

Whenever heat generating machines or equipment which affect the temperature otherwise maintained by the air-conditioning system are used in the Premises, Landlord reserves the right, at its option, either to require Tenant to discontinue the use of such heat generating machines or equipment or to install supplementary air-conditioning equipment in the Premises. The cost of such installation shall be paid by Tenant to Landlord promptly on being billed therefor, and the cost of operation and maintenance of said supplementary equipment shall be paid by Tenant to Landlord promptly on the monthly rent payment dates at such rates as may be agreed on, but in no event at a rate less than Landlord's actual cost therefor of labor, materials and utilities.

c. Water for drinking, lavatory and toilet purposes.

d. Passenger elevator service at all times. Any or all elevator service may be automatic.

e. Window washing of all exterior windows, both inside and out, weather permitting.

f. Provision, installation and replacement of ballasts and tubes for lighting purposes.

g. Removal of ice and snow from walks, drives and parking facilities.

h. Electricity typically provided in general office space, specifically excluding any extraordinary requirements of the Tenant.

If Tenant shall require electric current in excess of that usually furnished or supplied for use of the Premises as general office space, Tenant shall first procure the consent of Landlord, (which Landlord may refuse in its sole discretion), to the use thereof. Landlord may cause an electric check meter to be installed in the Premises. Landlord shall also have the right to cause a reputable independent electrical engineering or consulting firm to survey and determine the value of the electric service furnished for such excess electric current. The cost of any such survey or meters and of installation, maintenance and repair thereof shall be paid for by Tenant. Tenant agrees to pay to Landlord, promptly upon demand therefor, for all such electric current consumed as shown by said meters or by said survey at the rates charged for such services by the city, or the local public utility, as the case may be, furnishing the same, plus any additional expense incurred in monitoring the electric current so consumed.

Tenant covenants and agrees that at all times its use of electric current shall never exceed Tenant's proportionate share of the capacity of existing feeders to the Building or the risers of wiring installation. Any riser or risers or wiring to meet Tenant's excess electrical requirements, upon written request of Tenant, will be installed by Landlord, at the sole cost and expense of Tenant if, in Landlord's sole judgment, the same are necessary and will not cause permanent damage or injury to Building or Premises or cause or create a dangerous or hazardous condition or entail excessive or unreasonable alteration, repairs or expense or interfere with or disturb other tenants or occupants.

Should Tenant require any additional work or service, including but not limited to the additional work or service described above, including service furnished outside the stipulated hours, Landlord may, on terms to be agreed, upon reasonable advance notice by Tenant, furnish such additional service. Tenant agrees to pay the Landlord such charges as may be agreed on, but in no event at a charge less than Landlord's actual cost plus overhead for the additional services provided, it being agreed that the cost to the Landlord of such additional services shall be excluded from Operating Expenses.

Landlord does not warrant that any of the services referred to above, or any other services which Landlord may supply, will be free from interruption. Tenant acknowledges that any one or more of such services may be suspended by reason of accident or of repairs, alterations or improvements necessary to be made, or by strikes or lockouts, or by reason of operation of law, or causes beyond the reasonable control of Landlord. Any such interruption or discontinuance of service shall not constitute an eviction or disturbance of Tenant's use and possession of the Premises, or any part thereof, or render Landlord liable to Tenant for damages by abatement of rent or otherwise, or relieve Tenant from performance of Tenant's obligations under this Lease.

5.0 TENANT'S ACCEPTANCE AND MAINTENANCE OF PREMISES

Tenant, on occupancy of the Premises, represents to the Landlord that it has examined and inspected the same, finds them to be as represented by the Landlord and satisfactory for Tenant's intended use, and such occupancy evidences Tenant's acceptance "AS IS." Landlord makes no representation or warranty as to the condition of said Premises. Tenant shall maintain (and so deliver at the end of the Lease) each and every part of the Premises in good repair and condition, and shall make, at Tenant's sole cost and expense, such replacements, restorations, renewals or repairs, in quality equivalent or better than the original work, as may be required to so maintain the same, ordinary wear and tear only excepted. Tenant, however, shall make no structural or interior alterations, additions or improvements to the Premises without Landlord's prior written consent, and any work performed by Tenant shall be done in good and workmanlike manner, and so as not to disturb or inconvenience other tenants in the Building. Tenant shall not at any time permit any work to be performed on the Premises except by duly licensed contractors or artisans, each of whom must carry general public liability insurance in form and content

satisfactory to the Landlord, certificates of which shall be furnished Landlord. At no time may Tenant do any work that results in a claim of lien against Landlord. All alterations, additions or improvements (including, but not limited to, floor covering, wall covering, wall and ceiling lighting fixtures, carpet, drapes and drapery hardware) made or installed by Tenant or by Landlord for Tenant's benefit to the Premises, shall become the property of Landlord upon the termination or earlier expiration of this Lease. Landlord reserves the right to require Tenant, at Tenant's expense, (i) to remove any improvements or additions made to the Premises by Tenant, or by Landlord for Tenant's benefit, upon the expiration or earlier termination of this Lease; and (ii) to repair all injury done by or in connection with installation or removal of said improvements or additions. Tenant further agrees to do so prior to the expiration date of this Lease, or within thirty (30) days after notice from Landlord, whichever shall be later, provided that Landlord gives such notice no later than thirty (30) days prior to the expiration date of this Lease.

If the sprinkler system as installed in the Building or any of its appliances shall be damaged or injured or not in proper working order by reason of any act or omission of the Tenant, Tenant's agents, servants, employees, licensees or visitors, the Tenant shall forthwith restore the same to good working conditions at its own expense. If the Board of Fire Underwriters of Fire Insurance Exchange or any bureau, department or official of the state, county or city government, require or recommend that any changes, modifications, alterations or additional sprinkler heads or other equipment be made or supplied by reason of the Tenant's business, or the location of partitions, trade fixtures, or other contents of the Premises, or if any such changes, modifications, alterations, additional sprinkler heads or other equipment become necessary to prevent the imposition of a penalty or charge against the full allowance for a sprinkler system in the fire insurance rate as fixed by said Exchange, or by any fire insurance company, Tenant shall, at the Tenant's expense, promptly make and supply such changes, modifications, alterations, additional sprinkler heads or other equipment.

Tenant shall not overload the floors, nor shall Tenant install any heavy business machines or any safes or heavy equipment of any kind without prior written consent of Landlord, which if granted, may be conditioned upon moving by skilled licensed handlers, and installation and maintenance at Tenant's expense of special reinforcings and settings adequate to carry the additional weight and to absorb and prevent noise and vibration.

6.0 REPAIRS BY LANDLORD

Landlord shall have no duty to Tenant to make any repairs or improvements to the Premises except such repairs as may be deemed necessary by Landlord for normal maintenance operations of the Building's plumbing, heating and

air-conditioning and electrical systems, Building parking lots and grounds, and such structural repairs necessary for safety and tenantability and then only if not brought about by any act or neglect of Tenant, its agents, employees or visitors. Tenant agrees to report immediately in writing to Landlord any defective condition in or about the Premises known to Tenant, and a failure to so report shall make Tenant liable to Landlord for any expense or damage to Landlord resulting from such defective condition. Landlord shall have the right of full access to the Premises (including entry by use of master key) to make repairs without reduction or abatement of rent.

7.0 INSURANCE AND INSURANCE RATES

Landlord shall carry fire, casualty and liability insurance insuring its interest in the Building and the Premises. Tenant shall carry fire, casualty and liability insurance insuring its interest, if any, in improvements to or in the Premises and its interest in its office furniture, equipment, supplies and other property. Tenant hereby waives any claim or right of action which it may have against Landlord for loss or damage covered by such insurance, and Tenant covenants and agrees that it will obtain a waiver from the carrier of such insurance releasing such carrier's subrogation rights as against Landlord. Tenant shall maintain a comprehensive liability policy covering loss to person or property (a) in the amount of One Million and No/100 Dollars ($1,000,000) bodily injury per person, and One Hundred Thousand and No/100 Dollars ($100,000) property damage, or (b) in the amount of Three Million and No/100 Dollars ($3,000,000) single limit for bodily injury and property damage. Such policies shall name Landlord as an insured. Tenant shall furnish Landlord a certificate of insurance indicating (a) current coverage during the term of this Lease, and (b) a provision requiring a thirty (30) day prior notice to the Landlord of cancellation.

Tenant shall not do or cause to be done or permit on the Premises or in the Building anything deemed extrahazardous on account of fire, and Tenant shall not use the Premises or the Building in any manner which will cause an increase in the premium rate for any insurance in effect on the Building or a part thereof. If, because of anything done by Tenant, the premium rate for any kind of insurance in effect on the Building or any part thereof shall be raised, Tenant shall pay Landlord the amount of any such increase in premium in accordance with the provisions of this Lease. If Landlord shall demand that Tenant remedy the condition which caused any such increase in an insurance premium rate, Tenant shall remedy such condition within five (5) days after receipt of such demand.

8.0 FIRE OR OTHER CASUALTY

In the event that before or during the term of this Lease, the Premises shall be damaged by fire or other casualty which in the opinion of Landlord does not render the Premises or a part thereof untenantable Landlord will, at its option (subject to the other provisions of this Section 8.0), repair the same with reasonable dispatch upon receipt of written notice of the damage from Tenant, and there shall be no abatement of the rent.

In the event that before or during the term of this Lease the Premises or the Building shall be damaged by fire or other casualty which in the opinion of the Landlord renders the Building, the Premises or any part of the Building or Premises untenantable, Landlord within twenty (20) days of notice of such fire or casualty or of receipt of written notice from Tenant of such damage (whichever shall last occur) shall have the right to and shall either (i) serve written notice upon Tenant of Landlord's intent to repair said damage or (ii) if in Landlord's opinion said damage renders so much of either of the Premises or of the Building untenantable that repair would not be advisable, serve written notice upon Tenant that this Lease is terminated. If Landlord shall elect to terminate this Lease aforesaid, such termination shall be effective immediately upon service of such notice by Landlord upon Tenant if the term shall not have commenced or on the date specified in such notice if during the term. In the

event of such termination the rent shall be apportioned and paid up to the time of such fire or other casualty if the Premises are rendered wholly untenantable as aforesaid by such fire or other casualty or up to the specified date of termination if the Premises are not rendered wholly untenantable by such fire or other casualty. Any obligation of Tenant to Landlord for any sum of money due under any provisions of this Lease shall survive any such termination of this Lease by Landlord. If, on the other hand, Landlord shall elect to repair such damage, such repairs shall be commenced within forty-five (45) days of notice to Tenant of such election and the Landlord shall diligently proceed with such restoration, however, Landlord's obligation to repair or rebuild shall be limited to the availability of insurance proceeds. During the period of repair the total amount of the rent provided for in Article 2.0 of this Lease shall be reduced to an amount which in Landlord's opinion bears the same ratio to the rent provided for in said Article 2.0 as the portion of the Premises then available for use bears to the entire Premises. Upon completion of such repair, the rent shall thereafter be paid as if no fire or other casualty had occurred.

Notwithstanding the foregoing, in the event that before or during the term of this Lease the Premises or the Building shall be damaged by fire or other casualty which shall have been occasioned by the act of Tenant or of its servants, agents, visitors, invitees or licensees, (i) there shall be no apportionment or abatement of the rent and, (ii) Landlord shall have the right but shall have no obligation to repair the Premises or the Building, and (iii) Tenant shall reimburse and compensate Landlord within five (5) days of rendition of any statements to Tenant by Landlord for any expenditures made by Landlord in making any such repairs. Any such actions shall be without prejudice to any other rights and remedies of Landlord and without prejudice to any rights of subrogation of any insurer of Landlord.

The other provisions of this Article 8.0 notwithstanding, Landlord shall have no obligation to replace or repair any property in the Building or on the

Premises belonging to Tenant or to anyone claiming through or under Tenant, nor shall Landlord have any obligation hereunder to replace or repair any property on the Premises which Landlord may require Tenant to remove from the Premises.

9.0 WAIVER OF CERTAIN CLAIMS

The Tenant, to the extent permitted by law, waives all claims it may have against the Landlord, and against the Landlord's agents and employees for damage to person or property sustained by the Tenant or by any occupant of the Premises or by any other person, resulting from any part of the Property or any equipment or appurtenances becoming out of repair, or resulting from any accident in or about the Property or resulting directly or indirectly from any act or neglect of any tenant or occupant of any part of the Property or of any other person, unless such damage is a result of the negligence or contributory negligence of Landlord, or Landlord's agents or employees. If any damage results from any act or neglect of the Tenant, the Landlord may, at the Landlord's option, repair such damage and the Tenant shall thereupon pay to the Landlord the total cost of such repair. All personal property belonging to the Tenant or any occupant of the Premises that is in or on any part of the Property shall be there at the risk of the Tenant or of such other person only, and the Landlord, its agents and employees shall not be liable for any damage thereto or for the theft or misappropriation thereof unless such damage, theft or misappropriation is a result of the negligence or contributory negligence of Landlord or Landlord's agents or employees. The Tenant agrees to hold the Landlord harmless and to indemnify the Landlord against claims and liability for injuries to all persons and for damage to or loss of property occurring in or about the Property, due to any act of negligence or default under this Lease by the Tenant, its agents or employees.

To the extent that the Tenant carries hazard insurance on any of its property in the Premises and to the extent that the Landlord carries hazard insurance on the Property, each policy of insurance shall contain (if obtainable from the insurer selected by the Tenant or the Landlord, as the case may be, without additional expense) a provision waiving subrogation against the other party to this Lease. If such provision can be obtained only at additional expense, the obligation to obtain such provision shall be effective only if the other party, on notice shall pay the amount of such additional expense. Each of the parties hereto releases the other with respect to any liability which the other may have for any damage by fire or other casualty with respect to which the party against whom such release is claimed shall be insured under a policy or policies of insurance containing such provision waiving subrogation.

10.0 PARKING

Landlord shall have the right to change the area, level, location and arrangement of and number of parking areas, as well as the number of parking spaces, and to restrict parking areas with a view toward improving the convenience and use thereof by the Tenant, its customers and employees. The

Landlord presently provides a total of five hundred seventy-five (575) parking spaces for this Building. Based on the Tenant's proportionate share of space in the Building of two percent (2%) (the same proportionate share as found in Article 2.02.01 OPERATING EXPENSES and Article 2.02.02 REAL ESTATE TAXES), the Tenant is entitled to two percent (2%) of the parking spaces, which percentage shall increase in direct proportion to any additional space leased by the Tenant.

Subject to the other provisions of this Lease, Tenant shall have free non-exclusive use of parking facilities, driveways and islands for Tenant, Tenant's employees, Tenant's business invitees and Tenant's agents. Such areas for non-exclusive parking spaces shall serve all tenants, their employees, business invitees and agents. (Tenant shall, upon written notice from Landlord, within five (5) days, furnish Landlord, or its authorized agent, the state motor vehicle license number assigned to each of its motor vehicles to be parked on the Property and the motor vehicle of all of its employees to be employed on the Premises). Tenant shall not at any time park any truck or delivery vehicles in any parking areas or driveways, except as specifically designated by Landlord from time to time, and shall confine all truck parking, loading and unloading to times and locations specifically designated by Landlord from time to time. Tenant shall require all trucks servicing Tenant to be promptly loaded or unloaded and removed from the Property. Tenant covenants and agrees to enforce the provisions of this Lease against Tenant's employees and business invitees. Landlord shall have the right, but not the obligation: (a) to police said parking facilities, (b) to provide parking attendants, (c) to change the area, level, location and arrangement of parking areas, (d) to cause unauthorized motor vehicles to be towed away at the sole risk and expense of the owner of such motor vehicles, (e) to provide for such exclusive use as Landlord may determine from time to time, for the exclusive use of the handicapped, and/or for the exclusive use of visitors, (f) to use any portion of the parking facilities from time to time and/or to deny access to the same temporarily to repair, maintain or restore such facilities or to construct improvements under, over, along, across and upon the same for the benefit of the Property and to grant easements therein to public and quasi-public authorities, and (g) to adopt and modify from time to time rules and regulations for parking and ingress, egress, speed, no parking, no standing, and for times and places for move in, move out and deliveries.

11.0 RIGHT OF ENTRY

Landlord shall have the right to enter and to grant licenses to enter the Premises at any time and for such lengths of time as Landlord shall deem reasonable without reduction or abatement of rent (a) to inspect the Premises, (b) to exhibit the Premises to prospective tenants or purchasers of the Building, (c) to make alterations or repairs to the Premises or the Building and to temporarily store materials, tools and equipment for such alterations or repairs for any purpose which Landlord shall deem necessary for the operation and maintenance of the Building and the general welfare and comfort of its

tenants.

Landlord shall have the right to enter and to grant licenses to enter the Premises at any time and for such lengths of time as Landlord shall deem reasonable without reduction or abatement of rent for the purposes (a) of removing from the Premises any placards, signs, fixtures, alterations or additions not permitted by this agreement or by the Rules and Regulations, (b) of abating any condition which constitutes a violation of any covenant or condition of this Lease or of the Rules and Regulations, and (c) of an emergency. No such entry by Landlord shall in any manner affect Tenant's obligations and covenants under this Lease, and no such entry shall of itself render Landlord liable for any loss of or damage to the property of Tenant.

12.0 QUIET ENJOYMENT; SUBORDINATION AND ATTORNMENT

If Tenant promptly and punctually complies with each of its obligations hereunder, it shall peacefully have and enjoy the possession of the Premises during the term hereof. No action of Landlord in other space in the Building, or in repairing or restoring the leased space, however, shall be deemed a breach of this covenant, or give Tenant any right to modify this Lease either as to term, rent payable, or other obligations to perform.

This Lease is and shall continue to be subject and subordinate to any mortgages or deeds of trust which may now or hereafter cover or affect the land on which the Building is constructed or the Building, and to all renewals, modifications, consolidations, replacements and extensions of any such mortgages or deeds of trust. This clause shall be self-operative and no further instrument of subordination shall be required. At any time and from time to time, however, Tenant shall execute within five (5) days after receipt any certificate in confirmation of such subordination that Landlord may request.

If any such mortgage or deed of trust is terminated or foreclosed, this Lease (at the option of the purchaser at such foreclosure sale) shall not terminate, nor be terminable by Tenant by reason of such foreclosure, and Tenant shall, if requested, attorn to the purchaser at such foreclosure sale.

13.0 DEFAULT

13.01 Any one of the following events shall constitute an "Event of Default:"

1. if Tenant shall fail to pay any monthly installment of Annual Rent, any Additional Rent or any other sum payable by the Tenant when such sum is due in accordance with the terms of this Lease; or

2. if Tenant shall fail to keep or perform or abide by any other term, condition, covenant or agreement of this Lease (whether or not specified herein as an Event of Default) or of the Rules and Regulations now in effect or hereafter adopted and such default shall continue for a period of ten (10) days after notice to Tenant of such default; or

3. if (a) Tenant (or, if Tenant is a partnership, if any partner in Tenant) shall file a petition in bankruptcy or consent to any other action seeking any such judicial decree or shall make any assignment for the benefit of its creditors or shall admit in writing its inability to pay its debts generally as they become due or if (b) any court of competent jurisdiction shall enter a decree or order approving a petition filed against it or appointing any trustee or receiver for Tenant or if any person shall file a petition for involuntary bankruptcy against Tenant and such appointment or petition shall not be stayed or vacated within sixty (60) days or entry thereof; or

4. if Tenant's interest in this lease or the Premises shall be subjected to any attachment, levy or sale pursuant to any order or decree entered against Tenant in any legal proceeding and such order or decree shall not be vacated within fifteen (15) days of entry thereof; or

5. the Premises are deserted, vacated, or not used regularly or consistently as would normally be expected for similar premises put to the same or similar purposes, even though the Tenant continues to pay all rental and charges provided for herein.

13.02 If there is an "Event of Default," Landlord, without declaring a termination of the Lease (which right is, however, unconditionally and absolutely reserved) may at its sole election exercise any one or more or all of the following remedies, in addition to any other remedies Landlord may have under this Lease or at law or in equity:

1. Landlord may re-enter the Premises and correct or repair any condition which shall constitute a failure on Tenant's part to keep or perform any covenant of this Lease or the Rules and Regulations, and Tenant shall reimburse Landlord any expenditure made to make such correction or repair.

2. Landlord may, without terminating this Lease, demand that Tenant vacate the Premises and remove all property belonging to Tenant, and Landlord shall have the right to re-enter and take possession of the Premises without such entry and possession relieving the Tenant, in whole or in part, from the Tenant's obligation to pay the rent due hereunder for the full term of the Lease. Any and all property which may be removed from the Premises by Landlord pursuant to this section or at law, to which Tenant is or may be entitled, may be handled, removed or stored by landlord at risk, cost and expense of Tenant, and Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. Tenant shall pay to Landlord upon demand any and all expenses incurred in such removal and all storage charges against such properties so long as the same shall be in Landlord's possession or under Landlord's control. Tenant agrees that to the fullest extent permitted by law any such property of Tenant not retaken from storage by Tenant within thirty

(30) days after the end of the term, however terminated, may be disposed of by Landlord in any manner whatsoever, including without limitation, the sale, scrapping of and/or destruction thereof without any further obligation to Tenant, and Tenant shall pay to Landlord promptly on demand reasonable expenses of such disposal.

3. Landlord may at any time, without terminating this Lease, re-enter the Premises and remove therefrom Tenant and all property belonging to or placed on the Premises by Tenant.

4. Landlord without terminating this Lease may re-let the Premises at any rental as the Landlord in its sole discretion deems advisable and Tenant shall pay all costs of such re-letting, including but not limited to, any necessary alterations, repairs, and the difference, if any, between the rent collected by any subsequent tenant and the rental provided under this Lease.

5. The Landlord may elect to terminate this Lease. In such event, Tenant shall remain liable to Landlord for damages, due and payable monthly on the day rent would have been payable hereunder, and in the amount equal to the rent and any other amounts which would have been owing by Tenant for the balance of the term of the lease, had this Lease not been terminated, less the net proceeds, if any, of any re-letting of the Premises by Landlord, after deducting all of the Landlord's costs associated with the termination of the Lease (including but not limited to legal expenses and attorneys' fees), and the cost to repair or alter the Premises incurred in connection or in any way related to the termination of this Lease, eviction of Tenant and such re-letting.

6. Landlord may recover from Tenant all costs associated with the termination of this Lease or other remedial measures herein provided or provided by law, including but not limited to, legal expenses and attorneys' fees, the cost to repair or alter the Premises, and all loss of rents the Landlord may incur by reason of such termination.

7. Landlord may declare the entire amount of rent calculated on current rent being paid by Tenant and Additional Rent which in Landlord's reasonable determination would become due and payable during the remainder of the term of the Lease, discounted to present value by using a reasonable discount rate selected by Landlord, to be due and payable immediately. Upon acceleration of such amounts, Tenant agrees to pay the same at once, together with all rent and other amounts theretofore due, at Landlord's address as provided herein. Such payment shall not constitute a penalty or forfeiture but shall constitute liquidated damages for Tenant's failure to comply with the terms and provisions of this Lease (Landlord and Tenant agreeing that Landlord's actual damages in such an event are impossible to ascertain and that the amount set forth above is a reasonable estimate thereof).

13.03 In the event of any re-entry of the Premises by Landlord pursuant to any of the provisions of this Lease, Tenant hereby waives all claims for damages which may be caused by such re-entry by Landlord, and Tenant shall save Landlord harmless from any loss, cost (including legal expenses and reasonable attorneys' fees) or damages suffered by Landlord by reason of such re-entry. No such re-entry shall be considered or construed to be a forcible entry.

13.04 No course of dealing between Landlord and Tenant or any delay on the part of Landlord in exercising any rights it may have under this Lease shall operate as a waiver of any of the rights of Landlord hereunder, nor shall any waiver of a prior default operate as a waiver of any subsequent default or defaults. No express waiver shall affect any condition, covenant, rule or regulation other than the one specified in such waiver and that one only for the time and in the manner specifically stated.

13.05 The exercise by Landlord of any one or more of the remedies provided in this Lease shall not prevent the subsequent exercise by Landlord of any one or more of the other remedies herein provided or provided by law. All remedies provided for in this Lease are cumulative and may, at the election of Landlord, be exercised alternatively, successively or in any other manner and are in addition to any other rights provided by law.

13.06 Landlord, to the fullest extent permitted by law, shall have a lien on and the Tenant hereby grants Landlord a security interest in all of the equipment, wares, chattels, fixtures, furniture and other property of Tenant which may be in or upon the Premises, the Building or the Property. Tenant hereby specifically, to the fullest extent permitted by law, waives any and all exemptions allowed by law, and such lien and security interest may be enforced upon the nonpayment of any installment of rent, Additional Rent or other moneys due and payable hereunder by the taking and selling of such property subject to at least fifteen (15) days advance written notice, or such lien may be enforced in any lawful manner at the option of Landlord.

13.07 Tenant shall pay upon demand all Landlord's costs, charges and expenses, including the fees of counsel, agents and others retained by Landlord, incurred in enforcing its obligations hereunder or incurred by Landlord in any litigation, negotiation or transaction which Tenant causes Landlord, without Landlord's fault to become involved or concerned.

14.0 NO ESTATE IN LAND

This Lease shall create only the relationship of landlord and tenant between Landlord and Tenant.

15.0 INVALIDITY OF PARTICULAR PROVISIONS

If any clause or provision of this Lease is or becomes illegal, invalid, or unenforceable because of present or future laws or any rule or regulation of any governmental body or entity, effective during its term, the intention of the parties hereto is that the remaining parts of this Lease shall not be affected thereby unless such invalidity is, in the sole determination of Landlord, essential to the rights of both parties, in which event Landlord has the right to terminate this Lease on written notice to Tenant.

16.0 SUBSTITUTE PREMISES

The Landlord shall have the right at any time during the term hereof, upon giving Tenant not less than sixty (60) days prior written notice, to provide and furnish Tenant with space elsewhere in the Building of approximately the same size as the Premises and remove and place Tenant in such space, with Landlord to pay all reasonable costs and expenses incurred as a result of such removal of Tenant. Should Tenant refuse to permit Landlord to move Tenant to such new space at the end of said sixty (60) day period, Landlord shall have the right to cancel and terminate this Lease effective ninety (90) days from the date of original notification by Landlord. If Landlord moves Tenant to such new space, this Lease and each and all of its terms, covenants and conditions shall remain in full force and effect, subject however, to the adjustment of rent to account for any difference in square footage, with such adjustment to be made on a per square foot basis.

17.0 TENANT'S PERSONAL PROPERTY TAXES

Tenant shall pay prior to the delinquency all taxes assessed against or levied upon its occupancy of the Premises, or upon the fixtures, furnishings, equipment and all other personal property of Tenant located in the Premises. Tenant shall cause said fixtures, furnishings, equipment and other personal property to be assessed and billed separately from the property of Landlord. In the event any or all of Tenant's fixtures, furnishings, equipment and other personal property, shall be assessed and taxed as the property of Landlord, Tenant shall pay to Landlord its share of such taxes within ten (10) days after delivery to Tenant by Landlord of a statement in writing setting forth the amount of such taxes applicable to Tenant's fixtures, furnishings, equipment or personal property.

18.0 NOTICES AND CONSENTS

All notices, demands, requests, consents or approvals which may or are required to be given by either party to the other shall be in writing and shall be deemed given when sent by United States Certified or Registered Mail, Return Receipt Requested, postage prepaid, (a) if for the Tenant, addressed to the Tenant at the Building, or at such other place as the Tenant my from time to time designate by written notice to the Landlord, or (b) if the Landlord, addressed to the office of the Landlord at 2000 Regency Parkway, Suite 110, Cary, North Carolina 27511, with a copy to Landlord's attorney addressed to Womble Carlyle Sandridge & Rice, P.L.L.C., Attention: Mr. Bill Matthews, P. O.

Box 831, Raleigh, North Carolina 27602, or at such other place as the Landlord may from time to time designate by written notice to the Tenant. All consent and approvals provided for herein must be in writing to be valid. If the term "Tenant" as used in this Lease refers to more than one person, any notice, consent, approval, requests, bill, demand or statement, given as aforesaid to any one of such persons shall be deemed to have been duly given to Tenant.

Except as specifically provided in this Lease, Tenant hereby expressly waives the service of intention to terminate this Lease or to re-enter the Premises and waives the service of any demand for payment of rent or for possession and waives the services of any other notice or demand prescribed by any statute or other law.

19.0 CONDEMNATION

19.01 If the whole or more than twenty-five percent (25%) of the Building shall be taken by condemnation, this Lease shall terminate on the date possession of the Building is required to be surrendered to the condemnor, and rent payable hereunder shall be prorated through such date.

19.02 If less than twenty-five percent (25%) of the Building shall be taken by condemnation, this Lease shall, at the option of the Landlord, terminate only as to the part of the Premises so taken, but shall continue in full force as to the part of the Premises not taken. In the event of such partial taking and the continuance of this Lease for the part not so taken, then Landlord shall, at its cost and expense, forthwith repair and restore the Building to as nearly as possible their condition immediately prior to such taking. Notwithstanding the above, Landlord's obligation to restore shall be limited to the availability of any condemnation awards. From the date of the surrender of possession to the condemnor to the date of the completion of the repairs and restoration of the portion of the Building not so taken, there shall be no abatement of the rent, except for the portion of the Premises, if any, that shall not be usable for Tenant's business.

19.03 After the repairs and restoration have been completed following the partial taking, the rent for the unexpired term shall not be reduced unless the particular taking includes a part of the Premises and, in such event, the rent for the unexpired term shall be reduced by that portion which the area so taken shall bear to the entire area of the Premises immediately prior to such taking.

19.04 Tenant agrees that if the Premises or any part thereof shall be taken by condemnation, Tenant shall have no claim against the Landlord and shall not have any claim or right to any portion of the amount that may be awarded as damages or paid as a result of such condemnation.

20.0 ASSIGNMENT-SUBLEASE

Tenant shall not, without the prior written consent of Landlord, assign, hypothecate, encumber or otherwise transfer this Lease or any interest hereunder, or sublet the Premises or any part thereof, or permit the use of the Premises by any party other than Tenant.

If Tenant desires to sublease the Premises or any part thereof, Tenant shall submit to Landlord a written request for the consent of Landlord to such subletting, which request shall be accompanied by the name and address of the proposed subtenant, a description identifying the space to be sublet, a copy of the fully executed sublease conditioned only upon approval of Landlord, the nature and character of the business of the proposed subtenant, and its proposed use of the Premises, current financial information on the proposed subtenant and such other information as Landlord may request.

Consent to any assignment or sublease shall not be unreasonably withheld. The Tenant acknowledges that Landlord is entitled to withhold its consent in the event the nature and character of the business of the proposed tenant, its proposed use of the Premises or the financial condition of the proposed tenant is objectionable or unsatisfactory to Landlord. Any Landlord consent to an assignment or sublease shall not nullify this provision, and all later assignments or subleases shall be made likewise only after the prior written consent of Landlord is obtained in each instance. Unless otherwise expressly agreed to by Landlord in writing, no sublease or assignment by Tenant shall relieve Tenant of any liability hereunder. Tenant acknowledges and agrees that Landlord may condition its consent to any proposed assignment or sublease upon the agreement of Tenant to pay to Landlord the excess, if any, of the rentals and other charges to be paid by Tenant's assignee or sublessee under the terms and provisions of such proposed assignment or sublease over the Annual Rent and Additional Rent and other charges to be paid by Tenant to Landlord hereunder. The occupancy of the Premises by any successor firm of the Tenant or by any firm into which or with which the Tenant may become merged or consolidated shall be deemed an assignment of this Lease requiring the prior written consent of Landlord. Notwithstanding the giving by Landlord of its consent to any assignment or sublease with respect to the Premises, no such assignee or sublessee may exercise any expansion option, right of first refusal option, or renewal option under this Lease except in accordance with a separate written agreement entered into directly between such assignee of sublessee and Landlord.

In no event shall Tenant (1) advertise or publicize in any way the availability of all or part of the Premises without the prior written consent of the Landlord, or (2) advertise or publicize the Premises for subletting whether through a broker, agent, representative or otherwise at a rental rate less than that for which space in the Building is being offered for rent by Landlord. Tenant agrees to pay to Landlord, on demand, all reasonable costs (including attorneys' fees) incurred by Landlord in connection with any request by Tenant for Landlord's consent to any assignment or subletting.

Landlord may assign this Lease to any construction or permanent mortgagee ("Mortgagee") of the Property as additional security for the payment of any loan thereby secured. If the Tenant shall have received notice from Landlord or Mortgagee of any such assignment, Tenant shall thereafter give written notice of any breach or failure of performance by Landlord under this Lease to Mortgagee and allow Mortgagee a reasonable period of time to remedy the same. Any breach or failure of performance by Landlord hereunder shall not constitute a default as between Landlord and Tenant until such notice shall have been given.

Landlord, or its successors and assigns, may assign this Lease to a subsequent purchaser of the Property without the consent or approval of this Tenant, assignee or sublessee.

21.0 HOLDING OVER

In the event Tenant remains in possession of the Premises subsequent to the expiration or other termination of this Lease and without regard to Landlord's acquiescence or consent, Tenant shall pay as liquidated damages a monthly rent double the monthly rent payable immediately prior to such expiration or termination of the Lease for the duration of such period. No such payment (or the acceptance thereof) shall in any way constitute a waiver of the right of the Landlord to dispossess the Tenant and recover possession or exercise any other remedy herein provided. If such holding over is with the Landlord's consent, the Tenant shall be a tenant on a month-to-month basis which tenancy shall be terminated absolutely and without remedy upon thirty (30) days written notice of such intent by either party. There shall be no renewal of this Lease by operation of law.

22.0 RULES AND REGULATIONS

The Rules and Regulations in regard to the Building attached hereto as Exhibit F and all rules and regulations which Landlord may hereafter from time to time adopt and promulgate for the government and management of said Building (provided all such rules and regulations are applicable to all tenants) are hereby made a part of this Lease and shall during the said Term be in all things observed and performed by the Tenant and by the Tenant's clerks, employees, servants and agents. Tenant does hereby accept and agree to abide by and uphold the Rules and Regulations as shown in Exhibit F. Insofar as the attached standard Rules and Regulations conflict with any of the terms and provisions of this Lease Agreement, the terms and provisions of the Lease shall control.

23.0 TIME IS OF THE ESSENCE

Time is of the essence of this Agreement.

24.0 ESTOPPEL CERTIFICATES

Within five (5) days after request therefor by Landlord or any mortgagee

of the Property or any prospective purchaser of the Premises, Tenant agrees to execute and deliver, in recordable form, at any time or from time to time, an estoppel certificate addressed to any mortgagee or proposed mortgagee or purchaser, of the Building, or addressed to the Landlord, certifying (if such be the case) that this Lease is unmodified and in full force and effect (and if there have been any modifications that the same is in full force and effect as modified and stating said modifications); stating that there are no defenses, defaults, or offsets against the enforcement of this Lease or stating those claimed by Tenant; stating that rent has commenced to accrue, and that Tenant has accepted and is occupying the Premises; stating the date to which rentals and other charges are paid; and as to mortgagees or prospective mortgagees, agreeing that in the event the mortgagee becomes owner of the Premises or exercises an assignment of rents granted mortgagee by the Landlord, the Tenant will accept and attorn to the mortgagee or to a party designated by said mortgagee as its direct tenant, and that the mortgagee will not be bound by or responsible for any rents paid in advance to Landlord or offsets against Tenant or any prior defaults of the Tenant and that thereafter all notices required or permitted under the Lease be given to Landlord shall thereafter be given to said mortgagee. Such certificates shall also include such other information as may be reasonably required by any mortgagee.

25.0 EVENTS BEYOND CONTROL OF LANDLORD AND TENANT

Landlord and/or Tenant shall be excused for the period of any delay and shall not be deemed in default with respect to the performance of any of the terms, covenants, and conditions of this Lease when prevented from so doing by a cause or causes beyond the Landlord and/or Tenant's control, which shall include, without limitation, all labor disputes, governmental regulations or controls, fire or other casualty, inability to obtain any material or services, acts of God, or any other cause, except the obligation of the Tenant under this Lease to make prompt payment to Landlord of the rental payments and all other charges due hereunder.

26.0 SIGNS

Tenant may not erect, install or display any sign or advertising material upon the Premises and Building, the walls thereof, of in any window therein, without prior written consent of Landlord. Landlord shall furnish, install and maintain a building directory at a convenient location in the lobby listing the name of Tenant and the room number of Tenant's entrance office and shall furnish and install any approved sign for Tenant, the cost of which shall be charged to the Tenant.

The Tenant shall not use the name "REGENCY PARK" or its logo unless the Landlord should grant its prior written consent thereto.

27.0 BROKERAGE

Tenant represents and warrants that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, other than REGENCY PARK CORPORATION. Tenant agrees to indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to this leasing transaction. The provisions of this section shall survive the termination of this Lease.

28.0 RECORDATION OF LEASE

The Tenant will not record this Lease. Upon the request of either party hereto, the other party will join in the execution of a Memorandum of Lease for the purposes of recordation in the Office of the Register of Deeds, Wake County, North Carolina. The Memorandum will be approved as to form by the Landlord and will describe only the parties, the Premises, the term and any options to renew the term.

29.0 GOVERNMENTAL COMPLIANCE

Tenant covenants and agrees to make use of the Premises in accordance with all municipal, county, state and federal laws, rules and regulations, including, but not limited to environmental laws, rules and regulations, and all permitting, licensing and other governmental approvals now or hereafter implemented. Tenant further covenants and agrees neither to cause nor permit any hazardous or toxic waste or materials (as defined by state and federal laws, rules and regulations) to be stored at or upon the Premises, the Building and Property nor to cause nor permit any such material or waste to be disposed of at the Premises or under or within the Building and Property. Tenant will hold Landlord harmless for all costs, expenses, fines, charges (including attorneys' and engineers' fees and charges) incurred by Landlord as a direct or indirect expense caused by the breach of this Article by Tenant, its employees, agents and invitees, and further covenants and agrees to, at all times, include specific coverage to such effect as a part of Tenant's public liability insurance coverage.

30.0 HAZARDOUS MATERIALS

Tenant shall not (either with or without negligence) cause or permit the escape, disposal or release of any biologically or chemically active or other hazardous substances or materials. Tenant shall not allow the storage or use of such substances or materials in any manner not sanctioned by law or by the

highest standards prevailing in the industry for the storage and use of such

substances or materials, nor allow to be brought onto the Property any such materials or substances except to use in the ordinary course of Tenant's business, and then only after written notice is given to Landlord of the identity of such substances or materials. Without limitation, hazardous substances and materials shall include those described in the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq., any applicable state or local laws and the regulations adopted under these acts. If any lender or governmental agency shall ever require testing to ascertain whether or not there has been any release of hazardous materials, then the reasonable costs thereof shall be reimbursed by Tenant to Landlord upon demand as additional charges if such requirement applies to the Premises. In addition, Tenant shall execute affidavits, representations and the like from time to time at Landlord's request concerning Tenant's best knowledge and belief regarding the presence of hazardous substances or materials on the Premises. In all events, Tenant shall indemnify Landlord in the manner elsewhere provided in this Lease from any release of hazardous materials on the Premises occurring while Tenant is in possession, or elsewhere if caused by Tenant or persons acting under Tenant. The within covenants shall survive the expiration or earlier termination of the Lease term.

31.0 COMMON AREAS

Tenant shall have the right, together with other tenants and occupants and invitees, to the non-exclusive use of the sidewalks, driveways, stairways, halls, lobbies, elevators and passages in the Building and on the Property for reasonable ingress to and egress from the Premises and for no other purpose subject to the other provisions of this Lease, including, without limitation, the Rules and Regulations set forth in Exhibit F.

32.0 POSSESSION

On the expiration or other termination of the term of this Lease, Tenant shall quit and surrender to Landlord the Premises, broom clean, in good order and condition, ordinary wear and tear excepted, and Tenant shall remove all of its property except as provided in Article 5. Tenant's obligation to observe and perform this covenant shall survive the expiration and other termination of the term of this Lease.

33.0 MISCELLANEOUS

a. The words "Landlord" and "Tenant" wherever used in the Lease shall be construed to mean plural where necessary, and the necessary grammatical changes required to make the provisions hereof apply either to corporations or individuals, either men or women, shall in all cases be assumed as though in each case fully expressed.

b. Each provision hereof shall extend to and shall bind and inure to the benefit of Landlord and Tenant and their respective heirs, legal representatives, assessors and assigns.

c. Submission of this instrument for examination does not constitute a

reservation of or option for the Premises. The instrument does not become effective as a Lease or otherwise until executed and delivered by both Landlord and Tenant.

d. The headings of sections are for convenience only and do not limit or construe the contents of the sections.

e. Should any mortgagee require a modification or modifications of this Lease, which modification or modifications will not bring about any increased cost or expense to Tenant or in any way substantially change the rights and obligations of Tenant hereunder, then in such event, Tenant agrees to execute such an amendment.

f. The laws of the State of North Carolina shall govern the validity, performance and enforcement of this Lease.

g. This Lease contains the entire agreement of the parties in regard to the Premises. There are no oral agreements existing between them, and there shall be no oral changes. Neither Landlord nor any agent of Landlord has made any representations, warranties or promises with respect to the Premises, the Building or the Property, or the use of any amenities or facilities except as expressly set forth herein. Any agreement hereafter made shall be ineffective to change, waive, modify, discharge or terminate the Lease in whole or in part

unless such agreement is in writing and signed by the party against whom enforcement of the change, waiver, modification, discharge or termination is sought.

h. The shareholders, directors and officers of Landlord (collectively the "Parties") shall not be liable for the performance of Landlord's obligations under this Lease. Tenant shall look solely to Landlord to enforce Landlord's obligations hereunder and shall not seek any damages against the rest of the parties. A liability of Landlord for Landlord's obligations of this Lease shall not exceed and shall be limited to a value of Landlord's interest in the Property, and Tenant shall not look to the property or assets of any of the Parties in seeking either to enforce Landlord's obligations under the Lease or to satisfy a judgment for Landlord's failure to perform as such obligation.

Exhibits A, B, C, D, E, F and G consisting of eleven (11) pages are attached hereto and become part of this Lease.

IN WITNESS WHEREOF, Landlord and Tenant have respectively signed and sealed this Lease in duplicate as the day and year first above written.

REGENCY PARK CORPORATION

Landlord

(CORPORATE SEAL) By: ----------
Vice President/Treasurer

ATTEST:

Assistant Secretary

LEVEL 8 SYSTEMS, INC.
Tenant

(CORPORATE SEAL) By: ----------
Title: ----------

ATTEST:

Exhibit 10.17

EXHIBIT C

TENANT FIT-UP - SCHEDULE 1

Landlord shall provide at Landlord's sole cost the following tenant finish work: Clean Premises of all debris, shampoo all carpets, and provide new signage on the entry door to the suite.

EXHIBIT C

SCHEDULE 2

SATELLITE ANTENNA

Landlord and Tenant agree to the following:

Tenant will provide Landlord with a specification for its Satellite Antenna. Once specifics including, but not limited to size, circumference, weight and

installation specifications are reviewed by Landlord, and Landlord's Engineers and Architects, Landlord and the Town of Cary will either approve or request additional information for further review. There will be no charge for this service.

Tenant shall have the right, subject to Landlord's and the Town of Cary's consent (Landlord's consent not unreasonably withheld, conditioned or delayed) to have the Landlord install a satellite antenna on the roof of the Building in a location, size, color and weight satisfactory to Landlord, the Town of Cary and Tenant. Tenant shall not be charged any rent for space taken by the antenna.

Prior to installation, Tenant shall submit to Landlord elevations and specifications for the rooftop unit. If approved, Landlord shall install the antenna at Tenant's sole expense and Tenant shall be responsible for any damage caused by its installation and/or removal or temporary removal. The Tenant shall be responsible for all the costs for the removal or temporary removal of satellite antenna or rooftop unit. At the expiration of the Lease, such Satellite Antenna shall be removed by the Landlord at the Tenant's expense.

Any cost to remove the rooftop unit during the term of the Lease caused by the need of Landlord to repair the roof shall be borne solely by Tenant.

Contracts for the installation and the removal of the Satellite Antenna shall be held by the Landlord with (a) contractor(s) jointly approved by the Landlord and the Tenant.

Exhibit 10.17

EXHIBIT D

COMMENCEMENT DATE VERIFICATION

NORTH CAROLINA

WAKE COUNTY

THIS COMMENCEMENT DATE VERIFICATION, dated this _____ day of _____, 2003, and entered into between REGENCY PARK CORPORATION, a North Carolina corporation, as Landlord, and _____, a _____ corporation, the Tenant.

W I T N E S S E T H:

WHEREAS, the parties hereto entered into that certain Lease Agreement dated the ____ day of _____, 2003; and

WHEREAS, the parties hereto are desirous of establishing the Commencement Date of the Lease term provided for in said Lease Agreement.

NOW, THEREFORE, the parties hereto do hereby mutually agree that the Commencement Date of the hereinabove referred to Lease is the ____ day of _____, 2003.

IN TESTIMONY WHEREOF, the parties hereto have caused this instrument to be executed the date first hereinabove set out.

REGENCY PARK CORPORATION
Landlord

(CORPORATE SEAL)

By: ----------
Vice President/Treasurer

ATTEST:

Assistant Secretary

LEVEL 8 SYSTEMS, INC.
Tenant

(CORPORATE SEAL)

By: ----------
Title: ----------

ATTEST:

Secretary

Exhibit 10.17

EXHIBIT E

OPERATING EXPENSES

"Operating Expenses" shall mean those items of cost and expenses paid or incurred by, or on behalf of, Landlord for ownership security, maintenance, repair, management or operation of the Building, adjacent sidewalks, the land upon which the Building is located, and the personal property of Landlord used in the operation of the Building as determined in accordance with generally accepted principles of sound management consistently applied, which are properly chargeable to the operation of the Building, including but not limited to:

1.Landscaping and grounds maintenance costs and expenses, including those attributable to the care and upkeep of the common areas of Regency Park required of Property Owners;

2.Costs and expenses of redecorating, painting, and carpeting the common areas of the Building and Property; provided, however, that, except as specified in Item 6 hereof, the cost of structural changes to the Building which should be capitalized in accordance with sound accounting principles shall not be allocated or charged to the Premises without Tenant's approval;

3.Costs of all repairs, alterations, additions, changes, replacements, and other items required by any law or governmental regulation imposed after the date of this Lease, regardless of whether such costs, when incurred, are classified as capital expenditures;

4.Costs of wages and salaries of all persons engaged in the operation, maintenance, repair, and security of the Building and the Property, and so-called fringe benefits, including social security taxes, unemployment insurance taxes, costs for providing coverage for disability benefits, cost of any pensions, hospitalization, welfare or retirement plans, or any other similar or like expense incurred under the provisions of any collective bargaining agreement, costs of uniforms, and all other costs or expenses that the Landlord pays to or on behalf of employees engaged in the operation, maintenance, repair, and security of the Building and the Property;

5.Legal and accounting expenses, including, but not limited to, such expenses as relate to seeking or obtaining reductions in and/or refunds of real estate tax taxes;

6.Amortization, with interest, of capital expenditures for capital improvements made by Landlord after completion of the Building where such capital improvements are for the purpose of, or result in, reducing Operating Expenses; provided, however, that payments by Landlord of interest and principal on any mortgage or similar instrument secured by the Property or the Building shall not be included in Operating Expenses;

7.Landlord's insurance costs and expenses for all types of insurance carried by Landlord with respect to the Building and Property;

8.Such other expenses paid by Landlord, from time to time, in connection with the operation and maintenance of the Building and the Property as would be

expected to be paid by a reasonable and prudent operator and manager of a building and site comparable to the Building and the Property;

9.All costs of special services rendered to particular tenants of the Building, which are paid by such tenants, shall not be included in Operating Expenses; and

10. The operating costs for the Regency Park Fitness Center. This Fitness Center is for the benefit of all tenants of the Landlord and the operating costs shall be proportionately shared by tenants of the Landlord.

EXHIBIT F

RULES AND REGULATIONS

1. The sidewalks and entry passages shall not be obstructed by Tenants, or used by them for any purpose other than those of ingress and egress. The floors and skylights and windows that reflect or admit light into any place in said

Building shall not be covered or obstructed by Tenants. The water closets and other water apparatus shall not be used for any other purpose than those for which they were constructed and no sweepings, rubbish, or other obstructing substances shall be thrown therein. Any damage resulting to them or to associated systems, from misuse, shall be borne by Tenants who, or whose clerks, agents, or servants shall cause it.

2. No Tenant shall do or permit to be done in said Premises, or bring or keep anything therein, which shall in any way increase the rate of fire insurance on said Building, or on property kept therein, or obstruct or interfere with the rights of other tenants or in any way injure or annoy them, or conflict with the laws relating to fires, or with the regulations of the Fire Department, or any part thereof, or conflict with any of the rules and ordinances of the Board of Health. Tenants, their clerks and servants shall maintain order in the Building, shall not make or permit any improper noise in the Building or interfere in any way with other Tenants or those having business with them. Nothing shall be thrown by Tenants, their clerks or servants out of the windows or doors, or down the passages or skylights of the Building. No rooms shall be occupied or used as sleeping or lodging apartments at any time. No part of the Building shall be used or in any way appropriated for gambling, immoral or other unlawful practices, and no intoxicating liquor or liquors shall be sold in said Building.

3. Tenants shall not employ any persons other than the janitors of the Landlord (who will be provided with pass keys into the offices) for the purpose of cleaning or taking charge of said Premises. It is understood and agreed that the Landlord shall not be responsible to any Tenant for any loss of property from rental premises, however occurring, or for any damage done to the furniture

or other effects of any Tenant by the janitor or any of its employees.

4. No animals, birds, bicycles or other vehicles, or other obstructions, other than those which are necessitated by an employee or invitee disability, shall be allowed in the offices, halls, corridors, elevators or elsewhere in the Building.

5. No painting shall be done, nor shall any alterations be made, to any part of the Building by putting up or changing any partitions, doors or windows, nor shall there be any nailing, boring or screwing into the woodwork or plastering, nor shall any connection be made to the electric wires or gas or electric fixtures, without the consent in writing on each occasion of the Landlord or its agent, which consent shall be not be reasonably withheld. Tenant must replace and/or repair any alternations to conditions of the Premises prior to such alternations, including but not limited to, the hanging of pictures and coathangers. All glass, locks and trimmings in or upon the doors and windows of the Building shall be kept whole and, when any part thereof shall be broken, the same shall be immediately replaced or repaired and put in order under the direction and to the satisfaction of Landlord, or its agents, and shall be left whole and in good repair. Tenants shall not injure, overload or deface the Building and Premises, woodwork or walls of the Premises and Building, nor carry on upon the Premises or in the Building any noisome, noxious, noisy, or offensive business.

6. Not more than two keys for each Premises will be furnished without charge. No additional locks or latches shall be put upon any door without the written consent of Landlord. Tenants, at termination of their lease of the Premises, shall return to Landlord all keys to doors and entry to Building.

7. Landlord in all cases retains the power to prescribe the weight and position of iron safes or other heavy articles. Tenants must make arrangements with the Superintendent of the Building when the elevator is required for the purpose of the carrying of any kind of freight.

8. Tenants shall not (without the Landlord's written consent) put up or operate any steam engine, boiler, machinery or stove upon the Premises, or carry on any mechanical business thereon, or do any cooking thereon, or use or allow to be used in the demised Premises oil, burning fluids, camphene, gasoline or kerosene for heating, warming, or lighting. No article deemed extra hazardous on account of fire and no explosives shall be brought into said Premises. No offensive gases or liquids will be permitted.

9. If Tenants desire blinds or window covering of any kind over the windows, other than what may be provided by Landlord, they must be of such shape, color, and materials as may be prescribed by Landlord, and shall be erected with Landlord's consent and at the expense of said Tenants. No awnings shall be placed on said Building.

10. If Tenants require wiring for a business machine, or a bell or buzz system, such wiring shall be done by the Electrician of the Building only, and no outside wiring men shall be allowed to do work of this kind unless by the

written permission of Landlord or its representatives. If telegraphic or telephonic service is desired, the wiring for same shall be done as directed by the Electrician of the Building or by some other employee of Landlord who may be instructed by the Superintendent of the Building to supervise same, and no

boring or cutting for wiring shall be done unless approved by Landlord or its representatives as stated. The electric current shall not be used for power or heating unless written permission to do so shall first have been obtained from Landlord, or its representatives in writing and at an agreed cost to Tenants.

11. Landlord reserves all vending rights. Request for such service will be made to Landlord.

12. Landlord shall have the right to make such other and further reasonable rules and regulations as in its judgment may from time to time be needful for the safety, care, and cleanliness of the Premises, and for the preservation of good order therein and the same shall be kept and observed by the Tenants, their agents, clerks, servants or employees.

13. Anyone wishing to smoke must do so either on their own Premises or outside the Building. We will provide an ash urn at a designated area of the Building and would ask that special care be taken by those who wish to smoke in keeping these areas clean.

14. The Tenant agrees to the foregoing Rules and Regulations which are hereby made a part of this Lease, and each of them, and agrees that for such persistent infraction of them, or any of them, as may in the opinion of the Landlord be calculated to annoy or disturb the quiet enjoyment of any other Tenant, or interfere with the proper operation of the Building, the Landlord may declare a forfeiture and cancellation of the accompanying Lease and may demand possession of the demised Premises upon one week's notice.

15. The Landlord reserves the right to close the Building after regular working hours and on legal holidays subject, however, to Tenant's right of admittance, under such reasonable regulations as Landlord may prescribe from time to time, which may include by way of example, but not of limitation, that persons entering or leaving the Building identify themselves by registration or otherwise and that such persons establish the right to enter or leave the Building.

EXHIBIT G

FURNITURE AND FIXTURE INVENTORY

Exhibit 14.1

LEVEL 8 SYSTEMS CODE OF ETHICS AND BUSINESS CONDUCT

SECTION 1. INTRODUCTION

This Code of Ethics and Business Conduct helps insure compliance with legal requirements and our standards of business conduct. All employees of Level 8 Systems, Inc. (the "Company") are expected to read and understand this Code of Ethics and Business Conduct, uphold these standards in day to day activities, comply with all applicable policies and procedures, and ensure that all agents and contractors are aware of, understand and adhere to these standards.

This Code of Ethics and Business Conduct seeks to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Avoidance of conflicts of interest, including disclosure to an appropriate person or persons identified in this Code of Ethics and Business Conduct of any material transaction or relationship that reasonably could be expected to give rise to such conflict;
- Full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission (the "SEC") and in other public communications made by the Company;
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting of violations of this Code of Ethics and Business Conduct to an appropriate person or persons identified in this Code of Ethics and Business Conduct; and
- Accountability for adherence to this Code of Ethics and Business Conduct.

Because the principles described in this Code of Ethics and Business Conduct are general in nature, you should also review all applicable Company policies and procedures for more specific instruction which can be found on the Level 8 Systems Knowledge Center intranet, under Network and Systems Policies. If you have any questions you can contact the Human Resources Department or Corporate Secretary.

Nothing in this Code of Ethics and Business Conduct, in any company policies and procedures, or in other related communications (verbal or written) creates or

implies an employment contract or term of employment.

We are committed to continuously reviewing and updating our policies and procedure. This Code of Ethics and Business Conduct, therefore, is subject to modification. This Code of Ethics and Business Conduct supersedes all other such codes, policies, procedures, instructions, practices, rules or written or verbal representations to the extent they are inconsistent.

SECTION 2. COMPLIANCE IS EVERYONES BUSINESS

Ethical business conduct is critical to our business. As an employee, your responsibility is to respect and adhere to these practices. Many of these practices reflect legal or regulatory requirements. Violations of these laws and regulations can create significant liability for you, the Company, its directors, officers, and other employees.

Part of your job and ethical responsibility is to help enforce this Code of Ethics and Business Conduct. You should be alert to possible violations of the law, this Code of Ethics and Business Conduct, or other company policies or procedures. You should report any such possible violations to the Corporate Secretary. You must cooperate in any internal or external investigations of possible violations. Reprisal, threats, retribution or retaliation against any person who has in good faith reported a violation or a suspected violation of law, this Code of Ethics and Business Conduct, or other Company policies, or against any person who is assisting any investigation or process with respect to such a violation, is prohibited.

Violations of law, this Code of Ethics and Business Conduct or other Company policies or procedures by Company employees can lead to disciplinary action up to and including termination.

In trying to determine whether any given action is appropriate, use the following test. Imagine that the words you are using or the action you are taking is going to be fully disclosed in the media with all the details, including your photo. If you are uncomfortable with the idea of this information being made public, perhaps you should think again about your words or your course of action.

In all cases, if you are unsure about the appropriateness of an event or action, please seek assistance in interpreting the requirements of these practices by contacting the Corporate Secretary.

SECTION 3. YOUR RESPONSIBILITIES TO THE COMPANY AND ITS STOCKHOLDERS

GENERAL STANDARDS OF CONDUCT

The Company expects all employees, agents and contractors to exercise good judgment to ensure the safety and welfare of employees, agents and contractors and to maintain a cooperative, efficient, positive, harmonious and productive work environment and business organization. These standards apply while working on our premises, at offsite locations where our business is being conducted, at Company sponsored business and social events, or at any other place where you are a representative of the Company. Employees, agents or contractors who engage in misconduct or whose performance is unsatisfactory may be subject to corrective action, up to and including termination.

APPLICABLE LAWS

All Company employees, agents and contractors must comply with all applicable laws, regulations, rules and regulatory orders. Company employees located outside of the United States must comply with laws, regulations, rules and regulatory orders of the United States, including the Foreign Corrupt Practices Act and the U.S. Export Control Act, in addition to applicable local laws. Each employee, agent and contractor must acquire appropriate knowledge of the requirements relating to his or her duties sufficient to enable him or her to recognize potential dangers and to know when to seek advice from legal counsel on specific Company policies and procedures. Violations of laws, regulations, rules and orders may subject the employee, agent or contractor to individual criminal or civil liability, as well as to discipline by the Company. Such individual violations also may subject the Company to civil or criminal liability or the loss of business.

CONFLICTS OF INTEREST

Each of us has a responsibility to the Company, our stockholders and each other. Although this duty does not prevent us from engaging in personal transactions and investments, it does demand that we avoid situations where a conflict of interest might occur or appear to occur. The Company is subject to scrutiny from many different individuals and organizations. We always should strive to avoid even the appearance of impropriety.

What constitutes conflict of interest? A conflict of interest exists where the interests or benefits of one person or entity conflict with the interest or benefits of the Company. Examples include:

- Employment/Outside Employment. In consideration of your employment with the Company, you are expected to devote your full attention to the business interests of the Company. You are prohibited from engaging in any activity that interferes with your performance or responsibilities to the Company or is otherwise in conflict with or prejudicial to the Company. Our policies prohibit any employee from accepting simultaneous employment with a Company supplier, customer, developer or competitor, or from taking part in any activity that enhances or supports a competitor's position. Additionally, you must disclose to the Company any interest that you have that may conflict with the business of the Company. If you have any questions on this

requirement, you should contact your supervisor or the Human Resources Department.

- Outside Directorships. It is a conflict of interest to serve as a director of any company that competes with the Company. Although you may serve as a director of a Company supplier, customer, developer, or other business partner, our policy requires that you first obtain approval from the Company's Corporate Secretary before accepting a

directorship. Any compensation you receive should be commensurate to your responsibilities. Such approval may be conditioned upon the completion of specified actions.

- Business Interests. If you are considering investing in a Company customer, supplier, developer or competitor, you must first take great care to ensure that these investments do not compromise your responsibilities to the Company. Many factors should be considered in determining whether a conflict exists, including the size and nature of the investment; your ability to influence the Company's decisions; your access to confidential information of the Company or of the other company; and the nature of the relationship between the Company and the other company.

- Inventions. Company employees must receive written permission from the Corporate Secretary before developing outside of the Company, any products, software or intellectual property that is or may be related to the Company's current or potential business.

- Related Parties. As a general rule, you should avoid conducting Company business with a relative or significant other, or with a business in which a relative or significant other is associated in any significant role. Relatives include spouse, sister, brother, daughter, son, mother, father, grandparents, aunts, uncles, nieces, nephews, cousins, step relationships, and in-laws. Significant others include persons living in a spousal (including same sex) or familial fashion with an employee.

  If such a related party transaction is unavoidable, you must fully disclose the nature of the related party transaction to the Company's Human Resource Department and Corporate Secretary. If determined to be material to the Company by the Human Resource Department, the Company's Audit Committee must review and, in advance, approve in writing the related party transaction. The most significant related party transactions, particularly those involving the Company's directors or executive officers, must be reviewed and,

in advance, approved in writing by the Company's Board of Directors. The Company must report all such material related party transactions under applicable accounting rules, Federal securities laws, SEC rules and regulations, and securities market rules. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to this business.

The Company discourages the employment of relatives and significant others in positions or assignments within the same department and prohibits the employment of such individuals in positions that have a financial dependence or influence (e.g., an auditing or control relationship or a supervisor/subordinate relationship). The purpose of this policy is to prevent the organizational impairment and conflicts that are likely outcome of the employment of relatives or significant others, especially in a supervisor/subordinate relationship. If a question arises about whether a relationship is covered by this policy, the Human Resources Department shall advise all affected applicants and transferees of this policy. Willful withholding of information regarding a prohibited relationship/reporting arrangement may be subject to corrective action, up to and including termination. If a prohibited relationship exists or develops between two employees, the employee in the senior position must bring the situation to the attention of his/her supervisor. The Company retains the prerogative to separate the individuals at the earliest possible time, either by reassignment or by termination, if necessary.

- Other Situations. Because other conflicts of interest may arise, it would be impractical to attempt to list all possible situations. If a proposed transaction or situation raises any questions or doubts in your mind, you should consult the Corporate Secretary.

Corporate Opportunities

Employees, officers and directors may not exploit for their own personal gain opportunities that are discovered through the use of corporate property, information or position unless the opportunity is disclosed fully in writing to the Company's Board of Directors and the Board of Directors declines to pursue such opportunity.

Protecting the Company's Confidential Information

Employees, officers and directors may not exploit for their own personal gain opportunities that are discovered through the use of corporate property, information or position unless the opportunity is disclosed fully in writing to the Company's Board of Directors and the Board of Directors declines to pursue such opportunity.

Protecting the Company's Confidential Information

The Company's confidential information is a valuable asset. The Company's confidential information includes: (1) source and object code, prices, trade secrets, mask works, databases, hardware, software, designs and techniques, programs, engine protocols, models, displays and manuals, and the selection, coordination, and arrangement of the contents of such materials, (2) any unpublished information concerning research activities and plans, customers, marketing or sales plans, sales forecasts or results of marketing efforts, pricing or pricing strategies, costs, operational techniques, strategic plans, customer information, including name, address and email address, (3) marketing data, and (4) any other identification data, and unpublished financial information, including information concerning revenues, profits and profit margins. This information is the property of the Company and may be protected by patent, trademark, copyright and trade secret laws. All confidential information must be used for Company business purposes only. Every employee, agent and contractor must safeguard it. THIS RESPONSIBILITY INCLUDES NOT DISCLOSING THE COMPANY CONFIDENTIAL INFORMATION, SUCH AS INFORMATION REGARDING THE COMPANY'S PRODUCTS OR BUSINESS OVER THE INTERNET. You are also responsible for properly labeling any and all documentation shared with or correspondence sent to the Company's Corporate Secretary or outside counsel as "Level 8 Systems Confidential". This responsibility includes the safeguarding, securing and proper disposal of confidential information in accordance with the Company's policy on Maintaining and Managing Records set forth later in this Section 3 of this document. This obligation extends to confidential information of third parties, which the Company rightfully has received under Non Disclosure Agreements. See the Company's policy dealing with Handling Confidential Information of Others set forth in Section 4 of this Code of Ethics and Business Conduct.

- Confidentiality Guidelines. When you joined the Company, you signed guidelines to protect and use appropriately the Company's confidential information. These guidelines remain in effect for as long as you work for the Company and after you leave the Company. Under these guidelines you may not disclose the Company's confidential information to anyone or use it to benefit anyone other than the Company without the prior written consent of an authorized Company officer.

- Disclosure of Company Confidential Information. To further the Company's business, from time to time our confidential information may be disclosed to potential business partners. Such disclosure however, should never be done without carefully considering its potential benefits and risks. If you determine, in consultation with your manager and other appropriate Company management, that disclosure of confidential information is necessary, you then must contact the Corporate Secretary to ensure that an appropriate

written nondisclosure agreement is signed prior to the disclosure. The Company has standard nondisclosure agreements suitable for most disclosures. You must not sign a third party's nondisclosure agreement or accept changes to the Company's standard nondisclosure agreements without review and approval by the Company's Corporate Secretary. In addition, all Company materials that contain Company confidential information, including presentations, must be reviewed and approved by the Company's Corporate Secretary prior to publication or use. Furthermore, any employee publication or publicly made statement that might be perceived or construed as attributable to the Company, made outside the scope of his or her employment with the Company, must be reviewed and approved in writing in advance and must include the Company's standard disclaimer that the publication or statement represents the views of the specific author and not of the Company.

- Requests by Regulatory Authorities. The Company and its employees, agents and contractors must cooperate with appropriate government inquiries and investigations. In this context, however, it is important to protect the legal rights of the Company with respect to its confidential information. All government requests for information, documents or investigative interviews must be referred to the Company's Corporate Secretary. No financial information may be disclosed without the prior approval of the Chief Financial Officer.

- Company Spokespeople. Specific policies have been established regarding who may communicate information to the press and the financial analyst community. All inquiries or calls from the press and financial analysts should be referred to the Chief Financial Officer or Investor Relations Department. The Company has designated its Chief Executive Officer, Chief Financial Officer and Investor Relations Department as official Company spokespeople for financial matters. The Company has designated its Public Relations Department as official Company spokespeople for marketing, technical and other such information. These designees are the only people who may communicate with the press on behalf of the Company.

Exhibit 14.1

OBLIGATIONS UNDER SECURITIES LAWS "INSIDER" TRADING

Obligations under the U.S. securities laws apply to everyone. In the normal course of business, officers, directors, employees, agents, contractors and consultants of the Company may come into possession of significant, sensitive information. This information is the property of the Company - you have been entrusted with it. You may not profit from it by buying or selling securities

yourself or from passing on the information to others to enable them to profit or for them to profit on your behalf. The purpose of this policy is both to inform you of your legal responsibilities and to make clear to you that the misuse of sensitive information is contrary to Company policy and U.S. securities laws.

Insider trading is a crime, penalized by fines up to $5,000,000 and 20 years in jail for individuals. In addition, the SEC may seek the imposition of a civil penalty of up to 3 times the profits made or losses avoided from the trading. Insider trades must expel any profits made, and are often subjected to an injunction against future violations. Finally, insider traders may be subjected to civil liability in private lawsuits.

Employers and other controlling persons (including supervisory personnel) also are at risk under U.S. securities laws. Controlling persons may, among other things, face penalties of the greater of $5,000,000 or 3 times the profits made or losses avoided by the trader if they recklessly fail to take preventive steps to control insider trading.

Thus, it is important both to you and to the Company that insider-trading violations do not occur. You should be aware that stock market surveillance techniques are becoming increasingly more sophisticated, and the chance that U.S. federal or other regulatory authorities will detect and prosecute even small level trading is significant. Insider trading rules are strictly enforced, even in instances when the financial transactions seem small. You should contact the Chief Financial Officer if you are unsure as to whether or not you are free to trade.

The Company has imposed a trading blackout period on members of the Board of Directors, executive officers and all employees. These directors, executive officers and employers generally may not trade in Company securities during the blackout period.

Trading Windows and Blackout Periods

1. Trading Window for Section 16 Individuals and Key Employees. After obtaining trading approval from the Chief Financial Officer, Section 16 Individuals and Key Employees may trade in Company securities only during the period beginning at the open of trading on the second full trading day following the Company's widespread public release of quarterly or year-end earnings, and ending at the close of trading on the fifteenth day of the third month of the fiscal quarter in which the earnings are released.

2. Trading Windows for All Other Covered Insiders. All other Covered Insiders who are not Section 16 Individuals or Key Employees may trade in Company securities only during the period beginning at the open of trading on the second full trading day following the Company's widespread public release of quarterly or year-end earnings and ending at the close of trading on the fifteenth day of the third month of the fiscal quarter in which the earnings are released.

3. No Trading During Trading Windows While in the Possession of Material Nonpublic Information. No Covered Insiders possessing material nonpublic information concerning the Company may trade in Company securities even during applicable trading windows. Persons possessing such information may trade during a trading window only after the open of trading on the second full trading day following the Company's widespread public release of the information.

4. No Trading During Blackout Periods. No Covered Insiders may trade in Company securities outside of the applicable trading windows or during any special blackout periods that the Compliance Officer may designate. No Covered Insiders may disclose to any outside third party that a special blackout period has been designated.

5. Exceptions for Hardship Cases. The Chief Financial Officer may, on a case-by-case basis, authorize trading in Company securities outside of the applicable trading windows (but not during special blackout periods) due to financial hardship or other hardships.

Exhibit 14.1

PROHIBITION AGAINST SHORT SELLING OF COMPANY STOCK

No Company director, officer or other employee, agent or contractor may, directly or indirectly, sell any equity security, including derivatives, of the Company if he or she (1) does not own the security sold, or (2) if he or she owns the security, does not deliver it against such sale (a "short sale against the box") within twenty days thereafter, or does not within five days after such sale deposit it in the mails or other usual channels of transportation. No Company director, officer or other employee, agent or contractor may engage in such short sales. A short sale, as defined in this policy, means any transaction whereby one may benefit from a decline in the Company's stock price. While employees who are not executive officers or directors are not prohibited by law from engaging in short sales of Company's securities, the Company has adopted as policy that employees may not do so.

USE OF COMPANY'S ASSETS

1. General. Protecting the Company's assets is a key fiduciary responsibility of every employee, agent and contractor. Care should be taken to ensure that assets are not misappropriated, loaned to others, or sold or donated, without appropriate authorization. All Company employees, agents and contractors are responsible for the proper use of Company assets, and must safeguard such assets against loss, damage, misuse or theft. Employees, agents or contractors who violate any aspect of this policy or who demonstrates poor judgment in the manner in which they use any Company asset may be subject to disciplinary action, up to and including

termination of employment or business relationship, at the Company's sole discretion. Company equipment and assets are to be used for Company business purposes only. Employees, agents and contractors may not use Company assets for personnel use, nor may they allow any other person to use Company assets. Employees who have any questions regarding this policy should bring them to the attention of the Company's Human Resources representative.

2. Company Funds. Every Company employee is personally responsible for all Company funds over which he or she exercises control. Company agents and contractors should not be allowed to exercise control over Company funds. Company funds must solely be used for Company business purposes. Every Company employee, agent and contractor must take reasonable steps to ensure that the Company receives good value for Company funds spent and must maintain accurate and timely records of each and every expenditure. Expense reports must be accurate and submitted in a timely manner. Company employees, agents and contractors must not use Company funds for any personal use.

3. Computers and Other Equipment. The Company strives to furnish employees with the equipment necessary to efficiently and effectively perform their jobs. You must care for that equipment and responsibly use it for Company business purposes, only. If you use Company equipment at your home or off-site, take precautions to protect it from theft or damage, just as if it were your own. If you are no longer employed by the Company, you must immediately return all Company equipment. While computers and other electronic devices are made accessible to employees to assist them to perform their jobs and to promote Company's interests, all such equipment, whether used wholly or partially on the Company's premises, must remain fully accessible to the Company and, to the maximum extent permitted by law, will remain the sole and exclusive property of the Company.

   Employees, agents and contractors should not maintain any expectation of privacy with respect to information transmitted over, received by, or stored in any electronic communications device owned, leased, or operated in whole or in part by or on behalf of the Company. To the extent permitted by applicable law, the Company retains the right to gain access to any information received by, transmitted by, or stored in any such electronic communications device, by and through its employees, agents, contractors, or representatives, at any time, either with or without an employee's or third party's knowledge, consent or approval.

4. Software. All software used by employees to conduct Company business must be appropriately licensed. Never make or use illegal or unauthorized copies of any software, whether in the office, at home, or on the road, since doing so may constitute copyright infringement and may expose you and the Company to potential civil and criminal liability. In addition, use of illegal or unauthorized copies of software may subject the employee to disciplinary action, up to and including termination. The Company's Information Technology Department periodically will inspect Company computers to verify that only approved and licensed software has been

installed. Any non-licensed/supported software will be removed.

5. Electronic Usage. The purpose of this policy is to make certain that employees utilize electronic communication devices in a legal, ethical, and appropriate manner. This policy addresses the Company's responsibilities and concerns regarding the fair and proper use of all electronic communications devices within the organization, including computers, email, connections to the Internet, intranet and extranet and any other public or private networks, voice mail, video conferencing, facsimiles, and telephones. Posting or discussing information concerning the Company's products or business on the Internet without the prior written consent of the company's Chief Financial Officer is prohibited. Any other form of electronic communication used by employees currently or in the future also is intended to be encompassed under this policy. It is not possible to identify every standard and rule applicable to the use of electronic communications devices. Employees, therefore, are encouraged to use sound judgment whenever using any feature of our communications systems.

MAINTAINING AND MANAGING RECORDS

The purpose of this policy is to set forth and convey the Company's business and legal requirements in managing records, including all recorded information regardless of medium or characteristics. Records include paper documents, CD's, computer hard disks, email, floppy disks, microfilm or all other media. The Company is required by local, state, federal, foreign and other applicable laws, rules and regulations to retain certain records and to follow specific guidelines in managing its records. Civil and criminal penalties for failure to comply with such guidelines can be severe for employees, agents, contractors and the Company, and failure to comply with such guidelines may subject the employee, agent or contractor to disciplinary action, up to and including termination of employment or business relationship at the Company's sole discretion.

RECORDS ON LEGAL HOLD

A legal hold suspends all document destruction procedures in order to preserve appropriate records under special circumstances, such as litigation or government investigations. The Company's Corporate Secretary determines and identifies what types of Company records or documents are required to be placed under a legal hold. Every Company employee, agent and contractor must comply with this policy. Failure to comply with this policy may subject the employee, agent or contractor to disciplinary action, up to and including termination of employment or business relationship at the Company's sole discretion.

The Company's Corporate Secretary will notify you if a legal hold is placed on records for which you are responsible. You then must preserve and protect the necessary records in accordance with instructions from the Company's Corporate Secretary. RECORDS OR SUPPORTING DOCUMENTS THAT HAVE BEEN PLACED UNDER A LEGAL HOLD MUST NOT BE DESTROYED, ALTERED OR MODIFIED UNDER ANY CIRCUMSTANCES. A legal hold remains effective until it officially is released in writing by the Company's Corporate Secretary. If you are unsure whether a document has been placed under a legal hold, you should preserve and protect that document while you check with the Company's Corporate Secretary.

If you have any questions about this policy, you should contact the Company's Corporate Secretary.

PAYMENT PRACTICES

- Accounting Practices. The Company's responsibilities to its stockholders and the investing public require that all transactions fully and accurately be recorded in the Company's books and records in compliance with all applicable laws. False or misleading entries, unrecorded funds or assets, or payments without appropriate supporting documentation and approval strictly are prohibited and violate Company policy and the law. Additionally, all documentation supporting a transaction fully and accurately should describe the nature of the transaction and be processed in a timely fashion.

- Political Contributions. The Company reserves the right to communicate its position on important issues to elected representatives and other government officials. It is the Company's policy fully to comply with all local, state, federal, foreign and other applicable laws, rules and regulations regarding political contributions. Under no circumstances may the Company's funds or assets be used for, or be contributed to, political campaigns or political practices without the prior written approval of the Company's Chief Financial Officer and, if required, the Board of Directors.

- Prohibition of Inducements. Under no circumstances may employees, agents or contractors make an offer to pay, make payment, make a promise to pay, or issue an authorization to pay any money, gift, or anything of value to customers, vendors, consultants, etc., which would be perceived to intend, directly or indirectly, to improperly influence any business decision, any act or failure to act, any commitment of fraud, or any opportunity for the commission of fraud. Inexpensive gifts, infrequent business meals, celebratory events and entertainment, provided that they are not excessive or create an

appearance of impropriety, do not violate this policy. Questions regarding whether a particular payment or gift violates this policy should be directed to Human Resources or the Corporate Secretary.

FOREIGN CORRUPT PRACTICES ACT

The Company requires full compliance with the Foreign Corrupt Practices Act (FCPA) by all of its employees, agents, and contractors.

The anti-bribery and corrupt payment provisions of the FCPA make illegal any corrupt offer, payment, promise to pay, or authorization to pay any money, gift, or anything of value to any foreign official, or any foreign political party, candidate or official, for the purpose of: influencing any act or failure to act, in the official capacity of that foreign official or party; or inducing the foreign official or party to use influence to affect a decision of a foreign government or agency, in order to obtain or retain business for anyone, or direct business to anyone.

All Company employees, agents and contractors, whether located in the United States or abroad, are responsible for FCPA compliance and the procedures to ensure FCPA compliance. All managers and supervisory personnel are expected to monitor continued compliance with the FCPA to ensure compliance with the highest moral, ethical and professional standards of the Company. FCPA compliance includes the Company's policy on Maintaining and Managing Records in Section 3 of this Code of Business Conduct and Ethics.

Laws in most countries outside of the United States also prohibit or restrict government officials or employees of government agencies from receiving payments, entertainment, or gifts for the purpose of winning or keeping business. No contract or agreement may be made with any business in which a government official or employee holds a significant interest, without the prior approval of the Company's Corporate Secretary.

EXPORT CONTROLS

A number of countries maintain controls on the destinations of exported products or software. Some of the strictest export controls are maintained by the United States against countries that the U.S. government considers unfriendly or as supporting international terrorism. The U.S. regulations are complex and apply both to exports from the United States and to exports of products from other countries, when those products contain U.S. origin components or technology. Software created in the United States is subject to these regulations even if duplicated and packaged abroad. In some circumstances, an oral presentation containing technical data made to foreign nationals in the United States may constitute a controlled export. The Corporate Secretary can provide you with guidance on which countries are prohibited destinations for Company products or whether a proposed technical presentation to foreign nationals may require a U.S. Government license.

PUBLIC DISCLOSURE OF INFORMATION

The federal securities laws require the Company to disclose certain information in various reports that the Company must file with or submit to the SEC. In addition, from time to time the Company makes other public communications, such as issuing press releases. In order to ensure that material information is presented to the public on a timely basis, the Company has designated its Chief Executive Officer, Chief Financial Officer, and General Counsel as responsible for considering the materiality of information and determining the Company's disclosure obligations.

The Company expects its Chief Executive Officer, Chief Financial Officer, the Audit Committee, and all employees who are involved in the preparation of SEC reports or other public documents to ensure that the information disclosed in those documents is full, fair, accurate, timely and understandable.

Moreover, if any employee becomes aware of any material information that you believe should be disclosed to the public in the Company's reports filed with the SEC, it is your responsibility to bring such information to the attention of the Chief Financial Officer or to the Company's General Counsel. To the extent that you reasonably believe that questionable accounting or auditing conduct or

practices have occurred or are occurring, you should report those concerns to the Company's General Counsel.

SECTION 4. RESPONSIBLITIES TO OUR CUSTOMERS AND OUR SUPPLIERS

CUSTOMER RELATIONSHIPS

If your job puts you in contact with any Company customers or potential customers, it is critical for you to remember that you represent the Company to the people with whom you are dealing. Act in a manner that creates value for our customers and helps to build a relationship based upon trust. The Company and its employees have provided products and services for a period of time and have built up significant goodwill over that time. This goodwill is one of our most important assets and the Company employees, agents and contractors must act to preserve and enhance our reputation.

PAYMENTS OR GIFTS FROM OTHERS

Under no circumstances may employees, agents or contractors accept any offer, payment, promise to pay, or authorization to pay any money, gift, or anything of value from customers, vendors, consultants, etc. that is perceived as intended, directly or indirectly, to influence any business decision, any act or failure to act, any commitment of fraud, or any opportunity for the commission of fraud. Inexpensive gifts, infrequent business meals, celebratory events and entertainment, provided that they are not excessive or create an appearance of

impropriety, do no violate this policy. Questions regarding whether a particular payment or gift violates this policy should be directed to Human Resources or the Corporate Secretary.

Gifts given by the Company to suppliers or customers or received from suppliers or customers always should be appropriate to the circumstances and never should be of a kind that could create an appearance of impropriety. The nature and cost must always accurately be recorded in the Company's books and records.

PUBLICATIONS OF OTHERS

The Company subscribes to many publications that help employees better perform their jobs. These publications include newsletters, reference works, online reference services, magazines, books, and other digital and printed works. Copyright law generally protects these works, and their unauthorized copying and distribution constitute copyright infringement. You first must obtain the consent of the publisher of a publication before copying publications or significant parts of them. When in doubt about whether you may copy a publication, consult the Corporate Secretary.

HANDLING THE CONFIDENTIAL INFORMATION OF OTHERS

The Company has many kinds of business relationships with many companies and individuals. Sometimes, they will volunteer confidential information about their products or business plans to induce the Company to enter into a business relationship. At other times, we may request a third party to provide confidential information to permit the Company to evaluate a potential business relationship with that party. Whatever the situation, we must take special care to responsibly handle the confidential information in accordance with our agreements with such third parties. See also the Company's policy on Maintaining and Managing Records in Section 3 of this Code of Ethics and Business Conduct.

- Appropriate Nondisclosure Agreements. Confidential information may take many forms. An oral presentation about a company's product development plans may contain protected trade secrets. A demo of an alpha version of a company's new software may contain information protected by trade secret and copyright laws.

  You should never accept information offered by a third party that is represented as confidential, unless an appropriate nondisclosure agreement has been signed with the party offering the information. THE CORPORATE SECRETARY CAN PROVIDE NONDISCLOSURE AGREEMENTS TO FIT ANY PARTICULAR SITUATION, AND WILL COORDINATE APPROPRIATE EXECUTION OF SUCH AGREEMENTS ON BEHALF OF THE COMPANY. Even after a nondisclosure agreement is in place, you only should accept the information necessary to accomplish the purpose of receiving it, such as a decision on whether to proceed to negotiate a deal. If more detailed or extensive confidential information is offered but is not necessary for your immediate purposes, it should be refused.

- Need-to-Know. Once a third party's confidential information has been disclosed to the Company, we have an obligation to abide by the terms of the relevant nondisclosure agreement and limit its use to the specific purpose for which it was disclosed and to disseminate it only to other Company employees with a need to know the information. Every employee, agent and contractor involved in a potential business relationship with a third party must understand and strictly observe the restrictions on the use and handling of confidential information. When in doubt, consult the Corporate Secretary.

- Notes and Reports. When reviewing the confidential information of a third party under a nondisclosure agreement, it is natural to take notes to prepare reports summarizing the results of the review and, based partly on those notes or reports, to draw conclusions about the suitability of a business relationship. Notes or reports, however, can include confidential information disclosed by the other party and so only should be retained long enough to complete the evaluation of the potential business relationship. Subsequently, they either should be destroyed or turned over to the Corporate Secretary for safekeeping or destruction. These materials should be treated as any other disclosure of confidential information is treated: marked as confidential and distributed only to those Company employees with a need to know.

- Competitive Information. You should never attempt to obtain a competitor's confidential information by improper means, and you especially should never contact a competitor regarding their confidential information. While the Company may, and does, employ former employees of competitors, we recognize and respect the obligations of those employees not to use or disclose the confidential information of their former employers.

SELECTING SUPPLIERS

The Company's suppliers make significant contributions to our success. To create an environment where our suppliers have an incentive to work with the Company, they must be confident that they will be treated lawfully and in an ethical manner. The Company's policy is to purchase supplies based on need, quality, service, price and terms and conditions.. Under no circumstances should any Company employee, agent or contractor attempt to coerce suppliers in any way. The confidential information of a supplier is entitled to the same protection as that of any other third party and must not be received before an appropriate nondisclosure agreement has been signed. A supplier's performance never should be discussed with anyone outside the Company. A supplier to the Company

generally is free to sell its products or services to any other party, including competitors of the Company. In some cases, where the products or services have been designed, fabricated, or developed to our specifications, the agreement between the parties may contain restrictions on sales.

GOVERNMENT REGULATIONS

It is the Company's policy to fully comply with all applicable laws and regulations governing contact and dealings with government employees and public officials and to adhere to high ethical, moral and legal standards of business conduct. This policy includes strict compliance with all local, state, federal, foreign and other applicable laws, rules and regulations. If you have any questions concerning government relations you should contact the Company's Corporate Secretary.

LOBBYING

Employees, agents or contractors whose work requires lobbying communication with any member or employee of a legislative body or with any government official or employee in the formulation of legislation must have prior written approval of such activity from the Company's Corporate Secretary. Activity covered by this policy includes meetings with legislators or members of their staffs or with senior executive branch officials. Preparation, research, and other background activities that are done in support of lobbying communication also are covered by this policy even if the communication ultimately is not made.

GOVERNMENT CONTRACTS

It is the Company's policy to fully comply with all applicable laws and regulations that apply to government contracting. It also is necessary to strictly adhere to all terms and conditions of any contract with local, state, federal, foreign or other applicable governments. The Company's Corporate Secretary must review and approve all contracts with any government entity.

FREE AND FAIR COMPETITION

Most countries have well-developed bodies of law designed to encourage and protect free and fair competition. The Company is committed to obeying both the letter and spirit of these laws. The consequences of not doing so can be severe for all of us.

These laws often regulate the Company's relationships with its distributors, resellers, dealers, and customers,. Competition laws generally address the following areas: pricing practices (including price discrimination), discounting, terms of sales, credit terms, promotional allowances, secret

rebates, exclusive dealerships or distributorships, product bundling, restrictions on carrying competing products, termination, and many other practices.

Competition laws also govern, usually quite strictly, relationships between the Company and its competitors. As a general rule, contacts with competitors should be limited and always should avoid subjects such as prices or other terms and conditions of sale, customers, and suppliers. Employees, agents or contractors of the Company may not knowingly make false or misleading statements regarding its competitors, customers or suppliers. Participating with competitors in a trade association or in a standards creation body is acceptable when the association has been properly established, has a legitimate purpose, and has limited its activities to that purpose.

No employee, agent or contractor shall at any time or under any circumstances enter into an agreement or understanding, written or oral, express or implied, with any competitor concerning prices, discounts, other terms or conditions of sale, profits or profit margin, costs, allocation of product or geographic markets, allocation of customers, limitations on production, boycotts of customers or suppliers, or bids or the intent to bid or even discuss or exchange information on these subjects. In some cases, legitimate joint ventures with competitors may permit exceptions to these rules, as may bona fide purchases from or sales to competitors on non competitive products, but the Company's Corporate Secretary must review all such proposed ventures in advance. These prohibitions are absolute and strict observance is required. Collusion among competitors is illegal and the consequences of a violation are severe.

Although the spirit of these laws, known as "antitrust," "competition," or "consumer protection" or unfair competition laws, is straightforward, their application to particular situations can be quite complex. To ensure that the Company complies fully with these laws, each of us should have a basic knowledge of them and should involve our Corporate Secretary early on when questionable situations arise.

INDUSTRIAL ESPIONAGE

It is the Company's policy to lawfully compete in the marketplace. This commitment to fairness includes respecting the rights of our competitors and abiding by all applicable laws in the course of competing. The purpose of this policy is to maintain the Company's reputation as a lawful competitor and to help ensure the integrity of the competitive marketplace. The Company expects its competitors to respect our rights to lawfully compete in the marketplace and we must equally respect their rights to do the same. Company employees, agents and contractors may not steal or unlawfully use the information, material, products, intellectual property, or proprietary or confidential information of anyone including suppliers, customers, business partners or competitors.

SECTION 5. WAIVERS

Any waiver of any provision of this Code of Ethics and Business Conduct for a member of the Company's Board of Directors or an executive officer must be

approved in writing by the Company's Board of Directors and promptly disclosed. Any waiver of any provision of this Code of Ethics and Business Conduct with respect to any other employee, agent or contractor must be approved in writing by the Company's Corporate Secretary.

SECTION 6. DISCIPLINARY ACTIONS

The matters covered in this Code of Conduct and Business Ethics are of the utmost importance to the Company, its stockholders and its business partners, and are essential to the Company's ability to conduct its business in accordance with its stated values. We expect all of our employees, agents, contractors and consultants to adhere to these rules in carrying out their duties for the Company.

The Company will take appropriate action against any employee, agent, contractor or consultant whose actions are found to violate these policies or any other policies of the Company. Disciplinary actions may include immediate termination of employment or business relationship at the Company's sole discretion. Where the Company has suffered a loss, it may pursue its remedies against the individuals or entities responsible. Where laws have been violated, the Company will fully cooperate with the appropriate authorities. You should review the Company's policies and procedures on Level 8 Systems Knowledge Center intranet, under Network and Systems Policies for more detailed information.

CONFIRMATION OF RECEIPT
OF THE
CODE OF ETHICS AND BUSINESS CONDUCT
FOR
LEVEL 8 SYSTEMS, INC.

By signing below, I attest that I have received a copy of the Code of Ethics and Business Conduct for Level 8 Systems, Inc. and agree to abide by the terms and conditions set forth therein. Failure to abide by the Code of Ethics and Business Conduct of Level 8 Systems, Inc. may result in disciplinary action or possible termination of employment.

DATE:

EMPLOYEE SIGNATURE

WITNESS:

Exhibit 21.1

Subsidiaries (all are 100% owned)

Name	Jurisdiction
Level 8 Technologies, Inc.	Delaware
Cicero Technologies, Inc	Delaware
Template Software de Mexico, S.A. de C.V.	Mexico
Template Software Pty Ltd.	Australia
Template Software Holding GmbH	Germany
Template SoftwareGeschaftsfuhrungs GmbH	Germany
Template Software GmbH	Germany
Level 8 Worldwide Holdings Ltd.	Delaware
Seer Technologies de Argentina S.A	Argentina
Level 8 FSC, Inc.	Barbados
Level 8 Benelux B.V	Netherlands
Seer Technologies do Brasil Ltda	Brazil
Level 8 Canada, Inc.	Canada
Level 8 Europe (Deutschland) GmbH	Germany
Level 8 Ireland Limited	Ireland
Level 8 Italia S.R.L.	Italy
Level 8 Systems Nordic AB	Sweden
Seer Korea Co., Limited	Korea
Seer Technologies Singapore PTY, Limited	Singapore
Seer Technologies Hong Kong Limited	Hong Kong
3020126 Canada, Inc. (fka Bizware)	Canada

Exhibit 23.1

INDEPENDENT AUDITOR'S CONSENT

To the Board of Directors and Stockholders of
Level 8 Systems, Inc.:

We consent to the incorporation by reference in the Annual Report on Form 10-K of our report dated February 12, 2004, (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's ability to continue as a going concern) of Level 8 Systems, Inc. for the year ended December 31, 2003.

/s/ Margolis & Company P.C.

Bala Cynwyd, PA
March 26, 2004

Exhibit 23.2

We consent to the incorporation by reference in Registration Statement Numbers 333-44598, 333-33122, 333-86303 and 333-64637 of Level 8 Systems, Inc. on Form S-8 of our report dated March 28, 2002, (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's ability to continue as a going concern) appearing in this Annual Report on Form 10-K of Level 8 Systems, Inc. for the year ended December 31, 2003.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
March 29, 2004

Exhibit 99.1

CERTIFICATIONS

I, Anthony C. Pizi, certify that:

1. I have reviewed this annual report on Form 10-K of Level 8 Systems, 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 period 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-15(e) and 15d-15(e)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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 registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 over financial reporting; 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 there 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: March 29, 2004

/s/ Anthony C. Pizi

Anthony C. Pizi
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Exhibit 99.2

I, John P. Broderick, certify that:

1. I have reviewed this annual report on Form 10-K of Level 8 Systems, 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 period 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-15(e) and 15d-15(e)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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 registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 over financial reporting; 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 there 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: March 29, 2004

/s/ John P. Broderick

John P. Broderick
Chief Financial and Operating Officer
(Principal Accounting Officer)